Walter Nugent

COMMENTS ON WYATT WELLS, “RHETORIC OF THE STANDARDS: THE DEBATE OVER GOLD AND SILVER IN THE 1890S”

1. SOME THOUGHTS ON THE WELLS PAPER

Wyatt Wells redirects our attention to the “battle of the standards,” the central issue of the 1896 Bryan-McKinley campaign but with roots going back to the Civil War and Reconstruction. He contrasts opposing sides, labeled “goldbugs” and “silverites.” Often these labels identify Republicans on one side, Democrats and Populists on the other. Goldbugs concentrated in the Northeast, silverites in the South and West. Goldbugs included many bankers, merchants (especially in international trade), and bondholders, while silverites were often agrarians—not only farmers but rural businesspeople who shared the farmers’ ups and downs. And agrarians, both in where they lived and what they did, were still the majority of the American people during the decades in question. There were exceptions to all of these categorizations, but in general they identify the groups for which “goldbugs” and “silverites” are surrogate terms.

The consistent policies and laws affecting money—from the Public Credit Act of 1869 to the 1893 repeal of the Sherman Silver Purchase Act—effected “persistent deflation” (p. 1). That benefited goldbugs and disadvantaged silverites.1 Whether “urban workers” (p. 10) would have been harmed by moderate inflation is arguable. It might have raised wages more than consumer prices; wages may lag more than prices but could have caught up. Arguable too is the proposition that keeping the silver standard would have ruined foreign investment. It did not do so in India, where Britain practiced “imperial bimetallism”—gold for the United Kingdom, silver for India. British investment continued while India was on a silver standard.

Wells is right to take the gold-silver story back to the 1870s. In fact, one could date it from 1861–1862, when the United States had to suspend specie payments, and Congress, holding its nose, created the “legal tender notes,” a/k/a the greenbacks. Indeed, the goldbugs and silverites formulated their mutually exclusive and rigid positions well before the end of the 1870s. The 1896 confrontation was a reprise of much the same talking points.2

Wells is clearly more approving of the gold-standard people—the monetary gurus of the time—than the silverites, and of deflation rather than inflation. He has not, however,
exhausted the historical literature. It is extensive. The crux of the story is the demonetization of silver in 1873 (more precisely, the purposeful omission of the standard silver dollar in the Coinage Act of that year); why it was done; and the attempts by some people to reinstate it and by others to keep that from happening. The struggle between these groups culminated, of course, in the definitive defeat of the silver side in 1896.

Wells’s “goldbugs” embraced then-orthodox thinking on money and banking (orthodox in the United States and Britain, less so elsewhere) and included the “outstanding” Frank Taussig, the “distinguished” David A. Wells, and the University of Chicago’s J. Laurence Laughlin—heavyweights all. In 1876–1877, the U.S. Monetary Commission, created by Congress to convene experts on the money question, produced the last systematic expression of both sides including the silver remonetization position. By the 1890s, the “silverites” had no such stars, only Coin Harvey. Had they looked abroad they would have found company in major bimetallist theorists such as Ernest Seyd in Britain, Louis Wolowski in France, the Franco-Italian Henri Cernuschi, and others. But none of them cut any figure in the United States.

Seyd, Britain’s leading bimetallist writer, was vilified and lied about, not by a goldbug but the Michigan money crank, Sarah E. Van de Voort Emery, author of Seven Financial Conspiracies Which Have Enslaved the American People (1888). Her “conspiracies” were seven federal laws, including the Public Credit Act of 1869 and the 1873 Coinage Act, that did in fact constitute a consistent deflationary policy trend. To call them “conspiracies” was overheated. To call it “one of the seminal texts of the Populist movement,” or that “almost all [silverites] saw the 1873 act as the product of conspiracy” (Wells, p. 4), really stretches things. No one has shown how many read Emery’s book, and whether those who did shared its outrage. Certainly it does not justify labeling the entire Populist movement as conspiracy minded, as Richard Hofstadter did in his Age of Reform (1955), and as Wells implies. Populist editor and Congressman John Davis of Kansas, who was one of the best versed and most thoughtful of his group, called the Seyd story (that he came to Washington and bribed Congress into demonetizing silver) “a tall tale that his fellow Populists should never swallow.”

On “monetary justice” (pp. 7–9), Wells’s basic point is correct—that people “on both sides” agreed that debts should be paid in money as equal in value as possible to the money borrowed. Greenbackers and Populists believed that this applied to government debts as well as private ones. Civil War bonds bought with greenbacks, for example, should have been redeemed in greenbacks, not in “coin,” which greenbackers and Populists saw as a windfall for bondholders. The rise in the value of gold relative to purchasable items was certainly substantial, and hurt farmers. But whether workers’ “real income” had “substantially increased” (p. 10) depends on interpretation of the available statistics. Without question, however, by the 1896 campaign the gold-standard side had framed the “honest money” argument to its own benefit.

Wells writes that “few silverites understood finance” (p. 13). We could as easily ask whether financiers understood farmers. What did silverites—meaning, I suppose, agrarians rather than miners or mine owners—not understand? That “money” in the Midwest and South, where banks were scarce and note-issuing banks even scarcer, usually meant currency and not other forms of money? That currency was especially tight around harvest time? That the secular trend of wheat, corn, and cotton prices was downward
from the late 1880s on through the depression of the 1890s? Agrarians certainly understood that tight money meant lower crop prices, and that federal laws regarding money were hardly favorable to them or their well-being.

A word about international bimetallism. The idea developed earlier than Wells suggests. It was foreshadowed by the Latin Monetary Union of 1865. It had few prominent exponents in the United States, except Francis A. Walker, but it had powerful champions in Britain and on the Continent. Several international conferences met to promote it by treaty—1878 in Paris, 1881 in Brussels, and 1892 in Paris again. None succeeded, because no other power wanted to protect silver and help out the United States. Europeans had made it embarrassingly clear since the late 1870s that an international bimetallist treaty was a non-starter. But only the United States was a significant producer of silver, whose advocates in the Senate and elsewhere were vocal. In his 1897 inaugural address, McKinley called for “cooperation with the other great commercial powers of the world,” as Wells correctly says, but McKinley did not specifically call for, or promote, another conference. Instead, he signed in 1900 the Gold Standard Act, which fastened gold monometallism apparently irrevocably. It is tempting to think that the plank in the 1896 Republican platform asking for bimetallism by international agreement was just a ploy to attract the support of its advocates.

Did the silverites, even the “conscientious amateurs” among them, ignore “the experts” (p. 19)? Since they correctly perceived that “the experts”—at least the American ones—took positions unfavorable to their economic and class situations, they opposed gold monometallism as best they could.

II. WHAT HAPPENED TO SILVER, AND WHO KNEW ABOUT IT?

The United States had been on a bimetallic gold and silver standard beginning in 1792. In the 1830s the statutory ratio was set at just about sixteen (ounces of silver) to one (of gold). The massive discoveries of gold in California and Australia in the late 1840s overvalued it at that ratio, and silver dollars disappeared. Silver became the forgotten standard but remained on the books. Early in the Civil War, Congress authorized the sale of bonds to raise money. It also authorized the issuing of “legal tender” notes, the greenbacks. Bonds could be paid for with greenbacks. After the war ended, opinion differed on what to do about the greenbacks. Orthodox financial opinion, both at the Treasury and among Northeastern banking and financial people, looked forward to the resumption of specie payments—in gold—as soon as practicable. Others found the greenbacks too useful, as a circulating medium, to get rid of. To do so would be too abruptly deflationary, as Treasury Secretary Hugh McCulloch found out when he contracted (i.e., retired) greenbacks in 1866–68.

George Pendleton of Ohio wanted the greenbacks kept permanently. His “Pendleton Plan” became a plank in the 1868 Democratic platform, stating that unless specifically provided otherwise, “the obligations of government [shall] be paid in the lawful money of the United States” (i.e., greenbacks). The Democratic presidential nominee, Horatio Seymour of New York, had no more chance of defeating General Grant than Adlai Stevenson had of defeating General Eisenhower in 1952 and 1956. When Seymour went down in flames, so did the Pendleton Plan. Two weeks after Grant was inaugurated in March 1869, Congress passed and Grant signed the Public Credit Act,
affirming that the Civil War bonds would be paid in “coin.” But which coin? Gold or the elusive silver?

In 1870, over $2 billion in short-term Civil War bonds were sloshing around on the verge of redemption. So Congress, led by Senator John Sherman of Ohio, chair of the Finance Committee, passed legislation refinancing them at longer terms and lower interest. Sherman already, in late December 1867, had introduced a bill to drop the standard silver dollar, among other things. Sherman, Treasury Secretary George Boutwell, Mint Director Henry Linderman, and Deputy Comptroller John Jay Knox, feared correctly that if silver became available in large quantities, it would push gold out of circulation just as gold had pushed out silver twenty years earlier. It was essential that the silver standard go away, so Knox drafted a new coinage bill. He frankly proclaimed that the bill’s main intent was to drop the silver dollar as a standard because silver threatened to replace gold if silver ever came back. To the minds of these men, a return of silver would ruin the nation’s public credit and also foreign commerce, especially with gold-monometallic Britain.

Was silver a real threat? As early as 1866, the Treasury had taken steps to find out. Successive reports on Western mining convinced Sherman and his colleagues that a flood of silver was indeed imminent. Linderman, as director of the Mint, stated in his official reports in the early 1870s that silver was pouring into the Mint to be coined into dollars, as the existing law required. Those whose business it was to know, did know.

For various procedural and political reasons, the coinage bill did not become law until February 1873. But there it was. Some silver coins were still authorized and, under the Bland-Allison Act of 1878, the Treasury bought something like the output of the Western mines, an amount revised upward by the Sherman Silver Purchase Act of 1890. But all three laws gave silver only very limited legal tender power. Specie payments resumed in January 1879 on the basis of gold.

Was the Coinage Act of 1873, then, a “crime”? Certainly not in the sense of violating a statute, wrote Milton Friedman, but “a verdict of guilty … is appropriate in the court of history … [While] the conventional view is Laughlin’s, that ‘the act of 1873 was a piece of good fortune’ … my own view is that it was the opposite: a mistake that had highly adverse consequences.” Chief of those were the depressions of the 1870s and 1890s. Bimetallism, had it been kept, would have worked, and the worst deflationary effects of the next twenty-some years would never have happened.

As Wells writes (p. 18), the “vast majority of the country’s bankers” favored the gold standard, as did the authorities he cites. The absence of such authorities on the agrarian or silverite side does not make them wrong and the “goldbugs” right. Unregulated banking and deflation did not benefit the agrarian majority, and the panics of 1873, 1893, and 1908 did not benefit the nation. Maybe Ritter and Postel (cited by Wells) were not so far off after all.

III. WHY WERE BOTH SIDES WRONG?

Despite their titanic clash, both goldbugs and silverites of course had it wrong. Both were bullionists, and bullion and the specie coined from it are commodities. Throughout the monetary debates of the late nineteenth century, whether in the United States or in Europe, one encounters over and over the assertion that gold (and less often, silver) had “intrinsic value.” But bullion—gold or silver—is a commodity, and it has no
more intrinsic value than other commodities such as oil, soybeans, or asparagus, which actually have some utility.

Centuries of tradition fastened bullionism ineradicably in the minds of bankers, merchants, publicists, and politicians in the transatlantic world in the late nineteenth century. All except greenbackers scorned the radical alternative: inconvertible paper currency. Although they had the support of Henry Charles Carey of Philadelphia, probably America’s finest economic theorist of the century, they were anathema to “orthodox” opinion. To such thinking, paper currency unbacked by specie was a temporary expedient, to be discarded as soon as it could be brought to par with gold (which happened when specie payments resumed in 1879). Sherman and his comrades were faithful defenders of the public credit, by their lights, but they were men in the grip of a theory, and a false one.

It is easy to understand the orthodox belief. “History had shown” that paper could, and had been, inflated into worthlessness, as happened with the U.S. continental currency, with the French Revolutionary assignats, and in other instances. How to prevent that? Two alternatives presented themselves: either stick with specie, or depend on a strong central government to guarantee its paper with its full faith and credit. In the late nineteenth century, the second option was unthinkable except to the greenbackers. In the twentieth century, especially after 1933, it became the norm.

In 1961, Bray Hammond, former Federal Reserve official and author of the Pulitzer-winning book Banks and Politics from the Revolution to the Civil War, published an article in the American Historical Review called “The North’s Empty Purse, 1861–1862.” There Hammond explained the several interlocking measures by which the North stayed solvent during the war emergency: higher tariffs and taxes; a system of note-issuing “national” banks to pull scarce gold into the Treasury and thus provide a sort of gold-backed paper currency; and the inconvertible paper greenbacks, also known as “legal tenders,” because all that supported their value was the federal government’s assertion. Not legal tender for customs duties, they were discounted in terms of gold for that and certain other purposes. But they worked fine for ordinary domestic transactions. The amount of them in circulation was fixed during the 1870s, the discount shrank as specie payments approached, and the idea that they would become the normal currency of the United States was only a greenbacker’s dream. Until the 1930s. As Hammond states it succinctly:

Something like an apostolic laying on of hands seems to have accompanied the sound money crusade, to which, from the Civil War to the New Deal, scholars lent themselves; and judgments expressed in the historical studies produced in that interval reflect the conventional sound money convictions preached in the[n] current political controversies, but now abandoned by all economists less than one hundred years of age. Then, early in the administration of Franklin Roosevelt, the agitation long opposed by reputable scholars waned, not in defeat but in apotheosis … The substance of what the several varieties of easy money enthusiasts had sought for sixty years—a currency deriving its value from absolute authority—became law in the Farm Relief Act (May 12, 1933) and the Gold Reserve Act (January 30, 1934). For the reputable, there had been no phenomenon of nature or of history more often demonstrated than the downfall of nations resulting from their abandonment of gold and recourse to fiat or authoritarian money. Yet for some thirty years now [Hammond was writing about 1960; it’s now been eighty] the United States and other countries have survived in regimes that once would have seemed ‘ruinous’; and the cold light thrown off by this fact is less kindly to the scholars than to the Greenbackers whom they scorned.
The fundamental mistake of both goldbugs and silverites was to confuse the form of money—that it should be silver or, preferably, gold—with its function: a medium of exchange, a standard and store of value. As the Austrian-American economist, Joseph Schumpeter, wrote:

Money may be, and in practice mostly is—at least historically—linked to some commodity. But it never is a commodity and never satisfies wants in the sense in which commodities do. If we nevertheless attribute utility to it, this utility is derived from that of the commodities we actually buy, or could buy, with it and hence presupposes given prices, or ratios of exchange between money and commodities…[W]e may draw the conclusion that any kind of linking of the monetary unit to the unit of a commodity, whatever its practical merits in guaranteeing the value of money may be, is logically nonessential.15

In 2014, just over a hundred years since the creation of the Federal Reserve System, eighty years since the Gold Reserve Act, and forty-some years since President Nixon cut the final link between gold and the dollar, it seems safe to say that “inconvertible paper” and “legal tender notes” have been successfully functioning as currency and money. Gold and silver, to the contrary, have fluctuated across a wide range. The spot price of gold, per troy ounce, was under $500 in 2003. It rose steeply after the financial crisis of 2008, reaching just over $1,900 on September 5, 2011. By late December 2013 it had fallen to $1,203.16 Gold is a commodity. It fluctuates. Its price is subject to newly discovered ore deposits; new technology to dig it and extract it; the demand for it as jewelry; and the irrationalities of investors, among other things. If the dollar had been valued in terms of gold in recent years, the shocks to the American and world economies—and to the people whom these economies serve—would have been far worse than if Bryan had won in 1896 and succeeded in putting through a Republican Congress (which would never have happened anyway) the revival of the standard silver dollar at sixteen to one.

In that first Gilded Age, the conservatives—the goldbugs—won. In today’s second Gilded Age, they seem unlikely to do so regarding the gold standard, to which only fringe libertarians even mention returning. But on more basic things of which money is just the marker—namely, wealth and income—the conservatives again seem to be winning the class warfare that they deny they are waging.

NOTES

1Milton Friedman places “deflation from 1875 to 1896 at a rate of roughly 1.7 percent per year in the United States and 0.8 percent per year in the United Kingdom, which means the gold standard world. In the United States, the deflation from 1875 to 1896 followed the even sharper deflation after the Civil War.” Friedman, “The Crime of 1873,” Journal of Political Economy 98 (Dec. 1990), 1170.


4The Commission’s members were Senators John P. Jones (R-NV), Lewis V. Bogy (D-MO), and George Boutwell (R-MA); Representatives Randall Gibson (D-LA), George Willard (R-MI), and Richard P. Bland (D-MO); plus former Congressman William S. Groesbeck (D-OH) and Harvard professor Francis Bowen.

5Emery has been the subject of scholarly inquiry only once, to my knowledge: Pauline Adams and Emma S. Thornton, A Populist Assault: Sarah E. Van De Voet Emery on American Democracy 1862–1895 (Bowling Green, OH: Bowling Green State University Popular Press, 1982). Adams and Thornton remark judiciously that “Too bad Emery did not rest her case with the presentation of the deplorable state of the masses and her facts on financial legislation, for they were indictment enough; to use conspiracy to explain her facts was both unnecessary and detrimental to her cause” (pp. 54–55; also, pp. 89ff.).

6Adams and Thornton (p. 88) quote a letter from John W. Breidenthal, then Kansas state chairman of the Union Labor Party, and another from the Vincent brothers, publishers of the American Nonconformist of Winfield, Kansas, stating that fifty to a hundred thousand copies of Emery’s book were “distributed” in Kansas—in the 1888 Union Labor campaign, not the People’s Party campaigns of 1890 and later. Breidenthal, however, became state chairman of the People’s Party after it was formed in June 1890, and may have distributed Emery’s book then as well.

7Davis to the editor of the (Topeka) Advocate, Jan. 27, 1897, quoted in Walter Nugent, The Tolerant Populists: Kansas Populism and Nativism (Chicago, 1963), 107; in the 2013 edition, 81.

8According to series D735 in the Historical Statistics of the United States (1975 edition), p. 165, annual earnings in current dollars fell from 482 in 1892 to 420 in 1894, ultimately recovering to 483 in 1900. In inflation-adjusted dollars, annual wages were 527 in 1892, dipped to 484 in 1894, and came back to 527 again in 1898, rising to 573 in 1900. But the heading of the series reads “Money (when employed).” Series D86 (p. 135) shows unemployment as “percent of civilian labor force” at 4.0 in 1890, rising to 8.4 in 1894, 13.7 in 1895, 14.4 in 1896, and 14.5 in 1897. In 1900 it fell, mercifully, to 5.0. Such was the depression of the 1890s, which affected non-farm workers as well as farmers. Most of these figures, both in the 1975 and the 2006 “Millennial” edition of the Historical Statistics, come from Stanley Lebergott, Manpower in Economic Growth: The American Record since 1800 (New York, 1964).

9Knox’s transmittal of his coinage bill to Secretary Boutwell included a long and prominently headed note marked “Silver Dollar—Its Discontinuance as a Standard.” Nugent, Money and American Society, 1865–1880, p. 136. “The demonetization of silver in the Coinage Act of 1873 was known, planned, and brought off by Sherman, Boutwell, Linderman, Knox, [Samuel] Hooper [chair of the House Banking and Currency Committee], and others in order to secure what they believed, and believed mistakenly, to be the public interest. Gold monometallism was the only monetary standard they understood, because they believed in its ideology and in the rhetoric which seemed to make it the embodiment of civilization, natural law, proper political economy, and good morals.” Ibid., 170.

10In 1868, 55,000 silver dollars were coined at the Philadelphia Mint; in FY 1872, 1,109,000. See Mint Director’s Report, 1872, Appendix D, and Secretary of the Treasury Report, 1872, p. 442, in House Executive Document 2, 42nd Congress 3d Session; also Linderman’s piece in the Banker’s Magazine, March 1873, pp. 710–712, cited in Money Question during Reconstruction, pp. 90–91, notes 24, 25. Wells is mistaken in saying that Sherman and other “financial sophisticates … did not anticipate … the shift of Germany and France to the gold standard and the discovery of huge deposits of silver in the American West.” To the contrary, they suspected an impending flood of silver as early as 1866, and knew it for certain no later than 1870. And they and the world knew by late 1871 that the new German Empire would shift from silver to gold coinage, a crucial change in supply and demand made possible by the huge gold indemnity demanded and received from France at the end of the Franco-Prussian War. France did not suspend silver coinage until 1876. Wells states (p. 4, note 12), that “The United States did have $13.6 million in subsidiary silver coins in circulation” but carrying little legal tender power. He is correct in his citation, p. 995 of the Historical Statistics of the United States.
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(1975), series X424–X437, “Currency in Circulation, by Kind: 1800 to 1970.” But Series X426, “Silver Dollars,” shows none before 1878. This absence in the source is puzzling, as Linderman’s and Boutwell’s reports show the 1,109,000 coined in 1872. In my Money Question during Reconstruction, pp. 90–91, note 25, I cite the reports of the Mint director (Henry Linderman) and the Secretary of the Treasury (George Boutwell), which showed 1,109,000 coined at Philadelphia in FY 1872. I also cite the Linderman-Torrey report, “The production of Gold and Silver,” Nov. 1872, in Bankers’ Magazine, March 1873, 710–712. For detailed discussion, see chap. 5 of The Money Question during Reconstruction.

Presumably, many more silver dollars were being coined at the Carson City branch. James Pollock, by then director of the Philadelphia Mint, told Boutwell “that great amounts of it [silver] were coming into the Mint for coinage (Ibid., 90). If these men knew, Sherman certainly knew, and he and international financial circles knew about the German shift from silver to gold, and could well imagine its full effect, well before he brought the coinage bill before the Senate in January 1873. The text (p. 991) explaining the tables in the Historical Statistics for Series X426 reads, “The figures for 1860–1889 have been revised from the best data available in annual reports of the Secretary of the Treasury. The records are not complete and the figures for gold and silver in those years are only estimates.”

12Friedman, “Bimetallism Revisited,” 91.
13As Wells correctly observes, p. 2, n. 5.