American Money, Part IV: The Cross of Gold - Arsenal For Democracy Ep. 398 [Bill/Rachel]
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Books we read:

- *"Debt: The First 5000 Years" by the late David Graeber, the anarchist economic anthropologist, published in 2011*
- *"Reconstruction: America's Unfinished Revolution, 1863–1877" by Eric Foner, the American political historian, published in 1988*
- *"The Rise and Fall of American Growth" by Robert J. Gordon, published in 2016, which we've already used in several episodes this summer*
- *"Inflated: How Money and Debt Built the American Dream" by R. Christopher Whalen, published in 2011*
- *"The Verge: Reformation, Renaissance, and Forty Years that Shook the World" by Patrick Wyman, published in July 2021*

We also drew on some money-specific episodes of Mike Duncan's Revolutions podcast where he happened to mention some financial infrastructure or coinage and monetary policies that were relevant as points of contrast.
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[Bill] Intro: Arsenal for Democracy this week continues our mini-series on money in the 19th Century United States. What was it? Was it something physical with a "real" value, or more of an abstraction? How did people understand it at the time vs how we understand money today? What were the economic, political, and socio-cultural implications of the 19th century version of American money?

In part I of this series, we talked about the chaotic, private-sector-dominated monetary policy of the pre-Civil War United States. In part II, we explored the emergency shift to a national paper currency during the Civil War and then the winding-down of those policies during the Reconstruction period that followed. In part III, we talked about how ordinary Americans conducted their day-to-day and year-to-year transactions with consistently sparse amounts of money in circulation, often relying on credit. Today in part IV, we return to the politics of this problem with Greenbackers, the Free Silver movement, and the Cross of Gold.

In the mid-1870s, Reconstruction was winding down, but the debate over monetary policy was only heating up more with every passing year. By 1877, Reconstruction was officially declared over and the economy was well into a deflationary cycle where US dollars were getting stronger as demand for them and confidence in them continued to outpace the actual money in circulation. Employers, both through greed and their own struggles to access sufficient cash, were attempting to slash wages that people needed to buy things from the growing consumer market of the Second Industrial Revolution.

In the 1870s, many Americans and their politicians often still struggled to understand money on a fundamental level and how it worked – no small surprise since a national currency and monetary policy had only really just emerged in the early 1860s with the Civil War. The long cultural hangover of the Antebellum monetary chaos and unreliable private money convinced many that the biggest danger was "unsound money." They wanted money backed by expensive precious metals and not a lot of it. Others, by contrast, believed that the real danger was the chronic and omnipresent shortages of American money in circulation in the US economy, for all the reasons we've outlined in the previous episodes of this series. Both sides were being lobbied by various disunited factions of business interests, depending on their particular alignments to industry, mining, banks, retailers, and so on. The public often fanatically took sides as well. Out of this divide emerged many of the political battles of the 1870s, 1880s, and 1890s.

[Rachel] The Battle Over Silver Money (Whalen p. 54-55)
https://en.wikipedia.org/wiki/Colorado_Silver_Boom
With the discovery of large deposits of silver in the West, the pressure was on the Treasury to resume purchases of silver at the previous ratio of 16 to 1 versus gold, even though the market price for silver was half that. The mines were producing so much silver that the oversupply depressed prices, often below the point of profitable extraction. Enter Sen. John Sherman (R-OH) and his “Inflation Bill”. Even though he was a strong supporter of a return to the gold standard, he introduced his bill in January 1874. His proposal was to require government purchases of silver, which would have an effect of increasing the issuance of greenbacks, which would be used to make the purchases. This would increase the money supply. Sherman’s proposal toed the line between inflation proponents and those who demanded the return of the gold standard. After a four-month debate, it passed the Republican-controlled Congress, but was vetoed by President Grant. Grant’s veto officially demonstrated the Republican Party’s alignment with business interests over the working class. This veto was very costly for Grant and the Republicans. In November 1874, Democrats won a majority in the House and several seats in the Senate, though Republicans held a majority there. From this time forward, the Republicans would generally be known as the party of so-called “sound money” and business interests, and the Democrats as the advocates of inflation and the working man.

The idea of sound money was at the time far more of a cultural concept than anything grounded meaningfully in economics from a modern perspective.

From Foner (p. 489) [“Reconstruction: America's Unfinished Revolution, 1863–1877” by Eric Foner, published in 1988]
Reformers [in the Republican party] advocated a return to specie payments and deprecated calls for inflation of the nation’s paper currency and the redemption of government bonds in greenbacks. Like free trade, the “honest dollar” of gold embodied natural law, while inflation, wrote North American Review *editor Charles Eliot Norton, “means dishonesty, corruption, repudiation.” Limited government formed another pillar of reform faith, for state intervention in economic affairs fostered all the distasteful aspects of Gilded Age politics: bribery, high taxes and public extravagance.*

Back to Whalen (p. 56-57)
The Bland-Allison Act of 1878, shortly after the end of Reconstruction, tried to bridge the gap between Eastern business interests who favored sound money and the inflationists of the West. This Act authorized the Treasury to purchase a certain amount of silver annually and to mint silver dollar coins, which were made legal tender. These purchases, as in the unsuccessful Inflation Bill, were to be made with paper money and increased the money supply. President Hayes vetoed the Act, but both houses of Congress were able to override the veto. This helped to somewhat repair the Republicans’ image and staved off the rise of the Greenback Party, but it also wasn’t effective in stabilizing the price of silver or helping it to reach the old ratio of 16 to 1. Under the law, about 25 million silver coins were minted, but few circulated. Instead the Treasury issued “silver certificates” that operated similarly to greenbacks, as they were legal tender and could be redeemed at the Treasury for silver coinage.

[Bill has an observation to make here about silver paper instruments, drawing from Wyman]

Whalen (p. 60-61, 68)
By the 1890s, Republicans had abandoned the political rights of freed slaves and the entire Reconstruction project. In 1891, Sen. William Stewart of Nevada used a procedural motion to substitute free coinage of silver for voting rights legislation. Free coinage of silver was more popular politically than protecting voting rights in the South. There was a depression in the winter of 1891, and unemployment was spreading nationwide. There was hope among Republicans that pro-silver legislation would help them in the polls more than the loss of Black votes in the South would harm them.

The Sherman Silver Purchase Act (1890) called for the Treasury to purchase four million ounces of silver per month, which was essentially the entire amount produced in the US. (Another source indicated that Mexico also experienced a surge in American investment in silver mining to supply the US government demand.) The Treasury paid for these purchases in paper dollars. Many Americans sold their silver for paper money, then bought gold coins. The preference for gold or paper money over silver caused silver prices to fall. Also, world production of silver rose from 63 million ounces per year in 1873 to over 150 million ounces in 1892, further causing prices to fall. This meant that most countries – also engaged in serious monetary debates at the time – were deciding it was simply no longer cost-effective or sensible to mint silver coins. The depletion of gold from the Treasury caused by widespread purchase of gold led to the repeal of the Sherman Silver Purchase Act within 3 years of its passage.

All the meddling with the money supply by the federal government left public confidence in banks, financial markets, U.S. currency and the economy at a new low. The volatility of the U.S. economy in the 1890s alarmed the rest of the world. Foreign banks and individuals sought to exchange their paper dollars for gold, and U.S. exports of gold increased dramatically. This caused the U.S. to default on convertibility, and the Treasury forced U.S. banks to take paper rather than gold. The final nail in the Republicans' coffin was 1892 legislation that removed all remaining limits on the coinage of silver at the 16 to 1 exchange ratio with gold that was now wildly diverged from the actual market exchange value. When Democrat Grover Cleveland and the Democrats swept Congress and the White House in 1892, the economy was collapsing, as both foreign creditors and U.S. citizens were demanding payment in gold and fleeing paper assets. By 1893, the drop in silver prices caused a series of bank failures and the bursting of the investment bubble in railroads. After this, many companies were driven into bankruptcy, many of them in the West. https://en.wikipedia.org/wiki/Panic_of_1893 The Sherman Silver Purchase Act had to be repealed to prevent all the US gold reserves from being used up as people exchanged silver for gold at an official but artificial exchange rate and then sold the gold on the open market for much more money. https://en.wikipedia.org/wiki/Sherman_Silver_Purchase_Act

[discussion]

On the heels of this unrest and depression, and with the pro-gold wing of the Democrats seemingly irreparably tarnished by the economic collapse, there emerged a figure who rocketed to political stardom on a platform of free silver: William Jennings Bryan. Bryan, in his tenure as a Democratic congressman from Nebraska, had passionately spoken against the repeal of the Sherman Silver Purchase Act in 1893. Bryan worked diligently from 1894-1896 to raise the profile of the Silverite Democrats, delivering speeches and organizing meetings for the National Silver Committee, which he founded. At the 1896 Democratic Convention, Bryan was able to raise enough Free Silver Democrats to overcome the Gold Standard Democrats, led by President Grover Cleveland. However, he faced fairly significant obstacles during the convention. He initially didn't even have official delegate status. Nebraska sent both a Silverite and a Gold slate to the Convention, and the DNC seated the pro-Gold slate of delegates. It took the convention’s Credentials Committee to overrule the DNC’s decision. After this kerfuffle was resolved, Bryan, in his stirring “Cross of Gold” speech, tied the cause of bimetallism to the plight of the working class. In the famous conclusion of the speech, Bryan declared: “Having behind us the producing masses of this nation and the world, supported by the commercial interests, the laboring interests, and the toilers everywhere, we will answer their demand for a gold standard by saying to them: ‘You shall not press down upon the brow of labor this crown of thorns; you shall not crucify mankind upon a cross of gold.’" Although Bryan won the support of the silver crowd, he won the Democratic nomination without any votes from the Gold Democrats, leaving the party deeply fragmented. This fragmentation gave the victory to pro-Gold Standard Republican William McKinley, who swept the more-populated Northeast and Midwest, while Bryan won the West and South. While Bryan tried to run 4 years later on the same silver message, he failed to maintain his message’s resonance with the populist wing of the Democratic party. https://en.wikipedia.org/wiki/Cross_of_Gold_speech

[Discussion on the merits (or lack thereof) of the two dominant positions on coinage and money in the 1896 election: Bimetallism was stupid and non-viable, and it was not the actual solution needed for the real problems at hand, but also the deflationary gold standard is deeply stupid and counter-productive too. This points toward a theme of this series which is that people in the late 19th century United States were fixated on money and monetary policy but still couldn’t really intellectually or philosophically understand what it was, how it worked, and what the implications of monetary policy choices would be. The one thing we can say was probably not their fault is that the United States was still very much in a transitional phase into the ranks of the major powers and was still very dependent on the other powers and foreign creditors working in precious metals or other reserve currencies, unlike the present-day situation where the United States dollar is the reserve currency and thus there is much more flexibility available.]

Next time on the show, we’ll close this series with an epilogue episode looking at what followed the 1890s and emerged out of the foundations laid in this post-Civil War period in the US economy, in terms of debt as money – things like consumer finance, auto loans, home mortgages and more.