CHAPTER VIII

The Great Compromise

In the accepted, and it must be added, far from inspired view of
the monetary history of the United States, the years after 1832
were deplorable. Free banking, the resulting bank failures, then
greenbacks, agitation for more greenbacks and the pressure, partly
successful, for the coinage of cheap silver combined with the re-
current panics to make the financial system of the United States,
as Andrew Carnegie held, "the worst in the civilized world." 1

Yet not everything could have been wrong. For those who
spoke most despairingly of the monetary aberrations of the
United States in the last century spoke always admiringly and
sometimes ecstatically of the nation's economic development.
Nothing like it had ever been seen before. One of two things
must be true. The monetary arrangements must have had some
redeeming aspect. Or else they were exceptionally unimportant.

In a more serious and slightly deeper view, the hundred years
from 1832 on were ones of basic compromise. There existed, in
effect, a dual monetary system. Each of the parts fitted the needs
or predilections of the part of the country or economy that it
served. Between the parts was an uneasy coexistence interrupted
by occasional conflict. Peace was based, in the main, on the inability
of each side to destroy the system favored by the other. On
each side this incapacity was the source of much righteous regret.

For the growing financial, trading and creditor community,
mostly of the East but as always with the passing decades extend-
ing its influence west and south, the arrangement provided a basic
hard money — gold and silver. And for this community, first

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settler the notes he got from the bank were capital, for they got him capital. It is not often that people misjudge their pecuniary interest on a large scale over a long time. The great westward movement in the last century was composed of those who did not. Those who suggested otherwise were showing that, then as still, what is called sound economics is very often what mirrors the needs of the respectably affluent.2

The compromise which followed the demise of the Second Bank of the United States had its price. Recurrently, and reflecting the euphoria stimulated by other causes, banks were created and loans were made with abandon. And then, for some precipitating reason, people came to the banks for their money. These were the panics. It will be convenient to look first at the history of this banking and then, in the next chapter, at the panics which were the price.

The end of the Second Bank, like the end of the First, left the field of banking—chartering and regulating—entirely to the states. And as the end of the First Bank was celebrated by a great increase in the number of state banks, so it was again. Only this time it was a stampede. Between 1830 and 1836, the number of banks more than doubled—the increase was from 330 to 713. Note circulation went up more or less in proportion—from $61 million to $140 million. Specie holdings—holdings of gold and silver—showed, as might be expected, a more modest gain—these increased only from $22 million to $40 million.3

The expansion in these years was facilitated by two new legal designs. One was the state-owned bank. This, since its immediate purpose was to make loans in its own newly printed notes, was palpably in conflict with the Constitutional prohibition on the issue of money by the states. As though to emphasize the point, the Kentucky legislature, in providing for such a bank, appropriated money only for printing plates, paper and some furniture. All else was to be paid for with the money then printed. However, as was now evident, where money is concerned the Constitution could be bent—it was subject to the yet higher laws that reflected public urgency and political need. In a preliminary proceeding Chief Justice John Marshall held the emission of "bills of credit" by state banks to be unconstitutional. But in 1837, following his death, the full Court upheld the right of the state banks to issue notes.

The other and more important new development was free banking. By action of the state legislatures a bank was held to be not a corporation, which then and for many more years required a special charter from the state, but a voluntary association of individuals and thus, like blacksmithing or rope-making, open to anyone. There were rules, notably as to the hard-money reserves to be held against notes and deposits. In some states these were enforced with considerable firmness, usually after a saddening experience with no enforcement at all. But frequently failure to abide by regulations was discovered only after the failure of the Bank had made the question academic. In these years in the by then conservative Commonwealth of Massachusetts, a bank with a note circulation of $500,000 was discovered after its demise to be holding a specie reserve of only $86.48. A modest backing. Perhaps because the history was better preserved there than elsewhere, the annals of Michigan banking in the 1830s are especially engaging. The law required a 30 percent reserve of gold and silver against note circulation—a very solid foundation. And commissioners were put in circulation to inspect the banks and enforce the requirement. Also put in circulation, just in advance of the commissioners, was the gold and silver that served as the reserve. This was moved in boxes from bank to bank; when required, the amount was extended by putting a ballast of lead, broken glass and (appropriately) ten-penny nails in the box under a thinner covering of gold coins. One of the enforcing commissioners, with the ever-present gift for metaphor of the age, complained that

2 As Bray Hammond has noted—an important point—the Jacksonians were not less interested in making money than the people they attacked. They were a newer, more numerous generation of smaller entrepreneurs. Bray Hammond, Banks and Politics in America (Princeton: Princeton University Press, 1957), p. 326 et seq.

"gold and silver flew about the country with the celerity of magic; its sound was heard in the depths of the forest, yet like the wind, one knew not whence it came or whither it was going." 4

On occasion, the depth of the forest, the middle of the swamp or, more plausibly, a desolate country trading post was considered an especially excellent site for a bank. For from there the bank could issue notes to a borrower (who in turn would pass them on) and hope that no eventual recipient would know where to send them for redemption. However, again it must be emphasized that it is the worst in history that has survived. Spiro Agnew's place among Vice-Presidents is secure. So with the banks. Many banks of the period, including several of the publicly owned state banks, were carefully and responsibly managed. And even among those that failed, there were many that did so after honest and useful effort that left worthy men established on farms or in business and making a living.

In 1836, the Federal government decreed that, henceforth, public lands must be paid for in hard money or the notes of banks that redeemed their notes in specie. This inconvenient and widely criticized requirement tested the quality of the note issues of the state banks somewhat as did the insistence of the two Banks of the United States on returning the notes for redemption. It was long believed to have put a modest crimp on both bank lending and bank creation. Then in the following year, though not necessarily as a consequence, came panic. 5 There ensued the remorse that so reliably follows speculative euphoria and which would be useful if it came earlier. State banking laws and their enforcement were much tightened. Between 1840 and 1847, the number of banks actually declined and the note circulation much more. Thereafter both again increased but in a more sedate fashion.

Still, by the time of the Civil War, the American monetary system was, without rival, the most confusing in the long history of commerce and associated cupidity. The coins coming to Amsterdam before 1609 were simplicity itself by comparison. An estimated 7000 different bank notes were in greater or less degree of circulation, the issue of some 1600 different or defunct state banks. Also, since paper and printing were cheap and the right of note issue was defended as a human right, individuals had gone into the business on their own behalf. An estimated 5000 counterfeit issues were currently in circulation. No one could do any considerable business without an up-to-date guide that distinguished the wholesome notes from the less good, the orphaned and the bad. A "Bank Note Reporter" or "Counterfeit Detector" was essential literature in any significant business enterprise.

With the Civil War the sound-money forces made an appreciable gain against their opponents in the compromise — or at least what at first so seemed. The congressmen and senators from the South and Mississippi Valley were gone. The exigencies of war could be urged against the disorder and confusion of the state banks and their notes. A new central bank could not be contemplated but a new system of banks, chartered and regulated by the Federal government, was a possibility. In 1863, at the strong behest of Secretary of the Treasury Chase and the Congress, the National Bank Act was passed establishing a new system of national banks. First attention, as might be expected, was given to the regulation of their note issue. Notes could be issued but only to the extent of 90 percent of the value of Federal bonds purchased by the issuing bank and deposited in the Treasury. The safety of the arrangement will be evident; if a bank capsized, the bonds could be sold and the notes redeemed with, under all ordinary circumstances, a comfortable margin to spare. It was also a useful way of ensuring a wartime market for government bonds.

This arrangement did have an obvious flaw — one against which the Congress sought to protect. The size of the note issue would depend on the volume of government securities available for deposit against the notes. Were the government profligate, so would be the volume of securities and therewith, possibly, the volume of notes. To protect against the contingency Congress lim-
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The national bank note issue was limited to $300 million. Rarely has economic circumstance managed more successfully to confound the most prudent in economic foresight. In numerous years following the war the Federal government ran a heavy surplus. It could not pay off its debt, retire its securities, because to do so meant there would be no bonds to back the national bank notes. To pay off the debt was to destroy the money supply.

Though predictably the state banks opposed the National Bank Act, initially they did not suffer. The suspension of specie payments in 1861 relieved them of the always unwelcome need to redeem their notes in hard cash. The greenbacks (soon to be discussed) were made legal tender and served instead. But on March 3, 1865, a mere month before Appomattox, the financial power again asserted itself. Congress was persuaded to pass additional legislation sweeping all the state notes away. A tax of 10 percent per annum was levied on all state bank issues with effect from July 1, 1866. It was perhaps the most directly impressive evidence in the nation's history that the power to tax is, indeed, the power to destroy.6

Yet again less was destroyed than might be supposed. It was the moment in history when American borrowers were beginning to take their credit not in the form of notes but in the form of deposits against which they then wrote checks. In the next decade the use of deposits and checks expanded phenomenally. Meanwhile it was still possible for a new community to create a bank. The bank, in obliging a lender, put a deposit instead of a bank note at his command. The purpose served was the same.

Deposit creation, by its nature, was more cautious than note creation, a point already urged. Notes went out, passed on from hand to hand, and many might never come back for redemption. Checks on deposits always came in to be redeemed, and if the man who received the check had his account in another bank, the cash was promptly lost thereto. However, the bank's depositors would, at the same time, be receiving for deposit the proceeds of loans made to borrowers from other banks and paid by check to them. Only if the first bank was expanding its loans more rapidly than its neighbors would there be a net outflow of cash. The penalties of recklessness were more prompt with deposit banking but the difference was one of degree.

And it was not so great that it enforced any very ostentatious caution. Bank failures continued after the banning of the notes and in some years were epidemic — 140 suspensions in 1878; 496 in 1893; 155 in 1908.7 (To the consequences of these failures we will return in the next chapter.) Most of the casualties were small state banks. For another sixty-five years these continued to be created. And the resulting loans and deposits continued to put or sustain marginal but aspiring farmers and deserving and undeserving entrepreneurs in business.

Although the Civil War played into the hands of the hard-money adherents to the compromise and helped them get rid of the state bank notes, it weakened their position on the hard money itself. In the years before the war the accepted currency was either silver or gold coin, and increasingly it was gold. Legislation in 1834 and 1837 reduced the weight of gold in the dollar in relation to that of silver. (The silver dollar remained at 371.25 grains pure; the gold dollar was reduced from 24.75 grains of pure metal to 23.22.) Now for those with an eye for such gain the best bargain was to sell silver in the open market, buy gold and take that to the mint. After the California discoveries gold came to the mint in volume. For a while it was even profitable to melt down the subsidiary coins - half-dollars, quarters and dimes — and exchange the resulting silver for gold to be coined. This tendency Congress remedied in 1853 by diluting the silver in the subsidiary coins so that, after melting, no profit could be gained from taking the resulting amalgam to the mint. So, after 1837, the money of the United States was precious metal, and the metal was gold. The only paper currency was the notes of the banks. Those that were good enough to be exchangeable into anything were exchangeable into gold. Silver, having dropped from sight, now dropped from mind. The country, de facto if not de jure, was now on the full gold standard.

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6 Cf. Hammond.

Truth has anciently been called the first casualty of war. Money may, in fact, have priority. In the fiscal year ending June 30, 1861, the expenditures of the United States government were $67 million. The following year they were $475 million. They rose steeply in the next years, reaching $1.3 billion in 1865, a level not again matched until 1917.8 Faced with outlays of such magnitude, Salmon Portland Chase rose to the occasion with historic uncertainty of purpose. He warned solemnly against resort to paper money: "... no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised." 9 But he revealed also a remarkable, if predictable, reluctance to recommend taxes, and Congress did not outdo him in this regard. For the fiscal year ending June 30, 1862, the government had revenues of $52 million. Given the aforementioned expenditures of $475 million, this meant a truly notable deficit of $423 million. Revenues were a mere 11 percent of outlays. In the next three years taxes were increased, and they included the notable, though short-lived, innovation of the income tax. But, under the intransigent pressures of the war, expenditures increased much more. Although by 1865 revenues were $334 million, the deficit was approaching a billion.10 It was by the paper money and borrowing that this deficit was covered. From 1862 on, the selling of government securities became a major enterprise. Jay Cooke organized a sales staff of 2500 to persuade people to buy bonds and so support the Union. So successful was the effort that initial sales exceeded the amount that Congress had authorized. Congress then moved promptly and cooperatively to increase the authorization. But more funds were needed. In 1864, Congress, with Chase acquiescing, authorized the issue of $150 million in notes, legal tender for all purposes except debt repayment. The notes were printed in green ink. Thus their historic name—the greenbacks. In ensuing months more were authorized.

Soon Chase, his misgivings now under full if temporary control, was asking that notes be authorized in denominations of less than five dollars so they would serve more adequately as a circulating medium. Before the end, $450 million was authorized. Historians have been very hard on the greenbacks. To this day the term symbolizes fiscal and monetary laxity—"it would be like issuing greenbacks." The inevitable Professor Wright concludes that "... the outstanding mistakes in financing the war were the failure to tax promptly and vigorously, the use of paper money with all its attendant evils ..." 11 Even more tolerant students have taxed Chase with "the over-issue of paper currency of legitimate quality, thereby providing fuel for inflation."12

By now the reader can safely be left to form the only available conclusion. Not a great deal more could have been done with bonds. The sales effort was exceedingly vigorous and imaginative. And money from deposits or hoards, when put into bonds and spent by the government, added, as any other new expenditure, to demand and therewith to inflation. Taxation could have been sooner and more. But, after the best had been done, the greenbacks would still have been necessary.13

Nor were the results so deplorable. In 1861, as noted, the Treasury and the banks suspended specie payments—the giving of gold for notes. In New York an uncooth speculative market developed in gold, a rather disenchating spectacle in wartime and one that greatly troubled the authorities, although it seems to have accomplished no great damage. As a much more practical matter, prices in paper money rose until they were, at their peak in 1864, a little more than double what they were in 1860. (On a 1910–1914 base, the wholesale index was 93 in 1860, 195 in 1864.)14 This gave workers a hard time; wages during the war were askew. In 1860, as noted, the wholesale index was 93 in 1860, 195 in 1864.)14 This gave workers a hard time; wages during the war

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11 Wright, p. 445.
12 Paul Studebaker and Herman E. Krooss, Financial History of the United States (New York: McGraw-Hill Book Co., 1952), p. 146. These authors add sensibly: "Yet somehow he did secure all the funds that were necessary to conduct the war, and this, after all, was most important."
14 U.S. Bureau of the Census, Historical Statistics, p. 115. This is the historic Warren and Pearson index named for George F. Warren and Frank A. Pearson of
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went up but by less than half as much as prices. But farmers rejoiced in two-dollar wheat (and even more after the war ended), and, stimulated by the rising prices and wartime needs, industrial capacity and output increased wonderfully. For a country torn in two, supporting an army that at its peak numbered a million men and engaged in one of the bloodiest passages until then arranged by men for their own extinction, this cannot be considered a bad performance. The evil financial reputation of the Civil War arises from the determination of later and notably conservative historians to prove that whatever was accomplished with anything so inimical to the hard-money morality as the greenbacks must be comprehensively unwise.

The above is so at least as far as the Union is concerned. A better case can be made against the monetary management of the Confederacy. In the South the feeling that the horrors of war were bad enough without the horrors of taxation was decisive. Taxes by the Confederate government — a property tax on land and slaves, an export tax on cotton that was soon nullified by the Union blockade — had insignificant yields. Revenue requisitions were made upon the states. These were returned in currency issued by the Confederacy in volume to pay its bills or even, more thriftily, in currency issued for this and like purposes by the states themselves. Such currency issues, along with domestic borrowing, paid for the war. All the Confederate note issues totaled by the end about a billion dollars; borrowing came to about a third that amount. Prices rose throughout the war — until March 1864, at a rate of about 10 percent per month. An index of prices for the eastern states of the Confederacy, with the early months of 1861 equaling 100, was at 4285 by December 1864, 921.

Cornell University. It proved to the authors — and perhaps to Franklin D. Roosevelt — that wholesale prices moved up and down with the price of gold and would be raised by raising the gold prices — which is to say lowering the gold content of the dollar. (See Chapter XV.)

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April when the end came. Wages lagged far behind. While prices were 90 times higher in 1865 than in 1861, wages by one calculation were up only about ten times. Price commissioners sought to arrest the price increases by setting ceiling prices for staples. On occasion, the newspapers printed these prices side by side with those actually being charged. Confederate notes and bonds alike were worthless after Appomattox. No serious scholar has defended this method of war finance. But neither have they stopped there. "Northern writers of an economic turn of mind have oftentimes attributed the collapse of the Confederacy to its paper money . . .." 17

Without question, more and heavier taxes could have been levied. These would have equalized somewhat the burdens of war. The chaos attendant on the gross price increases would have been lessened; the reputation of the Confederacy for stability and good sense would have been enhanced and conceivably also the morale of the troops, not to mention that of the workers. But it also remains that a small new country, under blockade, severed from its sources of industrial products as well as its markets, fighting mostly on its own territory, sustained a large army — estimates range from 600,000 to an improbable million — in the field for four years. This was a most formidable enterprise. That it did so on aggregate hard-cash resources of around $37 million was, at a minimum, a major feat in financial legerdemain. The miracle of the Confederacy, like the miracle of Rome, was not that it fell but that it survived so long. The tale is told of an archaeologist who, ten thousand years hence, in the diggings that were New York, finds the remnants of a pay toilet and identifies its purpose. He concludes that the civilization failed because something went wrong with the coinage. Those who attribute the collapse of the Confederacy to its paper money are of the same school.


In the thirty-five years remaining in the century the hard-money party in the compromise grew greatly in power. Their retreat on the greenback issue was over and a counterattack repelled. Repelled also was a new attack in support of silver. And, of course, the gain that had resulted from the elimination of the state bank notes was maintained.

Retirement of the greenbacks was started in 1866 at a regular rate of ten million in the first six months, thereafter at the rate of four million a month. It was not a popular policy. Government expenditures, including the costs of supporting the Reconstruction regimes in the South, were still high. And prices were falling. Wheat had continued to rise after the war and reached $2.94 in 1866. In 1868, it was down to $2.54, and it fell by nearly a dollar more the following year. The index of all farm prices, which was 162 in 1864, was down to 138 in 1868 and 128 the year following. (Ten years later it was 72.) Farm-mortgage debt had increased during the war; soldiers, out of the army and resuming farm life at home or on the frontier, were among the many who reacted adversely to the lower prices.

Those so affected held the withdrawal of the greenbacks responsible. In 1868, by large majorities in both houses, Congress stopped the retirement, and, in 1871 and 1872, the Treasury, over the opposition of the hard-money men, authorized a few million of increase. The following year was one of classical panic when people came in numbers to the banks for their money. To meet this demand there was a further and larger reissue. In 1874, Congress passed legislation calling for expansion of the greenback circulation to a permanent total of $400 million. This Grant vetoed — "I am not a believer in any artificial method of making paper money equal to coin, when the coin is not owned or held ready to redeem the promises to pay." The question was then carried to the electorate. In 1876, the Greenback Party appeared to fight the case for paper money (and some other financial novelties, including the suppression of the new national bank notes which were held to violate the sole and sacred right of the government to issue money), and in the congressional election of 1878 it polled more than a million votes and elected fourteen congressmen. (It was this election that also brought durably into the language the distinction between soft money and hard.) Meantime, although new issues of the greenbacks had been refused, withdrawal was also halted. The issue was settled simply by leaving things as they were. The total circulation of greenbacks was fixed at the remarkably precise figure of $346,681,016. There, so far as anyone could tell, it remained for many decades to come. The year 1878 was the high tide of the greenback cause. Attention now shifted to silver.

Silver, from ancient times the hardest of hard money, now became a soft money. In 1867, it will be recalled, the leading European states, meeting in Paris, had resolved to make gold the basic and sole reserve against their several currencies and the medium of payment between themselves. What seemed right for Europe was to be right also for the United States. Accordingly, in 1873, in what then seemed to all a routine action, the ordinary silver dollar was dropped from the coinage. (A heavier trade dollar was still minted for a few years for use by merchants doing business with the Orient where silver was still demanded by those taking payment.) And six years later, in keeping with earlier legislation, the surviving greenbacks were made convertible into gold and gold alone. And the national bank notes, since they were interchangeable with greenbacks, were now also fully exchangeable into gold. Resumption — the return to a gold standard — was accomplished with ease. Prices were now back to prewar levels. The rapid expansion of industry and agriculture had made the paper circulation, once large in relation to the volume of transcen...
tions, now small. So when gold could be had, no one came for it; the development attracted little comment.

This was not to last. The low prices that had made it so easy were a source of no pleasure to farmers. Meanwhile the adoption of the gold standard in Europe caused governments (notably that of Prussia) and banks to sell their silver for gold. In consequence, silver fell in price in relation to gold. During the ’70s, it fell yet more in consequence of big silver discoveries in Nevada. For half a century, silver being above the mint price, Gresham’s Law had kept it from being coined and brought gold there instead. Now silver was cheap; it was the turn of this metal at the mint; and, lo, the legislation of 1873 was now found to exclude it. The silver dollar was no longer coined. The legislation of 1873, so unremarkable at the time, now became the crime of ’73. An English financier, one Ernest Seyd, had bribed Congress to the act. Later the conspiracy was improved to make it the work of a cabal of Jewish bankers. So, as the greenback agitation receded in the ’80s, the silver counterattack took its place.

Politically it was much stronger. The greenbackers launched a party. The free-silver men did likewise — the Populists. But far more important, they captured one — the Democrats. The reference to “free” meant the free or unlimited coinage of silver at the old rate of 371.25 grains to the dollar — a rate, needless to say, which involved a return in dollars for the silver well above that which could now be obtained on the market. With 371.25 grains of silver in the dollar and 23.22 grains of gold, the relative value of the two metals was the earlier (though not historic) 16 to 1.

The free-silver supporters made their first gain in 1878. Following the war the soft-money men, sent now by yet newer states to the west, had the Congress; the hard-money men invariably had the President. In February 1878, overriding a veto by President Hayes, Congress ordered the purchase of two to four million dollars’ worth of silver a month at its market price. This was to be coined into dollars at the old weight. More dollars would emerge from the mint than would be required to buy the low-priced silver in the market. This profit would belong to the government.

It was hoped by hard-money men that this step, unwise though they regarded it, would at least satisfy the proponents of silver. Alas, the latter remained unappeased. Agitation continued not for the coinage of a limited amount of silver but of all that was offered. To the feeling that this would raise the prices not only of silver but of farm products in general was added, the proponents of silver being good and religious men, the deep conviction that the case for silver was the case for God. In ensuing years God, whatever His wishes, became deeply involved in American monetary policy.

In 1890, in consequence of devious horse-trading between advocates of higher tariffs and advocates of silver, purchases of silver were further liberalized. The Treasury notes issued for the silver so bought were redeemable in gold or silver as the holder might prefer. Now, predictably, Gresham’s Law began to operate against gold. Silver was passed on in transactions. Holders of Treasury notes redeemed them in gold which they then held or sent or used abroad. The Treasury gold reserve dwindled, and in 1893 there was a powerful run on gold stocks. To replenish them, government bonds were sold for gold but the gold so received then went out to redeem notes that had been issued to buy silver.

Misfortune can often be turned to good account if men are sufficiently alert in assigning cause. Eighteen ninety-three provides a good example. The rush for gold assumed the proportions of a panic. The panic had other causes, including as ever the previous speculation. However, the hard-money men and their spokesmen attributed all the blame to silver as did the President, Grover Cleveland. During the summer of 1893, Cleveland called the Congress into special session to lower the lid on silver. Over the eloquent opposition of William Jennings Bryan, who was then in the House, and after a long debate in the Senate, the subdued and frightened Congress did so.

The silver men were not yet quite defeated. In 1896, they carried the struggle to the electorate. Bryan, in the view of the hard-money men, “fatuously insisted upon making the silver question the main issue.” Before the Democratic Convention
he issued his immortal challenge, "... we will answer their de-
mand 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
criecify mankind upon a cross of gold." 25 Having previously
been advised of the righteousness of silver, God now learned that
gold was implicated, at least symbolically, in the death of His son.

In the election Bryan was decisively beaten. Time had worked
its usual result. Now the Midwest was for hard money. McKinley
won 271 electoral votes to 176. The New York World said: "Not
since the fall of Richmond have patriotic Americans had such
cause for rejoicing ... honor is preserved." 26

In 1900, cosmetic legislation affecting coinage and notes fur-
ther affirmed the commitment to gold. In consequence, some
purists date the American adoption of the gold standard to this
year. In fact, its victory had already been won.

There was, however, a revealing humor in the 1900 law. It
allowed the national banks, the good banks of the Establishment,
to issue notes up to a full 100 percent of the value of government
bonds deposited with the Treasury. It also cut in half a small tax
that had been levied on this circulation. The result was prompt
increase in the note circulation of the national banks—in the
next eight years it more than doubled. All good financial men
praised the step as necessary for the growing commerce of the
country—a sound and beneficial action. In the form of green-
backs, silver certificates or Treasury notes paid out for silver, all
indistinguishable in effect, such currency expansion was unsound,
unwise and reckless—or, as seen by the New York World, deeply
dishonorable and unpatriotic. No principle distinguishes the two
cases, only the engaging association of truth with reputable finan-
cial interest.

26 Studenski and Krooss, p. 234.

CHAPTER IX

The Price

There can never have been a time when it was as good to be rich
as in the late years of the last century, the first decade of the
present one. There was no income tax, the Civil War impost hav-
ing been oblitered soon after the war. There was the rewarding
contrast with the vast majority which was still very poor. Writing
in 1899, Thorstein Veblen observed that property was then "the
most easily recognized evidence of a reputable degree of success
as distinguished from heroic or signal achievement. It therefore
comes the conventional basis of esteem." 1 With sound instinct,
historians refer to these years as the Gilded Age.

They might as accurately be called the age of gold. For some,
and perhaps much, of the esteem ascribed by Veblen to wealth
was given by the nature of the money. If money is weak and
wasting in value, even the rich lack something in certainty as to
their worth. Their minds, like those of others, leap forward to
the day when their money will have disintegrated, as did the Con-
tinental notes or the reichsmark. They have a strategy for pro-
tecting themselves but maybe it will not work, and for what then
does money count? No such question arises either in the mind
of its possessor or of those who would denigrate him if money is
hard and eternal.

In 1900, prices had been generally falling since the end of the
Civil War. The prices of wheat, cotton and other staples were
lower by a half as compared with a hundred years earlier. Men of
substance could reasonably expect to gain in wealth not only from
accumulation of money but from a continuing increase in the
purchasing power of what they had.