

THE
THEORY AND PRACTICE
OF THE
INTERNATIONAL TRADE
OF THE
UNITED STATES AND ENGLAND,
AND OF THE TRADE OF THE
UNITED STATES AND CANADA ;
WITH
TABLES OF FEDERAL CURRENCY, CANADIAN CURRENCY
AND STERLING, EXCHANGE FORMULAS, ETC.

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P. BARRY,

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TO
JAMES BUCHANAN,
President of the United States,

AND TO

LORD NAPIER,
British Minister at Washington,

THE REPRESENTATIVES OF THE INTERESTS INVOLVED,

THE

HUMBLE CONTRIBUTION

TO THE LITERATURE OF INTERNATIONAL TRADE,

IS RESPECTFULLY INSCRIBED

BY THE

AUTHOR.

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PREFACE.

No apology is needed, at the present time, in bringing the subject of international trade before the business public of the United States and Canada, as the people of the latter country are now warmly engaged ranging themselves on the side of protection or free trade, and there are strong indications that the people of the United States will promptly follow suit. The English reader will bear willingly with the application of familiar principles, where the interests of his country are involved, and whatever, therefore, the demerits of the matter of the following pages, either in expression or in thought, they come before the public at the proper time; and it may not be out of place to say, that the writer, however tedious and inelegant his expositions may appear, has had the benefit of several years' experience in the practical work of the international trade of the countries of which he speaks. He has sought to give expression to his own thoughts in an unreserved and homely way, feeling satisfied that it is essential to be understood, and that a fundamental treatment of the subject matter is indispensably required.

The chapter on Canadian trade, embraces the Reciprocity and Protection agitation that is going on in Canada; and Canadians are to understand that the writer is without partiality either to their country, or to the United States, or to England, and not identified with any class or interest.

The same remark applies to the last chapter, in which the relative advantages of different routes from the West to the Seaboard, are freely canvassed. There is no other end in view than that of stating things as they really are; and if injury results to any interest, from that being done, the mass at least will reap the benefit. It is high time that American capitalists on the seaboard, and the grain and provision and shipping interests of England, were informed of the outs and ins of Western trade, and in an especial manner brought into more immediate

sympathy with Illinois. Here, at present and in all time, is to be found the greatest accumulation of human food, raised with the least expenditure of capital and labor, and yet that accumulation finds its way to shipping ports, in a manner calculated to keep production down to the lowest point. It is not controlled by large capitalists, nor taken in exchange for imported articles, but finds its way by repeated handlings to the seaboard. That practice must be changed, and it is by writing and agitation that it can be done. What has built up New York and every other great commercial centre, but direct communication with other countries? and what but that can develop fully the productive forces of the West? We want the cottons of Manchester, the stuffs of Bradford, and the silks of Lyons and Spitalfields, put down where the wheat and corn are grown, and while we would then have these manufactures cheaper, our wheat and corn would be received by the foreigner on better terms. The West and Chicago are ripe and able for European enterprise, and for the opening up of what ultimately will become the best European market in the United States; and the writer's object shall have been attained, if, with the enunciation of sound principles of trade, he has aided in directing attention to a neglected but mutually advantageous field of international intercourse between the United States and Europe.

Exception may be taken to the low producing cost of wheat in Illinois, but the statement is made advisedly, as the price at which wheat can be grown in the neighborhood of Chicago, and sold at a fair return on the vested capital. Transportation from one extremity of Illinois to the other would cost almost twenty-five cents a bushel, so that the statement has a local meaning only. Anywhere in Illinois wheat can be grown and sold *with profit* at twenty-five cents a bushel; but wheat grown on the Illinois River, and brought to Chicago, could not be sold probably under thirty-five to forty cents.

The tables, given in the appendix, will commend themselves to every business man, and although not fractionally exact, they will suit the every day purposes of the operator in grain and produce, while the calculations of exchange provide a rule for exactness, when in the settling up of business fractional exactness is required.

THE
THEORY AND PRACTICE OF INTERNATIONAL TRADE.

CHAPTER I.

ELEMENTARY MISCONCEPTIONS.

§ 1. THE theory and the practice of international trade, although agreeing in many points with those governing our domestic interchange with one another, are yet so dissimilar as to rest mainly on opposing principles, and to require a study and a treatment by themselves. Domestic interchange is regulated in the main by producing cost; but foreign interchange disregards the original producing cost in the country from which commodities are received; and it is scarcely necessary to remark, that the experience derived in domestic trade would never qualify a man to engage successfully in cotton and coffee barter with Brazil; nor for the prosecution of a whaling venture in the Southern ocean.

Before entering into that interesting and instructive field of speculation, and unfolding the secret springs by which our produce and manufactures are distributed abroad, and the varied productions of the world gathered to us, it is necessary to remove those misconceptions which hitherto have overlaid the subject, and made it so distasteful and obscure.

One of the most patent of these errors is a misapprehension and misuse of the term *wealth*. In perhaps nine cases out of every ten, that word is restricted, in its meaning, to what is one of its forms only, while everything in its marketable state that is an object of desire, is wealth in the same sense as coined or uncoined gold and silver. What, for example, is

the difference, in point of wealth, in the case of a man who, to-day, has ten thousand dollars' worth of gold, and between now and another season shall have spent that sum in brick and mortar and other materials, and in the labor necessary to build a store or dwelling? Obviously, his position is unchanged, if the store or dwelling is an object of desire to others, equal to the aggregate of the outlays which he has made. The store or dwelling is in such a case convertible into coin at pleasure; and so long as it is so, it is wealth, in every meaning of the word, to the full extent invested. Generalizing this instance, we arrive at the conclusion that it is as desirable to hold one commodity possessing value as it is to hold another; and the innumerable utilities to which people place their money, is the strongest possible confirmation of the rule.

Looked at in that light, and in a national point of view, gold and silver need not be desired more than other things, and there should be little reason for being elated or depressed, as the national treasury or the banks may be well or ill provided with the precious metals. Anything we are possessed of, at that point abroad where we may wish to effect the barter, can command its equivalent producing cost in gold, and all uneasiness should therefore be removed. To be sure, the presence or absence of a specie reserve in the banks is an indication of the presence or absence of unemployed capital within the country, that may be loaned; but the same credit which could hire the banker's gold, could assuredly be employed in the purchase of something else, that could be resold and the representation of its equivalent, say a promissory note, at once used for the exigency of the time.

In one point of view, it is in fact undesirable to have an individual's or a nation's means represented in the precious metals, as means in that form are unsusceptible of increase, while in almost any other form they are susceptible of indefinite augmentation. The case of real estate in Chicago, is an apt illustration of the increase that capital may receive in the form of land and not in the form of gold. Investments made in central city lots, in 1838, have long since yielded a

thousand fold, while a five dollar coin, then wrapped up in paper and opened out a century afterward, would show no perceptible change, and yield possibly a diminished value. To be sure, a man may lend out gold and derive an income or an increase from it; but the income or increase is not from the gold, but from the commodities into which the gold has really passed.

Still there are those everywhere who would gather coin and bullion from every quarter, and in the hope of making themselves and others more wealthy than they are, restrain the export, overlooking the important fact that gold and silver are desirable and useful to the extent only that they are exchangeable for other things; and that the human race would have been no worse off had gold and silver been unknown.

A nation to be rich has only to possess a large abundance or excess of useful products, and these products are at any time convertible abroad, either into others or into gold and silver; if conversion is made into the former, a still greater increase of the aggregate of wealth may be made; and if into the latter, no increase may occur, but what has been received may be preserved from hasty depreciation.

Following out this deduction, we arrive at the rather singular but not less truthful fact, that the mines of California are of no benefit to the United States, and that the mines of Australia are of no benefit to Great Britain, as the capital expended in digging gold could have been more profitably employed, particularly in the western sections of the United States, in the production of what was to yield ulterior products, instead of producing what really yields nothing; but to the extent in which labor and capital are involved, serves only as a medium of exchange.

The utility and real value of the precious metals to a country will be brought out by a few practical illustrations.

Suppose that we determine on an accumulation of the precious metals, and in sending breadstuffs across to Europe, insist or arrange that so much shall be paid in coin. A mere barter then takes place; we give our wheat, corn and flour,

and get so much English gold and silver for them. The United States receive the product gold, and receive, it may be, the same quantity precisely as would have been acquired at home; and England receives precisely the same quantity of wheat, corn and flour as it receives for the same value from its own farmers. If, on the other hand, the United States had received manufactures in place of gold and silver, then, for example the wheat of Illinois, which costs the farmer twenty-five cents a bushel, and could ordinarily be landed at Liverpool for twenty-five cents a bushel more, would, if wheat were worth a dollar in Liverpool, be put into manufactures at an advantage of fifty per cent. to the United States; and England, on the other hand, from its advantage in manufactures would, in paying in these manufactures, have our wheat at a lower valuation than it has its own; and thus the United States and England would both be gainers, inasmuch, as the one would have so much manufactures and the other so much wheat, at a cheaper price than either could be produced; and irrespective of the cost of the manufactures or the wheat, to the importing countries, both would be saleable at the market price and the full difference would be gained.

The question, then, is the advantage which the United States derive from importing gold, and the advantage which England gains in importing wheat; the wheat being purchased from the United States in the precious metals.

The imported gold, we shall suppose, does not find its way into the New York clearing house, but is held against fresh paper issues, made on its receipt. Here, then, appears to be an addition to the circulating medium, and a direct benefit to the community at large. There is more money in the country, and a fresh impetus is therefore given to its productive power. Such is the popular theory of the present day, notwithstanding all that has been said and written, and notwithstanding the repeated teachings which experience gives us. Money is useful as a medium of exchange only, and as dispensing with it may be an inconvenient amount of barter, and inasmuch as it represents the capital involved in its acquirement, and creates nothing, and can neither feed the

hungry nor clothe the naked, so the amount represented by it is so much abstracted from productive use. If the whole United States were converted into cash to-morrow, we would be no richer than we are, and our enormous treasure would be worthless, until we had acquired another country, and by the diffusion of our monied wealth, put industry and natural agents again in motion.

By and by, and in an especial manner, in the trade between the United States and Canada, we shall see how little money is really needed in settling up the balances of one country with another, and how much the principle of barter in reality obtains. Suffice it here to say, that business does not need an increase in the circulating medium, in the same ratio as its operations are increased. In June, 1851, when the exports of the United States were \$218,000,000, the circulation of the banks of New York State was \$27,511,787; while in 1857, when the exports stood at \$362,000,000, the circulation was only \$27,122,000, or a trifle less than at the former period.

An augmentation of the circulation beyond a given point, may be unnecessary, therefore, even if it could be made; and gold deriving its value from a command over other things just as commodities in general have a command over one another, there is no real benefit resulting from excessive accumulations of the precious metals; but quite the contrary. In receiving gold we generally receive the mere fixed value of what we have sold, while in receiving other things, whose values are not steady, and whose comparative cost may be less than similar articles produced by ourselves, we secure a profit alike on what we get and on what we give.

This point is brought out clearly in the case supposed. England, we have said, had to purchase wheat from the United States in gold; and the United States in receiving gold got no more advantage from the sale of wheat, than if the sale had been made for use at home. On the other hand, England, in paying gold had not the advantage which would have been derived had the produce been settled for in manufactures; and the same price was paid for the wheat

that would have been paid to the English farmer. So far, then, both countries are alike, inasmuch as no advantage has been gained; but according to the principle now advocated, the United States has received a product which is worthless in itself, while England has received that which of itself can sustain labor. A greater quantity of food has been admitted into England, and an equivalent quantity of gold has left. When the gold remained it was producing nothing, but was idle in the vaults of the Bank of England; and bread was dear, and people stinted in their other purchases. With the introduction of wheat, the gold, which be it observed, was doing nothing, leaves the country, and its value in the shape of loaves of bread is put into circulation; and as a sequence to the increased supply of bread, that commodity becomes cheaper, and less of the consumer's capital is required to pay for what really, under any circumstances, cannot be done without; and more capital remains for investment in other things. The English community is, therefore, benefited by the operation. By the conversion of a certain amount of specie into breadstuffs, they have received what they stood in need of. The United States have parted with their abundance and have the dead-weight gold instead; and the United States can use the gold in the same way that England did; but what we insist on is, that until the gold is used, until it has been converted into something else, no stimulus to trade can possibly occur. It is not for the gold, as gold, that the mechanic and the laborer toil, but for the commodities into which that can be exchanged. What is needed, therefore, to make a nation rich and prosperous, is a large accumulation of what all consume; and the less the amount employed as a medium of exchange, the greater the aggregate stock of those utilities which all desire.

Supposing that England, under the circumstance of gold being required, had declined to buy the wheat, and with the view of relieving the distress, which, in a period of a high price of the first necessary of life, may be presumed to prevail, had made a forced bank issue, of an equal

amount to that represented by the wheat purchase, what then would have been the positions of England and the United States? Let us suppose the sum to be \$50,000,000, which the Bank of England was authorized to issue on approved security. The amount goes forth, but strange to say, the notes are all returned, in consequence of the circulation of the country being already full. No more money is in circulation than before the loan was made, but men have discharged their obligations, nominally with notes, but in reality with the capital of the Bank of England, which may have been consols or exchequer bills. But what is the effect in England? Why, nothing more than this, that men who could not pay their way before, have so far paid it now, and that is all. There is no increase in the capital of the country, but a mere transfer of a certain amount; and if suffering prevailed before, it will do so still, until capital of another kind than gold and silver has been put into circulation. The United States, on the other hand, would have its wheat, and that wheat, in consequence of an absence of demand from England, would decline in value, as compared with gold and other things, but its substantial qualities of sustaining life and labor would be the same; and if a diminished money price was an injury to the few, it would be an unmingled blessing to the mass.

These views conflict with those usually entertained. It is supposed that a fecund banking system is only needed to turn the wilderness into a garden, and the solitary place into a noisy workshop. The cry is that money may be multiplied. Now, it must be obvious that there is no advantage in a people representing their means to excess in money, as money of itself can accomplish nothing, and its increase implies an extinction of other things really possessing that virtue which money can command but does not have. It is to be observed, also, in the case of a fixed issue of bank notes, that no addition is made to the circulation, but, that the notes are at once returned, and a transfer of capital is what occurs. To make this clear, let us revert to the previous illustration:—The Bank of England makes a forced issue of \$50,000,000, and

that sum is at once absorbed in the way we named. Notes to that amount go into the hands of certain parties; these parties pay them into the hands of others; and these present them at the counter of the Bank, and the equivalent is paid in gold, which may then be sent abroad beyond the kingdom. Now, this gold is capital; it has been dug in California or Australia, and its value is rated in other things, in proportion to the relative privation that is suffered in its pursuit, and its purchase by the Bank of England was at its rated value in something else. It is capital, therefore, and not notes that is required, and how capital is to be created by the issue of paper money, is not easy to understand. If the notes were based on capital, and sent in for payment, then the capital would be transferred, and not created; and if the notes were based on nothing, then we at once commit the error of over-trade, and sooner or later pay the forfeit.

The distinction between capital and currency, or circulation, has hitherto been too frequently overlooked. Currency or circulation consists of those sums, which are used in the payment of wages and the carrying on of retail transactions; and without reducing people to a state of barter, no curtailment of it can be made. No more money than what is really needed can be put into that channel, and so long as money is to be had, the amount cannot be controlled. When there is excess from economy or other cause, the excess becomes capital, and whether in the form of coin or bills, it is put into bankers' hands, and transferred from one person, or from one city or continent, to another. That is the characteristic of capital. It is intrinsic or representative wealth, in a tangible, appropriative form, and cannot be created by an act of mere volition only. Before a medium of exchange was recognized and introduced, one commodity was trucked against another, on the crude principles of value which then obtained; and what change has since taken place? The articles, gold and silver, after great expenditure of capital, were to be had in a few regions of the world only, and in minute particles, and that the inconvenience of barter might be removed, this limitation in supply fitted them preëminently to become a me-

dium into which other things could be exchanged. Into that service, these metals were in course of time improvised, and a specific quantity of each made into certain coins. That practice still obtains, and it is more correct to say that the weight of gold and silver in certain coins is fixed, than to say that the values of the metals are. For example, in the United States, two hundred and thirty-two grains of pure gold are coined into a ten dollar piece; and, in England, one hundred and thirteen grains of pure gold are a pound sterling; and if the obstacles to the production of gold were diminished, as compared with other things, then other things would command a higher money value; and if, while the obstacles to the production of gold remained the same, the obstacles to the production of other things were weakened, then more of other things would require to be given in exchange for a given quantity of gold.

Gold, then, representing intrinsic value, is capital in the same sense that wheat is, and a nation possessed of it can command the purchase of other things; but as the capital of a nation, like the capital of an individual, is susceptible of expression in a given sum, it follows that if so much is in the form of gold, so much less exists in other things; and as gold is a mere medium of exchange, and of itself yields nothing, a nation converting its whole resources into coin would come to a stands-till and starve; and in exact proportion as the capital of a nation is productive and transferable, so is its people and its commerce in a prosperous or unfruitful state.

While we are at present writing, (Feb. 1858,) the specie in the New York banks exceeds thirty million dollars, and the country, as a whole, is suffering more than it ever did before; and not until that treasure has been diffused in trading channels, preliminary to its being exchanged for the products of Europe and the world, can contentment and vitality be restored. The circulation of the country continues full, but thirty millions of its wealth is locked up unproductively in New York city; and millions more in Philadelphia and Boston and other parts. If the commodities given for that gold had still been retained in the United States, we would

have been not less wealthy than we are, but in the absence of demand from abroad, these commodities, expressed in gold would have declined in value, but without forfeiting in any way their substantial powers of contributing to the productive forces of mankind. We would be in the position with respect to all commodities, as in the case previously supposed with wheat, when England declined the purchase in the precious metals; but the situation would be aggravated in degree. Such, however, is not our position at the present time. We have received the precious metals in greater abundance than we ever did before, and yet our business relations were never further wrong; and it will be interesting to note hereafter, that as the stock of gold became diminished, trade improved step by step, demonstrating beyond all doubt that other things than gold are entitled to the name of wealth, and should be business objects of desire.

§ 2. Another popular misconception is a supposed benefit to the country from a high price of its agricultural produce. The income is said to be greater, and the accumulation as a consequence greater also. It is said that red western wheat in New York city, was worth \$2.10 per 60 lbs., on the 3rd January, 1855, and on the 3rd January, 1858, that it was only worth \$1.10. Supposing, then, that a farmer had sent twenty thousand bushels forward at both these periods, he would have received precisely twenty thousand dollars less for the one parcel than the other, and the capital of the country would so far appear to be curtailed. Then, if the production of the country at both periods was 150,000,000 bushels, the aggregate returns would be no less than \$150,000,000 against the present year.

So far as the farmer is concerned, we are free to admit that the one year would be much less profitable to him, in a money point of view, than the other; but as the principal customers of the farmer are his own countrymen, it must be obvious that precisely what he acquires from these is taken from the general stock, and that in place of an augmentation of the national wealth, a mere transfer and consumption

in reality is made. This point is of easy illustration. An individual is in receipt of so much yearly salary. Suppose it is a thousand dollars; that, from that sum, four people have to be maintained, and that the average consumption of each is a barrel and a half of flour per annum. The price of six barrels of flour, no matter what that is, has to be taken from the thousand dollars. If the price is five dollars per barrel, the expenditure is thirty dollars; and if the price is ten dollars, then the outlay for the commodity is doubled. Now, that flour is consumed and leaves no product. So much capital is virtually thrown into the sea; and the only benefit is, that lives already existing are sustained. An equivalent is paid the farmer, in a transfer from the wages of the individual; the farmer has the money that the consumer parted with, and the consumer has nothing; but is precisely in the same condition, after the flour has been consumed and paid for, as before it was received. The farmer's income is therefore derived exclusively from the capital of other people, and as his stuff is cheap or dear, so does he absorb a lesser or greater amount of the aggregate that the country has, and leaves the less or more for employment in the purchase or production of other things. It is a mistake, therefore, to suppose that a high price of agricultural produce is advantageous to the country. The reverse is the case, and we shall see presently that commercial difficulty may not unfrequently be traced to the absorption of capital consequent on a high price of bread.

A difficulty here presents itself, which it is necessary to clear away before proceeding further. The individual who bought the flour from the farmer, paid a portion of his wages for the flour, and it may be said that the money having passed into the farmer's hands, the country is at least no poorer than it was. This is simply the fallacy of money being the only form of wealth, which has already been considered. The stock of money is not affected by the consumption of the flour, for the sufficient reason that bank notes and coin would form an indifferent meal; and under no circumstances are ever intended to be eaten. It is not

wonderful, therefore, that they should remain after the flour has perished; but it would have been wonderful if they had disappeared. It is enough that the flour has gone, and that it was raised by the farmer, in the form of wheat, after a period of anxiety, and an expenditure of means and labor; and after the outlay of the miller in subjecting the wheat to a costly process. The commodity was therefore exchangeable into gold or silver, or into any product, either of this country or of Europe, and having coëxisted with all the gold and silver that there was, and having been destroyed, the country is the poorer for the loss.

But not only is a high price of food pernicious to a people, in the absorption of so much of what they earn, and for the mere support of life; but commercial prosperity and difficulty are intimately associated with the abundance and scarcity of the staff of life. Observation has placed the fact beyond a doubt that a time of plenty stimulates industry in every country, and a time of dearth lays commerce prostrate; and the rule is absolute. At first thought, it would seem, and it has been often urged, that a scarcity of food in England and an abundance in the United States, was disastrous to the former only, and an unmingled blessing to ourselves. A moment's consideration puts us right upon the point. With abundance of wheat and flour, these commodities are cheap, and the expense of living is reduced, and every man has so much more for investment in other things; but with an outside demand, that abundance is absorbed, and prices rise to the level in the country whence the demand is made. The resources of the country are then absorbed by the agricultural class, and seldom find their way again into trading channels, but are sunk in improvements, or in speculative purchases of wild western lands. The farmers, therefore, are the only class benefited; and it is to be observed, with respect to the farmers of the United States, that at the lowest price which produce has ever touched, they have more than an average return for the capital and labor they employ. No possible depreciation of price can therefore injure them; and the high prices of the

past few years have done less good to them, than harm to others. Into this vital principle we now proceed to inquire.

According to European economists, the wheat consumption of the English people is equal to eight bushels per annum, for young and old, of the population; while in France, where less animal food and more bread is eaten, the annual average consumption is ten bushels of wheat per head. Taking the English consumption as an approximation to our own, and the population of the United States, in round numbers, at 30,000,000, the home consumption of wheat for the present year will be no less than 240,000,000 bushels; and taking that quantity as a basis of a calculation, with the fluctuations in price, since 1850, we see at a glance the relatively greater absorption of the national income, in one year than in another, and for the self-same object, the purchase of our daily bread.

PERIOD.	BUSHELs WHEAT.	PRICE.	COST.
Sept. 1, 1850,	240,000,000	\$.80	\$192,000,000
“ 1851,	240,000,000	.60	144,000,000
“ 1852,	240,000,000	.70	168,000,000
Jan. 3, 1853,	240,000,000	1.25	300,000,000
“ 1854,	240,000,000	1.78	427,000,000
“ 1855,	240,000,000	2 10	504,000,000
“ 1856,	240,000,000	1.90	456,000,000
“ 1857,	240,000,000	1.58	379,000,000
“ 1858,	240,000,000	1.10	264,000,000

NOTE.—As stated in the text, the above is only to indicate the amount that the nation pays for wheat at one price, as compared with another price, and the estimated population of the present year is the basis of the calculation. It is not, therefore, to be implied, that the consumption of wheat in the United States in 1850, and the two years subsequent, was the same even quantity, of 240,000,000 bushels. The population of the country was much less in 1850, than it is in 1858, and as a matter of course, the consumption of wheat was less also; but if the precise quantity of wheat consumed in 1850 and subsequent years, had been given, the result would have been relatively the same; while the above perspicuous exposition of the principle would have been lost.

Taking 1851, the year of the lowest price, with 1855, the year of the highest price, we find that the aggregate expenditure of the latter year exceeds that of the former, by nearly four times. In 1851, there was a home expenditure of wheat of \$144,000,000, and in 1855, an expenditure of \$504,000,000, or an excess of no less than \$360,000,000; a sum large enough to build as many more railroads as

we have, or more than extinguish all our indebtedness to Europe. To talk of excessive bank issues, of excessive business credits, or even of the wild land and paper town mania, as the moving causes of recent troubles, is ridiculous after that. The remote and secret agony was the great absorption of the nation's capital from 1853 down to 1858, arising from deficient harvests both in this country and Europe.

But what was the condition of the country in 1851, the year of cheapness, and in 1855, the year of dearth? Let us consult the impartial record of Freeman Hunt:

<p>1851. JANUARY. The money market well supplied.</p> <p>FEBRUARY. Trade brisk; liberal credits.</p> <p>MARCH. Business in a satisfactory state.</p> <p>APRIL. Payments prompt.</p> <p>MAY. Trade better, and greater than ever known before.</p> <p>JULY. Panic in Liverpool; no reason for alarm in the United States.</p> <p>DECEMBER. The temporary reaction past.</p>	<p>1855. JANUARY. Bank panic; disorder and pressure.</p> <p>FEBRUARY. Symptoms of returning confidence.</p> <p>MARCH. Banks expanding.</p> <p>APRIL. Crash among the California bankers.</p> <p>MAY. Great contraction of trade and credits.</p> <p>JULY. Crops good; trade reviving.</p> <p>DECEMBER. Returning confidence.</p>
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Taking the first four years of cheapness, and the five latter years of dearth, the conclusion is the same. From 1850 to 1854, we have cheapness and a flush speculative state of things; and from 1854 to 1858, we have dearness, bank and trade contraction, and ultimately more intense depression than was ever witnessed. Finally, we have in the one period, as compared with the other, an absorption of capital, for the self-same object, which accounts abundantly for the phenomena. In one year we have \$360,000,000 more paid for wheat than in another: an abstraction of working capital which no community could stand.

The commercial history of England exemplifies the principle at every step. The difficulties of 1826 were preceded

by the short crops and high prices of 1824 and 1825; the difficulties of 1828, and until the passing of the Reform Bill, were consequent on a greater annual absorption of the national income, in buying bread. In 1838, '39, '40, '41, and again in 1847, we have the same connection of effect and cause. More recently, from 1850 to 1854, we have prosperous times and cheap bread; and suddenly the sky is overcast, and excessive trading to Australia bears the blame. The price of wheat, we shall however find, was the real motive power at work; and the recent pressure has been aggravated by the increased cost of living from 1854 to 1858. In 1853, the average price of wheat was 45s. per imperial quarter, and in 1854, it was no less than 73s. Taking the population at 30,000,000, we have an equivalent consumption with that of the United States, and no less a sum than \$51,000,000 paid in excess for wheat in 1854 than was paid the year before. Such a sudden tax upon the national income could not but occasion suffering; and suffering greater in degree than the then miscarriages in the Australian trade. That excessive annual outlay continued until the close of 1857; and in the necessarily reduced demand for home manufactured products, we have the phenomena of excessive exports, and a rotten trading system brought to light. Business men had their means invested in manufactures and in trade; and suddenly, in the diminished quantity of the staff of life, the agricultural interest absorbed what had been sustaining trade, and in the vain effort of manufacturers and traders to keep their heads above water, excessive shipments were made to the United States and elsewhere; a course which, as things happened, only staved off the evil day, and made its reckoning more severe. And yet, that trade forcing system is looked upon in Europe and in the United States, as the cause of the evil days of 1857; while in reality, that forcing system is the effect of a higher law. The English manufacturer and merchant found the home trade dull, and prices cut down to a less than living profit, and in the hope of better times sent their stuff abroad, receiving those advances which their wants required. The

American manufacturer and merchant did the same ; and yet all are blamed, and efforts and sacrifices are charged against them. If, however, the earth had yielded its abundance in 1855 and 1856, the breach in business capital would speedily have been repaired ; but wheat touched a higher price in 1856 than it did in 1854, and when the commercial fabric once tottered, nothing, under the circumstances, could prevent a fall. How noble, therefore, the struggle of the commercial class against the accumulated odds of the deficient harvests of four successive years ; and how unmerited the opprobrium that has been heaped upon them. Would we not have blushed, if without a struggle, the first wave of adversity, had put the commercial system of the country and the world into one disordered mass of liquidation ?

Taking the population of Great Britain at 30,000,000, we have in the following table, the comparative annual cost of wheat, for the same period embraced in the previous table for the United States :

PERIOD.	BUSHELS WHEAT.	PRICE.	COST.
1850,	240,000,000	\$1.21	\$290,000,000
1851,	240,000,000	1.20	288,000,000
1852,	240,000,000	1.20	288,000,000
1853,	240,000,000	1.34	321,000,000
1854,	240,000,000	2.20	528,000,000
1855,	240,000,000	2.17	520,000,000
1856,	240,000,000	2.20	528,000,000
1857,	240,000,000	1.81	434,000,000
1858,	240,000,000	1.60	384,000,000

NOTE —The remarks accompanying the previous table, apply to this also ; the object to ascertain the absorption of the annual income at one price, and at another price being the same. The computed population of Great Britain being precisely the same as that of the United States in 1858, the quantity of wheat entering into consumption is the same. Comparing the cost to ourselves and the cost to Great Britain, the advantage of cheap living is largely in favor of the United States

This table, therefore, verifies what we have said. The quantity of wheat essential to sustain the British population for a year, cost in 1850, the sum of \$290,000,000, only ; and in 1854 and again in 1856, the same quantity of wheat cost \$528,000,000 ; an extra absorption of the annual income in each of these two years, of no less than \$338,000,000 ; a sum large enough to create trading difficulty ; but figured up

with the yearly excess, till 1858, the wonder is that recent troubles have been so well got through.

Not only does the trade of Britain, and our own, bear testimony to the serious consequences arising from the fluctuations in the price of bread ; but the trade of Belgium and of France teach the same lesson. In fine, wherever bread is cheap, there contentment and prosperity, in the absence of any disturbing cause, will be found invariably to prevail ; and whenever a sudden and increased absorption is required to pay for the same measure of the same product, and that product the staff of life, then, in precise proportion to the increase and the continuance of the altered state of things, disorganization and suffering will be found. It is nothing that the extra abstracted wealth passes into other hands, and does not leave the country. It leaves those channels in which the laborer and the handicraft earn their daily bread ; and the factory and the work-shop become still and silent ; and their once happy, thrifty inmates are thrown upon the world, and there must remain until the advent of better times.

There remains another point needing illustration. We have seen that, even although the crops of the United States are in great abundance, if the crops of England shall have failed, the demand or wants of England will raise prices here until a trading level has been reached. We then experience all the influences of a dearth among ourselves, and the national income becomes absorbed unduly in sustaining life ; and every business interest, with the exception of the agricultural, promptly suffers.

Upon this point, the commercial history of England is very clear. During the years preceding 1838, when the action of the English Corn Law precluded the importation of foreign wheat into England, until prices touched a given point, the low price of bread on the continent of Europe stimulated manufactures to a great extent in France and Belgium, and when the bad English harvests from 1838 to 1841 raised wheat prices in England to the point which admitted of continental imports, and raised prices on the continent to the

English level, the manufactures of Belgium and France and Hamburg violently collapsed, and general suffering at once followed.

This, we must admit, is rather an old instance, but it is not less conclusive on that account. Like effects follow like causes in all time, and it would perhaps be difficult, in the whole range of history, to find an instance more free from disturbing elements, and less susceptible of doubt. Eighteen hundred and thirty-eight occupies a position midway between the revolutions of '30 and '48, and general contentment and prosperity prevailed. England was then self-supporting, growing all the wheat and grain that was consumed, and the continent of Europe was doing the same. So much was this the case, that in 1830, wheat was one price in Britain, another price in France, and another in Dantzic. In the first-named country the imperial quarter averaged 64s 3d; in France 41s, and in Dantzic, only 34s 3d. In 1837 the same irregular rates were ruling: wheat in Britain was 55s 10d; in France 41s, and in Dantzic 29s. All at once, in 1838, the English harvest failed, and the price of wheat advanced promptly to that point which admitted of the continent engaging in the trade. Wheat, and other cereals in proportion, started everywhere to that level which admitted of a mere average profit on the shipping trade. The French, the Flemish and the Prussian laborers now found their little incomes insufficient to provide anything beyond the staff of life; and unprecedented difficulty accompanied a large influx of the precious metals; and some years elapsed before the manufacturing and trading interests regained their former vigorous and healthy state. Difficulty in England then forced English manufactures into every market, irrespective of all protective duties that prevailed, and until that game was played and more propitious seasons had come round, every interest was sacrificed everywhere, in the meting out of a deficient stock of that great necessary for which all will make any sacrifice.

§ 3. Another popular misconception is that known as the theory of the balance of trade; or the means of making a nation rich, and preventing it from becoming poor. This theory is not a modern one, but of very early date, and is based on the assumption that what a nation gives to others, those others have to pay; and what a nation gets, has in the same way to be paid; and the only way, therefore, for a nation to increase in wealth, is to give more than it receives; in other words, to export more to foreign countries than it imports. The difference between the exports and the imports is the balance of trade, and is said to be in favor of or against a country as the exports or the imports may happen to prevail.

The following table gives the aggregate exports and imports of the United States since 1850:

ENDING JUNE 30.	TOTAL EXPORTS.	TOTAL IMPORTS.	DEFIC'T IMPORTS.
1850	\$151.8	\$178.1	
1851	218.3	216.2	\$ 2.1
1852	209.6	212.9	
1853	230.9	267.9	
1854	278.2	304.5	
1855	275.1	261.4	13.6
1856	326.9	314.6	12.3
1857	362.9	360.8	2.0
Totals,	\$2,053.7	\$2,116.4 2,053.7	\$30.0
		\$62.7	

NOTE.—The total value of the imports from 1789 to June 30, 1856, was \$7,297,541.396; and the total value of the exports for the same period, \$6,437,541.396, showing, according to the balance theory, that in the foreign trade we have been losing all along.

It is scarcely necessary to observe that the figures in the above export and import table are millions and decimal parts of millions. The figures \$151.8 are to be understood as signifying \$151,800,000.

The excess of imports for the period is therefore sixty-two million dollars; and according to the theory of the balance, that is the full measure of our loss, in the prosecution of foreign trade for the past eight years. We would be

further told, however, that our trade during the past three years had been successful, the balance in our favor being no less than thirty million dollars.

These deductions, we need scarcely say, are not borne out by facts. With respect to the three past years, we are more likely to have lost than gained; and with respect to the five previous years, the probability is, that the trade left us a handsome profit. It is most unlikely that a large increasing inward and outward trade, should be prosecuted for five years without its paying, when capital was abundant and so many ways presented themselves in which money could be made. Then in these three years in which our imports leave a thirty million balance to be drawn against abroad, there is reason to apprehend that the trade was forced, in consequence of the stagnant state of the home demand. Eighteen hundred and fifty-five and subsequent years were, as we have already seen, years of high priced food, and as a consequence years in which agricultural products absorbed an undue proportion of the national income, and left little for investment in manufactured articles, and forced these articles into foreign markets, to be realized promptly at whatever they would bring. The reverse, therefore, of the theory in reality obtains, and the foreign trade of 1850 to 1854, was the period in which advantage was likely to be gained, even although our imports were then so largely in excess.

Foreign trade, like domestic trade, has for its object an increase of those utilities which all desire, and how any increase could be made if we were to receive really less than we really gave, is not easy to understand. If we send a thousand dollars' worth of wheat from Illinois to Liverpool, and it nets two thousand dollars, the thousand dollars' profit which we would receive, would stand against us if the theory of the balance were to be believed; and in the case supposed the nearer we approached to receiving nothing we would be the better off. With that doctrine it would be also difficult to reconcile the utility of a fishing expedition to the Southern ocean, which would possibly involve the receipt of one or two hundred thousand dollars' worth of oil; or a trading

voyage from New York to somewhere else and back, which quintupled the amount of capital originally embarked. Such a theory is therefore quite absurd, and quite unworthy of the intelligence of the present day.

But there is another and more convincing ground of condemnation of this flimsy system, which has so long deluded people, and whose vestiges and spirit are still living in France and other parts of Europe, and to a certain extent among ourselves. That is the utter worthlessness of all statements of exported or imported values. Not the slightest reliability can be placed upon them, and such being the case, all legislative policy so grounded must be erroneous; and all efforts in that kind of way to arrive at the knowledge whether we are making an accumulation or diminution of those utilities known as wealth, are absurd. To make this plain, it is only necessary to inquire into the working of the system of foreign trade. A firm in New York, a firm in Liverpool, and a firm in Havre, agree to engage in the American trade; or what is not unusual, a speculative individual opens in New York as William Jones & Co., in Liverpool as Jones & Co., and in Havre as simple William Jones. To start this triangular kind of system, in a responsible looking sort of way, the New York firm opens a credit with Duncan, Sherman & Co., for the firm in Liverpool; and with the Bank of the Republic for the firm in Havre. The New York arrangements are then in trim. Meanwhile the Liverpool and Havre firms have been at work, credits have been opened in Liverpool with the Royal Bank and the Bank of England, respectively, in favor of the Havre and the New York firms; and in Havre the New York firm is accommodated on a Jew, and the firm in Liverpool on the Bank of France. The circle is now complete, and business is started in a spirited and imposing way. Now mark what follows, in nine cases out of every ten. These credits are at once stretched to their utmost limit, and the credit of each firm written besides upon as many bills of lading as can be sold. The principle laid down and acted on is this, that a certain amount is to be shipped and drawn for every month, irrespective of the state

of the market at either end, it being conceived that disturbances in the profitable relations of demand and supply will be only temporary, and that it is safer to calculate on a general average profit for the year, than to regulate transactions by quotations at the time. This policy accounts abundantly for shipments and importations being made in the worst of times. The fact is, that once a stupendous business system, such as those in the foreign trade, is set agoing, it cannot stop, unless for the purpose of presenting to its constituents the alternatives of extension or liquidation. Bills are maturing and can be only met by continued operations, no matter although dry goods are unsaleable in New York, unless by retail; and although cotton presents no margin in Liverpool or Havre, and has a declining aspect. These considerations do not weigh in the balance when the questions of existence and bankruptcy become involved; and the losing game is boldly played. Now we would ask, what light can possibly be thrown upon the condition of the nation by an examination of the exports and imports of the year, when such practices obtain? The cotton shipped at New York and New Orleans, and entered at 10 cents a pound, may not be worth that on reaching Liverpool or Havre, and when landed there it may be advanced upon, and sold ultimately to some one who perhaps does not pay. In settling up, such a transaction would be expressed as *nil* for the United States, although when shipped at New Orleans it was written down at a million dollars. Then a million dollars' worth of silks may be received from Havre, and to cheat the revenue, the foreign invoices are adroitly cooked, and the import table does not bear the fair market value at the shipping port. But these silks are sold, and as sometimes happens, are never paid, and as a consequence the house in Havre is not credited with a dime, and the import value is never paid.

Such is the *modus operandi* of perhaps half the foreign business of the world; the other half being conducted in what is called a legitimate sort of way; and seeing how closely and how intricately one country interlaces itself with every other, it is simply impossible even to conjecture how

we stand with any nation, or how any nation stands with us. The large imports we have been receiving lately, and the large exports we have made, turned out, in the one case during the revulsion, to belong in part to France and England, and in the other, to belong to us. France and England were shipping to themselves in the United States, and the United States to themselves in Liverpool and Havre; thus demonstrating the futility of ever attempting to unravel the tangled web, and to render official trading tables of little use.

One of the great objects of the theory of the balance of trade, was to enable a nation to see precisely how it stood, so that what was considered an approach to an unfavorable balance could be promptly checked; or a balance raised, and specie drawn to such extent as might be desired. When, therefore, a country was sending in more stuff than it was taking off, as in the famous instances in the William and Mary time, some effective steps were taken in the form of duties, or otherwise, to correct the evil, and, when considered necessary, bounties were freely paid on exportation. Now, so far as controlling the movement of specie from another country is concerned, that depends on the state of the exchange; in other words, upon the extent of the demands which one country may have and can make upon another. If the demands of both are equal, then no bullion will be passed; and even if unequal, no bullion will be passed unless bullion is the cheapest commodity that can be sent. Suppose that the excess of the value of the bills or claims drawn by New York on Liverpool were \$1,000,000, then the question for Liverpool is to find the means of discharging the difference in the least expensive way. If commodities costing \$999,000, but worth \$1,000,000 in New York, were sent and drawn for, then the difference would be settled satisfactorily; the United States receiving what they were entitled to, and England reaping the benefit of such natural or acquired advantages as it possessed. If, however, no merchandize could be sent with the reasonable prospect of realizing cost, then a specie shipment would assuredly be the

best, and the drafts being for value, in fact, in the case of produce, it may be for greater value than the purchase price, no disadvantage would be entailed on England, but the United States, instead of reaping increased benefit from the specie, would, in reality, only have the bare price for produce which would have been paid at home, while, if merchandise had been received, another profit would have been gained.

Then it is to be observed that representative as well as real capital enters into the exchanges between nations, and is of sufficient magnitude to destroy the theory of balances, even if its principle were as strong as confessedly as it is weak. The stocks, bonds, mortgages and debentures of all unrepudiating states and nations are saleable on the London Stock Exchange, and when sold there, constitute as effective demands upon the floating capital of England, as the bread-stuff and cotton bills of New York and New Orleans. It is worthy of note, also, that these securities can be returned upon their makers without regard to what England may be really owing for grain or cotton, and retake all the gold that has been acquired.

It is, also, a well known fact that the operations or wants of the United States in the other hemisphere, necessitate at all times the opening of credits with London bankers, and considering the real or possible extent of such transactions, any trimming of the imports, with the view of keeping the exchanges in our exclusive favor, would be liable, at any moment, to be overturned and set aside. -Not a single straw returns from the outlays of the government, in its court and consular appointments, or the movements of its ships of war; and the expenses of one year may be doubled in another.

The theory of the balance of trade is erroneous, therefore, and in no sense whatever is it of any use. A nation, like an individual, must get more than it gives, import more than it exports, or trade will be a losing game. Then, as to making international payments, it is unnecessary at any time to open up the national ledger. The exchanges are not regulated on theoretical grounds, but by the matter of fact demand and

supply of bills. If bills are plentiful on Europe, then the exchange is low and in favor of the United States, and *vice versa*. These bills may not be drawn against what is known as trade, but against bonds and stocks of the United States sold in England, or against legacies and payments due to parties here. Bills on the United States may, on the other hand, be drawn against the disbursements of the American government, or against the disbursements of American citizens in any part of Europe. The balance of transactions has, therefore, no concern with the rate of the exchange.

§ 4. Another misconception, closely identified with the first, which we have named, is that which relates to banking. It is very generally supposed that prosperity and adversity are contingent on the action of the banks; and that a real specie basis, and large unemployed reserves, are only needed to prevent difficulty and disaster in the future. Now when it is considered that the banking capital and deposits of the nation form but a fractional part of the whole national capital, and belong, in the deposits, to the mass, and not to the bankers, these opinions must be largely modified. According to the report of the Secretary of the Treasury, the paid-in capital of the whole fourteen hundred banks, in the United States, amounts to only \$370,000,000; a sum a few millions short of what the United States paid for wheat in 1857; and \$125,000,000 less than would have been paid, if wheat, in 1857, had been the same price as it was in 1855. The real influence of banking is therefore trifling; its actual measured value being no greater than a crop of wheat, valued at a fair average of prices ruling in years of dearth and plenty. How then can it possibly be so omnipotent as is generally believed? In times of stringency, we admit, that traders do not have the same line of discount, and as a consequence, suspend payments; and that these suspensions constitute a crisis, and so on; but we deny that stringency is brought about at the mere will and pleasure of the banks. Bankers, as a rule, do not use their means, but lend their means to others, and if these means are used unproductively, and are not in the mean

time replaced by the income of the country, then means or floating capital is scarce; and being scarce, the sums on deposit in bankers' hands are reduced, and a positive inability to lend to the previous extent, is the stern truth told the banker. Who is responsible? Not the banker surely, as he has not laid out or absorbed the means: but the people, or the seasons. Let a banker curtail his discounts, when times are good, and what he withholds will be taken from him in deposits; and let him be indulgent, when the income of the country has been absorbed or wasted, and all his treasure will only form a mouthful. This principle admits of easy explanation. Bankers, though the principal are not the exclusive lenders of monied capital; but private parties having a surplus, in other words, having deposits at their bankers, compete to a greater or lesser extent, in making loans, according to the circumstances of the time. Supposing that unemployed capital were abundant in the country, and bankers resolved to reduce their loans. This course would render them careless about increasing their deposit stock; and accordingly a very low rate of interest would be allowed on deposits put into their hands. Depositors would then look about for a higher rate of interest than that allowed by bankers; and would find that, in the bills thrown out by bankers in the contracting process. The contraction or stringency would be therefore nominal, and borne only by the weekly statements of the banks; and in reality would not exist out of doors. Every one with good security to offer, would be supplied to the same extent precisely as if bankers had made no contraction of their loans. In this way the whole discounting business of the country might pass into other hands; but bankers would find that the contracting process would not do, and very speedily relax their hands, and take the leading part again in this department of their trade. So much, therefore, for the talked-of power of bankers to crush the country, when the humor takes them. A more egregious fallacy was never entertained. On the other hand, supposing that the floating capital of the country had been absorbed freely, and there was an active inquiry for that portion which bankers still possessed, what,

we would ask, could bankers do to meet the crisis? Supposing that they did not advance their rates, in other words, did not contract their loans, what follows? Every weekly statement becomes more gloomy than another, as the amount of treasure becomes diminished; and depositors taking fright, make a run, and suspension is promptly brought about. But supposing that rates were advanced, and the "screw" adopted, the practical issue would still be the same, and bankers as powerless to fill the vacuum. The country would be in the position of a man called upon to pay a dollar who could raise fifty cents only, and the consequences would be the same. His note of hand would be worthless for the present; and so would be the promises of a Wall street banking house, to pay, in the case supposed. If this were not so, then why any crisis or revulsion, or any clogging of commercial wheels at all?

But not only is a banking system necessarily passive in its operations, and of less account than a crop of wheat; but contrasted with the aggregate value of the real and personal estate of the country, its amount, as we have already said, is fractional and trifling. From the recent reports of the Secretary of the Treasury we take the following items:

June, 1856,	Real and personal estate,	\$11,000,000,000
Jan., 1857,	Total capital of Banks,	370,000,000
Jan., 1857,	Total deposits of Banks,	230,000,000
Jan., 1857,	Total circulation of Banks,	214,000,000
Jan., 1857,	Total loans and discounts,	684,000,000
Jan., 1857,	Total specie of Banks,	58,000,000

Here then, we have the real and personal property of the United States put in at eleven thousand millions, and the circulation of the banks at two hundred and fourteen millions; a sixtieth part of the former sum. Now considering that real and personal property are convertible into other things, and into gold, the presumption is, that no greater amount of circulation than what we have named is really wanted, as the least inconvenience would have called into existence a further sum. That is all that is really needed, and all that can be forced upon the public, even although six

hundred and eighty-four millions, in the form of loans and discounts, have been paid away. Was ever popular error more conclusively exposed? The proportion of the circulating medium to the real and personal property of the country, is a sixtieth only; and that, at a period of undue inflation. That amount sufficed to do the business of the country; and a larger sum would have done it, not a whit the better. What difference is there in the position of the business of two New York bankers, one of whom avails himself of the clearing house, giving or receiving the trifling balances of the day, while the other collects and distributes, each and every item in its individual and aggregate of notes or coin? and what difference, if the circulation of the United States were reduced a half? What difference, in point of fact, if coin and notes were abrogated, and the clearing house, recording and offset system, brought down to the lesser transactions of daily life? Start a bank in Chicago with a capital of a million dollars. The proprietors do not pay their shares in gold or silver, or in anything possessed of intrinsic value; but in the notes of other banks. The capital of the bank consists, therefore, of claims on others; and the capital of these others, consists, it may be, of claims on New York; demonstrating at every turn that money is not the foundation nor the prop of the business system, but a mere auxiliary or corner stone.

It is easy to account satisfactorily for the confused and crude notions that prevail generally on banking subjects. Money is the great object of desire to young and old, and the clear, intelligible way in which it is acquired, and afterwards exchanged for something else, has made inquiry a work of supererogation. Every one saw the whole matter at a glance, and respectfully declined to be enlightened, or to seek further information. "Give us money," it was said, "and we will get the rest;" and who has not heard the proverb that "money makes the mare to go." At one period it was believed that there was a certain amount of money in the world, and that trade was neither more nor less than a scramble for it; and that what one nation gained, another nation

lost. The discovery of the California and Australia mines, and the paper money substitute, rather injured that theory, and thinned the ranks of those who entertained it; but the benefit and felicity of lots of money was something which only fools or madmen could dispute. What but money put the laborer to work, and found him in the necessaries and decencies of life? and what did the trader and the merchant scheme and strive for? Money, therefore, was the great object of desire, and tens of thousands at the present time, cannot hear of specie shipments to other countries, without lamenting the ignorance and delusion that prevent the government from forcibly retaining every dollar within the country, and straining every nerve for the indefinite augmentation of the stock of gold and silver, and the manufacture of paper bills.

This, however, has not been the only form of error on the subject. The fallacy of an indefinite multiplication of paper money has given way only to that of a multiplication on a "specie basis." Give us currency, it is said, but let it be secured. When Illinois is overflowing with wheat and corn, and New York and Liverpool are scantily supplied, "let notes issue against the crop," and each and all participate without let or hindrance in its movement to the seaboard. Very little reflection is needed to show the impracticability of such a scheme. The farmers cannot issue notes without becoming bankers; and bankers could not issue notes without the wheat. Antecedently, therefore, to the issue of the notes, the wheat would be moved, and the notes would not be needed. But supposing this difficulty overcome, and the wheat crop of Illinois represented in paper money, that its movement might be secured. What then? Is the money to be scattered broadcast without value being received? If so, then the money costing nothing, will be possessed of little value; and if to be issued like other paper money, wherein is the advantage to be derived? As things are, wheat or any other produce article, can be purchased on its own security, for a given period, and currency obtained to make the payment. The hue and cry for currency, that produce may be

moved, is a mistake, therefore, and something else is in reality required; and that something else is to be found in an improved feeling in the future, and more confidence between man and man. A specie basis, instead of a wheat one, would not mend the matter, as it is not currency but confidence that is required. Supposing that A. buys from B. one thousand bushels of wheat, and has to pay B. one thousand dollars. B. possibly draws the money from banker C., and on A. receiving it, he forthwith makes a deposit with banker D. Banker C. has so much less funds in hand than he had, and banker D. so much more; but another business operation, by other parties, may retake the same money from D. and put it temporarily into wheat again, and then replace it into the hands of C. Money therefore performs a ceaseless round of services; and it is a mistake to fancy that one sum can only discharge a single function. The fact rather is, that the identical circulating medium of the time, if worth preserving, and incapable of being destroyed or worn, by repeated handling, might operate the business of the country, without the least inconvenience, for the next hundred years. To be sure, the circulation in 1858 was almost double what it was twenty years ago; but nothing has yet been done in the way of clearing western issues. These, instead of being deficient are largely in excess; and no better services could be rendered than to cut them down.

What is really practicable, on a specie basis, is the protection of the paper money which the public have in hand. That is the limit, and that limit being transgressed, the misconception of which we speak occurs. In a community or country where the practice of daily, or even weekly, clearances obtains, just as in a community or country where such a practice is unknown, there is an almost fixed sum, always out, either in transitu, from the issuing to the clearing point, or kept in perpetual motion, as in Illinois, making few and far between returns to the place whence it came, and that sum it is only needful to secure. To go beyond that point is unnecessary and absurd, as what a bank issues in excess, is either held by other banks or returned; and no public risk is run.

Returning to our table, at page 35, we find the following as the circulation, and protecting specie of the banks in the United states in January, 1857:

CIRCULATION.	SPECIE.
\$214,000,000.	\$58,000,000.

A large accumulation of specie is therefore needed to bring up the circulation to a specie standard; and until that is done we may well spare ourselves anxiety as to keeping out a still greater sum. Our next care should rather be to devise means by which deposits should also become secured. These cover a larger sum than the circulation, and if dissipated by bankers, or recovered only after a tedious process of liquidation, the injury to society is not less severe than that of broken bills. Stocks and bonds are good unquestionably to the full extent that they go, but time and again we have had experience of the fact, that securities of every kind are most inconvertible when most required, and that there is no limit to the depreciation which they may attain. A currency based on these is treacherous and unsafe, and cannot be remedied a single hour too soon. It is to this imperfection of western currency, that the derangement of the internal exchanges is clearly owing, and this circumstance we shall have to consider by and by in its proper place.

It follows, therefore, that the influence of banking is very trifling, that it is in fact not an active but a passive agency, and its real benefit consists in gathering together and lending out such unemployed monied capital as a people have. When that unemployed capital is abundant, bankers' hands are full, and loans are made without stint or measure; but when a bad season, or excessive investments in unproductive objects, has absorbed the stock unduly, then the little left is given out grudgingly and on stringent terms. The banker, however, is not to blame. He is not a manufacturer of monied capital, but a mere receiver and distributor of what may be agoing. True, he may issue an unlimited amount of notes; but it is on the presumption that these notes are representative of wealth, which is immediately convertible into coin. The wealth, therefore, existed before the notes, and has not been created

by them; and notes based on nothing, can be nothing else than a fraud. They may set industry in motion, and in their own depreciation increase the value of other things, but when the day of discredit and reckoning comes, the hapless holder finds that he has labored for that which is not bread, and for that which satisfieth not. Further, we have found that the proportion of banking capital to other wealth is fractional and trifling only; and that by the agency of the clearing system the circulation of the country may be much reduced, and need not want augmentation for another hundred years.

§ 5. But it may be asked, what have these things to do with international trade? What has our local or national banking system to do with it; or the price of agricultural produce; or the balance of trade; or the misconceptions as to wealth? These questions, therefore, we must answer before proceeding with the subject matter.

With regard to what constitutes wealth it must be manifest that if there is any misconception on the subject—if it is conceived that an accumulation of the precious metals is the great aim and end of international and domestic trade, and that the imported produce and products of foreign countries are a public loss, then the first thing to be done is to disabuse the public mind on the subject, and to show that real wealth consists not in gold and silver, but in the abundance of those things that are useful and agreeable to man, without respect to the source from which they are derived. If the great end of trade is misconceived, a vicious practice will be cherished, and injury unwittingly inflicted upon ourselves. We will insist upon producing those things which we could purchase cheaper elsewhere; and to that extent withdraw production from those commodities in which our advantage is the most. We will seek gold, when seeking other things would secure to us those advantages which result from exchange with foreign nations, and which returns in gold rarely yield.

The price of agricultural produce has a most intimate connection with prosperity or depression, not only in domestic but in foreign trade. When prices are low, capital is abun-

dant, the consumptive demand brisk, and trade good; and when prices are high, capital is scarce, the consumptive demand heavy, and trade dull. Then when the home demand fails, we have the necessary result of forced sales, consigning in excess to foreign markets, and sympathetic derangement in foreign countries. Considering then the ever-recurring periods of deficient harvests, and their invariable sequence, an important disturbing influence is brought to light in foreign and domestic trade which should not be overlooked. The price of wheat should be the barometer of the business man, directing him when to crowd on sail and when to make things snug to face the storm; and it is full time that a generous, intelligent sympathy were extended to the hapless trader who is borne down by circumstances over which he can exercise no control. If the capital or income of the country is a given annual sum, and unexpectedly an undue proportion is absorbed in buying bread, who is to blame for the consequences that follow? If the mass, from necessity, diminish their expenditure for domestic or imported articles, and the manufacturer or holder of these becomes embarrassed, in consequence of the absence of that demand which he anticipated, is it more reasonable to charge him or the season with the irregularity and the loss that is sustained? Is he, when the first manifestation of collapse occurs, to go into the bankrupt court, and not venture upon a single sacrifice, in the faith and hope that things will speedily improve, and any little breach in capital be repaired? and is he, in the adoption of either of these alternatives, to be treated equally with distrust and blame? These are questions of commanding interest to the business public at the present time, and when traced back to remote issues, give the cue to those revulsions with which everything in turn has been blamed.

The theory of the balance of trade has figured so conspicuously in every dissertation on foreign trade, and still has too strong a hold upon the mass to remain unnoticed. We might show the advantage of this and that to a country; but a man prejudiced in favor of looking at things in the aggregate, even although the aggregations are misleading and in-

correct, would not be satisfied. We might tell him that it was better to grow wheat and cotton, and to buy the products of Europe with them, than to manufacture these things for ourselves; but demonstration would be lost, if it were believed that he had to account for every dollar's worth that may be borne upon the customs imports. It was therefore necessary to show that a nation like an individual is enriched by what it gets, and impoverished by what it gives, no matter whether the amount is great or small; and that since the foundation of the government, the imports of the country exceed the exports. Wherein then would consist the motive of foreign trade, if, after reclaiming millions of acres of productive soil, and reaping and scattering their golden crops abroad upon the world, we were still poorer than when we made the start?

Finally, with respect to banking, it is necessary to show that it is a passive and not an active organism. In domestic trade the banker offers inducement to the unemployed capital of the country, being gathered into his hands, that he may lend it out, and derive a profit; and it is so also in foreign trade. It is with the means of others that he almost wholly deals, and these means have to be surrendered, whether capital is scarce or plentiful, or times good or bad, and whether these means were deposited in bills on London or in domestic currency.

CHAPTER II.

GENERAL PRINCIPLES OF THEORY AND PRACTICE.

THE "theory of international trade," is to be understood as embracing the abstract speculations incidental to the subject matter; and the "practice of international trade," as embracing the practical details of business operations. The general principles of the theory and practice of international trade comprehend, therefore, the abstract reasonings of the "theorist," and the deductions and applications of the "practical" man, in the matter of the trade of the United States and England, and in the matter of the trade of the United States and Canada. Special considerations are reserved for the succeeding chapters, and nothing more is aimed at here than a few informal illustrations of principles and practice in their more general form.

Foreign and domestic trade may be considered in two different points of view: the state of barter, and the state in which money is employed.

It may appear unnecessary to treat of trade in a state of barter, as it may be said we are not likely to relapse into that primitive state of things; but, it is to be observed, that as no misapprehension can possibly enter into transactions in which mere commodities are employed, it is essential to mark the points of difference, when money is used as a medium of exchange, that we may better understand the utility and the function of the latter.

Supposing, then, that the present money system were annulled, and all commodities trucked against each other, how would domestic and international trade be governed? Cotton and breadstuffs would continue to be shipped to Europe, as Europe would want them just as much as ever, and we would still seek and get the products of the other

hemisphere. The farmer in the interior of Illinois would send his wheat and corn to Chicago; the Chicago merchant make his consignments to New York; and the New York merchant make his consignments to his friends in Liverpool; each receiving those equivalents which he desired. If Chicago wanted more from New York than New York wanted from Chicago, then Chicago produce would require to be given at a lower value, that additional demand might be excited in New York; and if we wanted more from foreign nations than foreign nations were disposed to take from us, then, in the same way, our produce would require to be lowered in value, that the demand abroad might be increased. If, on the other hand, Chicago wanted less from New York than New York wanted from Chicago, then New York would offer more inducement that its wants might be supplied; and if we wanted less from foreign nations than foreign nations were disposed to take from us, then foreign nations would offer such inducements as would be required.

Suppose a farmer possessed of so much wheat, and a speculator possessed of so much land, agreed on one occasion to exchange so much wheat and land, and afterwards the farmer wanted a further transaction, about which the land speculator was indifferent and careless. The farmer has then to offer better terms to the land speculator than in the previous case, as otherwise he cannot exchange his wheat, and by offering favorable terms he may dispose of all the wheat he has. The indifference of the land speculator at one value vanishes the moment a more favorable one is named, and the principle is of universal application. We may want more of European stuffs than Europe wants of our staple produce, and that greater quantity and value is only to be had and balanced by the lowering of the value of what we have to offer.

Such, in its simplest form, is the barter system; and in what does the money system differ?

Under the money system, trade is still the exchange of one commodity for another, and if the values are alike, the settlements are made without money being interposed. If,

for instance, the sums due to and from Chicago in New York, or due to and from New York in Liverpool, are the same, the mere offset practice of the clearing house obtains, and the claims are cancelled without a single piece of coin being used. When such a state of things occurs, and not unfrequently it does, the movement of coin, between distant places, is unnecessary, and would entail loss either of a positive or comparative kind. The exchange between distant places would then be said to be at par; and, in such a case, there is no difference between the money and the barter system.

Suppose, however, that Chicago, under the money system, began to buy more in New York than it sold, and that New York began to buy more in Liverpool than it sold, what new phenomena would be brought about? At once the difference would be paid in coin; and so long as the unfavorable balance of trade was reproduced, the specie drain would be continued. This, then, is the point at which the barter and the money systems part. Under the barter system, we could not have sent money from Chicago to New York, nor from New York to Liverpool, the presumption being that money was unknown; but, to pay for the increased purchases, Chicago and New York would have given their produce at a cheaper rate. A satisfactory adjustment then would have taken place. But, in the case supposed, the difference has been paid in money, and the question is, what new effect presents itself in Chicago and in New York, both of which surrender so much coin; and in Liverpool which receives an augmentation? The new effect in Chicago and New York, presuming, as a matter of course, that the excess of imports had not been temporary but continued, would be this: the circulation or its basis would be diminished, and money, as compared with other things, being relatively more limited in supply than it was before, other commodities would decline in value, and, by increased exports, the equilibrium would be restored. In Liverpool, on the other hand, the influx of specie increasing the supply of the precious metals relatively to other things, money would be cheaper and other things

dearer; and the advanced prices limiting the exports to New York and Chicago, the balance of trade would rule the other way, and gold be transmitted to the United States. If Chicago and New York had been substituted for Liverpool as the gold receiving ports, and Liverpool put into the place of these cities, the principle exemplified would have been the same. The specie, from its influx into Chicago and New York, would have raised the price of other things, and, as in the case of Liverpool, speedily operated on the exchange by diminishing the amount of exports.

There is, then, no practical difference in the operation of a simple barter trade; and trade in which money is employed. An adverse balance of payments reduces values under both systems in precisely the same degree; and in augmenting exports restores the equilibrium; while a favorable state of the exchange enhances values alike under both systems, and leads to increased imports and to adjustment taking place.

In the case of lower prices, preceding an increase in the exports, it may be hastily conceived that the country then makes a sacrifice; but such is not the case. The balance of trade is against us, from the fact of our seeking commodities at a cheaper rate than we can provide them for ourselves, and the presumption is, therefore, not unfair, that the depreciation is at least counterbalanced. If we make a profit in the first stage of a transaction, that, for instance, of buying goods abroad cheaper than they can be produced at home, the profit on the paying goods exported has to be fully sacrificed before loss is suffered; and it is to be observed, as we shall see hereafter, that the effect of a cheapening of our produce reacts favorably upon ourselves, inasmuch as a new class of buyers is created, whose consumption to a greater or lesser extent will be sustained, when prices have advanced and the balance of trade been restored. Take a case in point. During the low price of breadstuffs, two or three years subsequent to 1850, direct trade was opened between New York and Montreal on the one part, and the seaport towns of Forfarshire, in Scotland, on the other part. Arbroath flax

canvas, and Dundee sheetings and cordage, were exported to this continent, and barrel flour taken in exchange. The flour was sold at a price relatively lower than other flour, and, although previously unknown, went into consumption freely. So much other flour, either of local or East of England manufacture, was displaced, and a considerable new permanent market opened up for American flour. The trade unfortunately collapsed, and has not since been revived; but to this day, not only a preference, but in consequence of the taste having been acquired, a relatively higher price would be paid in that district. Not only, therefore, do we not lose, when to procure a larger share of foreign products, we offer produce at a cheaper rate, as the exchange must still be an object to us, and a benefit of course; but we create new customers, and pave the way to the extension of our trade.

But, it may be said, that trade is not really carried on in this formal sort of way. The farmer in Illinois not unfrequently consults his own convenience in the bringing forward of his wheat; the Chicago merchant has no means of knowing whether the balance of trade is favorable or otherwise; and so with the export and import trade in New York city. It is either all guess work; or the relation is unheeded; and stuff is sent and received for unconditional sale in every market. Granting all that, it must still be admitted, that in a community or nation there is a limited amount of floating capital, and a limited capacity to absorb commodities at any price; and if that limited capital is absorbed in purchased or imported articles, every fresh importation or purchase will be against us, and we must either make payments in the precious metals or in produce, at such prices as will satisfy those we owe. On the other hand, if that limited capital invested in produce has been transmitted elsewhere, then the balance is in our favor, and payment must be made to us either in the precious metals or in merchandize, at a satisfactory equivalent value. It matters nothing, therefore, in what way trade may be conducted, as in each case it resolves itself into imports and exports, debts

and credits, and as the one or other at the time preponderate, so there is a balance of trade for or against, and the equilibrium can be restored only by direct action on the values or prices of those commodities which are the subject of interchange. Money is immediately applicable to settle the account, but no country could sustain a continuance of adverse trade relying only on money, as the stock would fail; and the abstraction of money from the limited reserve acts, therefore, on the exchange. Money becomes dearer and other things cheaper, and that cheapness of other things limits imports, and stimulates exportation, paying our debts and keeping our stock of the precious metals from being diminished further.

One consequence or rather application of this adjusting principle of the exchanges, is the necessary limitation of our export trade to the extent of our own demand for foreign products. What we send to foreign countries must from necessity be settled for in the produce of foreign countries, as in the long run these countries have nothing else to give; and when the extent of our import trade is made matter of complaint, a contraction of our export trade is necessarily implied.

With respect to money in its action on prices, it is necessary to observe that it must not be hoarded up, but creating a positive demand for goods. No possible influence could be exercised by any extent of accumulation, unless the money were in actual circulation; and the theory presupposes that it is. Ever since the revulsion, we have had the phenomena of a large unemployed reserve of specie in New York, and declining prices; and this state of things will last until confidence is restored. That established, the accumulated treasure will diffuse itself into trading channels, and money and goods become reciprocally demand and supply to each other.

The principle of the self-adjusting character of the exchanges, either under a barter or money system, constitutes but one of the elements of the theory of international trade. There is another, constituting the direct motive of all international dealing. It is obviously, for some substantial purpose, that

one nation traffics with another; and not for the gratification of developing those ingenious practices, in settling up the interwoven, complicated transactions of one nation with every other, which obtain. That motive is the acquisition of an increased amount of those commodities known as wealth.

Between local and foreign trade there is one leading, fundamental point of difference, inasmuch as the one is mainly governed by adjacent and the other by distant values. At home, the value or market price of a commodity is generally determined by the producing cost; and abroad, the primary producing cost is disregarded, and value determined on the spot. The law of supply and demand, which is anterior to that of cost of production, comes into operation, determining that the demand for a commodity varies with its value, and the value so adjusts itself that the demand exactly absorbs the supply. That subsequent law operates on few articles at the place of their production; but it is paramount abroad. The distinction is important, and will be rendered clear by illustration.

Take the familiar case, of the number of coats and waistcoats in a country being equal, one of each only is worn at once, and there is no assignable limit to the production of either; but it requires about three times as much material and labor to produce the one as to produce the other; and irrespective of the number of each, at any given time, the price of each is individually and relatively determined by the material and labor which have been used. In such a case the law of demand and supply can scarcely be said to apply. If the demand is dull for coats and waistcoats, it operates upon production only: fewer of them are made; but as a general rule the price is maintained. The reason of this is obvious. The stock cannot be replaced on better terms; and if sold for less than cost, an unnecessary loss would be sustained. Such transactions are therefore governed by producing cost.

A more complicated case presents itself in the price of agricultural produce, and in the relative value of wheat, corn and oats. Suppose that one hundred acres were sown out

with wheat, and last year and the year before they yielded precisely, on each occasion, one thousand bushels. The cost of production and the yield was the same in both cases; but the farmer received payment at the rate of fifty cents a bushel for the one crop, and at the rate of one dollar a bushel for the other. Cost of production does not therefore apply in such a case. Suppose again, that while one hundred acres were sown out in wheat, one hundred acres were planted with corn, and one hundred acres cropped with oats; and that the respective yield of each hundred acres was a thousand bushels. How then does it happen, that wheat is sold at fifty cents, corn at thirty cents, and oats at twenty cents; while in each case the same number of acres and the same labor have been employed? Obviously, as in the other case, the value is determined by the force of the demand, or the degree in which at different times each commodity is desired.

The law of producing cost, and the law of demand and supply, both obtain in domestic trade; but in the main domestic trade rests with the former only. A high price of agricultural produce leads to extended cultivation, and subsequently to a range of prices bordering closely on the bare cost of production; and farmers study to grow those cereals only, which pay them best. On the other hand, foreign trade from necessity must disclaim all consideration of the primary conditions of production that may be involved. We could never know precisely what the producing cost of tea was in China, sugar in Cuba, or coffee in Brazil; and although we did, the knowledge would be worthless, as it could not possibly have any influence upon ruling values. We ship produce to these countries; that produce, according to its amount, constitutes a demand for such commodities as are offered, rendering the terms of exchange favorable or unfavorable, as the case may be, and giving these foreign commodities quite another value than that derived from the labor of the Chinaman or Negro. Supposing an experimental shipment by a New York novice to either of these countries, was found to be unsuitable, on being landed, and was only exchangeable into tea, or sugar, or coffee, at half the relative value

which suitable shipments from New York commanded; then, in that particular case, twice the usual price would be paid for whatever would be purchased: while some suitable new product might have been sent, costing relatively no more than the average of our exports, but which would buy what was wanted, at half the usual price, or even at a lower price than that at which the commodities had been produced. In the foreign trade, therefore, the primary cost of production is nothing: the terms of exchange being governed by the equation of international demand and international supply.

Supposing that the United States import coffee from Brazil, giving a piece of cloth for every bag of coffee, the cost of the coffee in the United States will not be determined by the cost of the production in Brazil, but by the cost of the cloth which has been given away. On the other hand, the cost of the cloth in Brazil will not be determined by the cost in the United States, but by the cost of the coffee which has been given away. Now, keeping in view, that for the time being, the law of supply and demand determined the proportions in which the coffee and the cloth had been exchanged, and that the primary cost of the production of both articles had in both cases been set aside, we are enabled to consider the advantage which the United States and Brazil derive respectively from the trade.

In the first place, the United States gives one product and receives another; and the product received being exchangeable again into others, no diminution of the national wealth has taken place. The United States, in the second place, has received a product which it does not cultivate, and which possibly could not relatively be had cheaper elsewhere; and instead of making the purchase in the precious metals, which may have been imported without advantage, cloth, in which there is an advantage, has been employed; and there is the additional advantage of the tendency of an extension of the demand for cloth to improve the processes of the production of that commodity. The United States derive, therefore, essential benefit from the trade.

Brazil, on the other hand, in parting with a commodity,

which costs her extremely little, derives through the influence of foreign competition a great proportionate purchasing power over the cloth of the United States; and that cloth Brazil could not manufacture for itself but by a large absorption of the national capital, and a diversion from that industry in which its advantage is the most. Brazil in the growth of coffee has advantages akin to those of Cuba in the growth of sugar, the Southern states in the growth of cotton, and Illinois in the growth of wheat. Comparatively little capital is needed to bring a large quantity of coffee into market, and the foreign consumptive progress of the country, without any alteration in the cost of the production of coffee taking place, promises still further to increase its value. If then Brazil sells its coffee with an advantage of a half, such commodities as it receives are cheapened to that extent, while trading nations may derive a profit also.

The movement of bullion from the steadiness of its intrinsic value, furnishes another exemplification of the principle of which we speak. A dollar, or a pound, is a mere name to designate so many grains of gold, and an ounce of gold from California or Australia, is received on the same terms in New York city, as an ounce of gold, which has borne the United States assay and been in circulation for twenty years. This arises from the obstacles to production; the durability; the great value as compared with the little bulk, and the fractional charges on the transportation.

A gold dollar is, therefore, the same quantity, the same intrinsic value, in New York and San Francisco; a sovereign or pound is the same intrinsic value in London and Melbourne; but generally the cottons of Massachusetts exchange for more gold in San Francisco than in New York, and the cottons of Manchester exchange for more gold in Melbourne than in London; and if Massachusetts cotton is exchanged in San Francisco for gold, and Manchester cotton is exchanged in Melbourne for gold, then gold will generally be received at a profit both in New York and London. There may, therefore, in a restricted sense, be a profit realized in a bullion trade, but that profit, be it observed, is derived only

from the advantage that we have in the production of the articles which we have given away, and no additional advantage is derived from the gold. But why does cotton generally exchange for more gold in California and Australia than in New York and London? In the first place there is of course the increased cost of transporting cotton to these parts, and as cotton is neither manufactured in California nor in Australia, and from the previous habits of the people is an indispensable article of apparel, a large premium would willingly be paid by those even who could least afford it, while the rich would not be without it at almost any price. Its value would be governed therefore by demand and supply; and if little were in the market, that little would command a higher price or a greater quantity of gold; and if the market were well supplied, then a lower price or a lesser quantity of gold would be only realized.

It is nothing, therefore, what the value of gold may be in New York or London, or what gold may have cost in California or Australia; its cost at any given point is measured solely by the production of the commodities which have been tendered for it in exchange, and it may at times be more profitable to receive gold from other countries or to send it abroad, than to import or export any other product.

From these considerations the principle appears to be deduced that it is not the *absolute* but the *comparative* cost of commodities that determines international exchange. We have nothing to do with the matter of the first cost of iron on the Clyde in Scotland, of linens in Belfast, or cottons in Manchester; and England has nothing to do with the cost of cotton in Alabama, or wheat and corn in Illinois. It is immaterial how much or how little natural agents may promote production in other countries, and whether white or negro labor is employed. The real question is, how much cheaper can foreign commodities be procured by the indirect process of producing something else, and giving that something else in exchange, instead of producing everything for ourselves? That is the question on which turns the theory of foreign trade. If every article of foreign merchandise had a fixed

value in every market, and that value were not determined by the cost of production at the place where the product was consumed, but by the cost of production at the place of original manufacture, then the opposite theory would be understood; but such a system does not obtain, in the more obscure trade of Asia, much less in that of the United States and Europe. Under such a system the wheat of Illinois, less the freight and charges, would sell in England at twenty-five cents a bushel, or eight shillings sterling per imperial quarter, and English manufactures would sell in the United States at a price equivalent to makers' cost and transport; and in the face of English wheat in England commanding a five-fold greater price, and American manufactures in the United States being produced and offered at a cheaper rate. In fine, there would be little or no motive to foreign trade at all, unless in those commodities which could be produced only under peculiar circumstances of soil and atmosphere.

On the other hand, the system of comparative cost discloses the secret of foreign trade, giving us to understand that it may be more profitable to import some of those commodities which we consume, even although we ourselves can produce those commodities at a cheaper rate than the foreigner with whom we trade; and that we may in reality receive our imports at less cost than that involved in their original manufacture.

For example, the coarser descriptions of cottons are manufactured cheaper in Massachusetts than in Manchester, but the cottons of Manchester may be purchased with wheat raised in Illinois, and sold in Liverpool, with a clear advantage of one hundred per cent. above the raising price; and if Massachusetts cotton costs four cents a yard, and Manchester cotton a fraction more, still, by virtue of the wheat exchange, Manchester cotton would be received fifty per cent. cheaper by the United States than the home product. In such a case it is clearly to the advantage of the United States to import Manchester cottons, even although we could produce those cottons at a cheaper rate than the English

manufacturer. Then, if our whole imports are a mere extension of the principle of receiving foreign products, and paying for them with the produce of those natural agents and industry in which our advantage is the most, these imports may in reality be received on less onerous conditions than those involved in the original producing cost.

But, it may be answered, that, in consuming Massachusetts cottons, in preference to those of Manchester, we are encouraging native industry, and providing employment for a numerous eastern working population. If, it is said, we produced these and other things for ourselves, the wealth of the country would not be dissipated to pay our imports by specie shipments to the Bank of England; but, in addition to our present productive forces, we would be kept from squandering anything away. Pennsylvania and Lake Superior would supply iron, and the mines of Galena an exhaustless stock of lead; and, at the seat of manufactures in the East, the cotton of the South and the wool and flax of the North become worked up into every kind of textile fabric. The silkworm of France, the tea plant of China, and the coffee shrubs of Brazil and Java, could be introduced; and on the sunny banks of the Mississippi we might gather a better vintage than that of the Peninsula. Such is the picture of a perfect state of things, which would fill our cup with plenty, and without letting a single drop run over. We would flood the world with our produce and our manufactures, and no opening would present itself to the foreigner, to compete with our domestic industry.

Unfortunately for such a theory, the matter of getting paid is wholly overlooked. If we fill Liverpool with wheat and cotton, in what way is Liverpool to render payment? Gold could be sent only for a little while, and even that commodity would speedily inflict injury upon the interest of the domestic digger, by bringing his labor into competition with the foreigner. To make the system perfect, gold would have to be excluded also; and what, in the name of wonder, could we then receive? Something or other would be imperatively required, or our labor would be thrown away, and we reduced

to the necessity of producing for ourselves alone, and of becoming isolated from the other sections of the human race.

But the fallacy involved in the theory of producing everything that we consume, as a means of increasing national wealth, will be better understood by practical illustration. The wheat received in store in Chicago, costs the farmer, on an average, twenty-five cents a bushel; and, on an average of years, that wheat is sold in Chicago at a dollar. A profit of three times the amount of cost is therefore realized in the growth of wheat in Illinois; and if the whole population of the United States, under like circumstances, were engaged growing wheat, that advantage would be gained. Let us suppose that population of working hands to be ten millions, and to be so employed, and driving the English agriculturist from his occupation to some other industrial pursuit. All at once it is resolved to import nothing more, but to start the manufacture of everything that we require. For this purpose, we shall say, five millions of the population are detailed, and mines are opened, and manufactories built and put into operation. What then follows? Land, formerly in cultivation, returns to original wildness, and our agricultural business is reduced a half. But what is the advantage gained in the new industrial occupations that have been opened up? The manufactured cotton of Massachusetts is produced with an advantage of ten per cent. on the capital employed, and, generally, neither it nor the iron of Pennsylvania can compete with the foreign product. The industry of five millions of working hands, which previously yielded a return equal to three times the capital employed, now yields, we shall say, ten per cent. only; and thus, by the change, two hundred and ninety per cent. advantage is absolutely thrown away.

In every community, or nation, there is both a limited population and a limited amount of capital available to put that population to productive industry; and with a nation as with an individual, if one thing is undertaken, something else is let alone. A farmer cannot also become a manufacturer, unless in exceptional cases, where a large amount of capital

has been accumulated in individual hands; but one pursuit is exchanged for the other, and both in farming and manufacturing there is a defined point beyond which the most willing cannot go. To say that a nation can accomplish all that it desires, is to say in fact that individual enterprise and undertakings know no bounds, an assertion which individual experience proves to be absurd.

Then, as to one use of capital yielding one return, and a different use another, that fact is too freely admitted to need formal proof. Where, in this western country, is labor so well bestowed, as in breaking up the prairie? and it is only because the habits and associations of the mass are interwoven with city life, that agricultural pursuits are not more generally embraced. The amenities of city life have a charm, which the competition and risk of trade cannot countervail, and the pleasures of society are received as the equivalent of the farmer's more substantial product. The accumulative wealth of the community is curtailed, however, when the less productive occupation is preferred; and the rule applies equally to foreign trade. If, instead of producing those things in which our advantage is the most, we produce those things which could be purchased cheaper elsewhere, we, under the mistaken notion of providing work for those who otherwise would ultimately become more profitably employed, impose fetters upon our material progress. No man need be without employment in the United States; and so long as the value of agricultural produce continues to be governed by the price in England, so long will labor, expended on the unrented and untithed western prairies, present the best means of increasing individual and national wealth.

If, therefore, our advantages in the production of grain are superior to those of Europe, then, by their development, we may procure the commodities of Europe in which our advantages are the least, on more advantageous terms than if we undertook the production for ourselves. In this way the anomaly is explained, of the United States growing cotton, and afterwards receiving that cotton in a manufactured state from other countries. The value of the raw cotton is deter-

