

**THE FINANCIER ECONOMIC SERIES.-  
NO.I. THE RECENT FINANCIAL,  
INDUSTRIAL, AND  
COMMERCIAL EXPERIENCES OF THE  
UNITED STATES: A CURIOUS CHAPTER IN  
POLITICO-ECONOMIC HISTORY**

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THE RECENT

**Financial, Industrial, and Commercial  
Experiences**

OF THE UNITED STATES:

*A Curious Chapter in Politico-Economic History.*

[SECOND EDITION.]

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By DAVID A. WELLS, LL.D.,

Late Special Commissioner of Revenue of the United States,

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The publishers have to acknowledge their obligations to Mr. David A. Wells for his kind permission to reproduce, for the first time in the United States, the valuable paper prepared by him for the Cobden Club, London, which the publishing committee of that club, in its just published volume of Cobden Club Essays, declare, as their belief, "will hold a permanent place in economic history."

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February 3, 1872.

THE RECENT

FINANCIAL, INDUSTRIAL AND COMMERCIAL EXPERIENCES  
OF THE UNITED STATES.

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IF it be an axiom in political and social, as well as in physical and natural science, that the first essential for progress consists in the correct observation and record of phenomena, whereby old laws or principles may be verified or extended, and new ones discovered, it would be difficult to imagine a field more fruitful for investigation and more promising of reward, than the history of the recent financial, industrial, and commercial experiences of the United States—experiences which have truly the character of vast social and political experiments, made on a scale of magnitude rarely, if ever, before equalled; for the most part empirically tentative in character, and affecting in their results, not only the growth, the income, and the industrial pursuits of the nation directly and immediately concerned, but also in a greater or less-degree the trade and commerce of the whole civilized world.

It is proposed to briefly relate the history of these experiences—especially in their relations to prices, taxation, industrial development, and international commercial relations.

ECONOMIC AND FINANCIAL CONDITION OF THE UNITED STATES  
PREVIOUS TO 1861.

Previous to the breaking out of the civil war in 1861, the United States were in the anomalous position of a great nation practically unencumbered with a national or public debt. Excise, stamp, income, and direct property taxes under the federal government, were *absolutely* unknown; the expenses of a simple and economical administration being defrayed almost entirely by indirect taxes, levied in the form of a tariff on the importation of foreign goods or merchandise. In fact, the only other noticeable source of national revenue was the sale of the public lands, which at the maximum price fixed by law of one dollar and a quarter per acre, returned to the treasury an average income of from one to three millions dollars per annum; rising, however, in a few instances, during periods of wild speculation, to six, eight, fourteen, and, in one exceptional year (1836), to even twenty-four millions of dollars.

The average rate of duties imposed on the *aggregate* value of foreign importations during the thirty years immediately preceding 1860 was about 20 per cent; but for a portion of the time the annual rate was much less, and for a number of years—1858 to 1861 inclusive—it was not in excess of 15 per cent.

But notwithstanding this limitation of the sources and amount of income, the requirements of the national government for military, naval, and civil expenditures, and the payment of the principal and interest of any debt, were so moderate, that the receipts of the treasury continually tended to exceed its disbursements; and the difficulty which most frequently presented itself to the financial administrators was, not the customary one of how to avoid an annual deficit, but rather how to manage to escape an inconvenient and indispensable surplus. And it is a curious fact, and one perhaps altogether unprecedented in history, that, from the year 1837 to 1857, there was not a single fiscal year in which the unexpended balance in the national treasury—derived from various sources—at the end of the year was not in excess of one-half of the total expenditure of the preceding year; while in not a few years the unexpended balance was absolutely greater than the sum of the entire expenditure of the twelve months preceding.

To provide for the use, or rather to get rid of this continually accruing surplus, various plans were from time to time suggested or adopted. In one instance we find the house of representatives, on motion of Henry Clay, (the leading American statesman of his day,) seriously considering the question of the expediency of the national government becoming, by purchase and investment, a partner in various stock corporations or enterprises; and, pending any conclusion, the surplus funds were deposited in the local or small banks, with reiterated injunctions "*to loan liberally to merchants.*" In 1836 the surplus revenue then in the treasury, amounting to something more than \$28,000,000, was divided, by act of congress, among the states, and by these latter variously appropriated. Most of the states applied the amount received, either directly or as a perpetual fund, to educational purposes, others used it differently and less wisely; Massachusetts, for example, dividing her share proportionally among her towns and cities, where it was expended at the discretion of the local authorities—in one instance, in a small fishing town, for the construction of walks over the sands for the benefit of pedestrians; and in others for the purchase of houses and lands for the use and settlement of the town's poor. And again, in 1854, the treasury of the United States, by reason of its superabundant revenues, entered into the market, and bought, in advance of maturity, its own six per cent bonds, issued in 1848, to defray the expenses of the war with Mexico, at a coin premium of 20 per cent, in excess of their par value.

It will not, furthermore, at this point be uninteresting, or, we think,



regarded as foreign to our subject, to go back, and briefly state the average annual expenditures of the United States for all *ordinary* purposes, from the commencement of their existence as a nation to the period of the breaking out of the civil war in 1861. Thus, commencing with an expenditure in 1792, the first accurately-reported year under the constitution—of \$1,877,000, the net ordinary expenditures increased to \$4,623,000 in 1798; \$6,504,000 in 1808; and \$13,134,000 in 1820; the expenses rising temporarily during the years of war with Great Britain, 1812–1813, to a much higher figure.

During the decade from 1821 to 1831, the average annual ordinary expenditures of the United States were \$12,390,000, or at the rate of \$1.07 *per capita* of the whole population.

From 1831 to 1841, \$24,740,000, or \$1.61 *per capita*.

From 1841 to 1851, \$33,760,000, or \$1.63 *per capita*.

From 1851 to 1861, \$57,870,000, or \$2.06 *per capita*.

Or to bring out in still bolder relief the simplicity and economy of the fiscal administration of the United States, previous to the outbreak of the civil war, it may be stated that the *per capita* charge of the entire expenditure of the national government, including all payments on account of the principal and interest of any debt, during the most expensive year of the existence of the nation prior to 1861, was \$2.84, as compared with a present (1871) annual debt charge alone *per capita* of \$2.86; and an annual additional *per capita* charge, from other expenditures, of \$4.37.

#### POPULAR ESTIMATION OF ECONOMIC QUESTIONS.

As might have been expected under such circumstances, fiscal and economic subjects were, during the period under consideration, the ones which least of all obtained the attention of the American people. Few books or essays on such topics were either written or read; while the continually increasing agitation and interest respecting the existence or extension of negro slavery furnished the never-ending and predominant theme for discussion alike to the press, the politicians, the pulpit, congress, and the local legislatures. There had been, indeed, fierce discussions and political divisions in 1836–38 respecting the organization and management of banks, and the establishment and maintenance of a national bank, and in 1840–41 and in 1846 respecting the construction and adjustment of tariffs, and the principles of free trade and protection; but during the decade from 1850 to 1860 all of these questions were generally regarded as old-time issues, and by the generation of men that then had control of the business and government of the country were both ignored and forgotten.

The tariff of 1842, consequent upon a complete change in the political complexion of the administration, was avowedly and deliberately arranged upon the principles of protection. The tariff of 1846 follow-

ing a reinstatement of the political party defeated in 1840 was a new departure, and, abandoning the theory of protection, recognized solely the principle of "taxation for revenue." The repeal of the former, and the adoption of the latter, were opposed mainly in the averment that the treasury would be thereby deprived of an adequate revenue, and that American manufacturing industry would be ruined by European competition. But experience proved in a most signal manner exactly the reverse, for while the protective tariff of 1840-6, with an average rate upon all dutiable goods of *thirty-three* per cent, yielded an annual revenue of *twenty-six millions* of dollars, the tariff of 1846-57, with an average of *twenty-four-and-a-half* per cent on dutiable imports, yielded an average annual revenue during the period of its existence of *forty-six millions*.

And so also in respect to the influence of the revenue tariff upon domestic industries exposed to foreign competition; for, notwithstanding that all the conditions upon which the advocates of protection in the United States based their claims for consideration continued unimpaired, and in some respects were strengthened—namely, the difference in favor of Europe in respect to wages and interest, and the infantile and tentative condition of many American enterprises—it is nevertheless an indisputable fact that during the low tariff decade, from 1851 to 1860 inclusive, and especially during the last three years of that decade—1858, 1859, and 1860—when the tariff of 1846, by reason of its productiveness of revenue in excess of the wants of the government, had been still further reduced from 24 to an average of from 18 to 20 per cent on dutiable imports—the minimum rate ever experienced—the comparative growth and progress attained by every department of American trade, commerce and industry was greater than for any corresponding period, either before or since, in the history of the nation.

It was, for example, in this latter series of years, 1858-1861, that the commercial tonnage of the United States rose, for the first and last time, to upwards of five-and-a-half millions of tons (5,353,868 in 1859-60, and 5,539,813 in 1860-61;—in 1869-70, 4,246,507); that the annual crop of cotton exceeded five millions of bales (5,196,944 bales of 400 lbs. each); that the exports of the products of manufacturing industry reached their maximum in quantity; and when the nation at large purchased and consumed the largest *per capita* quantities of sugar, coffee, and cotton cloth. During the same decade (1850-1860) the increase of the population of the country was returned at 35.59 per cent, the increase of wealth at 126.4 per cent, and the average of property to each individual at \$510. In short, it would be difficult to find a more happy illustration of the influence of the "non-interference" or "non-obstructive" policy of a government with the trade, commerce, and industry of a highly civilized active people, than the condition of the United States at that time afforded. That the country, viewed from

a politico-economic stand-point of view, was at this time in all respects what it should have been, is not, however, asserted. The institution of slavery, denying to over four millions of human beings the freedom of the person, the right to real property, the blessings of education, and antagonistic to all improvements in the culture of the soil and the management of capital, was tolerated and supported by law. The paper and ordinary currency of the nation, neglected by the general government, and issued by local banks under almost as many different systems as there were states in the Union, was as defective as could well be imagined, and often necessitated a rate of exchange between the different sections of the country which was equal to or in excess of the current rates of interest at the principal commercial centres. But notwithstanding these drawbacks, the people in general were highly prosperous. Pauperism, apart from the large cities, was almost unknown; wealth was very equitably distributed; while the opportunities for education were free, and in all the more densely populated portions of the country amply provided. In short, the prosperity of the people was so great, through the utilization of their great natural resources, their activity, and the continued influx of the population and capital of other countries, that it constituted in itself an obstacle to reform; and the nation at large may be said to have actually preferred to endure the various economic and social evils incident to their situation, rather than devote the time to their consideration, and meet the grave political issues consequent upon their change or reformation. And had not the people of the southern section of the United States, in their madness, appealed to the arbitrament of the sword in the matter of slavery, it cannot be doubted that this institution, with all or many of its abominations, would have outlived the present century.

#### FINANCIAL CONDITIONS FOLLOWING THE OUTBREAK OF THE CIVIL WAR.

It was now, with such antecedents and under such conditions, that the nation found itself, in the spring of 1861, suddenly and unexpectedly involved in a gigantic civil war, in which its very existence was threatened, by the uprising of at least a third of its population against the legitimate and regularly constituted authorities, and in opposition to the opinions of a majority in respect to the extension of the system of human slavery.

The most urgent and important requirement of the federal government at the outset was money. Men in excess of any immediate necessity volunteered for service in the ranks of the army; but to equip and supply even such as were needed, precipitated an avalanche of expenditure upon the treasury.

To meet their financial requirements, there was at the outset, on the part of the government, neither money, credit, nor any adequate system