

**LETTER OF CHARLES BUTLER,
ESQ., TO THE LEGISLATURE
OF INDIANA, IN RELATION TO
THE PUBLIC DEBT.; PP. 5-107**

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Letter of Charles Butler, Esq., to the Legislature of Indiana, in Relation to the Public Debt.; pp. 5-107 by Charles Butler

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CHARLES BUTLER

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LETTER *72273*

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CHARLES BUTLER, ESQ.,

TO THE

LEGISLATURE OF INDIANA,

IN RELATION TO THE

PUBLIC DEBT.

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1845.

possession, which they hold with a firm reliance on the credit of the State of Indiana.

If the State cannot make immediate provision for the payment of the interest on her bonds, in full, without imposing too great a burthen of taxation upon her citizens, then it is desirable that some arrangement be made for the payment of the interest, in part, and according to the present ability of the State; and the amount hereafter to be increased according to its growing ability.

I am aware that the "*Domestic Debt*," so called, existing in the form of treasury notes, or scrip, is receivable for State revenue, and that it is regarded by some as a first lien on the revenues of the State, and to be first paid, before any application of revenue *can* be made, to the payment of the interest on the foreign bonds, so called.

It might not be becoming in me, either to question this application of revenue, or the good faith of the State, in giving to subsequent creditors, if I may so speak, a prior and exclusive lien upon *all* the revenues of the State, and postponing its prior and equally *bona fide* creditors, from all participation and share in them, for an indefinite period. On the contrary, I am satisfied that the act referred to was prompted by considerations of the purest character, and a desire to relieve a large number of the citizens of the State, who had toiled on her public works, and whose claims were so pressing as to enlist the sympathies of the Legislature; and, although, in the estimation of your foreign bondholders, the State would have been partial to her own domestic creditors, to an extent that would have justified apprehension on their part, if she had given to them her bonds or obligations in precisely the same form, as she had previously given to those who had advanced her their money; (and surely this was all they could have exacted;) and if she had, to the extent of the interest on such bonds, allowed a higher rate, and provided for its punctual payment, *in full*, out of the revenues of the State, before any application of those revenues should be made to the payment of the interest on the other bonds; yet, they would doubtless have submitted to it without complaint; and

they cannot but regret, that such a plan was not adopted, as it would have protected the State itself from great embarrassment, and enabled it, as the history of its finances for the last four years abundantly proves, not only to have paid the interest in full on its domestic debt, but also to have paid some portion of the interest on her public debt, at the same time; and however small that portion may have been, it would have saved many from ruinous sacrifices, and contributed to the relief of others, who, during that period, have been straitened in their circumstances, in consequence of not receiving their just dues from the State; and it would have been such an earnest of intention and effort on the part of the State, to maintain its faith, and meet its liabilities, to the extent of its ability, as would at the same time have encouraged and relieved its creditors.

I desire in these remarks, to call the attention of your Excellency and the Legislature strongly, to this part of the case, not with the view of disturbing in the least, the existing arrangement in respect to the domestic debt, to the prejudice of *any* holder of any portion of it, but for the purpose of showing that your bondholders are conscious of their rights, and of the injurious discrimination, which has been made in respect to the public creditors, and which they have submitted to with an abiding confidence, that Indiana would, at the earliest practicable moment, correct as far as possible, the errors either of legislation or finance, affecting her honor, and the rights of any portion of her creditors, when their injurious and partial effects were detected. It is obvious, however, that some plan should be devised, by the wisdom of the Legislature, whereby some portion of the interest may be paid on the public debt, either by the application of some part of the revenues now levied, to that purpose, or by an increase of the tax, to be set apart and appropriated for this specific purpose, and that the foreign bondholders should not, *as a matter of course*, be excluded from all relief, until the entire domestic debt be fully paid.

In Pennsylvania, the domestic debt was postponed by the Legislature, to enable the State to do justice, and extend relief

to its public creditors; and in Illinois, where they have a domestic scrip receivable for the State taxes, an additional specific tax of one mill and a half on the dollar, (which, added to the existing tax of two mills, makes their State tax three and a half mills,) has been levied, receivable only in specie or its equivalent, and the avails of it are to be applied towards the interest on her public debt. In both cases, the object to be attained was the maintenance of public faith, and relief to the public creditors; and in the accomplishment of this great end, all local and domestic interests were deemed subordinate.

In some of my conversations with citizens of your State, on this subject, it is urged, that the State scrip is on the face of it made receivable for all State revenues, and that any interference with it would be in violation of the pledge, on the faith of which it was issued. In reply, I would respectfully ask, whether the present holders of State scrip have any higher claim on the equity of the State, than the holders of Internal Improvement bonds, who purchased them more than six years ago, and when the credit of the State was untarnished, and its pledged faith maintained in all its integrity; and who have continued to hold them from that time to the present, through good and through evil report, with a full reliance on the integrity and ultimate ability of the citizens of Indiana? Is not this class of creditors entitled to as much—nay, *more* consideration than any other class, at this time? Are they not the oldest creditors, and have they not suffered longest? Is it not the duty of the State, to exhibit the purest and highest example of equal and exact justice, towards *all* those who sustain the intimate relation of creditors to it?

In connection with this branch of the subject, it is proper again to refer to the past history of the State, and to the fact that in 1840-41, the Legislature passed a law fixing the State tax at four mills on the dollar, and the poll at seventy-five cents, and the former was set apart and specially appropriated to pay the interest on the Internal Improvement bonds; which law was at the subsequent session of 1841-42, repealed. The records in the State Auditor's office show, that in no

year before or since, has the revenue been paid in with greater promptitude, than it was during the year following the imposition of the tax in question. That the ability of the people has increased largely since then, no one will deny, and that the people of any of the western States could now pay a tax of four mills with more ease than they could then pay half that sum, I presume no one will doubt.

And here I deem it proper to refer to the copy of an Indiana Internal Improvement bond annexed hereto.

I now come to another branch of the subject, of the deepest interest to a portion of the bondholders, represented by me, viz: the holders of the Wabash and Erie canal bonds. These bonds were issued for money borrowed for the construction of that canal from Lafayette, or the mouth of the Tippecanoe river, east to the State line, (which was the Wabash and Erie canal in Indiana, as originally projected and pledged,) and the canal, its lands, its revenues and tolls, were set apart and appropriated, and by the original acts authorizing the loans, were irrevocably pledged and guaranteed by the State for the payment of the interest and the redemption of the principal of those loans; and upon this pledge the loans were obtained. The canal has been finished, its entire length from Lafayette east to the State line, and the State has realized, and is, at this moment, realizing a considerable revenue from it, and yet no application has been made of any portion of those tolls and revenues, to the payment of the interest or any portion of it, according to the original pledge, and for a period of five years has the same remained unpaid. The holders of those bonds conceive that they have a right to insist that those tolls and revenues be thus applied, and they feel that the State has no right to divert, or use them for any other purpose, however useful or desirable it may be to the State, without their consent; and they appeal to the sense of justice and honor of the State, to fulfil the pledge which was so justly given, which is engraven on the face of the bond itself, and on the security of which they obtained the money. That those tolls have, by law, been made receivable in a land scrip, issued for the construction of the canal west of Tippe-

canoe, at par, the market value of which is only forty cents on the dollar, is a circumstance calculated to make them feel more deeply the injustice which has been done them, in diverting the tolls from the object to which they were originally pledged ; as they cannot see in such disposition of them, any public benefit to compensate for the manifest violation of public faith involved in it. If the State had, at the same time and by the same law, which diverted those revenues from their legitimate end, provided by tax, for the payment of the interest on the canal bonds, the holders would have no right to complain ; but as no such provision has been made, they are constrained to present the bond itself, to the notice of your Excellency and the Legislature ; and to respectfully and earnestly insist on the fulfilment of the obligation which it imposes ; for it will not be doubted that the necessities of those individual holders, are more pressing than can be those of the State ; and in order that your Excellency and the Legislature may better understand the views and feelings entertained on this subject, by this class of your bondholders, I subjoin hereto, the letter of Mr. Cotterell, with a copy of the bond held by them. When it is considered that there is a contract existing between the State and every single holder of its bonds, it is to be expected that he should feel a deep personal interest in every act of the Legislature affecting the terms of the contract, and calculated in the least to weaken his security.

There seems to be a strong feeling of uneasiness and discouragement manifested in relation to the increasing magnitude of the public debt, by the accumulation of interest ; and from the observation which I have been able to make on the subject, I am led to believe that the people of Indiana will cheerfully submit to any reasonable tax, for the purpose of maintaining the faith and credit of the State, provided the tax imposed will furnish the means, without any after increase, of paying the interest on the public debt—and ultimately extinguishing the principal.

In order to meet so natural a sentiment, and which I have reason to believe prevails and is increasing with the great body of the citizens of your State, and which your creditors cannot

but respect, I feel prepared, in their behalf to say, that they will be satisfied with any arrangement which will insure the application of a reasonable revenue, according to the present and future ability of the State, towards the liquidation of the accruing interest. And as the creation and application of such revenue is to be controlled by, and graduated to, the actual ability of the people, present and prospective, and as the question resolves itself into one of ability, my attention has been directed to an examination into the official documents annually submitted to the Legislature, which exhibit the resources and progress of the State, and which it is presumed may be relied on as furnishing the basis for intelligent action.

By reference to the Auditor's report for the present year—a document distinguished not more, for its lucid and minute exhibit of the finances of the State; than for its sound and practical views, which reflect credit upon that able officer—it appears that the entire public debt, so called, of the State (not including State scrip, and bonds issued for Bank stock) exclusive of all back interest is *eleven millions and ninety thousand dollars*; the annual interest on which is \$556,320. I have not thought proper to add the arrears of interest to the principal of the debt, as, until it be funded, it forms no part of the funded debt. By the same document it appears that the value of taxable property in the State for the year 1845 falls little short of *one hundred and twenty millions of dollars*, and the number of polls for the same year is estimated at not less than 124,000—that the average increase of taxable property for several years past, has been nearly *five and a half millions of dollars* per annum—in other words that the average *annual* increase has been fully equal to one-half of the entire funded debt of the State; and it is to be considered that this increase in the wealth of the State, has taken place during a series of years of admitted pressure and difficulty, and while the credit of the State was under a cloud. It certainly affords striking and encouraging evidence of the growing prosperity and irrepressible energy of the people of Indiana.

I assume that the average annual increase of the value of taxable property of the State for the next ten years, will not