

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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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

