Case Study: Finding an analog year to help understand the present.

The Panic of 1873 compared to 2008

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The Real Great Depression

The depression of 1929 is the wrong model for the current economic crisis

As a historian who works on the 19th century, I have been reading my newspaper with a considerable sense of dread. While many commentators on the recent mortgage and banking crisis have drawn parallels to the Great Depression of 1929, that comparison is not particularly apt. Two years ago, I began research on the Panic of 1873, an event of some interest to my colleagues in American business and labor history but probably unknown to everyone else. But as I turn the crank on the microfilm reader, I have been hearing weird echoes of recent events.

When commentators invoke 1929, I am dubious. **According to most historians and economists, that depression had more to do with overlarge factory inventories, a stock-market crash, and Germany's inability to pay back war debts, which then led to continuing strain on British gold reserves. None of those factors is really an issue now.** Contemporary industries have very sensitive controls for trimming production as consumption declines; our current stock-market dip followed bank problems that emerged more than a year ago; and there are no serious international problems with gold reserves, simply because banks no longer peg their lending to them.

In fact, the current economic woes look a lot like what my 96-year-old grandmother still calls "the real Great Depression." She pinched pennies in the 1930s, but she says that times were not nearly so bad as the depression her grandparents went through. That crash came in 1873 and lasted more than four years. It looks much more like our current crisis.

The problems had emerged around 1870, starting in Europe. In the Austro-Hungarian Empire, formed in 1867, in the states unified by Prussia into the German empire, and in France, the emperors supported a flowering of new lending institutions that issued mortgages for municipal and residential construction, especially in the capitals of Vienna, Berlin, and Paris. Mortgages were easier to obtain than before, and a building boom commenced. Land values seemed to climb and climb; borrowers ravenously assumed more and more credit, using unbuilt or half-built houses as collateral. The most marvelous spots for sightseers in the three cities today are the magisterial buildings erected in the so-called founder period.

But the economic fundamentals were shaky. Wheat exporters from Russia and Central Europe faced a new international competitor who drastically undersold them. The 19th-century version of containers manufactured in China and bound for Wal-Mart consisted of produce from farmers in the American Midwest. They used grain elevators, conveyer belts, and massive steam ships to export trainloads of wheat to abroad. Britain, the biggest importer of wheat, shifted to the cheap stuff quite suddenly around 1871. By 1872 kerosene and manufactured food were rocketing out of America's heartland, undermining rapeseed, flour, and beef prices. The crash came in Central Europe in May 1873, as it became clear that the region's assumptions about continual economic growth were too optimistic. Europeans faced what they came to call the American Commercial Invasion. A new industrial superpower had arrived, one whose low costs threatened European trade and a European way of life.

As continental banks tumbled, British banks held back their capital, unsure of which institutions were most involved in the mortgage crisis. The cost to borrow money from another bank — the interbank lending rate — reached impossibly high rates. This banking crisis hit the United States in the fall of 1873. Railroad companies tumbled first. They had crafted complex financial instruments that promised a fixed return, though few understood the underlying object that was guaranteed to investors in case of default. (Answer: nothing). The bonds had sold well at first, but they had tumbled after 1871 as investors began to doubt their value, prices weakened, and many railroads took on short-term bank loans to continue laying track. Then, as short-term lending rates skyrocketed across the Atlantic in 1873, the railroads were in trouble. When the railroad financier Jay Cooke proved unable to pay off his debts, the stock market crashed in September, closing hundreds of banks over the next three years. The panic continued for more than four years in the United States and for nearly six years in Europe.

The long-term effects of the Panic of 1873 were perverse. For the largest manufacturing companies in the United States — those with guaranteed contracts and the ability to make rebate deals with the railroads — the Panic years were golden. Andrew Carnegie, Cyrus McCormick, and John D. Rockefeller had enough capital reserves to finance their own continuing growth. For smaller industrial firms that relied on seasonal demand and outside capital, the situation was dire. As capital reserves dried up, so did their industries. Carnegie and Rockefeller bought out their competitors at fire-sale prices. The Gilded Age in the United States, as far as industrial concentration was concerned, had begun.

As the panic deepened, ordinary Americans suffered terribly. A cigar maker named Samuel Gompers who was young in 1873 later recalled that with the panic, "economic organization crumbled with some primeval upheaval." Between 1873 and 1877, as many smaller factories and workshops shuttered their doors, tens of thousands of workers — many former Civil War soldiers — became transients. The terms "tramp" and "bum," both indirect references to former soldiers, became commonplace American terms. Relief rolls exploded in major cities, with 25-percent unemployment (100,000 workers) in New York City alone. Unemployed workers demonstrated in Boston, Chicago, and New York in the winter of 1873-74 demanding public work. In New York's Tompkins Square in 1874, police entered the crowd with clubs and beat up thousands of men and women. The most violent strikes in American history followed the panic, including by the secret labor group known as the Molly Maguires in Pennsylvania's coal fields in 1875, when masked workmen exchanged gunfire with the "Coal and Iron Police," a private force commissioned by the state. A nationwide railroad strike followed in 1877, in which mobs destroyed railway hubs in Pittsburgh, Chicago, and Cumberland, Md.

In Central and Eastern Europe, times were even harder. Many political analysts blamed the crisis on a combination of foreign banks and Jews. Nationalistic political leaders (or agents of the Russian czar) embraced a new, sophisticated brand of anti-Semitism that proved appealing to thousands who had lost their livelihoods in the panic. Anti-Jewish pogroms followed in the 1880s, particularly in Russia and Ukraine. Heartland communities large and small had found a scapegoat: aliens in their own midst.

The echoes of the past in the current problems with residential mortgages trouble me. Loans after about 2001 were issued to first-time homebuyers who signed up for adjustablerate mortgages they could likely never pay off, even in the best of times. Real-estate speculators, hoping to flip properties, overextended themselves, assuming that home prices would keep climbing. Those debts were wrapped in complex securities that mortgage companies and other entrepreneurial banks then sold to other banks; concerned about the stability of those securities, banks then bought a kind of insurance policy called a credit-default swap, which risk managers imagined would protect their investments. More than two million foreclosure filings — default notices, auction-sale notices, and bank repossessions — were reported in 2007. By then trillions of dollars were already invested in this credit-derivative market. Were those new financial instruments resilient enough to cover all the risk? (Answer: no.) As in 1873, a complex financial pyramid rested on a pinhead. Banks are hoarding cash. Banks that hoard cash do not make short-term loans. Businesses large and small now face a potential dearth of short-term credit to buy raw materials, ship their products, and keep goods on shelves.

If there are lessons from 1873, they are different from those of 1929. Most important, when banks fall on Wall Street, they stop all the traffic on Main Street — for a very long time. The protracted reconstruction of banks in the United States and Europe created widespread unemployment. Unions (previously illegal in much of the world) flourished but were then destroyed by corporate institutions that learned to operate on the edge of the law. In Europe, politicians found their scapegoats in Jews, on the fringes of the economy. (Americans, on the other hand, mostly blamed themselves; many began to embrace what would later be called fundamentalist religion.)

The post-panic winners, even after the bailout, might be those firms — financial and otherwise — that have substantial cash reserves. A widespread consolidation of industries may be on the horizon, along with a nationalistic response of high tariff barriers, a decline in international trade, and scapegoating of immigrant competitors for scarce jobs. The failure in July of the World Trade Organization talks begun in Doha seven years ago suggests a new wave of protectionism may be on the way.

In the end, the Panic of 1873 demonstrated that the center of gravity for the world's credit had shifted west — from Central Europe toward the United States. The current panic suggests a further shift — from the United States to China and India. Beyond that I would not hazard a guess. I still have microfilm to read.

Scott Reynolds Nelson is a professor of history at the College of William and Mary. Among his books is Steel Drivin' Man: John Henry, the Untold Story of an American legend *(Oxford University Press, 2006).*

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The Real Great Depression – 1929 Wrong Model for Current Crisis

29 10 2008

Today's global collapse more closely resembles Panic of 1873 than 1929

By Scott Reynolds Nelson

[Occasionally I will invite a Guest to publish at Scribal Thrum - and I'm proud to welcome Scott Nelson, Professor of History at William and Mary College. Thanks for Contributing, Scott.)

As a historian who works on the 19th century, I have been reading my newspaper with a considerable sense of dread. While many commentators on the recent mortgage and banking crisis have drawn parallels to the Great Depression of 1929, that comparison is not particularly apt. Two years ago, I began research on the Panic of 1873, an event of some interest to my colleagues in American business and labor history but probably unknown to everyone else. But as I turn the crank on the microfilm reader, I have been hearing weird echoes of recent events.

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Run on the Fourth National Bank, No. 20 Nassau Street New York City, 1873 : WikiMedia Commons

Railroad companies tumbled first. They had crafted complex financial instruments that promised a fixed return, though few understood the underlying object that was guaranteed to investors in case of default. (Answer: nothing). The bonds had sold well at first, but they had tumbled after 1871 as investors began to doubt their value, prices weakened, and many railroads took on short-term bank loans to continue laying track. Then, as short-term lending rates skyrocketed across the Atlantic in 1873, the railroads were in trouble. When the railroad financier Jay Cooke proved unable to pay off his debts, the stock market crashed in September, closing hundreds of banks over the next three years. The panic continued for more than four years in the United States and for nearly six years in Europe.

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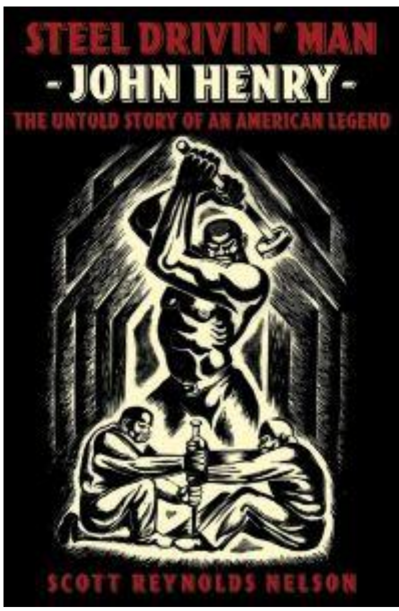

Scott Reynolds Nelson is a professor of history at the College of William and Mary. Among his books is Steel Drivin' Man: John Henry, the Untold Story of an American legend (Oxford University Press, 2006).

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October 14, 2008, 9:26 am

New York and the Panic of 1873

By JENNIFER 8. LEE

Comparisons to the stock market crash of 1929 were tossed around last week as the Dow Jones industrial average had its worst week in at least 75 years. Despite a big rally on Monday after countries around the world vowed to inject new capital into banks, anxieties linger about the long-term effects, particularly in New York, where the city's economic fate is so closely intertwined with what happens on Wall Street.

In trying to make sense of recent events, a historian at the College of William and Mary has argued the crisis is not unlike the Panic of 1873, when rampant real estate speculation culminated in a credit crunch, and banking failures that led to broad panic in the stock markets. That crash lasted more than four years.

While the 1929 stock market collapse is widely perceived by economists to have played a role in the economic contraction, the stock market collapse in 1873 -- much like the one now -- came after a building boom created by easily obtainable mortgages and an ensuing banking crisis, said Prof. Scott Reynolds Nelson, whose piece in The Chronicle of Higher Education has been widely translated into Korean, Spanish, Italian and Russian (and noted in our sister blog, Economix).

"Most people don't know a lot about it, but people who do know a lot about it are really creeped out," Professor Nelson said of the 1873 crisis, which resulted in a near total collapse of the financial system.

Since his article was published, Professor Nelson, who specializes in 19th-century history, has gotten many calls from Wall Street observers asking about how the 1873 crisis played out. He has even received an offer to write a financial column for the Motley Fool, which he found amusing.

"Can you imagine how bizarre it would be for a 19th-century historian to write about the lessons of the day?" he said.

A visit to Google Books and The Times's archives helps trace the arc of the 1873 crash.

Before the panic, railroad and real estate speculation had been rampant [pdf] -- and values had multiplied to unheard of heights. Credit was easy, and new financial instruments were created, including new types of railroad bonds whose values no one could be sure of.

American securities were traded worldwide and about two-thirds of those bonds were held overseas, according to Professor Nelson.

As one historian, James Ford Rhodes, who lived through the period, observed

Prosperity was written all over the face of things. Manufacturers were busy workmen in demand. Streets and shops were crowded and everywhere new buildings going up. Prices of commodities were in high, demand pretty good. Everybody seemed to be making money.

Yet, there were already financial problems in Europe.

The panic here started on a Thursday, Sept. 18, when the prominent house that had essentially financed the Civil War, Jay Cooke & Company, had a cash crunch -- in part because of the collapse of the ill-conceived Northern Pacific Railroad -- and said it would suspend payments on the notes it had issued -- akin to declaring bankruptcy. The announcement hit Wall Street with the force of a thunderbolt from a clear sky. As the Times reported at the time:

The brokers stood perfectly thunderstruck for a moment, and then there was a general run to notify the different houses of Wall Street of the failure. The brokers surged out of the Exchange, stumbling pell mell over one another in general confusion and reached their offices in race horse time. The members of the firms who were surprised by this announcement had no time to deliberate. The bear clique was already selling the market down in the Exchange, and prices were declining frightfully.

Within a day, other financial houses began to fail, including Fisk and Hatch, believed to be "one of the richest and soundest in New York." The names of 18 other companies [pdf] unable to stand by their contracts were read off, leading to greater panic, a scene where "jobbers squared off at each other and screamed and yelled violently, flinging their arms around and producing a scene which bedlam itself could not equal."

The government announced it would buy $10 million in bonds [pdf] to try to inject confidence into the financial system. Investors started trading the next day, a Saturday, optimistic that the panic had subsided [pdf]. But it hadn't and on that day, Sept. 20, the New York Stock Exchange suspended trading for the first time in its history.

On Sunday morning, President Ulysses S. Grant and the treasury secretary, William A. Richardson, came to New York, spending the day in consultation with Cornelius Vanderbilt, Henry Clews and other prominent business men to cobble together a solution. Businessmen, bankers and merchants flocked to the Fifth Avenue Hotel, beseeching President Grant to increase the currency by every means in his power, declaring that unless the government came to the rescue nothing could save the country from bankruptcy and ruin. Meanwhile, banking houses in cities outside New York also failed.

Meanwhile, the government, having bought about $13 million in bonds, had reached the end of its tether and stopped this mode of relief.

With the credit markets frozen, at one point the overnight lending rate shot to a quarter of a percentage point, Professor Nelson said, which annualized is about 148 percent. The top national banks of New York formed a Clearing House Committee [pdf], pooling their cash and collateral into a common fund and issuing loan certificates against it that would operate like cash. This became the basis for the reconstruction of the credit markets.

Eventually, on Wall Street, the panic "had run its course, like a great fire that burned itself out" [pdf]. But it took about 40 days [pdf]. During the full course of the crisis, 73 members of the stock exchange and 5,000 mercantile companies [pdf] failed.

Even though the Wall Street panic was over, the commercial crisis across the country was just beginning because of the lingering credit crunch. Even two months later in Richmond, Va., just before Election Day, the effects of the economic crash were quite visible with shuttered tobacco companies, all-but-closed flour mills and a retail slowdown.

A number of railroads defaulted in the payment of the interest on their bonds (and railroad construction dropped from 7,000 miles in 1873 to 1,700 in 1875) [pdf]. Businesses with good credit curtailed their purchases, while those with bad credit had no buying power. The closing of cotton and iron mills and other manufacturers threw hordes of laborers into unemployment, many of them former Civil War soldiers. They became transients, and the words "tramp" and "bum" became commonplace American terms. Relief rolls grew rapidly in major cities, with 25 percent unemployment in New York City alone.

The panic was not without political consequences. The collapse of farm prices set the scene for an agrarian insurgency. Disenchanted farmers who believed that the government's mismanaged currency policy was determined by Eastern bankers and industrialists eventually formed the short-lived Populist Party, which called for a graduated income tax, pensions and nationalizing transportation and communication.

This recession hit industrial workers particularly bad. A bitter antagonism emerged between workers and the leaders of banking and manufacturing, which led to labor unrest that continued through the following decades, resulting in some of the most violent strikes in American history. In January 1874, police violently broke up a demonstration by thousands of unemployed workers in New York's Tompkins Square Park, which was the largest demonstration in the city's history.

The financial crisis led Congress to pass a bill in 1874 that would allow for more printing of currency to spur inflation and reduce the real value of debts. In a surprise move that was viewed by many as the most important event of his administration to that point, President Grant vetoed the bill.

In early 1875, Congress passed a bill, known as the Specie Resumption Act, which would back United States currency with gold. By pegging the dollar against hard currency, the act helped curb inflation, tame speculation and produce a stable dollar. It turned the Republican Party toward a stance of conservative fiscal policies.

The American and world economy did recover -- slowly, but it took more than four years of depression. A 1911 New York Times magazine article assessed the panic, observing in a perhaps overly lyrical way:

However, as the sun always shines after rain, so conditions began to improve in 1877, and by 1878 there was a better feeling throughout the nation.

Confidence returned slowly, but it did return, and the tide of prosperity rose steadily until its inspiration had penetrated every city and hamlet in the country. The fertile lands of the West and South brought forth bountiful harvests, and ocean commerce expanded under the stimulus of good crops. The excess of American exports was only one of the features of this golden period in our affairs, which broke all records.

Stocks began their rise in spring of 1878, and in 1879, men of means awoke suddenly to the fact that railroads were of value as investments after all, and a marvelous buying of securities sprang up, which electrified the financial world and led to a boom in prices."

The article argued (perhaps too simplistically) that the panic ultimately helped to impose belt-tightening for consumers and businesses, a moderation that proved healthy for the post-panic economy: "During the depression of the 1870s, much wealth had been accumulated and people had learned to be economical and more efficient."

An optimist could perhaps argue that the current financial crisis will also cause consumers and businesses to change their habits. Indeed, some changes are already happening: The last independent investment banks have agreed to live with more regulations as they become bank holding companies, and consumer debt dropped in August, the first time it has fallen in a decade.

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WEALTH.

BY ANDREW CARNEGIE

The problem of our age is the proper administration of wealth, so that the ties of brotherhood may still bind together the rich and poor in harmonious relationship. The conditions of human life have not only been changed, but revolutionized, within the past few hundred years. In former days there was little difference between the swelling, dress, food, and environment of the chief and those of his retainers. The Indians are to-day where civilized man then was. When visiting the Sioux, I was led to the wigwam of the chief. It was just like the others in external appearance, and even within the difference was trifling between it and those of the poorest of his braves. The contrast between the palace of the millionaire and the cottage of the laborer with us to-day measures the change which has come with civilization.

This change, however, is not to be deplored, but welcomed as highly beneficial. It is well, nay, essential for the progress of the race, that the houses of some should be homes for all that is highest and best in literature and the arts, and for all the refinements of civilization, rather than that none should be so. Much better this great irregularity than universal squalor. Without wealth there can be no Maecenas. The "good old times" were not good old times. Neither master nor servant was as well situated then as to-day. A relapse to old conditions would be disastrous to both -- not the least so to him who serves -- and would sweep away civilization with it. But whether the change be for good or ill, it is upon us, beyond our power to alter, and therefore to be accepted and made the best of. It is waste of time to criticize the inevitable.

It is easy to see how the change has come. One illustration will serve for almost every phase of the cause. In the manufacture of products we have the whole story. It applies to all combinations of human industry, as stimulated and enlarged by the inventions of this scientific age. Formerly articles were manufactured at the domestic hearth or in small shops which formed part of the household. The master and his apprentices worked side by side, the latter living with the master, and therefore subject to the same conditions. When these apprentices rose to be masters, there was little or no change in their mode of life, and they, in turn, educated in the same routine succeeding apprentices. There was, substantially, social equality, and even political equality, for those engaged in industrial pursuits had then little or no political voice in the State.

But the inevitable result of such a mode of manufacture was crude articles at high prices. To-day the world obtains commodities of excellent quality at prices which even the generation preceding this would have deemed incredible. In the commercial world similar causes have produced similar results, and the race is benefited thereby. The poor enjoy what the rich could not before afford. What were the luxuries have become the necessaries of life. The laborer has now more comforts than the farmer had a few generations ago. The farmer has more luxuries than the landlord had, and is more richly clad and better housed. The landlord has books and pictures rarer, and appointments more artistic, than the King could then obtain.

The price we pay for this salutary change is, no doubt, great. We assemble thousands of operatives in the factory, in the mine, and in the counting-house, of whom the employer can know little or nothing, and to whom the employer is little better than a myth. All intercourse between them is at an end. Rigid Castes are formed, and, as, usual, mutual ignorance breeds mutual distrust. Each Caste is without sympathy for the other, and ready to credit anything disparaging in regard to it. Under the law of competition, the employer of thousands is forced into the strictest economies, among which the rates paid to labor figure prominently, and often there is friction between the employer and the employed, between capital and labor, between rich and poor. Human society loses homogeneity.

The price which society pays for the law of competition, like the price it pays for cheap comforts and luxuries, is also great; but the advantages of this law are also greater still, for it is to this law that we owe our wonderful material development, which brings improved conditions in its train. But, whether the law be benign or not, we must say of it, as we say of the change in the conditions of men to which we have referred: It is here; we cannot evade it; no substitutes for it have been found; and while the law may be sometimes hard for the individual, it is best for the race, because it insures the survival of the fittest in every department. We accept and welcome, therefore, as conditions to which we must accommodate ourselves, great inequality of environment, the concentration of business, industrial and commercial, in the hands of a few, and the law of competition between these, as being not only beneficial, but essential for the future progress of the race. Having accepted these, it follows that there must be great scope for the exercise of special ability in the merchant and in the manufacturer who has to conduct affairs upon a great scale, That this talent for organization and management is rare among men is proved by the fact that it invariably secures for its possessor enormous rewards, no matter where or under what laws or conditions. The experienced in affairs always rate the MAN whose services can be obtained as a partner as not only the first consideration, but such as to render the question of his capital scarcely worth considering, for such men soon create capital; while, without the special talent required, capital soon takes wings. Such men become interested in firms or corporations using millions; and estimating only simple interest to be made upon the capital invested, it is inevitable that their income must exceed their expenditures, and that they must accumulate wealth. Nor is there any middle ground which such men can occupy, because the great manufacturing or commercial concern which does not earn at least interest upon its capital soon becomes bankrupt. It must either go forward or fall behind: to stand still is impossible. It is a condition essential for its successful operation that it should be thus far profitable, and even that, in addition to interest on capital, it should make profit. It is a law, as certain as any of the others named, that men possessed of this peculiar talent for affairs, under the free play of economic forces, must, of necessity, soon be in receipt of more revenue than can be judiciously expended upon themselves; and this law is as beneficial for the race as the others.

Objections to the foundations upon which society is based are not in order, because the condition of the race is better with these than it has been with any others which have been tried. Of the effect of any new substitutes proposed we cannot be sure. The Socialist or Anarchist who seeks to overturn present conditions is to be regarded as attacking the foundation upon which civilization itself rests, for civilization took its start from the day that the capable, industrious workman said to his incompetent and lazy fellow, "If thou dost not sow, thou shalt no reap," and thus ended primitive Communism by separating the drones from the bees. One who studies this subject will soon be brought face to face with the conclusion that upon the sacredness of property civilization itself depends -- the right of the laborer to his hundred dollars in the savings bank, and equally the legal right of the millionaire to his millions. To those who propose to substitute Communism for this intense Individualism the answer, therefore, is: The race has tried that. All progress from that barbarous day to the present time has resulted from its displacement. Not evil, but good, has come to the race from the accumulation of wealth by those who have the ability and energy that produce it. But even if we admit for a moment that it might be better for the race to discard its present foundation, Individualism, -- that it is a nobler ideal that man should labor, not for himself alone, but in and for a brotherhood of his fellows, and share with them all in common, realizing Swedenborg's idea of Heaven, where, as he says, the angels derive their happiness, not from laboring for self, but for each other, -- even admit all this, and a sufficient answer is, This is not evolution, but revolution. It necessitates the changing of human nature itself -- a work of eons, even if it were good to change it, which we cannot know. It is not practicable in our day or in our age. Even if desirable theoretically, it belongs to another and long-succeeding sociological stratum. Our duty is with what is practicable now; with the next step possible in our day and generation. It is criminal to waste our energies in endeavoring to uproot, when all we can profitably or possibly accomplish is to bend the universal tree of humanity a little in the direction most favorable to the production of good fruit under existing circumstances. We might as well urge the destruction of the highest existing type of man because he failed to reach our ideal as to favor the destruction of Individualism, Private Property, the Law of Accumulation of Wealth, and the Law of Competition; for these are the highest results of human experience, the soil in which society so far has produced the best fruit. Unequally or unjustly, perhaps, as these laws sometimes operate, and imperfect as they appear to the Idealist, they are, nevertheless, like the highest type of man, the best and most valuable of all that humanity has yet accomplished.

We start, then, with a condition of affairs under which the best interests of the race are promoted, but which inevitably gives wealth to the few. Thus far, accepting conditions as they exist, the situation can be surveyed and pronounced good. The question then arises, -- and, if the foregoing be correct, it is the only question with which we have to deal, -- What is the proper mode of administering wealth after the laws upon which civilization is founded have thrown it into the hands of the few? And it is of this great question that I believe I offer the true solution. It will be understood that *fortunes* are here spoken of, not moderate sums saved by many years of effort, the returns from which are required for the comfortable maintenance and education of families. This is not *wealth*, but only *competence*, which it should be the aim of all to acquire.

There are but three modes in which surplus wealth can be disposed of. It can be left to the families of the decedents; or it can be bequeathed for public purposes; or, finally, it can be administered during their lives by its possessors. Under the first and second modes most of the wealth of the world that has reached the few has hitherto been applied. Let us in turn consider each of these modes. The first is the most injudicious. In monarchical countries. the estates and the greatest portion of the wealth are left to the first son, that the vanity of the parent may be gratified by the thought that his name and title are to descend to succeeding generations unimpaired. The condition of this class in Europe to-day teaches the futility of such hopes or ambitions. The successors have become impoverished through their follies or from the fall in the value of land. Even in Great Britain the strict law of entail has been found inadequate to maintain the status of an hereditary class. Its soil is rapidly passing into the hands of the stranger. Under republican institutions the division of property among the children is much fairer, but the question which forces itself upon thoughtful men in all lands is: Why should men leave great fortunes to their children? If this is done from affection, is it not misguided affection? Observation teaches that, generally speaking, it is not well for the children that they should be so burdened. Neither is it well for the state. Beyond providing for the wife and daughters moderate sources of income, and very moderate allowances indeed, if any, for the sons, men may well hesitate, for it is no longer questionable that great sums bequeathed oftener work more for the injury than for the good of the recipients. Wise men will soon conclude that, for the best interests of the members of their families and of the state, such bequests are an improper use of their means.

It is not suggested that men who have failed to educate their sons to earn a livelihood shall cast them adrift in poverty. If any man has seen fit to rear his sons with a view to their living idle lives, or, what is highly commendable, has instilled in them the sentiment that they are in a position to labor for public ends without reference to pecuniary consideration, then, of course, the duty of the parent is to see that such are provided for *in moderation*. There are instances of millionaires' sons unspoiled by wealth, who, being rich, still perform great services in the community. Such are the very salt of the earth, as valuable as, unfortunately, they are rare; still it is not the exception, but the rule, that men must regard, and, looking at the usual result of enormous sums conferred upon legatees, the thoughtful man must shortly say, "I would as soon leave to my son a curse as the almighty dollar," and admit to himself that it is not the welfare of the children, but family pride, which inspires these enormous legacies.

As to the second mode, that of leaving wealth at death for public uses, it may be said that this is only a means for the disposal of wealth, provided a man is content to wait until he is dead before it becomes of much good in the world. Knowledge of the results of legacies bequeathed is not calculated to inspire the brightest hopes of much posthumous good being accomplished. The cases are not few in which the real object sought by the testator is not attained, nor are they few in which his real wishes are thwarted. In many cases the bequests are so used as to become only monuments of his folly. It is well to remember that it requires the exercise of not less ability than that which acquired the wealth to use it so as to be really beneficial to the community. Besides this, it may fairly be said that no man is to be extolled for doing what he cannot help doing, nor is he to be thanked by the community to which he only leaves wealth at death. Men who leave vast sums in this way may fairly be thought men who would not have left it at all, had they been able to take it with them. The memories of such cannot be held in grateful remembrance, for there is not grace in their gifts. It is not to be wondered at that such bequests seems so generally to lack the blessing.

The growing disposition to tax more and more heavily large estates left at death is a cheering indication of the growth of a salutary change in public opinion. The State of Pennsylvania now takes -- subject to some exceptions -- one-tenth of the property left by its citizens. The budget presented in the British Parliament the other day proposes to increase the death-duties; and, most significant of all, the new tax is to be a graduated one. Of all forms of taxation, this seems the wisest. Men who continue hoarding great sums all their lives, the proper use of which for the public ends would work good to the community, should be made to feel that the community, in the form of the state, cannot thus be deprived of its proper share. By taxing estates heavily at death the state marks its condemnation of the selfish millionaire's unworthy life.

It is desirable that nations should go much further in this direction. Indeed, it is difficult to set bounds to the share of a rich man's estate which should go at his death to the public through the agency of the state, and by all means such taxes should be graduated, beginning at nothing upon moderate sums to dependents, and increasing rapidly as the amounts swell, until of the millionaire's hoard, as of Shylock's, at least

" ---- The other half
Comes to the privy coffer of the state."

This policy would work powerfully to induce the rich man to attend to the administration of wealth during his life, which is the end that society should always have in view, as being that by far most fruitful for the people. Nor need it be feared that this policy would sap the root of enterprise and render men less anxious to accumulate, for to the class whose ambition it is to leave great fortunes and be talked about after their death, it will attract even more attention, and, indeed, be a somewhat nobler ambition to have enormous sums paid over to the state from their fortunes.

There remains, then, only one mode of using great fortunes; but in this we have the true antidote for the temporary unequal distribution of wealth, the reconciliation of the rich and the poor -- a reign of harmony -- another ideal, differing, indeed, from that of the Communist in requiring only the further evolution of existing conditions, not the total overthrow of our civilization. It is founded upon the present most intense individualism, and the race is prepared to put it in practice by degrees whenever it pleases. Under its sway we shall have an ideal state, in which the surplus wealth of the few will become, in the best sense, the property of the many, because administered for the common good, and this wealth, passing through the hands of the few, can be made a much more potent force for the elevation of our race than if it had been distributed in small sums to the people themselves. Even the poorest can be made to see this, and to agree that great sums gathered by some of their fellow-citizens and spent for public purposes, from which the masses reap the principal benefit, are more valuable to them than if scattered among them through the course of many years in trifling amounts.

If we consider what results flow from the Cooper Institute, for instance, to the best portion of the race in New York not possessed of means, and compare these with those which would have arisen for the good of the masses from an equal sum distributed by Mr. Cooper in his lifetime in the form of wages, which is the highest form of distribution, being for work done and not for charity, we can form some estimate of the possibilities for the improvement of the race which lie embedded in the present law of the accumulation of wealth. Much of this sum. if distributed in small quantities among the people, would have been wasted in the indulgence of appetite, some of it in excess, and it may be doubted whether even the part put to the best use, that of adding to the comforts of the home, would have yielded results for the race, as a race, at all comparable to those which are flowing and are to flow from the Cooper Institute from generation to generation. Let the advocate of violent or radical change ponder well this thought.

We might even go so far as to take another instance, that of Mr. Tilden's bequest of five millions of dollars for a free library in the city of New York, but in referring to this one cannot help saying involuntarily, How much better if Mr. Tilden had devoted the last years of his own life to the proper administration of this immense sum; in which case neither legal contest nor any other cause of delay could have interfered with his aims. But let us assume that Mr. Tilden's millions finally become the means of giving to this city a noble public library, where the treasures of the world contained in books will be open to all forever, without money and without price. Considering the good of that part of the race which congregates in and around Manhattan Island, would its permanent benefit have been better promoted had these millions been allowed to circulate in small sums through the hands of the masses? Even the most strenuous advocate of Communism must entertain a doubt upon this subject. Most of those who think will probably entertain no doubt whatever.

Poor and restricted are our opportunities in this life; narrow our horizon; our best work most imperfect; but rich men should be thankful for one inestimable boon. They have it in their power during their lives to busy themselves in organizing benefactions from which the masses of their fellows will derive lasting advantage, and thus dignify their own lives. The highest life is probably to be reached, not by such imitation of the life of Christ as Count Tolstoï gives us, but, while animated by Christ's spirit, by recognizing the changed conditions of this age, and adopting modes of expressing this spirit suitable to the changed conditions under which we live; still laboring for the good of our fellows, which was the essence of his life and teaching, but laboring in a different manner.

This, then, is held to be the duty of the man of Wealth: First, to set an example of modest, unostentatious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent upon him; and after doing so to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community -- the man of wealth thus becoming the mere agent and trustee for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves.

We are met here with the difficulty of determining what are moderate sums to leave to members of the family; what is modest, unostentatious living; what is the test of extravagance. There must be different standards for different conditions. The answer is that it is as impossible to name exact amounts or actions as it is to define good manners, good taste, or the rules of propriety; but, nevertheless, these are verities, well known although undefinable. Public sentiment is quick to know and to feel what offends these. So in the case of wealth. The rule in regard to good taste in the dress of men or women applies here. Whatever makes one conspicuous offends the canon. If any family be chiefly known for display, for extravagance in home, table, equipage, for enormous sums ostentatiously spent in any form upon itself, -- if these be its chief distinctions, we have no difficulty in estimating its nature or culture. So likewise in regard to the use or abuse of its surplus wealth, or to generous, freehanded coöperation in good public uses, or to unabated efforts to accumulate and hoard to the last, whether they administer or bequeath. The verdict rests with the best and most enlightened public sentiment. The community will surely judge, and its judgments will not often be wrong.

The best uses to which surplus wealth can be put have already been indicated. Those who would administer wisely must, indeed, be wise, for one of the serious obstacles to the improvement of our race is indiscriminate charity. It were better for mankind that the millions of the rich were thrown into the sea than so spent as to encourage the slothful, the drunken, the unworthy. Of every thousand dollars spent in so called charity to-day, it is probable that $950 is unwisely spent; so spent, indeed, as to produce the very evils which it proposes to mitigate or cure. A well-known writer of philosophic books admitted the other day that he had given a quarter of a dollar to a man who approached him as he was coming to visit the house of his friend. He knew nothing of the habits of this beggar; knew not the use that would be made of this money, although he had every reason to suspect that it would be spent improperly. This man professed to be a disciple of Herbert Spencer; yet the quarter-dollar given that night will probably work more injury than all the money which its thoughtless donor will ever be able to give in true charity will do good. He only gratified his own feelings, saved himself from annoyance, -- and this was probably one of the most selfish and very worst actions of his life, for in all respects he is most worthy.

In bestowing charity, the main consideration should be to help those who will help themselves; to provide part of the means by which those who desire to improve may do so; to give those who desire to rise the aids by which they may rise; to assist, but rarely or never to do all. Neither the individual nor the race is improved by aims-giving. Those worthy of assistance, except in rare cases, seldom require assistance. The really valuable men of the race never do, except in cases of accident or sudden change. Everyone has, of course, cases of individuals brought to his own knowledge where temporary assistance can do genuine good, and these he will not overlook. But the amount which can be wisely given by the individual for individuals is necessarily limited by his lack of knowledge of the circumstances connected with each. He is the only true reformer who is as careful and as anxious not to aid the unworthy as he is to aid the worthy, and, perhaps, even more so, for in aims-giving more injury is probably done by rewarding vice than by relieving virtue.

The rich man is thus almost restricted to following the examples of Peter Cooper, Enoch Pratt of Baltimore, Mr. Pratt of Brooklyn, Senator Stanford, and others, who know that the best means of benefiting the community is to place within its reach the ladders upon which the aspiring can rise -- parks, and means of recreation, by which men are helped in body and minds; works of art, certain to give pleasure and improve the public taste, and public institutions of various kinds, which will improve the general condition of the people; -- in this manner returning their surplus wealth to the mass of their fellows in the forms best calculated to do them lasting good.

Thus is the problem of Rich and Poor to be solved. The laws of accumulation will be left free; the laws of distribution free. Individualism will continue, but the millionaire will be but a trustee for the poor; intrusted for a season with a great part of the increased wealth of the community, but administering it for the community far better than it could or would have done for itself. The best minds will thus have reached a stage in the development of the race in which it is clearly seen that there is no mode of disposing of surplus wealth creditable to thoughtful and earnest men into whose hands it flows save by using it year by year for the general good. This day already dawns. But a little while, and although, without incurring the pity of their fellows, men may die sharers in great business enterprises from which their capital cannot be or has not been withdrawn, and is left chiefly at death for public uses, yet the man who dies leaving behind him millions of available wealth, which was his to administer during life, will pass away "unwept, unhonored, and unsung," no matter to what uses he leaves the dross which he cannot take with him. Of such as these the public verdict will then be: "The man who dies thus rich dies disgraced."

Such, in my opinion, is the true Gospel concerning Wealth, obedience to which is destined some day to solve the problem of the Rich and the Poor, and to bring "Peace on earth, among men Good-Will."

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