the LEDGER

economic education newsletter

Hi-Ho Silver

Important economic issues are seldom decided strictly on the basis of economic theory. Political considerations often influence the outcome.

During the second half of the nineteenth century, for example, Americans hotly debated whether the United States should remain on the gold standard, pitting the interests of urban America against the interests of rural America.

The following article deals with the debate over the gold standard, the rise of the Populist movement, and the presidential election of 1896. It attempts to tie the three together and to show how economics and politics often become intertwined.

Q. Who was the 25th President of the United States?
A. William McKinley

Q. Who ran against him in 1896?
A. Prairie avenger, mountain lion,
Bryan, Bryan, Bryan, Bryan,
Gigantic troubador, speaking like a siege gun
Smashing Plymouth Rock with his boulders from the West.

poet Vachel Lindsay

People who look closely at their paper money may still spot an occasional silver certificate which guarantees that "there is on deposit in the Treasury of the United States of America one dollar [or five dollars or ten dollars] in silver payable to the bearer on demand." The words, however, are merely reminders of a bygone era; silver certificates are no longer redeemable in silver.

Today our paper currency is backed by "the full faith and credit" of the United States government. The Gold Reserve Act of 1934 stopped the redemption of currency for gold, and in 1967 Congress authorized the Treasury to cease redemption for silver.

Americans don't seem to be overly concerned by the lack of precious metal backing. A few "gold bugs" clamor for a return to the gold standard, and numismatists lament the passing of silver coins. But most people give little thought to the fact that gold and silver no longer play a role in the U.S. monetary system. In fact, a citizen of post-Civil War America would probably be astounded by present-day public indifference.

During the final three decades of the nineteenth century, passions ran high over the question of whether gold, and gold alone, should serve as the basic money of the United States. The debate culminated in the presidential election of 1896, but it actually began 35 years earlier with the opening shots of the Civil War.

The war put a severe financial strain on the U.S. Treasury; during the first year of hostilities total expenditures of the United States government jumped from $67 million to $475 million. Unfortunately, revenues failed to keep pace, and by June 30, 1862 Mr. Lincoln's government faced a $423 million deficit, which it covered by borrowing and by printing paper money.

Actually, Congress authorized two types of paper money, both of which were legal tender: national bank notes and "greenbacks" (so called because they were printed in green ink).

The major difference between the two types of paper currency was that national bank notes were fully collateralized and redeemable; greenbacks were not. National bank notes could be issued only by national banks and only to the extent of 90 percent of the value of U.S. government bonds deposited with the Treasury by the issuing bank. Greenbacks, however, were simply authorized by Congress and issued by the Treasury. (During the war, Congress authorized the issue of $450 million in greenbacks.)

By the time Lee surrendered to Grant at Appomattox, prices in the North were more than double what they had been when the war began, and many people were blaming the inflation on greenbacks. (In general, there was one price if you paid for something in gold, and there was another, higher price if you paid for it in paper money.) People in the cities were unhappy because

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wages did not rise as rapidly as prices, but farmers were pleased because they were selling their wheat for an unprecedented $2.00 a bushel and times were good down on the farm.

In 1866, however, things started to change, and hard times hit rural America. With the hostilities ended and the Union preserved, the U.S. Treasury had begun to retire greenbacks from circulation. At about the same time, farm prices dropped and farm mortgage debt increased. Farmers were caught in a squeeze, and many blamed their plight on the retirement of greenbacks. In fact the outcry was so great that Congress relented and moved to keep greenbacks in circulation.

Meantime, however, the silver dollar was dropped from coinage, in part because the leading countries of Europe had agreed in 1869 to make gold the sole reserve against their currencies. (At the time, many Americans thought that what was good for Europe must also be good for the United States.)

Farmers enjoyed a few good years during the 1870s and 1880s, but those years seemed to be the exception rather than the rule. As the situation on the farm and in the countryside grew increasingly desperate, farmers and legislators in southern and western states took up the cry of "free-silver." Advocates of free-silver proposed that the U.S. Treasury purchase unlimited quantities of silver and mint silver coins for use as national currency along with gold coins. Since the supply of silver was far more plentiful that the supply of gold, they hoped the free coinage of silver would bring about a general inflation and thereby help farmers fetch a better price for their crops. (Technically, free-silver referred to the free and unlimited coinage of silver at the ratio of 16 grains of silver to 1 grain of gold; a silver dollar would contain 371.25 grains of silver and a gold dollar would contain 1/16 that amount — or 23.22 grains of gold.)

Those who supported the coinage of both silver and gold were known as bimetallists; those who favored a gold standard were called monometallists. The bimetallists based their position on the so-called quantity theory of money. They reasoned that the amount of money in circulation determined the general level of prices and the level of economic activity. In the words of Illinois Governor John Peter Altgeld, a prominent free-silver advocate, "Money in the business world and blood in the body perform the same function and seem to be governed by similar laws. When the quantity of either is reduced the patient becomes weak and what blood or money is left rushes to the heart or center, while the extremities grow cold." This view reflects the bimetallists' feeling that the gold standard benefitted the financiers on Wall Street and in London to the detriment of the American farmer.

William Jennings Bryan
Courtesy, Library of Congress and Federal Reserve Bank of New York

Monometallists, however, argued strenuously against both the quantity theory and free-silver. In their view, declining farm prices were a result of advances in production techniques and improvements in transportation. "The only sound policy for the civilized countries of the West," declared Harvard Professor Frank W. Taussig, "is to adopt and maintain the gold standard."

The bimetallists and the monometallists squared-off decisively in the presidential election of 1896. The Democrats nominated Nebraska's William Jennings Bryan, a supporter of free-silver; the Republicans selected William McKinley of Ohio, a staunch supporter of the gold standard.

Populism — Raising Less Corn and More Hell

By 1896, the free-silver movement had attracted a considerable following. Farm prices were more depressed than ever, and hard times had begun to affect the cities. (Often referred to as the "Gay Nineties," the 1890s were actually a period of grinding economic depression, both on the farm and in the cities.)

As is often the case, however, the tensions over gold and silver were only part of an even larger issue: the rise of industrialism and the corresponding decline of rural America. The McKinley/Bryan campaign marked a turning point in the transition from an agrarian society to an urban, industrial society.

A century earlier, at the founding of the Republic, Thomas Jefferson had envisioned an America populated by yeoman farmers; proud, self-reliant, literate citizens who worked family farms and remained independent of big cities, big business, and big banks. Almost from the beginning, however, a gulf existed between the Jeffersonian vision and the American reality. The gulf widened considerably after the Civil War, but Americans clung to the agrarian myth. Nostalgia for the family farm deepened as more and more young people flocked to the city. (The agrarian myth is still very much with us. If you want an illustration, just turn on your television and watch the reruns of *Little House on the Prairie*. Charles Ingalls and his family have problems whenever they go to the city or whenever the modern world encroaches on Walnut Grove.)

The rapid pace of social and economic change led to mounting discontent on the farm and in the countryside. Farmers saw themselves as the victims of railroads, banks, and other big city financial interests.

The anger, frustration, and bitterness that swept rural America ultimately gave rise to a new political movement — Populism. The Populists supported free-silver, but they stood for much more as well. They sought redress for the economic and financial problems that beset farmers in the decades following the Civil War. Mary E. Lease epitomized the spirit of Populism

when she advised farmers to "raise less corn and more hell."

Populism represented rural America's response to rapidly changing social conditions. Historian Richard Hofstadter noted that, "What the Populists meant — though they did not express themselves in such terms — was that they would like to restore the conditions prevailing before the development of industrialism and the commercialization of agriculture...In Populist thought the farmer is not a speculating businessman, victimized by the risk economy of which he is a part, but rather a wounded yeoman, preyed upon by those who are alien to the life of folkish virtue."

In addition, Populist rhetoric had a distinctly nativist tinge. Many Populists felt that the rising tide of immigration from Europe threatened to erode America's Anglo-Saxon heritage.

This reaction to industrialism and immigration explains why Populism's centers of support were confined to the Cotton Belt, the Wheat Belt, and the silver-producing states of the Rocky Mountain region. Although the Populists made attempts to enlist the support of laborers and factory workers, their efforts met with little success. Populism appealed mainly to rural, native-born Americans of English or Irish descent. It did not thrive in communities where recent immigrants were concentrated, nor did it appeal to the leaders of urban reform movements. Socialist Labor Party leader Daniel DeLeon characterized Populism as reactionary rather than revolutionary and claimed that Populism's "object is to perpetuate a class that modern progress has doomed, and its only result can be to prolong the agony of the poor people who belong to it by deferring the day of their complete emancipation."

Be that as it may, Populism managed to leave its mark on American history and on the presidential election of 1896 in particular. After the Democrats chose Bryan as their standard bearer, the Populists convened to decide whether to support him or to nominate a candidate of their own. The Populist convention in St. Louis lasted longer than anyone expected, but in the end the Populists decided to throw their support behind Democrat William Jennings Bryan.

Two weeks earlier, in Chicago, the Democrats had nominated Bryan for president. His nomination was not totally unexpected, but he had not been the party favorite when the convention began. What really won the nomination for Bryan was an eloquent, impassioned speech in support of free-silver.

Cross of Gold

Bryan was renowned for the power and the beauty of his speaking voice, but the prairie orator outdid himself at the Democratic convention of 1896. In the opening passages of a speech that would forever after be known as the "Cross of Gold" speech, Bryan proclaimed that, "The humblest citizen in all the land, when clad in the armor of a righteous cause, is stronger than all the hosts of error. I come to speak to you in defense of a cause as holy as the cause of liberty — the cause of humanity." From that point on, the audience was spellbound.

His words electrified the convention delegates. "You come to us and tell us," he continued:

> that the great cities are in favor of the gold standard. We reply that the great cities rest upon our broad and fertile prairies. Burn down your cities and leave your farms, and your cities will spring up again as if by magic, but destroy our farms and the grass will grow in the streets of every city in the country.

Then Bryan concluded with the words that assured him a place in history:

> 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.

After the speech, a reporter for the *New York Herald* wrote that, "A phrase has nominated a candidate for the presidency."

Of course, not everyone was thrilled with Bryan's candidacy and the Democrat's platform. According to an article in the *New York Times*, "Debased coinage, unlimited paper currency, repudiation of public and private debts, the threat of a packed Supreme Court, spoliation of property, cheating of labor, corruption of the civil service — these are the platform."

Furthermore, Bryan did not enjoy the support of "the commercial interests, the laboring interests, and the toilers everywhere." He didn't even enjoy the full support of his own party. Democratic political bosses in the big cities remained suspicious of Bryan, and many talked of voting for McKinley.

McKinley, in contrast to Bryan, didn't campaign strenuously for the presidency, nor did he utter any memorable phrases. (Bartlett's *Familiar Quotations* doesn't contain a single McKinley quote.) He essentially ran a "front porch" campaign in which many delegations came to see him at his Canton, Ohio home.

During one such visit by a delegation from the Edgar Thomson Steel Works, McKinley told the visitors that, "We do not propose now to inaugurate a currency system that will cheat labor in its pay. The laboring men of this country whenever they give one day's work to their employers, want to be paid in full dollars good everywhere in the world. . . . We want in this country good work, good wages, and good money." Statements such as these helped to convince factory workers and laborers to vote Republican.

In the final analysis, McKinley and his campaign managers were more effective than Bryan in addressing the needs and aspirations of urban working people. Bryan appealed to the people of rural America, but rural America's fortunes and its population were in decline.

The history books show that McKinley and the supporters of "hard" money soundly defeated Bryan and free-silver. Bryan made two more unsuccessful bids for the presidency, became Secretary of State in the Wilson administration, and died in 1925 while prosecuting John T. Scopes, the Tennessee teacher accused of teaching evolution. McKinley was killed by an assassin's bullet in 1901 and his portrait was later placed on a piece of paper currency (the $500-bill, which is no longer printed or circulated).

In what may be the greatest irony of the 1896 presidential election, American commercial farmers entered into one of the longest sustained periods of peacetime prosperity just two years after McKinley took office. New international discoveries of gold brought about an inflationary movement that trans-

lated into higher farm prices. This was the same effect that the Democrats, the Populists, and the National Silver Party had hoped to achieve through the free coinage of silver.

Multi-Media

Too Much, Too Little, produced by the Federal Reserve Bank of New York and the Agency for Instructional Technology, video program, 22 minutes.

The problem of providing the "right" amount of money for the economy has been the focus of lively public and political debate since colonial times. Today, controlling the size of the money supply is one of the key jobs of the Federal Reserve System.

Because many young people do not understand what the Federal Reserve is and why it is so important to the economy, the Federal Reserve Bank of New York has created *Too Much, Too Little*, a new classroom television program on how the money supply affects the economy and why Congress established the Federal Reserve System.

The 22-minute program traces the nation's monetary system from the colonial era to the present. Highlights include the issuing of paper money by the Continental Congress; the constitutional provision for the minting of coins; the chartering of banks authorized to issue paper money backed by gold and silver; the economic and financial demands of the Civil War and the issuing of "greenbacks;" the McKinley/Bryan presidential campaign and the dispute over gold or silver as the monetary standard; the Panic of 1907, and the signing of the Federal Reserve Act by President Wilson in 1913.

This historical material is set off by a contemporary story of a young man who learns about money and banking when he takes out a loan — cosigned by his father — for his first car. The program includes historical footage combined with an on-camera narrator and live-action drama.

Too Much, Too Little was produced for the Federal Reserve Bank of New York by the Agency for Instructional Technology, in consultation with the Joint Council on Economic Education, and has been provided free of charge to public television stations throughout the country. Schools are encouraged to record the program off the air on their own videocassettes for use in high school social studies, history, and economics classes. Schools in the New England area can also borrow copies of *Too Much, Too Little* on 1/2-inch or 3/4-inch videocassettes at no charge. (Borrowers may duplicate the *Too Much, Too Little* videocassette for classroom use.) Contact: RHR FILMEDIA, INC., 49 West 37th Street, New York, NY 10018.

Also available is a teacher's guide that provides program objectives, a program summary, discussion questions, several pages of historical notes, and a bibliography of related educational materials that can be obtained free from Federal Reserve Banks. The teacher's guide is available at no charge from the Public Information Department, Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10045. (If you borrow the videocassette, the teacher's guide will be sent to you from RHR FILMEDIA.)

New England Update

Two Prominent Economic Education Organizations Merge

The Joint Council on Economic Education (JCEE) located in New York and the National Center of Economic Education for Children (NCEEC) located in Cambridge, Massachusetts merged their activities this summer.

"This merger brings together two successful economic education programs, materials, and philosophies under one management," said John A. Georges, chairman of the JCEE. "We have built a structure drawing upon the comparative advantages of both organizations, giving us an even stronger campaign to meet the demand from teachers, schools, and communities across the country for quality economic education programs. The merger will also be instrumental in helping us to fulfill our goal of providing economic education to at least 70% of the nation's schoolchildren in grades K-12 by the end of the decade."

Eliot I. Snider, chairman of the National Center, expressed excitement over the fact that "the innovative materials and approach NCEEC brings to economic education will now be available to a much wider audience of schools and teachers. I invite all those individuals interested in helping our young people develop a better understanding of our economic system to join us in this strengthened endeavor."

Through the merger some materials will be added to the many existing JCEE curriculum products. These key materials include the NCEEC's *The Elementary Economist*, a newsletter which helps educators and parents introduce children to economics and the American economic system. Also included will be an extensive lesson plan system which involves the participation of parents and community leaders.

These products and services will be delivered locally through the JCEE's affiliated network of 50 state Councils on Economic Education, more than 260 university- and college-based Centers for Economic Education, and thousands of school districts nationwide.

In addition, Robert Reinke, president of the National Center, has become director of the Joint Council's new division for product development and marketing. He will also direct the development of additional curriculum materials for various grades to meet the needs of educators, parents, school districts, and communities.

Joint Council president Michael A. MacDowell and Dr. Reinke both agree that this merger is a "natural marriage between two organizations which have consistently delivered quality economic education programs and materials to the nation's schools and other related audiences and which have made excellence in economic education their foremost goal."

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