The United States strides the world today as a financial colossus, but this perception is a far cry from the America of the nineteenth century. In those days, bank failures were common, foreigners were fickle in their taste for American securities, and the U.S. gold stock was all too often on the verge of pouring out to other nations. The stability of the currency and the financial bases of growth were constantly vulnerable to attack from the outside.

Indeed, as this chapter makes clear, the so-called Gay Nineties were far from gay. The era is also known as the Gilded Age. The very rich did live like kings, but these years were marked by a persistent shortage of monetary gold in the United States. The decade was a sequence of cliff-hangers with the gold stock, record-high unemployment, political tumult, social unrest, and huge bear markets on Wall Street.

The nation had no easy means to cushion these blows. Americans enjoyed none of the credibility that permitted the central banks of the major powers—governing financial institutions such as the Bank of England and the Bank of France—to carry on their clubby habits of borrowing gold from one another whenever any of them happened to be in trouble. Consequently, Americans were denied the opportunity to receive credits from the others when they needed credits and were excluded from the process even when they were in a position to extend credits. Yet the United States needed the gold if Americans were to continue to do business with a world in which the gold standard was becoming the dominant monetary system among the major powers.

It was not just that the United States was considered an upstart nation, too young to be reliable as a financial partner. The consistency of the American attachment to the gold standard was always under suspicion. Uncle Sam's behavior did nothing to change this image. The management of nineteenth-century financial policy in America appeared to Europeans like a ship with no keel, where the passengers crowded together on the bridge and shouted the captain down, so that the ship's course was set by the loudest shouts and even then its route remained uncertain.

Popular opinion among Americans held that the gold standard was a devilish concoction of foreigners, especially the hated British and British Jews in particular. One typical cartoon of the 1890s carried the title, "THE ENGLISH OCTOPUS: It feeds on nothing but gold!" A map of the world appears below this caption, with the tentacles of the octopus extending out from Britain and wrapping themselves around every continent. A second caption appears below: "'The Rothschilds own 1,600,000,000 in gold.'—Chicago Daily News. This is nearly one-half the gold in the Chicago wheat pit.'"

The Europeans had an additional reason to keep Americans outside the pale: the United States had no central bank like the Bank of England. Whatever management of financial policy did exist was in the hands of the Treasury Department in Washington, whose leadership was inherently political and answerable to Congress. Yet Americans were stubborn about changing their ways. From the very beginning, a largely rural and self-centered nation displayed an instinctive suspicion of city folks, bankers, and anyone who was suspected of fooling around with foreigners. Americans clung to their atomized commercial banking structure, with its thousands of little independent banks dispersed throughout the countryside and regulated by the states rather than by Washington. Much of this rickety edifice remained in place right through to the final moments of the twentieth century.

Most political rhetoric reflected these themes over and over again. America's financial provincialism persisted even as the country became
more industrialized and a rising share of the population drifted toward the cities. As late as 1913, when the United States decided at last to join the world and establish a central bank, the structure of the Federal Reserve System was braced with strong regional checks and balances that restrained the power of the governing body in Washington.

Another and perhaps even more important problem festered throughout the nineteenth century: the United States waited until 1900 before legally committing itself to a gold standard. Until then, Americans remained officially on Hamilton’s bimetallic standard, in which silver had equal standing with gold. These arrangements were supported by the powerful and boisterous silver interests, and not just because silver mining was an important economic activity in the western states. Farmers and others who were characteristically debtors favored the largest possible money supply and saw inflation as a blessing rather than a curse. Silver plus gold equaled more money in the system than gold alone. But silver became something bigger than just a viable candidate to serve with gold as a monetary standard. Silver was a potent symbol for the struggle of the Little Man against the Established Powers. Propelled by universal suffrage, the rallying cries of equality and democracy rang out louder here than in the Old World.

No wonder foreigners were so skeptical of America’s intentions with regard to gold.

In 1861, early in the Civil War, a shrinking gold stock led Congress to suspend convertibility of dollars into gold, a customary move under the circumstances. In another customary wartime move, the Treasury financed part of the wartime expenditures by issuing a new paper currency. This paper money, convertible into nothing at all, carried the official imprint of “U.S. Notes.” They were more commonly known as greenbacks, however, a nickname that is still in use as a generic identifier of today’s American dollar—which is also convertible into nothing at all. Like today’s paper money, the greenbacks were legal tender, which means that a creditor could not legally refuse to receive them in payment of debts due; as a result, the greenbacks were also referred to on occasion as “legal tenders.” Roughly $300 million in greenbacks were in circulation from 1863 until 1971, at which time it was decreed that they were no longer serving any function that was not already adequately provided by Federal Reserve notes. From that point forward, the Treasury stopped issuing greenbacks and, in 1991, the entire remaining stock held by the Treasury was destroyed. It is worth noting that Federal Reserve notes are also green on one side—and are no more convertible into gold today than were the greenbacks of earlier days.

Gold did not disappear from the scene during the greenback era, although gold coins in circulation fell from over $200 million at the outbreak of war in 1860 to only $150 million in 1865 and continued to decline to a low point of $65 million in 1875. The government lived up to its contractual promises to pay interest and principal on the national debt in gold but simultaneously required importers to obey the law to pay their customs duties in gold. Gold continued to circulate in daily payments in the West.

A dollar in greenbacks never commanded a dollar’s worth of gold, because there was no certainty that the day would ever return when people could take their greenbacks to the bank and exchange them for gold coins. This condition was the same as in England during the Napoleonic Wars when sterling convertibility was suspended: if paper currency and bank deposits are not convertible into gold, gold ceases to serve as money and becomes a commodity whose price in terms of money is destined to fluctuate.

During most of the Civil War, a dollar’s worth of gold cost about $1.30 in greenbacks. In an audacious experiment in 1864, when Jay Gould and Jim Fiske tried to corner the gold market, one buyer paid as much as $310,000 for approximately $100,000 in gold, but that was only a transitory event. Matters improved after the Union victory in 1865, and by 1869 the greenback notes were being valued at better than 90¢ on the dollar. In January 1875, Congress passed legislation that pledged full resumption of convertibility by January 1, 1879, and authorized the Treasury to borrow the money to acquire a gold reserve, if such a step should prove necessary.

The road to 1879, however, was marked by two notable events that are striking examples of the law of unintended consequences. One took place right after the end of the war; the other came along eight years later.
The first of these events was launched by the Secretary of the Treasury's annual report for 1865. Using the nomenclature of "legal-tenders" to refer to the greenbacks, the Secretary asserted that "The present legal-tender acts ... ought not to remain in force one day longer than shall be necessary to enable the people to prepare for a return to the constitutional currency." This expression of rectitude enjoyed wide public support. In early April 1866, the House of Representatives joined in by passing a resolution of support by a margin of 144 to 6. Appropriate legislation to start retirement of the greenbacks followed ten days later.

This overwhelming consensus was about to fall apart almost as soon as it had come together. Seldom have the public and its representatives failed so completely to foresee the consequences of their decisions. The myopia is difficult to comprehend. Throughout history, the arrival of peace had always led to an economic downturn, including persistent deflationary pressures on the price level. The end of the Civil War proved to be no exception. Prices had more than doubled in the course of the war, but by 1868 the price level had already fallen by some 15 percent. Financial rectitude was likely to make matters worse.

Second thoughts on the decisions of 1866 appeared in short order and more than a decade of public outcry lay ahead. With prices falling, reducing the supply of greenbacks to an amount equal to the available stock of gold would be certain to intensify the pain already inflicted by deflation on farmers, many business firms, and all debtors. Early resumption of convertibility, virtuous as it had appeared only three years earlier, now began to generate strong opposition.

The problem was that, to paraphrase a familiar aphorism, the $20.67 represented by an ounce of gold didn't buy what it used to buy. Resumption of convertibility would have put the country into a position where the existing gold stock would have purchased less than half what it could have bought before 1860, making the monetary noose even tighter. Even worse, the purchasing power of foreigners' gold would also have withered, and the prices of American exports of cotton and grains would have remained out of line with world markets. Not even the experts seem to have given any consideration to officially cutting the amount of gold in the dollar in half, thereby doubling the effective size of the gold stock. Legal currency debasement of that nature was just not part of the nineteenth-century view of what the gold standard was all about. Just as in Britain after the Napoleonic Wars, resumption was going to have to wait until the price level had receded to a manageable level before the currency could be locked back into gold.

The second example of the law of unintended consequences took place in 1873, seven long years after the pious expressions about the desirability of an early resumption of convertibility into gold. This one turned out to be a real blockbuster. By 1873, pressure was building to stop pussyfooting around about the promises for resumption. The time had come to tidy up the currency and finish the job. Congress held an extended series of hearings on the subject and then passed the Coinage Act of 1873, which listed the various denominations of gold and silver coins to be minted by the Treasury from that time forward. The legislation passed through Congress by the overwhelming margins of 110 to 13 in the House and 36 to 14 in the Senate.

The Act of 1873 contained a startling omission. There is not a single word that refers to the historical standard silver dollar of 371.25 grains that dated all the way back to Alexander Hamilton's establishment of the coingage of the United States. The only mention of silver is for subsidiary small-denomination silver coins. The consequences were momentous: the Coinage Act of 1873 finished off the legal status of bimetallism in the United States.

If the Coinage Act of 1873 had included the standard silver dollar, the demand for silver in the United States to coin silver dollars would have brought huge sums of silver for coinage to American shores. Gold, in contrast, would have moved out from the United States into world markets, to be converted into silver at an irresistible rate of exchange, just as had happened from 1791 to 1834 when gold was in short supply and silver was the underpriced metal. Under those circumstances, resumption of convertibility in 1879 would in all likelihood have been to a silver standard rather than a gold standard.

*The description of events that follows relies heavily on Milton Friedman's elegant and charming discussion of this matter in Friedman, 1992, Chapter 3, especially pp. 51–61.*
This event occurred at the precise moment when the price of silver was in any case under powerful downward pressure in world markets, in response to the French decision to reduce the volume of silver coinage and German efforts to replace their silver stock with gold. Even worse, the Act of 1873 occurred at a moment when the pressures of deflation in the United States began to intensify, as output was growing rapidly while the money supply failed to follow along. Wholesale prices would fall by 30 percent by 1878, and stock prices followed suit.

When the silver advocates woke up to what had happened, they were in a state of shock over what had taken place under their very noses. Later on, after much of the dust had settled, Senator William Stewart referred to the demonetization of silver as the “crime of the nineteenth century.” One of his fellow opponents, Senator John Reagan, carried this theme even further by declaring that these events comprised “the greatest legislative crime and the most stupendous conspiracy against the welfare of the people of the United States and of Europe which this or any other age has witnessed.”

Some scholars are convinced that what has come to be known as the Crime of 1873 inspired Frank Baum’s immortal story, The Wizard of Oz, published in 1900. One could argue that the book is a parable in favor of silver coinage and against gold. Oz is the abbreviation of ounce, and the Land of Oz is the East where gold is the favorite. The cyclone that comes out of the West with such power is the movement for unlimited coinage of silver. Dorothy is the plucky, kindhearted American who represents the little people against the moguls of finance. The Emerald City is Washington, and the Wizard, who lives there, is the personification of humbug. A detailed and entertaining analysis of this case appears in a delightful article by a Rutgers professor named Hugh Rockoff.

Crime the Coinage Act of 1873 was not; conspiracy it might well have been. Contemporary evidence demonstrates that the consequences were clear to the major decision makers. H. R. Linderman, the director of the mint, advised the Secretary of the Treasury in 1872 that “... Several causes are now at work, all tending to an excess of supply over demand for silver, and its consequent depreciation.” In his memoirs, published in 1877, he observed that the Act “placed the United States upon the single gold standard. ... The weight of opinion in Europe and America was against the practicability of maintaining a double standard on any basis which might be selected, in favor of a single gold standard.” John Sherman, chairman of the Senate Finance Committee, had since 1867 made little secret of his determination to demonetize silver. Sherman even went so far as to have a bill for that purpose drafted at the end of 1869. He was joined in his efforts by both Linderman and the Secretary of the Treasury.

It is difficult to find a satisfactory explanation for why so few people beyond this tiny circle were aware of what lay ahead. There had been no effort to keep the contents of the Coinage Act a secret. The Act was before Congress for three years before its passage by overwhelming majorities. The chairman of the House subcommittee that considered the bill declared that it had come to him from a Senate committee that had given it “as careful attention as I have ever known a committee to bestow on any measure.” Congress ordered the Act to be printed thirteen times. Its text occupied 144 columns in the Congressional Globe. Representative Hooper, who steered the Act through the House, was explicit in his references to the demonetization of silver. Linderman’s Report of 1872 had been published by the time Congress voted the passage of the Act. If, as Lincoln had asserted, you can fool all of the people some of the time, this was clearly a case in point.

The main drama of the 1870s was to occur in 1879, following the official resumption of convertibility of paper currency into gold that took place as scheduled on January 1. Some of the gold on hand to meet demands for redemptions had been accumulated from a surplus of tax revenue (largely tariff receipts) over expenditure, with the remainder purchased abroad with funds that the Treasury borrowed in the capital markets.

Yet conditions were ominous and the viability of the resumption process remained uncertain. Despite passage of the Resumption Law, the credibility of the nation’s devotion to gold appeared to be every bit as questionable as it had been in the past. America’s export trade was slipping and the prospect of a significant loss of gold to Europe became a general expectation. How certain could anyone be that the Treasury
would be either able or willing to live up to the obligation that the Resumption Act had imposed on it?

The day was saved for the U.S. gold stock by a remarkable act of nature. In May, snow fell in France, and England suffered a destructive frost, followed by rains that persisted until late summer. The disaster to British and French crops was almost unprecedented. Bad weather also hit Austria, Germany, and Russia, where the wheat crops were the poorest and smallest in ten years. Just to help matters along, the Indian cotton crop failed. As we shall see, this lucky turn of events was only the first of several occasions on which nature would be kind enough to come to the rescue of the U.S. gold stock at the last minute.

While the catastrophic European weather set wheat prices soaring, the weather in America was perfect. U.S. crops were turning out to be enormous. In addition, an event with great future significance occurred to provide further help to the American trade balance: the tidewater pipeline from the newly discovered Pennsylvania oil wells was completed, swelling American exports of oil to the whole world.

Gold soon began to travel back from Europe toward America. By mid-autumn of 1879, $60 million had come in to the United States. The government's reserve of gold, already rising, climbed from $120 million at the close of June to $157 million in early November. The Treasury was now in a position to pay out gold not just for notes presented for redemption but for the government's ordinary disbursements for goods and services. This was just the beginning. It was almost as though Joseph were on hand making his weather forecasts to Pharaoh: for at least another three years, the extraordinary balance in America's favor in agriculture persisted and attracted even more gold from across the oceans.¹¹

We now fast-forward to 1890, the year the Barings crisis hit in London. Just as the currency crisis of 1998 in Asia ricocheted onto markets for Russian and Latin American securities, the Barings crisis of 1890 had a devastating impact on the appetite of foreigners for dollar-denominated securities. The backlash from Barings would turn out to be only the first of a number of forces that shaped the first half of the 1890s into a roller-coaster of economic and financial horrors.

Even before the impact of the Barings crisis had begun to be felt in the United States, another major victory by the silver camp served to aggravate the continuing doubts about America's commitment to the gold standard. In July 1890, Congress passed the Sherman Silver Purchase Act (named after the same Sherman who had wanted to demonetize silver twenty years earlier), in essence to obtain support for higher tariffs from the eighteen senators from the nine states west of the Mississippi, where most of the silver resources of the United States were located. The Act stipulated that the Treasury would be required to make monthly purchases of silver to the tune of $50 million annually, double the amounts authorized in the legislation of 1878. Furthermore, payments for the silver were to be made in a new paper currency, the Treasury notes of 1890, which were full legal tender and were redeemable on demand in either gold or silver at the discretion of the Secretary of the Treasury.

That was not all. The Sherman Act was passed when Congress was also at the point of appropriating substantial additional sums for regular government expenditures that would significantly increase the outflow of money from the Treasury. As the Treasury was already having a difficult time making ends meet, the new legislation soon pushed the government into a deficit position. Today, the government would go into the markets and borrow to finance the deficit. In the 1890s, the first response was to cover the deficit by drawing down cash balances—legal tender paper currency or gold itself. Cruel irony was added to the situation when the silver bloc saw an early upward burst in the price of silver rapidly dissipate under the pressure of such heavy selling abroad that the new source of demand was soon overwhelmed.

The timing could not have been worse. Once the Barings crisis broke loose in London, Europeans not only liquidated their holdings of American securities; they chose to convert the proceeds into their home currencies, which ultimately meant shipping their money back in the form of gold. In the first six months of 1891, exports of gold from the United States exceeded the total of gold exports in any twelve-month period in the previous 25 years.¹² The outflow made an alarming dent in the reserve the Treasury held against redemption of the legal tender paper currency into gold. Now everything pointed to a run on the U.S. gold stock, in which the only objective of each holder was to cash out his dollars into gold before every other holder could beat him to the windows of the Treasury.
Nature came to the rescue in 1891 on short notice, just as it had saved the day in 1879. The South Russian wheat crop, the second most important European source of supply, was a total failure. The French harvest was the worst since the disasters of 1879. The farms of the United States, meanwhile, produced the largest grain crop in history, 65 percent above the previous record. Once again, the outflow of gold was stemmed.

This time the respite was brief. No sooner had 1892 rolled around than the golden hemorrhage resumed. By the end of May, the Treasury's gold reserve had fallen to $114 million, just barely above the $100 million minimum that Congress had intended the Treasury to maintain. The Treasury decided that there was no choice except to halt all government payments in gold; everything was now to be paid for in the form of legal tender paper currency. This unfortunate if unavoidable decision served only to increase the demand for gold among the public and foreigners and to raise even further doubts about the nation's commitment to the gold standard. Meanwhile, imports of merchandise had risen so rapidly in the first nine months of 1893 that they exceeded exports by the staggering sum of $447 million. In his annual report of 1892, a despondent Secretary of the Treasury confessed that a heavy deficit in revenue was impending, and warned that the whole redemption machinery of the government was in peril.13

The situation had by no means reached its climax. In February, the Philadelphia & Reading Railway went into bankruptcy. In April, the Treasury's reserve slipped below $100 million. In May, National Cordage, the most widely held and actively traded industrial stock on the New York Stock Exchange, followed Philadelphia & Reading into bankruptcy; its stock fell from 147 in January to less than 10 in May, pulling the whole stock market down with it in a panic collapse. Now, the solvency of the banks appeared to be in jeopardy, provoking the public to rush to withdraw their bank deposits—even paper currency seemed preferable. The run on the banks added to the hysteria and drove the interest rate on the shortest-term loans in the New York money market up to 74 percent; time loans were unobtainable.14 Subsequent railroad failures before the end of 1893 included the Erie, the Northern Pacific, and the Atchison, Topeka, & Santa Fe, to say nothing of fifteen thousand other companies and five hundred banks. In the face of these catastrophes, the only step the government took to relieve the situation was to repeal the Sherman Silver Purchase Act of 1890.

The aftermath of all these terrible events was extremely unpleasant. Unemployment in the United States exceeded 10 percent of the labor force during every year from 1893 to 1898, by far the worst experience of any era in our history aside from the depression of the 1930s.

In April 1894, a ragtag group of several thousand unemployed men organized themselves into what came to be known as Coxey's Army. Starting eastward from the Mississippi, they overran towns and seized railroad trains before appearing at the Capitol in Washington to demand relief. Troops had to be called out to disperse them. In the following month, downward pressure on wages provoked a strike at the Pullman Company (more formally, the Pullman Palace Car Company) that lasted for over two months before being terminated by a government injunction, the first use of the anti-trust laws against labor unions; the socialist leader Eugene Debs directed the strike and spent six months in jail for his efforts. In July, labor groups took possession of the railway system, converging on Chicago while their leaders opened formal headquarters there, from which they issued proclamations "with the assurance of military conquerors."15 The infantry had to be called out on that occasion. Nature decided to reverse her blessings and stunt crops in the United States in 1894 while providing bumper supplies to Europe. Matters were so bad that Civil Service Commissioner Theodore Roosevelt had to sell four acres at Sagamore Hill to keep his family solvent.16

Meanwhile, back in Washington, nothing hopeful was happening to the Treasury's financial position. The excess of expenditure over revenue only worsened. The difference had been covered in the beginning by laying out the legal tender notes, but when they were exhausted the Treasury had no choice but to start using gold to meet its current expenditures. As a result, the gold reserve was deteriorating rapidly. In February 1894, John Carlisle, the Secretary of the Treasury, decided to cover the deficit by selling a new issue of bonds that required payment in gold. His scheme failed, as the market gave the new issue a cold
shoulder despite the high rate of interest that Carlisle placed on it to sweeten the deal.

Swallowing his pride, Carlisle traveled to New York himself and put intense pressure on the big banks to buy the government’s bond issue, laying patriotism on the line and insisting that another panic must be averted at all costs. Reluctantly, the banks succumbed to his appeal for help. Shortly thereafter, $59 million in gold coin arrived at the Treasury in payment for the new bonds. That was the good news. The bad news was that $24 million of the gold the banks used to pay for the bonds had come from a like amount of legal-tender currency that they had redeemed at the Treasury for gold just a short time before. In actuality, nearly half of the payment for the bonds had been made in legal tenders rather than in the additional supply of gold that the Secretary so urgently required. The game had increased the gold reserve by only $35 million, not $59 million. After these shenanigans, the Treasury’s reserve remained at only $107 million. The deficit for October 1894 soared to $13 million and the gold reserve sank to $52 million.

Carlisle turned once again to the New York banks. Once again, they responded to his urgent request for a loan. But once again, they redeemed legal tenders into gold to meet about half the money they had paid the Treasury for the bonds. A deeply distressed President Cleveland complained that “We have an endless chain in operation, constantly depleting the Treasury’s gold and never near a final rest.”17 In January 1895, $26 million in gold was exported from the United States and $45 million in gold was withdrawn from the Treasury in redemption of legal tenders. The Treasury’s gold reserve was approaching $40 million and sinking at a rate of $2 million a day.18

As Noyes describes the situation in the final week of January 1895, “Merchants and bankers now busied themselves putting their houses in order against the expected surrender of the Treasury. . . . [There was a] common feeling that a few days, and possibly a few hours, would settle the question finally.”19

The five years from the passage of the Sherman Silver Act and the Barings crisis in early 1890 to the climax of January 1895 bracketed a series of gold-related disasters that slammed into the American economy with unparalleled magnitude and duration. The nature of both the causes and the effects of those events would reappear in identical form during the catastrophes and contagions that beset the emerging nations one hundred years later, from the Mexican crisis of 1994 to the Asian crisis of 1997–1998.

The difference between the two periods, however, was crucial. In the 1990s, the developed nations, and the United States in particular, joined with international organizations to extend generous credits that stemmed the tide and prepared the groundwork for recovery. In the 1890s, Europe watched while leaving the United States to suffer in isolation. Admittedly, the early 1890s were rough in Europe as well, but it was clear that the Bank of England, the Bank of France, and their counterparts across the Continent were not about to soil their coveted gold bricks by offering them in the form of credits to the untrustworthy Treasury of the United States.

Did the Europeans fail to recognize that perhaps the United States had become “too big to fail”? Indeed, the linkages between the two sides of the Atlantic were developing so rapidly, both financially and in terms of trade, that economic chaos in the United States could only have made matters in Europe far more dangerous than they already were. Or was it the opposite—were the Europeans too focused on the competitive threat from America’s looming transformation into the major industrial power of the age? Whatever the motivation, we shall see in the next chapter that that particular form of short-sightedness would reappear in more than one country, with deadly consequences, in the two decades that followed the end of the First World War.

Yet the United States did not go over the brink in January 1895. Indeed, on the very last day of the month, the stock market leaped upward, the dollar suddenly started to strengthen in the foreign exchange markets, and orders to export gold were abruptly canceled. Nine million dollars of gold on ships in the harbor were unloaded overnight.20

What had happened? Lacking succor from the central banks of Europe and without any international organizations such as the International Monetary Fund, Americans had managed to concoct their own version of what would turn out to be the bailouts of the late twentieth century. They carried out the rescue operation with great skill by
combining their genius for improvisation in the face of danger with their unabashed willingness to display raw power when required.

The power was deployed by none other than J. Pierpont Morgan, who would bring to bear all his unique authority and prestige on both sides of the Atlantic. Ron Chernow, biographer of the House of Morgan, refers to the scheme that Morgan engineered as his “most dazzling feat: he saved the gold standard.” By lucky coincidence, President Grover Cleveland was a friend of the House of Morgan, having worked at a law firm right next door to the bank during the four years between his two presidential terms. The two were also neighbors in country homes in Princeton, New Jersey. Cleveland was the only Democrat for whom Pierpont Morgan had ever voted.

There was nothing easy or simple in what took place. In light of the distressed economic situation, popular hatred for New York bankers was more intense and widespread than ever, leaving Cleveland unable to turn to them as Secretary Carlisle had done only a year earlier. Even if the bankers had been more cooperative, there just was not enough gold in the United States to restore solvency to the Treasury. There was no choice but to turn to European financiers, and here the leadership continued to be with the Rothschilds. The Rothschilds agreed to attempt a European bond issue, and their first step was to approach the European branch of the Morgan bank in New York—J. S. Morgan & Co. J. S. Morgan, however, demurred, stipulating that they would participate only if Pierpont Morgan himself would handle the American side of the arrangements together with the Rothschild representative in New York, August Belmont, Jr.*

Even though the outflow of gold resumed in early February, the Cabinet in Washington was adamant in their opposition to any suggestion of a bond issue that would put the government of the United States in debt to a bunch of foreign bankers. Pierpont Morgan was apoplectic. He cabled his London partners that the United States was on “the brink of the abyss of financial chaos” and set off at once in a private railroad car for Washington, taking Belmont along with him.21 When he was informed that there was no point in his seeing Cleveland, Morgan declared, “I have come down to see the President and I am going to stay here until I see him.” He won his point. He soon joined a meeting with Cleveland, Carlisle, and the Attorney General, during the course of which a clerk came in to inform the Secretary of the Treasury that only $9 million in gold coin remained in the government’s vaults.22 Laconic as usual, Morgan stated, “It will be all over before three o’clock.” Cleveland now realized he had no choices left. “What suggestions have you to make, Mr. Morgan?” he asked.23

Morgan presented an audacious scheme. He proposed to sell a Treasury bond issue of approximately $65 million to a European syndicate that Morgan and Rothschild would organize, payment to be made in some 3.5 million ounces of gold coin (about one hundred tons), at least half of which would be obtained in Europe. As an inducement to the European banks, the interest rate would be nearly a full percentage point higher than the New York banks had received in Carlisle’s 1894 transaction.

Morgan’s plan contained three critical elements. The first was in the text of the contract between the syndicate and the Treasury: “The parties of the second part, and their associates hereunder . . . as far as lies in their power, will exert all financial influence and will make all legitimate efforts to protect the Treasury of the United States against the withdrawal of gold pending complete performance of this contract.”24 In effect, the Morgan–Rothschild syndicate was going to rig the gold market. The second element was to use their own supplies of European currencies to lend to Americans who owed money to Europeans on trade or financial transactions, thereby stanching the demand for conversion of dollars into gold. Finally, the syndicate bound together in this undertaking every banking house in New York City with important European connections, cutting them in on the bond issue as part of the deal.

When news of this unorthodox transaction broke, the public clamor was deafening against what appeared to be a sellout to the foreign bankers. The New York World described the syndicate as “blood-sucking Jews and aliens.” In Congress, William Jennings Bryan asked the clerk to read Shylock’s bond from The Merchant of Venice.25 The President was unmoved. In his annual message of December 2, 1895, Cleveland observed that he had “never had the slightest misgiving concerning the wisdom of this arrangement.”26

The actual daily execution of the plan was watched with skepticism in both London and New York, but it worked. It worked in part

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*Belmont, born Schoenberg, was the only Jew whom Morgan was willing to accept on a business basis without complaint.
because of the mechanics of the plan, but the market’s understanding that Europe was providing that kind of support was sufficient to soothe the bankers and investors. The pound sterling, which had been commanding a price of $4.89 in New York, promptly dropped back to its par value of $4.86, facilitating the syndicate’s extension of foreign exchange credits to American importers. Soon gold was arriving at the Treasury from Europe at $5 million a month; on July 8, the Treasury reserve was back up to $108 million. A virtual buying panic in American securities broke loose on all the European markets. During the spring, every outbound steamer carried piles of American stocks and bonds consigned to European houses.

Although the syndicate did not succeed in holding the pieces together indefinitely, and further weakness appeared later in 1895, the worst was over. The worst was over in many ways, as 1896 would turn out to be the low point for business activity after so many years of recession. Prices would be up by more than 10 percent by the end of the decade. In February 1896, when the U.S. Treasury floated a loan issue of $100 million in the public markets, it received bids amounting to the extraordinary sum of $568 million, inspiring the New York Chamber of Commerce to pass a resolution declaring that “The success of this loan should dispel every doubt as to the ability and intention of the United States Government to redeem all its obligations in the best money in the world.” The Treasury’s gold reserve would never again fall below $100 million.

Despite these dramatic victories, the silver enthusiasts in 1896 mounted the most powerful of all their attacks on the gold standard. In a convention held in tents in open fields in Chicago, near the present location of the University of Chicago (and what Milton Friedman informs us was known as “Sin Corner” in the 1930s), they persuaded the Democratic Party to nominate William Jennings Bryan of Nebraska.

*When the Gold Standard Act of 1900 was passed, it provided for a reserve of $150 million against redemption of paper notes, to be replenished back to $150 million any time that the reserve might fall below $100 million.

The Most Stupendous Conspiracy and the Endless Chain only 36 years old, to oppose the 53-year-old Republican William McKinley in the presidential election of 1896.

This was the only election in American history in which the nature of the nation’s monetary system came to occupy the central focus; such an issue today would probably lead the voters’ eyes to glaze over. This feature of the campaign was not apparent at the beginning. Bryan enthusiastically attacked monopoly, high prices (!), corruption in government, and governmental neglect of the mass of the people. McKinley had been a silver advocate, had voted to authorize free coinage of silver dollars in 1877, and had also voted for the Silver Purchase Act of 1890. But he was convinced that he could win the day by concentrating on the virtues of the high-tariff legislation he so enthusiastically endorsed. McKinley soon found out he would attract no votes from the Democrats on an issue that they considered anathema. He knew, however, that many Democrats were vacillating over Bryan’s unqualified support for the demand in their party’s platform for “free and unlimited coinage of both silver and gold at the present legal ratio of 16 to 1, without waiting for the aid or consent of any other nation.” In fact, eastern Democrats had bolted the party to form the Gold Democrats.

McKinley decided to say less and less about tariffs and more and more about the superiority of gold over bimetallism; on July 30, he came out flatly in favor of the monometallic gold standard. From that moment, the issue was joined and other topics fell by the wayside. As the campaign rolled on, both parties published voluminous quantities of campaign literature on the complex matter of monetary standards, exhorting their followers to instruct themselves on the issues. The electoral contest of 1896 turned out to be unique in history for the educational process in which the voters were invited to participate.

Despite his youth, Bryan was a formidable opponent who was known as “the boy orator from the Platte,” “the silver-tongued orator,” and “the Great Commoner.” He was a man who always knew where he stood, with no words wasted. On one occasion, when he heard that J. P. Morgan had commented that “America is good enough for me,” Bryan quipped, “Whenever he doesn’t like it, he can give it back.” His view of economic matters was equally direct: “Money is to be the servant of man, and I protest all theories that enslave money and debase mankind.” As one of Bryan’s most vocal supporters put it in speaking to a group of farmers, “Raise less corn and more Hell . . . Wall Street
owns the country. . . . Money rules and our Vice President is a London Banker."32

Bryan's famous speech at the Democratic Party convention on July 9, 1896, was in defense of the declaration for bimetallism in the party's platform. The address deserves reading in full—it must have been a marvel to hear. The simplicity of the language, the eloquence of the phrasing, the indisputable confidence in the theme, the powerful organization of the arguments, and the alternation between a soaring sense of idealism and hard-headed political analysis are rare achievements, not just for a political oration but for the poetic quality of Bryan's prose.

Bryan began by claiming to speak "in defense of a cause as holy as the cause of liberty—the cause of humanity."33 He went on,

Ah, my friends, we say not one word against those who live upon the Atlantic coast, but the hardy pioneers who have braved all the dangers of the wilderness, who made the desert to blossom as the rose—the pioneers away out there who rear their children near to Nature's heart, where they can mingle their voices with the voices of the birds . . . these people . . . are as deserving of the consideration of our party as any people in this country. It is for these that we speak.

Then he takes up the cudgel against the gold standard:

If protection [protective tariffs] has slain its thousands, the gold standard has slain tens of thousands. . . . When we have restored the money of the Constitution all other necessary reforms will be possible; but until this is done there is no other reform that can be accomplished. . . . No personal popularity, however great, can protect from the avenging wrath of an indignant people a man who is . . . willing to place the legislative control of our affairs in the hands of foreign potentates and powers.

And finally, the climactic passages at the end:

We care not upon what lines the battle is fought. If they say bimetallism is good, but that we cannot have it until other nations help us, we reply that, instead of having a gold standard because England has, we will restore bimetallism and let England have bimetallism because the United States has it. If they dare come out in the open field and defend the gold standard as a good thing, we will fight them to the uttermost. 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.

Bryan lost the election, and by a substantial margin. McKinley scored a majority of 95 in the Electoral College and a plurality of 602,000 in the popular vote—a huge advance over Cleveland's plurality of 381,000 in his "landslide" of 1892.34

The impact of the election results on the financial markets was extraordinary. Bryan's noisy campaign had provoked a high degree of nervousness and uncertainty during the summer, with a steep break in stock prices, a wave of selling dollars for pounds sterling, call money at one point up to 125 percent, and a queue of individuals outside the Sub-Treasury redemption windows waiting to exchange legal tenders for gold coin.35 Within a week after the election, stock prices soared, money rates were down to 4 percent, and gold coin began to flow back into the Sub-Treasury windows for conversion back into paper currency.

Explanations for McKinley's great victory vary. Although bimetallism had been the traditional form of monetary standard for centuries, many voters in the 1890s were so unfamiliar with its operation that they perceived it as a newfangled idea that was not to be trusted. Despite the many hair-raising vicissitudes of recent history, gold had effectively been the single standard in the United States for over twenty years. Few people had any clear memory of any other set of arrangements. These instinctive views of gold's triumph were also helped along by the larger resources of the Republican Party for organizing and conducting the educational process.

Nature, however, was also at work once again. In October, news arrived of a failure of the Indian wheat crop serious enough to convert India from an exporter to an importer of wheat. Wheat prices jumped from 53¢ a bushel in August to 74½¢ in October, and then to 94½¢ in election week. Although Bryan claimed that the "money power" was manipulating the market, the raw facts demonstrated that wheat prices could rise even under a full gold standard. Whereas the Democrats had won a small plurality in Ohio, Michigan, and Minnesota in the election
of 1892, the Republicans now ran a plurality of 148,000 in these three states. As we like to say in our own time, "It's the economy, stupid!"

Milton Friedman takes a different view, citing "a fascinating example of the far-reaching and mostly unanticipated effects of a seemingly minor monetary development." He ascribes Bryan's defeat to the MacArthur-Forrest invention of the cyanide gold-refining process in Scotland and its subsequent introduction in the South African mines in 1890. There was no doubt that this development promised a tremendous increase in world monetary gold supplies and, in all likelihood, the inflationary turn that the farmers and other followers of Bryan had been so desperately yearning for.

Bryan later wrote an account of the campaign of 1896, which he called The First Battle, but that campaign would turn out to be the last battle for bimetallism. Bryan did help to launch the first battle for an impressive list of radical causes in his own day that would become law over the next quarter century: government regulation of railroads, telegraph, and telephone; control of monopolies; an eight-hour day for labor; the income tax, tariff reform, woman suffrage; and temperance, among others.

When Bryan died in 1925, only 65 years old, the charismatic rhetoric he had uttered in a Chicago tent in the summer of 1896 was as pertinent and appropriate as it had been 29 years earlier. Great decisions were afoot that would press down the crown of thorns on the brow of labor and crucify mankind on a cross of gold. What powerful language might Bryan have mustered had he lived to witness the outcome?