

AMERICA'S BATTLE WITH BRITAIN, 1860-1876

The Civil War and The American System

by W. Allen Salisbury

The following is the second and concluding installment of our reprint of the introduction to the late W. Allen Salisbury's book, whose title appears above, and which was first published 25 years ago. One of the crucial discoveries made by the LaRouche movement, this book uncovered the long-suppressed history of the battle between the American System of political-economy, associated with the protectionist and pro-labor economics of Abraham Lincoln and Henry Carey; and the British System of free trade. The book includes key writings of the American System thinkers of the 19th Century, of which we publish one here, an excerpt from Henry C. Carey's famous "The Harmony of Interest."

The Assassination of Lincoln: British Coup Against the American System

It is the general conclusion among historiographers that Lincoln was somehow not involved in the financial policy pursued by Treasury Secretary Chase. On the day he was assassinated, Lincoln was in fact considering the problem of how to combat speculation by bringing the national currency (the Greenbacks) up to par value without contracting the supply. He told a gathering of Congressmen:

Grant thinks we can reduce the cost of the army establishment at least half a million a day, which, with the reduction of expenditures of our navy, will soon bring down our national debt to something like decent proportions, and bring our national paper up to par, or nearly so, with gold.

At Lincoln's request, Henry Carey wrote a series of open letters to the Speaker of the House of Representatives

Schuyler Colfax that were titled, "How to Outdo England Without Fighting Her." Carey argued against the heteronomy with which U.S. economic policy was carried out. Lincoln had been forced to put his signature on bills that he did not consider in the national interest, Carey pointed out. He called for the creation of a national economic policy planning body under the control of the executive branch. Lincoln did set up the Revenue Commission and appointed at its head David Ames Wells, a person everyone thought to be a Careyite.

British financial warfare against the United States followed the conclusion of the Civil War, and assassination was a strategic part of this renewed assault. Secretary of the Treasury McCulloch, Lincoln's third Treasury Secretary, actually initiated the attack on the American System with an open letter to Henry Carey which was published in the *Chicago Tribune* just three days before Lincoln's death. He advocated a reduction of the tariff, an immediate return to specie [gold] payments, and a contraction of the currency. The article was accompanied by the following excerpt from the *London Times*:

He [McCulloch—A.S.] is what few Americans are: a sound political economist. He has studied the philosophy and theory as well as the practice. To read his letters and Treatise anyone who did not know that he was an American might imagine that he was an Englishman or a Scotsman, who had never embraced the delusion so prevalent on this side of the Atlantic, that as the resources of America are not half developed it is competent to American statesmen to run riot in wild experiment and set at defiance the dearly bought experience of older communities. Mr. McCulloch is, as far as his



The U.S. Centennial Exposition in Philadelphia in 1876 displayed a vast array of inventions and industrial improvements that came about as the result of the work of the American System proponents, against the British free-trade faction. The Exposition was lampooned by the American Tories. Inset: Henry C. Carey, the economist who led the fight for American System economics.

published opinions testify, a worthy successor of Adam Smith, Mill, Ricardo and his quasi-namesake the late J.K. McCulloch.

Lincoln chastised McCulloch for the article. Three days later the President was assassinated; a virtual coup d'état within the executive branch of the government had been perpetrated by the British.

Contemporary revisionist history has promulgated the myth that Andrew Johnson, Lincoln's successor, angered the Congress because he committed himself to carrying out Lincoln's "lenient" policy toward the South. In fact, Johnson's Inaugural Address marked a total reversal of Lincoln's economic policy.

... The present law of tariff is being rapidly understood. It is no longer a deception, but rather a well defined, and clearly recognized outrage. The agricultural labor of the land is driven to the counters of the most gigantic monopoly ever before sanctioned by law. From its exorbitant demands there is no escape. The European manufacturer is forbidden our ports of trade for fear he might sell his goods at cheaper rates and thus relieve the burdens of the consumers. We have declared by law that there is but one market into which our citizens shall go to make their purchases, and we have left it to the owners of the market to fix their own prices. The bare state-

ment of such a principle foreshadows at once the consequences which flow from it. One class of citizens, and by far the largest and most useful is placed at the mercy, for the necessities as well as luxuries of life, of the fostered, favored, and protected class to whose aid the whole power of the government is given.

... Free trade with all the markets of the world is the true theory of government.

Almost the entire Johnson Cabinet were either outright British agents or corrupted by British ideology: the President, Secretary of War Stanton, Secretary of State Seward, and Secretary of the Treasury McCulloch. In a celebrated speech in Fort Wayne, Indiana in late 1865, McCulloch announced his intention of reversing the American System. His policy was to rapidly contract the national currency and return the nation immediately to specie payments and direct taxation of productive wealth (looting) to pay off the national debt.

Within the context of a policy which called for destroying the nation's industrial base to pay off foreign debts, any positive program for reconstruction of the South was impossible.

The Case of David Ames Wells: How British Counterinsurgency Worked

The Whig congressmen and senators around Henry Carey opened a counterattack in defense of Lincoln's program that is responsible for the growth of American industry and the

scientific development which turned this nation into the most advanced technological nation in the world. The fight, in its conscious terms, was the American System versus the British System which was slowly being adopted as U.S. banking and credit policy. The fight lasted into the early part of the twentieth century. William McKinley summed up more than a hundred years of history when he wrote in 1896 that “there has existed a fight between two social systems.” He made clear in his book, *The History of Tariff Legislation From Henry Clay to the Present*, that those two systems were the British and the American.

The traitor, the agent-in-place, who carried out the most devastating British operation against the Lincoln Administration—next to the assassination of the President—and the American System was David Ames Wells, the head of the Special Commission on the Revenue.

Wells was appointed to the position by Lincoln, after the President read one of Wells’s pamphlets, *Our Burden and Our Strength* (1864). He was ordered to review the nation’s currency situation and to formulate proposals for implementation at the end of Civil War hostilities. It is important to note that Wells was appointed to the Treasury post at the behest of Henry Carey. Throughout the war, Wells professed himself to be a committed protectionist. His pamphlet, *Our Burden and Our Strength*, was, in fact, very similar to the pamphlet written earlier by Elder.

One of the first acts of Treasury Secretary McCulloch was to begin—again—selling the 7:30 bonds, first tried unsuccessfully by Chase. The 7:30s and the new 10:40s were sold by Jay Cooke, August Belmont, and investment banker Joseph Seligman. They represented further leverage for the British to begin “consolidation” of the U.S. debt.

In terms of policy, the principal difference to be understood between the 5:20 bonds, and the 7:30 and 10:40 bonds, was that purchase of the former was an investment in the future growth of U.S. industry, in the development of natural resources, and in the mechanization of agriculture. The latter two bonds were a part of a debt payment policy which included contraction of the currency, heavy taxation, and the removal of the tariff barrier; in short, a loan to the government which would be paid by looting present and future production, and labor power.

McCulloch’s proposed reversal of U.S. policy was seen as crucial by the Bank of England, and the Rothschild and Baring banking houses. Opposition to British looting policies at home and abroad was growing stronger with every success at restoring the American System in the U.S. At the end of 1865, the panic provoked by the bankruptcy of the Overend Gurney company threatened to bring down the Bank of England and with it substantial portions of the British Empire. McCulloch’s “immediate return to specie payments” meant a bail-out of the Bank of England, a fact whose significance leading Whigs well understood. At the height of the “Overend Gurney” panic, McCulloch released some \$30,000,000 in U.S. gold to England as part of the bail-out.

David Wells, however, was the most important British “agent-in-place” in this bail-out operation.

The day following congressional approval of his appointment as Special Revenue Commissioner on July 17, 1866, Wells wrote the following letter to Boston cotton merchant and Cobden Club member Atkinson:

As you know the tariff bill is laid on the shelf until next winter, and on the whole I am not sorry for it. I sent you a copy of the Senate bill, with the House amendments. . . . I have changed my mind respecting tariffs and protection very much since I came to Washington and am coming over to the ground which you occupy. . . .

Just a few weeks before, New York Congressman John Griswold, an iron manufacturer, and Henry Carey got the following communiqué from the United States Consul in Liverpool, Thomas Dudley. The communiqué was read by Griswold from the floor of the House and printed in all the protectionist press.

They are making great efforts on this side to repeal our tariff and admit British goods free of duty. If effort and money can accomplish it, you may rest assured it will be done. The work is done through the agents of foreign houses in Boston and New York. Their plan is to agitate in the western States, and to form free-trade associations all over the country.

The first series of reports by Stephen Colwell, also a member of the Revenue Commission, was devoted to attacking British free trade and warning the United States Congress on what the British were up to.

Thinking that Wells was still a patriot, Colwell addressed the following note to him:

I took these reports to the Secretary only from the proof to let him know what was coming. I intended to submit them personally to my colleagues before reporting them to the Secretary. . . . Our conversation was wholly as to the one upon high prices. I believe he agreed with the others, but the one on high prices evidently annoyed him. He thought it would operate unfavorably upon his plans and views in reference to Wall Street. I regard my views, though differing widely from his, as vital to the interests of the country, and to our revenue system, whatever shape it may take.

Thus Colwell, along with industrialists and congressmen led by the Pennsylvania contingent of Senator Moorehead, Representative Thaddeus Stevens and Representative William Kelley, began an attempt to impose a congressional dictatorship of sorts over the nation’s economic policy. Their goal was the passage of a higher general tariff law while McCulloch was stripped of his power to contract the currency.

One of Colwell's reports which was not suppressed by McCulloch and Wells is his *Claims of Labor*. It warns against any attempt by the Secretary of the Treasury to adopt a system of economics modeled on the British System, since it would wholly exclude as a consideration the labor theory of value. It reads in part:

The interests of that immense majority of men who do not merely labor for their living, but whose industry and skill produce all that is called wealth . . . deserve to be studied directly and specially, and not merely as incidents of national wealth. No system of social economy can be trusted which suppresses or overlooks the duties which men owe to their fellow men; and no system of social duties can for a moment be compared with that which was propounded by Him who gave the commandment "Love thy neighbor as thyself."

The prevailing systems [the Manchester school—A.S.] take wealth for their subject and treating it under the special topics of production, distribution, and consumption, proceed to develop it mainly from a commercial point of view. The production of wealth is its appearance in the channels of commerce, that is supply; its distribution is commerce; its consumption, its movement to the consumers, that is demand.

In fact, however, the producers and consumers are substantially the same. In a state of advanced civilization, the extreme division of labor makes it necessary to institute a system of exchange of products which involves that complicated movement for the assortment of products which is called trade; an agency which is not designed to promote the interests of that class of men called merchants, but to promote the comfort and well-being of all classes of society, especially that largest class, of which those who labor for a living are the members. This is the class that furnishes the producers and the chief part of the consumers. The point of view, then, from which to regard social industry is not trade, but labor and social well-being. Trade is but one of the branches of this industry, a department which becomes more important as civilization advances, but can never be otherwise than subordinate to the interests of the great body of producers and consumers. Merchants form a necessary class, but their private interests prompt them to make the largest profits possible out of their agency. It is therefore assuming a false position to study the interests of those who produce by the light furnished by those who merely assort and distribute the commodities of industry.

In late 1865, after Colwell learned of the British anti-tariff scheme, he successfully organized the wool growers of the West and the wool manufacturers of the East into one lobbying association which could act in concert with the nation's industrialists, centered around the Pennsylvania Iron and

Steel Association. Their chief spokesman was John Williams, editor of *Iron Age* magazine; they were backed by the *New York Tribune* and the Washington-Philadelphia newspaper chain owned by an associate of Carey's, John Forney. Forney, who had been Secretary of the Senate, had drafted his Pennsylvania papers in support of Lincoln, silencing those who would "dump Lincoln" from the Republican slate in 1864.

Although the vigorous campaign led by Carey was only partially successful, both the House of Representatives and the Senate received memorializations from industrialists nationwide to legislate against McCulloch's contraction policy. The memorializations were the result of a series of open letters from Carey to McCulloch and Massachusetts free trader, Congressman Henry Wilson.

The nation, however, was still awaiting the reports of the Special Revenue Commission headed by David Wells.

By the time Carey published his letters to Wilson, British plans were well underway. Edward Atkinson wrote to Carey on November 11, 1867, offering his opinion of the open letters.

I will frankly admit that I am rejoiced at its publication as it will achieve no New England men from any supposed or implied obligation to vote for protectionist measures next winter, as many of them did at the last session against their own conviction. We have had to bear the odium of what I call the Pennsylvania policy and we can join the Northwest and the new South in promoting a simple revenue system and speedy return to specie payments.

Atkinson could afford to be cocksure; Wells had been in England all that summer on a "fact-finding mission" to give some depth to his upcoming revenue report. In his letters to McCulloch and Atkinson, Wells said that he was gathering information to refute Carey's *Harmony of Interest*. Thus, he met with Thomas Baring of the Baring Brothers investment house, John Stuart Mill, and various representatives of the Cobden Clubs—the most vociferous international proponents of free trade.

This was no mere fact-finding mission, but an effort to make the British System the policy of the American nation. On July 10, 1867, McCulloch instructed him:

I have been hearing from time to time favorable accounts of yourself and the work which you are doing in the way of obtaining valuable information in regard to the industry and the revenue system of England. I have no question that your visit will be of great service to this Department and to the country. . . .

Two days later, he wrote:

I am greatly pleased to learn that you have been so handsomely received by Mr. Gladstone, and am not a

little gratified by the assurances which you give me that my administration of the Treasury is approved by intelligent men in England. . . . Some of our high tariff men are very apprehensive that you will become too much indoctrinated with free trade notions by a visit to England.

Up to the time Wells left for England, he was still professing protection as his policy with the intent of delaying effective action during the difficult years of the Andrew Johnson Administration. Before his departure, he wrote to Carey:

I hope to join your Vesper circle of worshippers on Sunday eve; but as I may not be able to leave I will make a provisional appointment for Monday eve. There seems to be a most persistent and determined effort on the part of some to brand me as with the ranks of the free traders; or to make the country believe that I am dangerous and disloyal to the best interest of American industry. Now I am determined not to be sent out of the ranks of my old friends and supporters. . . . Invite a few of your intimates over, say McMichael, Lewis, Reeves, Blodgell, Baird, and Tucker, or whoever else you may think proper and let's talk this matter over. I will state how matters look from my . . . views and hear what you all have to say; and see if we can agree.

When Wells returned from England to the U.S. in 1867, he was still publicly insisting that he was a protectionist; in his private letters to James Garfield, Edward Atkinson, and Thomas Baring, he confessed that he was a British free trader.

In the fall congressional session of 1867, the industrialist faction led by Carey succeeded in stripping McCulloch of his power to contract the currency. Legislation was framed to perfect the tariff system that had been set up during the war and an interconvertible bond measure was introduced allowing the 5:20 bonds to be redeemed in Greenbacks and setting at 3.65 percent the interest rate on the government-funded debt which was the credit-generating base of the national banking system.

On November 7, 1867, Edward Atkinson wrote McCulloch to warn him of the Whig proposal for controlling the national banks.

The only point of danger is the plausible scheme of substituting legal tenders for banknotes. If you allow me to say what I intended before I learned from Wells that it would probably coincide with your views. I think you will be supported in a bold and determined stand for specie payment at the earliest moment and at any cost. . . . That the banks must be used as the agents to promote the end in view and not destroyed and that the government cannot assume the function of a bank by issuing a convertible currency.

Throughout the summer before, *Iron Age*, the unquestioned spokesman for U.S. iron interests, the developing agribusiness in the Midwest, and the tool and dye industry, wrote editorial after editorial urging the formation of industry and labor alliances, and issued sharp attacks against British System economists.

At issue was the fact that while there had been a substantial rate of growth of U.S. industry under the Lincoln Administration, under McCulloch the production of wealth in the nation was being sharply curtailed. As Carey put it, "Lincoln had 'wed' the nation's treasury to the producers of wealth"; the hallmark of Lincoln's economic program was the protective Morrill Tariff. Under McCulloch, the supply of currency was being steadily contracted, the national debt was being sold to the Rothschild and Baring banks by way of New York, and heavy taxation of industry was promised.

The nation's manufacturers found it nearly impossible to get loans for investment in plant and machinery. What money the iron industry did get was used to convert almost entirely to the Bessemer process that allowed for the production of steel.

Carey's open letters attacking McCulloch and the British free traders were distributed by these industrialists all over the country and were reprinted in three-fifths of the nation's newspapers, according to contemporaries.

Reflecting the pressure coming from the nation's manufacturers, Senator John Sherman took the Senate floor on January 9, 1868, to comment on congressional suspension of McCulloch's currency contraction powers.

It will satisfy the public mind that no further contraction will be made when industry is in a measure paralyzed. We have the complaint from all parts of the country, from all branches of industry from every state in the union that industry for some reason is paralyzed and that trade and enterprise are not so well rewarded as they were. Many perhaps erroneously attribute all this to the contraction of the currency—a contraction which I believe is unexemplified in the history of any nation. One hundred and forty million dollars have been withdrawn . . . in less than two years. It may be wise, it may be beneficial, but still so rapid as to excite a stringency that is causing complaint, and I think the people ought to be relieved from that.

This will strongly impress upon Congress the imperative duty of acting wisely upon financial measures for the responsibility will then rest squarely upon Congress and will not be shared with them by the Secretary of the Treasury.

It will encourage businessmen to continue old and embark in new enterprises when they are assured that no change will be made in the measure of value without the open and deliberate consent of their representatives.

The London *Daily News* of January 28, 1868, displayed

its chagrin to the world.

In all questions relating to the tariff and taxation, both houses were largely influenced by the lobby which represented various interests looking for special protection, and which invariably succeeded in shutting out students and economists. These gentry have, in fact, had full swing for the last five years, and perhaps they succeeded in imposing on the country a system of taxation [tariffs] which perhaps has every fault which any system of taxation ever had, with some which no system has ever had and against which no economist ever thought of warning the world.

In late December 1868, Carey wrote to McCulloch, signing his letter “Alexander Hamilton.”

In the first place I do not agree with you in your sweeping denunciation of our legal tender circulation, except so far as it is subject to terrible abuse such as has been experienced in the currency of every age. In this country we have never had a paper money simply and truly, only nominally based on a specie platform. . . . The U.S. Bank did not give us specie, its notes were current almost on the same fundamental hypothesis, which has given useful circulation to the Legal Tender issues.

. . . It was not as a mere war incident that Legal Tenders were put into circulation, that necessitous ingredient would not have given them currency, it was the intellectual acknowledgement that the power and right to issue Legal Tender notes was nothing more than the plain and enlightened exercise of a high sovereign prerogative, never to be doubted although always to be deployed with the most severe and scrupulous discretion—as a sacred trust. . . . To revert to the Legal Tenders, permit me to ask a single sober question. What should we do, if Europe were to become involved in a general warfare, with any other currency than that which we now have? In less than three months we should be disgraced with the charge of bankruptcy for the non-payment of specie.

The Pendleton Plan

It soon became clear to the British that merely an “agents-in-place” operation would not suffice to break the Whigs’ grip on the Republican Party. What was needed was something more, an arousal of popular opinion to give their agents in Congress more maneuvering room and to force the national banks to support the various debt-refunding schemes. As Atkinson expressed the matter to Wells, “Jay Cooke was hurting the cause because he was willing to compromise too much” with the Whigs on the refunding issue.

The national banks were established to utilize the 5:20 bonds (the government-funded debt) as a basis for issuing

credit. The enacting legislation allowed for only the interest on the 5:20 bonds to be payable in gold coin; the bonds themselves could be purchased with Greenbacks. The 5:20 bonds under Lincoln’s Administration represented the basis for issuing long-term, low-interest loans to industry. Thus, if the Rothschild-Baring refunding measures were to be enacted, the grouping of bankers essentially identified as the Jay Cooke wing of the Republican Party had to be shaken loose from Whig control. The Democratic Party was mobilized.

George Pendleton was an Ohio “Copperhead” Democrat and Jacksonian congressman. During the Civil War, while the American System measures were being debated, he professed that “God had ordained gold to be money.” Later, in the Ohio elections of 1867, Pendleton led the Democratic Party on a campaign to tap the old Jacksonian populism that was deep seated in the Midwest, especially among the backward butter-nut farmers. Pendleton campaigned on a platform that called for only the 5:20 bonds to be paid off in Greenbacks and outright repudiation of interest on the bonds. He raised the old Jacksonian cry about getting rid of the national banks and the funded debt.

Henry Clay Dean, another old Jacksonian and “Copperhead,” inundated the midwestern press with articles attacking Alexander Hamilton, Nicholas Biddle, and the funded debt. He, too, wanted to bring back the days of Jacksonian pluralism.

The platform adopted at the Democratic Party convention for the 1868 presidential election was the Pendleton plan *in toto*. August Belmont made sure that the Democratic presidential candidate, Horatio Seymore, was a “hard money” man.

This populist agitation forced a change in the Republican Party which gave the upper hand to the “liberals.” The campaign platform of Republican candidate Ulysses S. Grant called for an early return to specie payments and the payment of all government obligations in gold. The demagogic propaganda attempted to brand the Carey faction as “repudiationist,” no different than the Democrats.

Sufficient pressure had thus been built up to push Jay Cooke behind a refunding measure which would allow the British banking group to purchase the entire U.S. debt. The scheme followed by Senators Sherman and Sumner called for a new bond issue to be sold primarily in Europe; the principal and interest would be gold-backed. The special feature of this funding scheme was that it would allow the network of national banks to trade in their 5:20 bonds for the new issue, which would both increase the national indebtedness and, at the same time, destroy the productive capacity of the nation.

Pennsylvania Congressman William D. Kelley wrote to Carey describing the situation in Congress.

I have no idea that the funding bill will get through in any shape. For myself I will not vote for a bill that proposes to pay our bonds abroad and in foreign cur-



A Baldwin locomotive on display at the Smithsonian Institution in Washington, D.C. Railway production was key to the global effort by Henry Carey's faction to promote economic development.

rency or to extend our debt without option on the part of the government over a period of 40 years.

Senator Charles Sumner, writing to Carey, answered the Whig protest.

I am sorry that the bill I have introduced seems to you likely to prove ruinous. I cannot think that you are right. And though I have had long conversations with many opposed to my place and have received many letters from many more . . . what Congress will do remains to be seen—it certainly should not adjourn without adopting some measure to bring about the desired result but the opposition to all measures to maintain the National honesty is very strong, and may prevail.

Even John Stuart Mill, although sensing a British victory, wrote a long article for Edwin L. Godkin's *Nation* saying how unfortunate it was that the Democratic Party was advocating such financial heresy.

The Whig leader of the House of Representatives, Thaddeus Stevens, had few alternatives but to attempt to run a "congressional dictatorship" in the absence of an effective executive like Abraham Lincoln. He was determined to industrialize the South, breaking up and confiscating the large southern plantations as a step in industrialization. He opposed the refunding measure.

It was Stevens who, to the annoyance of abolitionist Harriet Beecher Stowe, insisted on granting suffrage to the freedmen as a means of creating an alliance of the freedmen with enlightened southern Whigs and assuring the ascendancy of the Republican Party in the South.

He did not lead the impeachment move against President Andrew Johnson as most historians suggest. He did, however, sponsor the bill upon which the impeachment case rested.

Johnson had been replacing Whig officeholders with southern Confederates of the worst sort. Stevens pushed through Congress a bill requiring congressional approval of presidential hiring or firing of Cabinet members.

A letter from Cobden Club member Edward Atkinson to Treasury Secretary McCulloch attests to Stevens's character—and also what the agents themselves were up to.

I am endeavoring, in connection with some others known as extreme radicals, to give such direction to the reorganization of the South as shall prevent the creation of an exclusive Black men's party and also to kill the scheme of confiscation. I also hope we may be able to secure the election of a Southern delegation who shall not be under *Thad Stevens's* lead on tariff and currency questions, but of this I am not hopeful. The new men from the South will be likely to be the very men who will follow Stevens even to prohibition of imports. They will be misled by the desire to establish manufactures and to diversify employment.

. . . I am led to make certain suggestions to you by the rumors of a diversity of opinion between you and the President. You must now feel assured that the President's policy is dead; even any merit which his views may have had will not be recognized . . . your fame and reputation will rest on your successful administration of the Treasury. A large section of the Republicans desires to see financial and all revenue questions separated from party questions. If you have reason to do so and can separate yourself from A.J. [Andrew Johnson—A.S.] and let it be known that while you do not fully approve the action of the Congress you will submit to its decision and desire to work in harmony, you will be able to secure such support for your plans for administering the Treasury as will insure success. . . . Only give the Republicans who hold sound views on financial questions a chance to support you as the Secretary of the United States Treasury and not as a member of the present cabinet and you can almost dictate future policy. . . . I don't expect an answer to this.

The refunding bill failed in Congress.

After the election of Grant to the presidency, Special Commissioner on the Revenue David Wells was ready with his report, on which the nation was depending for a more thorough inauguration of the American System. It was released on January 5, 1869. Although cloaked in protective phraseology, the report directly attacked the American System as inequitable. British newspapers, especially the *Times*, would later say that Wells "felt his countrymen would be more willing to adopt free trade could it only be called by some other name."

The report attacked “special interests groups” and called for contraction of the currency and an end to the tariff on iron because it hurt the producers of penknives in New England. The problem of unemployment in the country was due to overproduction as a result of advances in technology, the report alleged.

Two letters written by Wells in 1867, before his trip to England, provide irrefutable evidence of his British agency. At a meeting held by the Iron and Steel Association on January 16, Wells protests,

I desire here and now, unequivocally and unreservedly, to declare that, in the British sense of the word, there is no free trade about me . . . and it has been my fortune to sit at the feet of that great teacher of political economy Henry C. Carey, and learn from him the great principles on which these doctrines are founded—the complete and universal harmony between all the producing interests of the country.

But just two weeks later, Wells wrote in a letter to the leading Social Darwinist and exponent of the British System in the U.S., Arthur Laymen Perry:

I have been intending to write you for some time past and tell you confidentially of the change which my recent intimate connection with the tariff legislation has produced in my opinions, in respect to Free Trade and protection . . . and am about prepared to place myself on the ground occupied by you and Walker. The time has not come however for me to distinctly avow my sentiments. I am accumulating a store of facts, which private individuals could not obtain, and which when made public will I think go very far toward settling our future commercial policy. To provoke opposition now, would probably close the door to some important investigations; so for the present I must work on silently. In the present discussion of the tariff in Congress, New England—and especially Massachusetts—went almost always for the most extreme propositions. There was a lack of moral courage on the part of Dawes and Boutwell . . . which prevented them from acting or speaking according to their convictions. The members of Congress from New England are, for the most part, inclined to liberal views—Boutwell is an old free trader—but they are afraid of their constituents, and think that public opinion will not sustain them in anything contrary to the requirements of the Carey school. Dawes might be punched a little for his course. . . . I urged him to come out boldly, and declare that while Massachusetts would be just and generous, yet she would not agree to endorse everything labeled protection to American industry. He however . . . made a speech in which he took the strongest ground for protection. I have written hurriedly . . . and perhaps not

clearly; but I think you will get my views in the main. Are there any documents which you wish sent you? If so let me know.

Wells wrote to Perry again on March 11, corroborating all that the Whig consul in Liverpool Dudley had warned about British plans to finance free trade clubs and promote western agitation.

I have arranged with Atkinson, Raymond of the *New York Times*, Nordhoff of the *Post*, and several writers and editors of the West that during the next six months there shall be an earnest discussion of the subject [free trade—A.S.] kept up through the papers: and a more vigorous attempt than ever made to change public sentiment, and my main object in writing you is to ask that you will commence at once and write every week an article for the *Springfield Republican* on the subject—short and pithy. Ridicule will I think be fully as effective as argument.

Before the spring 1867 session of Congress adjourned, Senator Sherman pushed through the Senate the Wool and Woolens Act which had been passed sometime before by the House. The measure as passed by the Senate afforded high duties for the wool and wool-growing industry. Wells urged President Johnson not to veto the measure because its passage opened possibilities of winning the wool growers away from supporting the protection demands of the iron industry—the old divide-and-conquer routine. Wells had prepared the nation’s free trade press for the release of his revenue report. They were ready to print and distribute thousands of copies all over the country with the aim of provoking the labor movement to oppose the “special interests of the industrialist.”

Congressman Kelley wrote to Henry Carey on January 9, 1869:

I meant to find time to ask you what you think of Wells by this time. I regard his report supplemented by Walker’s letters as the most insidious Free Trade document that has ever been published in this country. I have all along assured you that his protectionism was affected and that he meant to cause harm. I think even Greeley sees that now, though his faith in him was so great he endorsed the report unconditionally before he had read a word of it. . . .

In his report, Wells aimed straight at the humanists in the U.S. in general and Henry Carey in particular.

No nation acted on grounds of liberality or humanitarianism in framing financial legislation. Enlightened selfishness was a satisfactory basis for policy. Though other countries sought to protect industry, the method employed especially in England differed greatly from

what was called protection in the United States. The British aim is to remove burdens to cheapen cost, and reduce prices. Our method on the contrary is to levy a tax, thereby increasing cost and reducing consumption. The one method to be called a bounty to the consumer, the other a bounty to the producer; one the method of abundance, the other of scarcity or privation. . . .

The Wells plan to subjugate the U.S. economy to the British Baring and Rothschild banking houses was trumpeted in all the free trade press in the country, including August Belmont's *Democratic World*. At the urging of Belmont, Wells wrote to Manton Marble, the editor of the *World*, during the Grant-Seymore race. Wells was then writing tracts for the Grant campaign and so was being attacked in the *World*. Wells's letter concluded by saying:

Besides I shall want your aid and that of the *World* next winter, when I expect the Republicans will be about ready to hang me.

The Wells report rallied what was later known as the liberal Republicans; James Garfield, William Cullen Bryant, the Free Trade Leagues, and the Social Science Associations all began applying pressure on President Grant to name Wells as the new Secretary of the Treasury. In private, Grant's two New York merchant friends Stewart and Seligman put the pressure on too.

This latest and most dangerous coup attempt did not go unanswered by the Carey Whigs, the nation's industrialists, and the labor movement. Carey answered Wells in twelve public letters printed in the *New York Tribune*, *Iron Age*, and the rest of the nation's protectionist press.

. . . To whom, however, are to be attributed the oft-repeated misstatements by which the committee had been deceived? No name is given, but you of course refer to me, the statements thus controverted having been first published over my own signature, so early as 1851, and since then many times republished; and the committee having been misled, if misled at all, by no other than myself. To me, therefore, it is that you have thus thrown down the glove, and I now take it up prepared on the one hand to prove the accuracy of the views you have thus called in question; or, on the other, to admit of having through a long series of years misled my fellow citizens. Admit that such proof be furnished—that the "mere assertions" be now proved to be real "historical truths" fitted for even your own acceptance, where I beg to ask, will you yourself then stand? Should it chance to be proved that it is not I that am required to impale myself on the horns of a dilemma which leaves but a choice between the admission of gross carelessness on the one hand, or grosser dishonesty on the other, does it not follow necessarily that you must be compelled to

take the place you had prepared for me, and thus furnish yourself the proof required for establishing the fact that you are wholly disqualified for the office of public teacher?

To the Swedish and German press, Carey declared that Wells had been bought by British gold. In their press, William Sylvis and the National Labor Union attacked Wells as a British agent. Sylvis was particularly upset about the attempt to degrade U.S. labor to the state of labor in Great Britain.

William Sylvis was the leader of the National Labor Union which was fraternally connected to Karl Marx's International Workingman's Association. In 1866, Sylvis brought his Pennsylvania Iron Molders Union out in favor of protection. In 1867, he began printing editorial attacks on British economists in the *Chicago Workingman's Advocate*:

The whole system of political economy from beginning to end is an apology for tyranny and the whole tribe of political economists are humbugs . . . and at their head stands the prince of humbugs, John Stuart Mill.

The manufacturer, the farmer, the businessman of any kind needing money, must pay from 10 to 30 per cent for the use of it. In many cases the profits of his business are less than the rates of interest demanded. To borrow would be ruinous, therefore his business must languish or, what is very frequently the case, a reduction in wages is made. This reduction does not always go into the pocket of the employer, but into that of the money lender. Thus do employer and employee suffer from this system of legal robbery called interest on money.

There were many differences between the NLU and the Carey Whigs, but they agreed on one basic point: as long as the Whigs were leading a strong fight against British credit policies, they had an ally in the labor movement.

Wells did not go unrewarded for his efforts; he was elected president of the Cobden Clubs in the U.S. The Whigs in Congress first planned to remove him from office by discontinuing his salary, but finally decided to simply let the office expire. The four years of damage done by Wells and McCulloch gave the British room to maneuver, and the nation was still without an official economic policy.

McCulloch's contraction policy toward money supply had made any attempt at southern industrial reconstruction virtually impossible. Because of the refunding schemes, the national banks had become a major rallying point for Jacksonian populism across the country which demanded an end to the funded debt.

The political-economic geometry which subsumed the debates of free trade versus protection gave the Whigs some leverage on the question of tariff legislation. Their victory in the tariff battle, afforded a modest rate of economic growth and an occasional increase in the supply of money in the face

of British determination to control the U.S. economy.

Wells did not get the Treasury post under Grant; Whig propaganda prevented the New York banker Seligman from accepting the post when it was offered; and Congress further opposed Grant's appointment of New York merchant A.T. Stewart. A compromise finally gave the post to George S. Boutwell.

The "liberals" William Cullen Bryant, David Wells, Amasa Walker, and Charles Graham Sumner, began to "Watergate" (using twentieth century terminology) the Whig influences within the Grant Administration. The 1869 Black Friday scandal of Jay Gould and Jim Fisk is probably the most notorious. The two drove the price of gold to the sky and then quickly sold their shares, collapsing the market. That gold-cornering operation was, in point of fact, run by the New York banker Seligman.

During congressional hearings—a whitewash by James Garfield—Seligman's role in the affair was downplayed: after all, he was only Gould's "broker." The affair tied in with efforts by the free traders for so-called currency and civil service reform.

In the flurry of investigations, Grant pushed through Congress the refunding scheme which McCulloch had failed to have legislated. Treasury Secretary Boutwell formed a consortium of Jay Cooke and the House of Rothschild in London, Seligman and Morton in New York, and the Baring Brothers to begin selling the U.S. debt to Great Britain. The new bond issue offered the national bankers the possibility of trading in their 5:20 bonds for the new 10:40 bonds, increasing drastically the amount of future debt the country would have to pay to the British.

Carey, Kelley, and others repeatedly warned that such a policy would only lead to a new depression. They set their sights on the 1872 elections and a Whig Congress. Kelley, especially, was relying on the working class in England to begin forcing changes in the British System.

In 1871, he wrote to Carey:

Mr. Dudley is right in his estimate of the influences British manufacturers will put forth in our next campaign. They can afford to spend several millions pound sterling to control our election. The question is vital with them. Should we elect a protectionist President and Congress in 1872, England will have to modify her revenue system and perhaps her fundamental institutions. Things in that country cannot continue as they are unless they can monopolize our markets. . . . But how shall we make those whose interests it is to secure this election understand and perform their duties? Will you not impress the importance of such contributions to the South as I propose to Mr. Wharton and all the Gentlemen who gather under your hospitable roof?

Carey then wrote to John Forney, the former Secretary of the Senate:

You are going to Washington on a business of a most agreeable kind. Let me try to add to it a little of the useful, presenting for your consideration and that of your friend a brief exhibit of what is going on around us, and of the consequences that may reasonably be anticipated from its continuance.

The country is producing too much of all the good things of life, coal, iron, food, wool, cotton, cloth, houses, etc. Why is it so? Because our financial policy is destroying the demand for labor of body and of mind and, as a necessary consequence, the power of purchase. Look where we see diminishing power of consumption and with every further step in that direction we shall hear more and more of overproduction.

For five years past the financial affairs of the country have been controlled by men in and out of the Cabinet, in and out of Congress who have been troubled with such an excess of knowledge that they could learn nothing whatsoever. For years they howled contraction. Finding that not the answer they now howl resumption not seeing that by thus destroying confidence they are daily making it more and more impossible that we should resume. Sangrado like, they have bled the patient until he can scarcely stand, and now deny him food until he shall prove his ability to walk. Free banking is, they say, a good thing and we shall be allowed to have it after resumption, yet are they daily diminishing that power of production to whose increase alone can we look for power to resume the use of the precious metals. This is a great country, but it is at this moment governed financially by as small a set of charlatans as anyone has yet produced. Some of them read books and imagine they are learning something, but, as the farmer said, the more cows his calf sucked the greater calf he grew.

Their policy is now, as we are told, to be endorsed by our friend Blaine, who is to place one of them at the head of the Ways and Means, and another at that of the Currency Committee. Should this be done it will as I believe result in the ruin of the Party and of the speaker himself. Three years since all looked to the inauguration of Grant as to the reinauguration of that confidence without which there can be no activity of circulation, nor increase of strength. So far the reverse has been the case, the country having been becoming from day to day more paralyzed.

The *Tribune* has this moment brought me Amasa Walker's letter advocating the establishment of a great monopoly bank in New York. [Seligman was planning to open a house modeled after the London House of Rothschild—A.S.] He should and I presume is well paid for writing all the nonsense of which he has made himself the father. Such men can afford to spend their winters in Washington, but those who have no private axes to grind cannot.

The policy of the next 20 years will probably be

decided in the first week of March and by the speaker's fiat. Can you not see and talk with him on the subject? What shall then be done will probably be determined by the question as to whether England or America shall rule the world.

For his role in pushing the refunding and related measures through the U.S. Congress, Jay Cooke won an agreement with the Rothschilds to help fund his Northern Pacific Railroad project. Former Secretary of the Treasury McCulloch was dispatched to England to set up Cooke's banking house there.

Regardless of his connections, Cooke was an entrepreneur at heart. He poured capital into the development of the roads, the iron industry, and the rails, hoping that McCulloch and the Rothschild and Baring bankers would be able to dispose of their share of the bonds that were floated for the project at a later date.

When the books were opened for the sale of the bonds, neither the Rothschilds nor the Barings sold their bonds. Overextended, the House of Cooke collapsed in 1873, setting the stage for the collapse of 1876.

The Heritage of the Civil War

The Whig fight continued into the twentieth century. The concessions they won made this nation the greatest industrial power on earth.

As early as 1871, the Pennsylvania Congressmen Kelley and Moorehead began lobbying for congressional funding of the 1876 celebration of the U.S. Centennial. They saw the Centennial fair as a means to develop the nation's resources and to bring into practical use its inventions in spite of growing British control of the finances. The measures were opposed by the liberal senators and congressmen from New York and New England. The 1871 Congress refused to fund the fair, but, as former California Governor Ronald Reagan is fond of telling the story today, the 1876 Centennial Celebration gave the nation the electric lightbulb, the elevator, and numerous other inventions, and mechanical and industrial improvements. These advances in technology were the net result of the American System battles the Whigs waged in Congress.

The free trade papers of William Cullen Bryant and others were cynical of the Centennial fair, printing poems like the following by the transcendentalist James Russell Lowell:

Columbia puzzled what she should display
Of True home-make on her Centennial
Asked Brother Jonathan; he scratched his head,
Whittled a while reflectively, and said,
"Your own invention, and own making too?
Why, any child could tell ye what to do;
How all men's loss is everybody's gain;
Show your new patent to increase your rents
By paying quarters for collecting cents;
Show your short cut to cure financial ills
By making paper-collars current bills;

Show your new bleaching-process, cheap and brief,
To wit; a jury chosen by the thief;
Show your State Legislatures; show your Rings;
And challenge Europe to produce such things,
As high officials sitting half in sight
To share the plunder and to fix things right;
If that don't fetch her, why you only need
To show your latest style in martyrs-Tweed;
She'll find it hard to hide her spiteful tears
At such advance in one poor hundred years."

The 1876 Centennial Celebration and the new technologies displayed proves a lie the much touted analysis of the historiographers—and economists like Milton Friedman in his *Capitalism and Freedom*—that the nation became the industrial powerhouse of the world not because the Whigs fought for a policy of protection and credit for industry, but because the British ideology of *laissez-faire* emerged victorious. The celebration clearly unnerved the Rothschilds who, during the height of the fair's activities—and the depression of that year—made a point of sending to President Hayes's Secretary of the Treasury, John Sherman, a little note explaining that they would not buy government bonds on the basis of "speculative activities" as they had lost money before on such enterprises.

America's battle against Britain during the Civil War period left the nation a heritage, a commitment to fully develop and utilize the industrial potential of the U.S. Yet, to the extent that British monetarist control over the credit mechanisms of the country was allowed to remain intact, the war was not won. If the American System is not now restored, adherence to British economic policy threatens to plunge the nation and the world into thermonuclear disaster.

Henry C. Carey

The Harmony of Interest

Henry Carey first published this pamphlet in 1851, after compiling the series of articles he had written for the Plough, Loom and Anvil, a newspaper published by his associate William Skinner and intended largely for circulation in the South and West. The selection which follows is from the last article of the series and served as a rallying cry for the restoration of the American System.

Two systems are before the world; the one looks to increasing the proportion of persons and of capital engaged in trade and transportation, and therefore to diminishing the proportion