RESUMPTION OF SPECIE PAYMENT AS A POLITICAL ISSUE, 1873-1879

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MARY CHRISTIAN, B. A.

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CHAPTER I

INTRODUCTION

The legal-tenders had their beginning in legislation of Congress, February, 1862.[1] There was a belief that a currency of some sort was needed to meet a shortage of circulating medium brought on by the war, and a system of bank currency was sought. It was decided that a system of national banks recommended by Secretary Chase could not be organized and put into effective usage soon enough to meet this crisis, so E. G. Spaulding, chairman of a sub-committee considering Chase's report, hit upon and drafted a plan providing for the issuance of $100,000,000 of legal-tender notes which Congress increased to $150,000,000. Also authorized in this act was the issue of $500,000,000 of five-twenty bonds bearing six per cent interest which was to be sold for coin or treasury notes at market value, and the issue of not more than $25,000,000 of five per cent interest-bearing certificates of deposit, which were to be exchanged for United States notes left on deposit not less than thirty days and

[1]For a general discussion of the material included in this chapter, see Davis R. Dewey, Financial History of the United States; Wesley C. Mitchell, A History of the Greenbacks, 1862-65; and James F. Rhodes, History of the United States, Vols. V and VI.

payable after ten day's notice was approved. A provision for a sinking fund was also included in the act. Within three months, on July 11, 1862, Congress added $150,000,000 to the amount of legal-tenders already issued, and by March 3, 1863, another $150,000,000 were authorized, bringing the total to $450,000,000. Fractional currency and short-running interest-bearing notes supplied an addition to the volume of legal tender.

The first issues had provided for the conversion of legal-tenders into interest-bearing five-twenty bonds, but the last issue omitted this provision, and the right of conversion of the first issues was to come to an end by July 1, 1863. The suspension of convertibility came as the result of Chase's request; he insisted that this convertibility limited the treasury in the sale of bonds bearing a lower rate of interest since a six per cent bond could be obtained with greenbacks. There was a certain amount of objection to this taking away the right of conversion for it was thought that the guaranteeing of convertibility had been intended as a protection for the holders of legal-tenders by keeping them from depreciating in value. The right of convertibility was especially important because of the fact that the notes were a sort of forced loan by the Government anyway. Also not to be overlooked was the fact that the original act and the supplementary acts contained no statement as to when these legal-tenders were to be repaid in specie. It was this silence in regard to the time and method of redemption which made possible the long political struggle ending with the resumption of specie payments in 1879.

The greenbacks soon depreciated and fell below par with the bonds, but the Government was benefited by the premium on the sale of bonds or was able to sell them at a lower rate of interest. In due time, the consequences of this situation was seen. The depreciation in value of the greenback along with the growth of local bank circulation produced an inflation which in turn probably increased the cost of the war to a great extent. A great fluctuation in the value of greenbacks as compared to gold accompanied this depreciation. It is to be noted that gold was received by the Government as customs; it was needed by importers to pay customs duties, by the Government to pay interest on bonds, and for bankers to settle debts abroad. Moreover, the amount of gold in circulation and in the country was decreasing because of the issuance of paper currency and because of an unfavorable balance of trade. The fluctuation itself resulted not only from the circulation of unbacked currency but also from treasury reports, quotations of Government bonds, foreign relation conditions and war news, all of which had a bearing on the value of greenbacks. In addition, extremely disturbing to the stability of the premium was the speculation in gold exchange. A gold bill passed on July 17, 1864, which was designed to avert wagering in the gold markets, prevented the making of a contract for buying or selling gold to be delivered following the day of sale of purchase. It also provided that only the ten days subsequent to delivery were to be allowed for its use in the sale and purchase in foreign exchange. Also, the act prohibited the sale of gold coin or bullion unless the person making the sale actually possessed the coin or bullion at the time the contract was made. The enactment was unsuccessful; the fluctuation in gold premium rose with exceeding rapidity, so the bill lasted for only fifteen days until it was repealed.

At the close of the war, the obvious necessity of rearranging the public debt was seen. The debt which had climbed to $2,846,000,000 was supplied by legal-tenders, bonds, treasury notes and certificates of indebtedness. Half of the debt was not funded; included in the unfunded debt were outstanding greenbacks totaling to $433,160,000, fractional currency amounting to $26,344,000, and the rest in temporary securities which were to mature before 1868.

On April 12, 1866, Congress passed a funding act for the purpose of this reorganization. Secretary McCulloch was given the authority to convert temporary and short-time securities bearing interest into long-term bonds which were previously authorized by bond acts, and power was given to the Secretary to begin a gradual contraction of legal-tenders. The operation began by liquidating temporary loans and certificates of indebtedness and by converting them into six per cent five-twenty bonds which was eventually accomplished. The bill had provided for the retirement of $10,000,000 of legal-tenders within a period of six months, and the maximum to be retired thereafter could be only $4,000,000 within each month.[1] In July of 1866, gold was selling at 150 on the market,[2] or, put differently, greenbacks were worth only about 67 cents in gold.

Before the outcome of the contraction of legal-tenders is taken up, it would be well to look into the theories entertained in the country in regard to the problem of paper currency. One group looked toward the almost immediate return to specie payment, with specie payment not

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[1]Charles F. Dunbar, Laws of the United States Relating to Currency, Finance, and Banking, p. 199 f.

[2]Alexander D. Noyes, Forty Years of American Finance, 1865-1907, p. 14.

necessarily accompanied by contraction. A second group advocated the building-up of a gold reserve to be used for the redemption in greenbacks which would in turn raise the value of the greenback to par with gold. Those who argued against this theory asked why should the gold not be in circulation? But the counter argument was that a stock of gold would not require the withdrawal of paper money from circulation. However, at the time, it appeared that as long as the United States had a comparatively small production of gold and an unfavorable balance of trade, accumulation of specie would be almost impossible. A third theory was that contraction of the currency was the best means toward resumption. This contraction could continue until the value of the paper money had reached par with gold, and only time itself could tell how long this operation would be required to continue. Of the various methods, there was the cremation process of David A. Wells which called for burning the paper currency as soon as it was retired from circulation. Also, the graduation plan which would allow the Government to buy its own notes at a discount was advocated by some. However, it was generally thought that perhaps this plan would prove to be abasing for the United States government, especially at the world markets. A fourth scheme stressed the idea that no immediate action was necessary but followed the belief that in time, industry and the country itself would grow until the currency in circulation would be absorbed. This growth would be especially manifested in the West, and the present currency would be needed to assist this expansion. As the country grew, a favorable balance of trade could be developed which would end the drainage of gold from the country. A fifth plan followed an inflation policy; the believers of this scheme insisted upon an abundancy of currency to promote growth of the country. The Greenback Party was later formed from the advocates of this theory.

Contraction of legal-tenders continued for two years. During that time, $44,000,000 in greenbacks were retired, but many asserted that the full measure of actual contraction included also the withdrawal of the compound-interest notes; Sherman, for example, maintained that the active circulation was lessened by $140,000,000; Sumner placed it at $160,000,000.[1] The brief duration of the operation of contraction probably resulted from a multiple of reasons. A panic in England caused her investors to withdraw capital from the United States, the grain crops were unfavorable in 1866, and Indian uprisings and maintaining a military government in the Southern states called

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[1]Dewey, _op. cit._, p. 344.

for additional expenditures. In the West, there were frequent long-run mortages; there were many new settlers, especially war veterans, who had made their way toward the Western frontier and had taken responsibility of such indebtedness. Also resulting from the contraction was an increase in wages which was threatening many new industries. "Many of these new ventures were doomed to disappointment; and as is inevitably the case when economic disturbances are widespread and uniform in character, the blame was placed upon the government, and from it relief was invoked."[1] Consequently, on February 4, 1868, Congress enacted a measure which stopped any further reduction of the currency.[2]

A question on the repayment of bonds eventually arose. Some of the bond acts explicitly expressed that both the principal and interest should be paid in coin, but some of them mentioned only that the interest should be paid in gold with no reference to the way in which the principle was to be paid. Moreover, the act of 1862 which created greenbacks had said that this paper currency could not be used in payment for customs duties or for interest on the bonded indebtedness, but otherwise, it was legal-tender in all instances. This section of the act provided

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[1]Ibid., p. 342.

[2]Dunbar, op. cit., p. 201.

a strong argument for those who favored paper currency as payment for the principle for the bonded indebtedness, and this idea was especially felt in the Midwest where hard times were being experienced. "The same currency for the bondholder and the ploughholder" was the slogan, and George H. Pendleton of Ohio, a Democrat, championed the cause. The "Ohio Idea" had "further charm for those Democrats who looked upon the war debt as having been incurred in an unrighteous cause."[1] The Democratic party advocated this paper redemption plan in 1868, while it was opposed by the Republicans with the exception of some such as Sherman, Butler, and Morton. However, the Republicans took the election that year and pledged to pay the debt of the United States in coin.

In March, 1864, Congress authorized Secretary of Treasury Boutwell to dispose of the accumulation of gold in the Treasury, which was a large part of the gold in the country. This disposition was to be affected by dividing this gold into three parts. Enough was to be maintained in the Treasury to pay the interest on the public debt and another part was to be used to create a sinking fund. The third part was to be sold at private sales. This method

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[1]A. M. Schlesinger, Political and Social Growth of the United States, p. 115.

was particularly opposed by those who believed the gold should be retained for resumption of specie payment. In 1868, it was decided that government gold should be sold through auction. Unfortunately, two financial adventurers, Gould and Fisk, temporarily succeeded in cornering the gold market by persuading the President that keeping the premium up on gold during the crop-moving season would add value to the crops. The premium rose until Secretary Boutwell was finally authorized to place additional gold on the market, therefore breaking the cornering. On "Black Friday," September 24, 1869, gold prices dropped from 160 to 135, throwing many into complete financial ruin. The unfortunate connection of the Government with the affair "helped to inflame the unreasoning hostility of the agricultural districts in the interior to all financial measures emanating from the larger cities of the east."[1]

In 1873, the prosperity enjoyed by the country was halted by a panic. There were immense over-investments and expansions, especially in the railroads. Much of the business expansion had been financed from abroad, and a panic in Vienna in May, 1873, spreading to other European money centers, caused a withdrawal of a great part of their

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[1]Dewey, _op_. _cit_., p. 370.

support.[1] Already involved in over-investment, this country experienced a loss of financial confidence which helped to produce a crash in September, 1873. The controversy over the currency, resulting from the retirement of greenbacks and the system used in paying bonds caused many to place blame on the currency itself as the reason for the disturbance. Therefore, those who thus believed called upon the Government for legislation to improve the situation in regard to currency. From May, 1873, to January, 1874, the Government was able to issue $26,000,000 of legal-tenders through the purchase of bonds for the purpose of relieving the stringency. Subsequently, a clamor for inflation began, seemingly almost to disregard the idea of resumption despite the "solemn obligation to begin specie payment at the earliest practicable date."

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[1] Schlesinger, _op_. _cit_., p. 159.

CHAPTER II

THE INFLATION BILL OF 1874

Following the Panic of 1873, Congress was confronted with numerous bills and resolutions dealing with the financial situation. While there was a strong tendency to place at least a part of the blame for the depression upon the currency, there was no unanimity of opinion as to how the currency was to blame for the situation. Neither do the Senate debates and bills show any agreement upon what steps should be taken to remedy the situation in regard to the currency. It seems that a demand for an increase in the amount of circulating currency was outstanding among the various proposals. Nevertheless, this desire for an expansion of paper currency did not necessarily meet with entire consent of Congress.

On March 24, 1874, a bill was reported to the Senate by John Sherman of Ohio, chairman of the committee on Finance.[1] It provided for the fixed maximum circulation of legal-tenders to remain at $382,000,000, the amount already outstanding. The measure also provided for the gradual redemption of United States notes of $1,000 or multiples thereof, either with five per cent ten-twenty bonds or with gold. The

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[1] Congressional Record, 43rd Cong., 1st Sess., p. 2385.

greenbacks coming into the treasury could be reissued either to pay current expenses or to redeem the public debt. Also, national banks could be organized in any State or territory until each State or territory had as much circulation in proportion to wealth and population as the State of New York. Within thirty days after $1,000,000 of circulation notes had been issued to such banks, legal-tenders equal to the amount of seventy per cent of the bank-notes thus issued should be retired until the amount of circulating legal-tenders had been reduced to $300,000,000. The bill also provided that national banks were to be required to keep one-fourth of the coin they received as interest on Government bonds which they had deposited as security for circulating notes. Only one-fourth of the reserve required for the bank by law could consist of balances due for redemption of circulating notes in redemption banking associations, upon which no interest could be paid. Sherman reminded the Senate that this bill was a "compromise by the committee" and added that "the only question before the Senate now is, whether this is a fair compromise between the ideas that have divided the people and the members of the Senate . . ."[1]

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[1] Ibid., p. 2386.

Those who did not advocate an expansion of the currency usually argued, first of all, from the standpoint that the United States had made a solemn pledge to redeem the greenbacks in coin at the earliest practicable period with the "act to strengthen the public credit" of March 18, 1869. It was contended that the honor of the Government and of the country depended on the fulfillment of this sacred obligation and that an increase in paper currency would lessen the possibility of resumption of specie payment. The importance of remaining on a metallic standard of value was stressed; gold, it was argued, had the necessary intrinsic value to maintain stability of a standard of value: "The experience of mankind has designated gold and silver as the common denominator, and they have by the consent of civilized men become the standard of value of human transactions."[1] It was felt that an increase in paper money would be a departure from the precious metal basis and that the greenback would be further depreciated with new issues: "I do not trepass on any disputed ground when I say that every addition to the volume of these notes, while they thus stand depreciated, irredeemable, and

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[1]*Ibid.*, p. 2443. The basis of the argument for redemption of specie payment by practically everyone who favored resumption was the assumption that a sound currency had to be based on a metallic standard. Actually, the silver had been demonetized by the act of 1873.

inconvertible, is as certain to further depreciate them, as it is that to pour water into an overflowing bucket will cause it still more to overflow . . ."[1] And, the argument continued, to further depreciate the currency was to confiscate the property of the creditor. In addition, Senators Frelinghuysen of New Jersey[2] and Howe of Wisconsin[3] argued that an addition to the volume of paper currency would be the cause of speculation; the latter contended that this speculation was the direct cause of the crash in New York market, which resulted in the depression.

Senator Morrill of Vermont stated that the currency, in effect, made every merchant in some respects a gambler. The argument was advanced that since the laboring class had only its labor to sell, it would suffer from expansion of the currency in view of the fact that a raise in wages rarely compensated for a rise in prices. Moreover, the expanded currency would be help to property owners because property could be turned and shifted.[4] Finally, it was argued that if Congress did legislate an increase in the currency circulation, that that would mean that Congress would have the "power which would put at the mercy of that

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[1] Ibid., p. 2386. Speech by John Sherman of Ohio.

[2] Ibid., p. 2526.

[3] Ibid., p. 2480.

[4] Ibid., p. 2479.

government the private fortunes of all the citizens of the United States."[1]

Those who believed that a depreciated paper currency was responsible for many of the country's ills offered a variety of proposals for the purpose of bringing the greenback to par in value with gold. Some of these were suggestions for outright resumption of specie payments, but the most outstanding was the idea of converting legal-tenders into bonds. This conversion idea as provided in the committee bill was strongly advocated by Senator John Sherman of Ohio. He argued that it was the moral obligation of the United States to repay the legal-tenders in coin, but since, in his opinion, it was almost impossible to accomplish this repayment at any immediate date, the duty of Congress was to execute the next-best operation. Sherman said this provision had been called a half-way measure, but that it was "a half-was measure in the right direction, and indeed, it is a practical specie payment."[2] As related in the beginning of the chapter, the proposed bond would be a ten-twenty, five per cent obligation which would sell at par with gold on the world markets. Greenbacks to the amount of one thousand

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[1]Ibid., p. 2442. Speech by Carl Schurz of Missouri.

[2]Ibid., pp. 2605, 2607, 2610; Appendix, p. 165. Speeches by Pratt, Buckingham, Flanagan, and Scott.

dollars or multiples of that amount could be presented on or after January 1, 1876, to the Treasurer in exchange for coin, but if the Treasurer chose, he could issue the five per cent bond in lieu of coin payment. Legal-tenders gathered into the treasury through this operation could then be reissued by purchasing the public debt or by the payment of current expenses. Sherman argued that the interest on the proposed bonds was rightfully due to the current holders of greenbacks because the legal-tenders were a loan to the government anyway, and this method would simply mean the transfer of one form of debt to another. Senators Pratt of Indiana, Buckingham of Connecticut, Flanagan of Texas, and Scott of Pennsylvania were like defenders of this conversion of legal-tenders into five per cent bonds. Senator Hamlin of Maine favored the idea but believed that the time of conversion should be set at 1877 rather than at 1876.[1]

A more outright method of resumption of specie payment was suggested by Senator Frelinghuysen of New Jersey. According to his plan, an accumulation of gold could be acquired with the surplus of gold in the treasury at the rate of $44,000,000 per year without interfering with the regular uses of gold. Moreover, an additional $50,000,000

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[1]*Ibid*., p. 2527.

could be secured by the issue of five per cent ten year bonds. To avoid the hoarding of greenbacks, no exact day for resumption of specie payment would be set. The Secretary of the Treasury could, at his discretion, decide the best date in the immediate future on which to resume payment in gold. After this specie payment operation had continued for awhile, he contended, the legal-tenders would have been brought to par with gold. When this stage had been reached, then it would be possible for the Treasury to reissue greenbacks for coin at par. If a gold deficiency occured, then the Secretary would have the power to issue five per cent bonds to compensate for this deficiency.[1] Upon defeat of his proposal, Frelinghuysen proposed another measure providing for the accumulation of a gold reserve for the purpose of resumption.[2] This measure omitted the bond clause and the reissuance clause. It provided that sufficent gold should be maintained for the operations of the Treasury and for the sinking fund and depended upon an increase of excise tax on whiskey and tobacco to check any deficiency in accumulation of gold for this purpose. Frelinghuysen admitted that his latter proposal was a "feeble measure toward resumption," but he added that our

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[1]*Ibid.*, p. 2612.

[2]*Ibid.*, p. 2723.

"country will be dishonored unless we can take some definite steps toward it."[1]

The possibility of repayment of greenbacks in gold in the very near future was argued by Senator Morrill of Vermont: ". . . it is a subline absurdity to say that this country is too poor to undertake a resumption of specie payments."[2] He said that a higher value placed on the gold and silver of Western states and territories would cause those areas to exert a stronger effort to produce a large amount of precious metals. Also, it was stressed that an expansion of paper currency would lead to an unfavorable balance of trade. And he continued, if the legal-tender circulation were increased above the $382,000,000, it would take just that increased amount to carry on the same business as it had been done with $382,000,000 without adding anything to the value.[3]

A proposal to allow a fraction of the customs duties to be paid in legal-tenders with a view that it would appreciate the value of the greenbacks was presented by Senator Thurman of Ohio. Beginning on June 30, 1874, according to his plan, one-twentieth of the customs duties

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[1] _Ibid._

[2] _Ibid._, p. 2479.

[3] _Ibid._

could be received in legal-tenders; one year later, the amount so receivable would be raised to one-tenth, and on June 30, 1876, one-fifth could be paid in legal-tenders.[1] The Government was obligated to collect duties in coin which was used to pay interest on bonds and to purchase one per cent of the entire public debt. The residue of gold obtained from this operation was put into the Treasury. This gold was usually sold out by the millions to private individuals, consequently, it could be argued that the Government was buying its own legal-tenders at a discount. However, after some opposition to the merits of the bill, it was finally voted down mostly on the grounds that it would affect revenues and therefore would have to originate in the House.[2]

Senator Saulsbury of Delaware proposed a measure which would provide for the purchase of greenbacks at a discount beginning January 1, 1876. During the first six months, $110 in greenbacks could be exchanged for $100 in gold; the next six months, $108 in greenbacks would buy $100 in gold, and the difference between the two would

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[1]Under the act creating the greenbacks, they were not to be legal tender for payment of customs duties or for payment of interest on the public debt. Dunbar, _op. cit_., pp. 173 f.

[2]_Congressional Record_, _op_. _cit_., p. 2729.

decrease until after three years the greenbacks would be bought for face value. This operation would occur provided that at no time would the legal-tenders be purchased at a higher rate than their value relative to gold. No debate came about in Congress over this proposal; it was defeated nays 31, yeas 7.[1]

When the question of the amount of legal-tenders that should be allowed to circulate arose, a proposal was made by Senator Schurz to set the maximum amount of circulating greenbacks at $356,000,000 instead of the already outstanding $382,000,000.[2] Secretary McCulloch had reissued $26,000,000 of the $44,000,00 retired by the act of 1866, to meet the demands brought by the Panic of 1873. Schurz and Bayard argued that this reissuance had been illegal; the $44,000,000 thus retired had been cancelled, not just simply retired and placed in a reserve for reissuance.[3] Sherman agreed with the two Senators that the currency had been issued illegally, although in good faith. He said that he would have preferred to set the circulating amount at $356,000,000 and to have raised the $26,000,000 of additional

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[1] Ibid.

[2] Ibid., p. 2483. The proposal was made as an amendment to the committee on Finance bill which provided for $382,000,000 as the circulating maximum.

[3] Ibid., pp. 2442, 2447.

money through bonds. But, he added, the legality of the circulating $26,000,000 was of no importance now; the Government has an obligation for them too. Consequently, he suggested leaving the amount at $382,000,000.[1] Buckingham of Connecticut favored the $382,000,000 limit because he felt that no body such as Congress could determine whether the amount of legal-tenders should be increased or decreased.[2]

A proposal of the bill of the committee of Finance introduced in Congress which was perhaps, in effect, a contraction measure, provided for the issuance of $1,000,000 in bank-notes to banking associations, and the retirement of an amount of greenbacks equal to seventy per cent of the bank-notes issued until the total amount of circulating currency reached $300,000,000, $82,000,000 below the amount already in circulation. The Secretary would then be authorized to replace the canceled greenbacks with ten-twenty bonds bearing five per cent interest. A certain amount of greenbacks, six to nine per cent would be held as a reserve for the redemption of the legal-tenders. Sherman argued that since the passage of the act of 1870

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[1] Ibid., pp. 2386, 2451.

[2] Ibid., p. 2483.

authorizing a gradual increase in national-bank circulation, the amount of bank-notes had reached $354,000,000, thus preventing further the return to specie payments. The proposed retirement of greenbacks by this method would serve as a counter-proposition to new issues of bank-notes. The national bank-notes would fulfill the needs of local communities, yet the retiring of the greenbacks which were issued would prevent pure inflation.[1] Senator Morrill of Vermont believed that the amount of greenbacks to be retired under this plan should be ninety per cent of the amount of bank-notes issued, instead of seventy per cent as provided in the bill, because the ninety per cent ratio would leave the same amount of legal-tenders in circulation that there presently existed. The seventy per cent provision, he stated, would perhaps increase the amount twenty per cent which would "open the door a little too wide for expansion."[2]

On the other side, the Western expansionists were able to produce potent arguments against the proposals of those who pleaded against an augmentation of the paper currency. Senators Morton of Indiana, Logan of Illinois, Ferry of Michigan, Gordon of Georgia and Bogy of Missouri championed the expansion cause in the senatorial debates during

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[1]Ibid., p. 2392.

[2]Ibid., p. 2649.

the Spring of 1874. It was believed that resumption of specie payment should and would occur at some time, but it was not the immediate question with which to contend. Morton declared that it was of no use to talk of resumption at that time because no one could tell when it would come. Gold could not be obtained for three or four years, and right then the people wanted money, enough money and no more, to meet the growth in population and business. If legal-tenders are issued according to this growth, Morton went on to say, they will not be depreciated. "I believe it will revive business all over this nation. I believe that business will spring up under the influence of a promise like that, just as the grass and the flowers will grow under the Spring showers. They require that."[1] Senator Gordon questioned the obligation of the Government to resume specie payment in the near future for the sake of "honor" of the Government. The Government, he continued, did make a promise to resume specie payment, but the people did not want it at this time.[2]

The most forceful argument against the conversion of legal tenders into ten-twenty five per cent bonds was the argument that the interest paid on the bonds would be

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[1]*Ibid.*, p. 2677. See also pp. 2516, 2523, 2834, 2617. Speeches by Morton, Bogy, and Logan.

[2]*Ibid.*, p. 2678.

a direct increase in the public debt. It seemed illogical to the opponents of this proposal to issue a bond that was to be redeemed in gold after ten years and which carried interest along with it. Moreover, if the Government would be able to redeem the bonds in gold by this time, why should bonds be issued in the first place? Would it not be possible to redeem the greenbacks themselves after ten years? Also, they argued that the reissue of greenbacks after they had been bought with bonds would be an even further increase in the public debt.[1]

In answer to a proposition for the accumulation of gold for specie payment, Morton usually led the opposition by saying that gold would become scarce and the premium it commanded on the market would be increased. Or at times, he contended, this method would cause contraction because when gold leaves the market, it becomes a commodity, and greenbacks exchanged for it would be contracted.[2]

The proposal to issue additional national bank-notes and to retire an amount of greenbacks equal to seventy per cent of the new bank-notes as they were issued was believed by some of the Western expansionists, especially

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[1] Ibid., pp. 2524, 2528, 2606, 2644. Speeches by Morton, Saulsbury, Howe, and Ferry.

[2] Ibid., p. 2612.

Senator Logan of Illinois, to be a scheme of contraction.[1] Morton argued that it would not only contract the currency but that it would also increase the public debt because the greenbacks that were thus retired would be replaced by interest-bearing bonds. He also considered as "fatal" the contraction of greenbacks through this method. Greenbacks, he said, were the very medium by which national bank-notes were to be redeemed.

There seemed to be little opposition among Western Senators to the proposal to receive greenbacks for customs duties except for the argument that the origin of a revenue measure such as this in the Senate was unconstitutional.[2] The argument against its merits came from a Vermont Senator, Morrill, who argued that this measure would cripple manufacturers, that the tariff would be changing constantly with the change of price in gold, and that an increasing amount of gold would be exported from the country. Also there would be a tendency to conduct the entire transactions in the country in paper currency, thus bidding farewell to specie payments.[3] In regard to this issue,

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[1] Ibid., p. 2617.

[2] Ibid., pp. 2727, 2728, 2729. Speeches by Logan, Scott, Carpenter, Ferry, and Morton.

[3] Ibid., pp. 2726, 2727.

Senator Bogy of Missouri said that one reason the legal-tenders were not at par with gold was because the Government had discriminated against them thus depreciating its own issue: "Congress should create money that is good for all dues of the country with no exceptions."[1] Bogy went on to say that he would "make no discrimination between bank-notes and legal-tenders . . ."[2] Both Wright of Iowa and Ferry of Michigan agreed that it was "the best way of placing our currency at par with coin."[3]

The expansionists had little trouble securing the increase of legal-tenders to $400,000,000, in lieu of the $382,000,000 provided in the original bill. The long pleas from those who did not favor augmentation seemed to have been profitless. The proposal was made by Senator Wright of Iowa, and no debates for the measure followed, but it passed, yeas 31, nays 26.[4] A week later, the expansionists were able to incorporate another inflation measure into the pending bill. The provision said that $46,000,000 in bank-notes would be issued to national banks and distribution would be "as provided in Section One of the act en-

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[1] _Ibid_., p. 2727.

[2] _Ibid_.

[3] _Ibid_., p. 2729.

[4] _Ibid_., p. 2484.

titled 'an act to provide for the redemption of the three per cent temporary-loan certificates, and for an increase of national bank-notes, approved July 12, 1870.'"[1]

Also adopted by the inflationists was the provision of the original bill requiring the national banks to keep in reserve one-fourth of the coin they received from the interest from United States bonds which they had deposited as security for circulating notes or Government deposits. It provided further that the country banks would be allowed to keep only one-fourth of their reserve prescribed by law in redemption banks, and no interest could be received from these deposits. The measure was probably accepted because of a belief that the depression was caused, at least in part, by the inability of country banks to withdraw deposits from redemption banks when they were nedded. It had been the practice of smaller banks to deposit funds for a small rate of interest into larger banks, which in turn loaned it to Eastern speculators to engage in wild business schemes. When there was a sudden necessity in the West for money, the Eastern banks were often unable to produce, thus putting an undue hardship on the West itself.[2]

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[1]Ibid., p. 2721.

[2]Ibid., p. 2393. Speech by Sherman.

Finally, a bill emerged from the Senate in this form: the maximum amount of legal-tenders was to be fixed at $400,000,000, and an additional $46,000,000 in national bank-notes were to be issued. Banking associations were to be required to keep in reserve one-fourth of the coin received from Government bonds deposited as security on circulating notes, and allowing only one-fourth of the reserve prescribed by law to consist of balances due to redemption banks, upon which no interest could be paid. It passed the Senate by vote of 29 yeas and 24 nays.[1] The bill was given to the House for consideration, and it passed without debate, yeas 140, nays 102.[2] In the concluding Senatorial speeches, Senator Stockton of New Jersey remarked that "it [Senate] seems to have divided itself, I regret to say, into something like a sectional question rather than a party question."[3] Upon analyzing the voting of both the Senate and the House, it is clear that Stockton's statement seemed to hold truth in it. There were, however, exceptions in the Senate such as Sherman and Thurman from Ohio, Schurz from Missouri, Howe from Wisconsin and Chandler from Michigan who, while from the West, did not follow this

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[1] Ibid., p. 2835.

[2] Ibid., p. 3078.

[3] Ibid., p. 2833.

inflation policy. Of those voting in the Senate, no New England vote was cast for the measure, and only two Middle Atlantic Senators voted in favor of the bill. The House followed that pattern closely. There were no party lines followed; in the Senate, twenty-two Republicans favored the bill and sixteen opposed. The Democrats had six on each side.

However, on April 22, the bill was returned with President Grant's veto to the Senate for reconsideration. In his veto message, Grant again reminded the inflationists of the solemn obligation of the Government to redeem the paper currency in coin, of the party pledge based on the same, and of his personal pledge made in his annual message to Congress in December, 1869. He stated that when deficient states have taken up all of their bank-notes that are due to them either from states having more than their proportion or from the $4,000,000 authorized bank-notes remaining or when specie payments have resumed or are in the process of it, then it "will be the time to consider the question of 'more currency'."[1] Without any debate on the subject, the Senate refused to pass the bill.

Subsequently, in the words of John Sherman, "instead of inflation, of large issues of paper money by the United

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[1]*Ibid.*, p. 3271.

States and the national banks, there grew up a conviction that the better policy was to limit and reduce the volume of such money to an amount that could be maintained at par with coin."[1]

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[1]John Sherman, Recollections of Forty Years in the House, Senate and Cabinet, Vol. I, p. 505.

CHAPTER III

THE RESUMPTION ACT OF 1875

Even before the passage and veto of the Inflation bill of 1874, there had been an appeal for the enactment of legislation of some sort directed toward the resumption of specie payments. As mentioned in the previous chapter, during the debate in the Inflation bill there had been a strong, though by no means dominant, sentiment in the Senate calling for steps to be taken immediately to bring about resumption of specie payment in the near future. During the debates on the bill, Senator Sherman had championed the 5 per cent bond plan; Frelinghuysen had offered gold accumulation measures. Bayard had pleaded for the cause of the necessity of a currency possessing intrinsic value, and Morrill had denied that the country could not, because of lack of wealth, undertake resumption of specie payments.

Throughout the country, there seemed to be a rather loud cry for suppression of inflation of paper currency with resumption of specie payments in view. Before Grant's veto of the Inflation bill of 1874, this cry had been heard from the press and from organized groups. The <u>Nation</u>, a New York publication consistently favoring resumption of specie payment and denouncing inflation,[1] stated that the press was "united

[1]<u>Nation</u> (New York), April 2, 1874, pp. 214-15.

and earnest in its utterances"[1] on the subject. The Nation expressed opposition in the same tone as those who feared inflation: "Inflation is a shoreless sea under a starless sky, so that if the late action [Inflation Bill of 1874] of Congress be adopted as a policy, it starts us on a voyage without end."[2] The Nation contended that the issue of paper money and the displacement of gold and silver as the basis for currency had given Congress previously unwitnessed and undreamed of power over trade and industry of the country. Apart from its financial bearing, it was argued, this power to issue paper currency was "one of the most remarkable strides toward centralization we have yet made."[3] Moreover, the Nation added, lessons from past experiences in finance had seemed illusory to the inflationists.

But how, the Nation continued, was the present situation to be remedied? It answered its own question by saying that one way would be to arouse public opinion through a party organization, but, the Nation went on to say, it was probably too late for this particular remedy. It then suggested that the next best thing, perhaps, would be to urge on the work of inflation so as to "burst the bubble at the

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[1] Ibid., p. 211.

[2] Ibid., p. 215.

[3] Ibid., p. 214.

earliest possible moment."[1] The magazine went on to say that in the meantime, individuals could carry on transactions as much as possible with coin. A steady continuation of this policy, it was argued, would gradually push the greenbacks aside and "would probably before very long open the eyes of the rogues and barbarians of Washington, who are making us the laughing-stock of the civilized world, and discrediting our securities in foreign markets."[2]

In addition, the Nation endorsed as "common honesty" a financial plan submitted prior to the passage of the Inflation bill.[3] This plan, drafted by Edward Pierrepont of New York City, seemingly pointed to resumption. It would have allowed $400,000,000 of greenbacks to remain in circulation, but in the meantime, 5 per cent 30-year bonds would have been sold for gold to the highest bidder. The proceeds from the bonds would have been used for the redemption and cancellation of greenbacks. Gold would also have been exchanged for national bank greenback reserve *pro rata*.[4]

Also before the passage of the Inflation bill, certain groups had organized for the purpose of opposing inflation with eventual resumption of specie payment in mind.

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[1] *Ibid*., p. 215.

[2] *Ibid*.

[3] *Ibid*., p. 211.

[4] *Ibid*.

An enthusiastic anti-inflation meeting had been held at Cooper Institute in New York.[1] The tone of the meeting disapproved of the financial administration in Washington, denounced greenbacks as a "dishonored promise and a lie on its face;"[2] demanded a measure for redemption in coin; declared that the limit of the currency should be fixed; and stated that if free banking should continue with an increase of national bank-notes, the 25 per cent reserve system should be maintained. In Chicago, a similar group had met to "denounce [Senator] Logan's misrepresentations of the views of the business community."[3] In addition, petitions in Chicago against inflation had been drawn up and signed by a large number of banks and a majority of the Board of Trade.[4] Later, organized committees from Boston and New York City carrying petitions denouncing inflation had appealed to President Grant, after the Inflation bill had passed through Congress, to veto it.

After Grant's veto of the Inflation bill, a joyous note was sounded by the Nation although it did recommend

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[1] Ibid., March 26, 1874, p. 197.

[2] Ibid.

[3] Ibid., March 5, 1875, p. 148.

[4] Ibid.

caution and action for the future: "Gratifying as the message is, it will not do to forget that resumption cannot be attained by means of veto messages."[1] The Nation recommended legislation that very session for the gradual retirement of greenbacks. It contended that at no time since the war had there been such a desire for cheap money and that the danger of Congress voting for an increase of greenbacks over the President's veto lay ahead yet. However, the courage and prudence which President Grant portrayed in issuing the message, the Nation said, was gratifying. It contended that Grant could have returned the bill on the ground of a certain technicality, such as the question of the actual legality of the $44,000,000 issue.[2] But, the Nation continued, the bill was not accepted because of its intention of inflation, thus perhaps sounding a death-blow to inflation as long as Grant remained in office. Moreover, it said, the veto act would strengthen the courts in "their resistance to paper-money intrigue."[3] This "sigh of relief" by the Nation probably resulted from the fear for a few days

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[1] Ibid., April 30, 1874, p. 274.

[2] During the Senate debate on the Inflation bill, the legality of the reissue of $44,000,000 in legal-tenders by Secretary Boutwell was questioned. Congressional Record, 43rd Cong., 1st Sess., pp. 2447-51.

[3] Nation (New York), April 30, 1874, p. 278.

prior to the veto that the President might sign the bill. At the time, the Nation had expressed a hope for the possibility of Grant's veto but added that chances were against it.[1] While the bill was awaiting the executive signature, a committee from New York City bearing a petition signed by "2,500 of leading commercial firms"[2] which asked for a veto, called at the White House. Grant complained to the New York committee about the "arrogant" attitude of a similar committee from Boston which had approached him earlier with the same mission. He added that he "didn't see how he could be expected to listen to opinions of bankers and merchants anymore" and then dismissed the New York committee.[3] However, on the ground of personal, party and national pledges, Grant refused his support of the bill.

Following the veto of the Inflation bill of 1874, the Nation gave an account of the general opinion on the inflation question of some of the western newspapers.[4] It reported that two Chicago papers, the Tribune and the Inter-Ocean had compiled lists of those Western papers who favored Grant's veto and of those who did not. The findings of the

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[1]Ibid., April 9, 1874, p. 228.

[2]Ibid., April 23, 1874, p. 259.

[3]Ibid.

[4]Ibid., May 7, 1874, p. 292 and May 14, 1874, pp. 308-309.

Tribune included papers from Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, Missouri, Kansas, and Nebrasks. Two hundred and sixty-eight of these newspapers favored the veto; 165 opposed it, and 25 were uncommitted.[1] It was also reported to the *Nation* that nine Scandinavian newspapers of the Northwest and all the German newspapers with three exceptions among the German papers, opposed the inflation bill.[2] The *Gate City* of Keokuk, Iowa, contended that every weekly and daily newspaper in its district opposed the Inflation bill, and despite that fact, its representative, McCrary, had voted for the bill. Moreover, it added, a ten to one majority of the people of Keokuk and Burlington, the principle cities of McCrary's district, were not in favor of the inflationary measure, and it thought the same would probably be true in the country and villages.[3]

From the above compilation, the *Nation* concluded that the idea of sectional controversy was unfounded but admitted that most of the inflationists were to be found in the West. However, the *Nation* held that the western inflationists were simply "would-be speculators with debts acquired before the Panic"[4] and that traders, manufacturers, mechanics, and professional men disfavored inflation as did

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[1] *Ibid.*, May 14, 1874, pp. 308-309.

[2] *Ibid.*, May 7, 1874, pp. 292-93.

[3] *Ibid.*

[4] *Ibid.*, May 14, 1874, pp. 308-309.

those same classes in the East. The *Nation* also held that most of the western farmers were still uncommitted and recommended stump speaking and distribution of documents to those such as the farmers who "are still open for conviction at the hands of intelligent men who have given the subject special attention."[1]

A speech, given by Mr. Hesing of Chicago's *Staats-Zeitung* to the State Republican Committee, assaulted the inflation policy of the Illinois Republican Congressmen. Mr. Hesing said that ". . . he himself would like nothing better than to meet him [Logan] on the stump, and show voters what Logan and Oglesby's 'cheap money' really meant; that the course of the Republicans in this business . . . had cost them many thousands of German votes . . ."[2] The Republican city ticket was defeated in Chicago the year before, and Hesing predicted the same fate for the Republican state ticket of that year.[3]

In June, 1874, after the veto of the currency bill, Grant sent a memorandum to Congress concerning the currency, and it was accepted by the *Nation* without real disfavor. The

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[1] *Ibid*.

[2] *Ibid*., April 30, 1874, p. 275.

[3] Hesing had led an assault on the city's party the year before which had caused this Republican defeat. The *Nation* seemed to be surprised that he had been invited to speak before this committee. *Ibid*.

memorandum proposed the repeal of the legal-tender act on July 1, 1875. Paper currency would remain in circulation, but all contracts, sales, and prices would thereafter be calculated in gold, thus giving paper money the purchasing power of gold. Also, Grant, in his memorandum, called for the issue of 4½ per cent 10-40 bonds for the purpose of accumulating a gold reserve for redemption which he thought should begin on July 1, 1876. In order to keep a supply of precious metals in circulation to help to check depression, all bills of less than $5 in denomination would be withdrawn from circulation one year following resumption, and all of less than $10 would be withdrawn two years after resumption. In addition, Grant recommended that the income of the Government should be kept in excess of current expenditures by taxation and economy to make possible the constant reduction of the public debt and to furnish some of the coin necessary for resumption. Free banking, the memorandum added, would be feasible under the above conditions. The *Nation* declared that its only objection to the plan was that July 1, 1875, was perhaps too soon for the change of character of the greenbacks and that July 1, 1876, was too soon for redemption in gold. This memorandum, it said, should have been presented in 1869 instead of 1874.[1]

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[1] *Ibid.*, June 11, 1874, pp. 374-75.

Public opinion as reflected in some of the state conventions in 1874 was not unanimous either in its sentiment favoring resumption or inflation. But, the Republican party in the conventions gave no approval of the Inflation bill.[1] Maine and Vermont state Republican conventions were "firmly and outspokenly for resumption."[2] The New York Democratic Convention called for "gold and silver legal tender, . . . resumption of specie payments, [and] payment of the public debt in coin."[3] The Republicans of Ohio favored steps of some sort to be taken toward resumption: "Let our legislation in the future be such as will still further increase the value of the paper dollar and the fulfillment of the pledge of an early return to specie payments."[4] The author of this statement went on to say that "we have the best paper currency ever devised by man so far as safety to the holder is concerned, and when banking is made free we will hear no further discussions over contraction and inflation, but the whole subject will be

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[1]Alexander D. Noyes, _Thirty Years of American Finance, 1865-1896_, p. 20.

[2]_Nation_ (New York), June 25, 1874, pp. 404-405.

[3]_Ibid._, September 4, 1874, p. 195.

[4]From an address by Charles Foster, temporary chairman of the convention. _History of the Republican Party in Ohio and Memoirs of Its Representative Supporters_, ed. by Joseph R. Smith, p. 326.

regulated by the legitimate law of supply and demand."[1] The state Republican platform itself declared that "when the currency shall have been restored to a specie value, banking should be made free, so that the circulation medium may be expanded or contracted according to the demands of commerce and trade."[1] It also stated that resumption of specie payments should be gradual in order not to shock the business interests of the country. On the other hand, the Democratic platform of Ohio called for an increase in the volume of currency if it were required for benefits of business: ". . . its [currency] volume should be regulated by the necessities of business; and all laws that interfere with such natural regulations are vicious in principle and detrimental in their effects. We are in favor of such an increase of the circulating medium as the business interests from time to time may require."[3] Another demand in the Ohio Democratic platform, along the same line as that of Ohio's Democratic senator, Thurman, called for the payment of not less than one half of the customs duties in greenbacks. In addition, the platform condemned national banks.

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[1] Ibid.

[2] Ibid., p. 329.

[3] Ibid., p. 325.

The Illinois Republican State Convention endorsed resumption of specie payment, and one resolution expressed opposition to any increase of greenbacks. The followers of one of the Illinois Republican senators, Logan, managed by a small majority to have the resolution opposing an increase in paper currency removed, but Logan and his past course of action on the currency did not secure endorsement from the convention.[1]

The Indiana Republican state platform flatly demanded additional currency and approved free national banking. The policy followed by Senators Morton and Pratt was commended by the convention as true representation of the sentiments of Indiana. Comments of President Grant's course of action were careful; ". . . the resolutions expressed a belief in the honest integrity (not the wisdom) of President Grant."[2] The Democratic platform of Indiana called for the repeal of the national banking laws and demanded the substitution of legal-tenders for national bank-notes. An appeal was made for the resumption of specie payments "as soon as the business interests of the country

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[1]<u>Nation</u> (New York), June 25, 1874, pp. 404-405.

[2]William D. Foulke, <u>Life of Oliver P. Morton</u>, p. 344.

would permit."[1] The platform also sanctioned payment in greenbacks the 5-20 bonds which were to be paid in gold by an act of Congress, in March, 1869.[2]

A group of "independents" convened in Indianapolis in June, 1874, formed its own platform, and made its own nominations. The convention pledged itself to abolish the 'gold-base fallacy'[3] and to maintain paper money on the 'faith and resources of the Government.'[4] Greenbacks would simply be 'declared equal with gold,'[5] and they could be exchanged for 3-65 bonds with interest to be regulated by Congress. Congress would also regulate the amount of legal-tenders in circulation in a manner which would result in the 'equitable distribution of the products of labor between money and non-producing capital and productive industry.'[6] In addition, the platform demanded that the

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[1]Ibid., p. 346.

[2]Senator Morton accused the Democrats as having engaged in a "double repudiation" by demanding additional greenbacks for payment of the bonds and then by a proposal to annul the pledge "upon the faith of which the bonds had been bought and sold for more than five years." Ibid.

[3]*Nation* (New York), June 18, 1874, pp. 388-89.

[4]Ibid.

[5]Ibid.

[6]Ibid.

national debt should be paid in greenbacks. The *Nation* remarked that the newspapers were "considerably disgusted by all of this."[1]

After the November elections in 1874, it was uncertain whether or not Congress would do anything about the currency situation. The Republicans had been defeated heavily in the elections; the Democrats had gained control of the House with a plurality of seventy-four.[2] Early in December, Secretary of the Treasury Bristow issued recommendations concerning the currency problem. He reminded Congress that the legal-tender act had never been enacted with the intention of creating a permanent, irredeemable currency. Bristow went on to say that a currency was needed to which elasticity should be given by the laws of commerce and trade and not by Congressional legislation nor by the Secretary of the Treasury, depending on "party exigencies or necessities of the Treasury."[3] He contended that continuation of this kind of currency would tend to break down the self-dependence of the people. They would lean toward the Government, he was reported as having said, for aid in their business interests, having the Government

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[1]*Ibid*.

[2]Foulke, *op*. *cit*., pp. 20-21.

[3]*Nation* (New York), December 10, 1874, p. 374.

to help them "alternately into debt and then out of it."[1] Secretary Bristow recommended that Congress should repeal the legal-tender act soon, as to making contracts and that an early date for resumption should be set. He also suggested authorization for a new loan at a low rate of interest for the purpose of accumulating gold in the Treasury. Along with resumption, he continued, free banking would be feasible. The Secretary reported that there was an aggregate amount of $16,000,000 of the $354,000,000 bank-notes authorized which were available for distribution but were not taken. It was reported that he contended that this fact would show "the fallacy . . . of the demand for an 'expansion of the currency' to correct a 'contraction in the currency.'"[2] President Grant endorsed these recommendations in his annual message to Congress. Also in his message, Grant recommended in the "strongest language immediate measures for resumption of specie payments."[3] He stated that the currency as it was at the time was dishonest. An accumulation of gold in the Treasury was recommended to prepare for the resumption of specie payments, and

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[1]*Ibid*.

[2]*Ibid*.

[3]*Ibid*., pp. 373-74.

he advised the repeal of the legal-tender act as to future contracts. The "wants, necessities, and liabilities of the 'debtor class'," [1] he contended, were the only authentic bases for issuing additional paper money and that it would be more equitable if this group were allowed to issue its own greenbacks.

On December 10, 1874, the *Nation* predicted that the outgoing Republican Forty-third Congress which still had three months in office would probably do nothing in respect to the currency problem. Moreover, it continued, since both parties were looking to the Presidential election, it was unlikely that the Democratic Congress would legislate on the matter either. It went on to say that inflation would be impossible as long as Grant held his present viewpoints on finance, and contraction measures which might produce 'hard times' would be disastrous to any party responsible for it. [2] However, one week later, on December 17, the *Nation* was able to report rumors of currency legislation. It said that it was believed that perhaps there was an increase in a tendency of desire for measures of resumption but that resumption might be preceded by measures of contraction. With resumption of specie payments, the *Nation* continued, it would then

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[1] *Ibid.*

[2] *Ibid.*, p. 374.

be wise to have free banking: ". . . the more banks the better provided they redeem their notes in coin."[1] The Nation sanctioned the withdrawal of legal-tenders until their value had gradually reached par with gold. It went on to say that in this way, gold would eventually find its way into commerce.[2]

Meanwhile in Washington, the Republicans were making an effort to accomplish a legislation of some sort on the currency situation, an effort which has been described as an act of "death-bed repentence."[3] Senator Sherman of Ohio had suggested at the first Republican conference the need of agreeing upon a measure that would appreciate the value of the greenback. A committee composed of eleven senators was formed to draft a currency bill. The members of this committee included the chairman, Sherman of Ohio, Allison of Iowa, Boutwell of Massachusetts, Conkling of New York, Edmunds of Vermont, Ferry of Michigan, Frelinghuysen of New Jersey, Howe of Wisconsin, Logan of Illinois, Morton of Indiana and Sargent of California.[4] Each member of the

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[1] _Ibid._, December 17, 1874, p. 391.

[2] _Ibid._

[3] Noyes, _op. cit._, p. 21.

[4] Sherman, _Recollections_, p. 509.

committee was asked to submit a statement saying how far he would go toward resumption. So many differences of opinion were represented that it seemed that an agreement could not have been reached thus perhaps meaning that the Republican party would have been rented asunder.[1]

Nevertheless, a resumption bill was drafted which showed throughout the compromises that were necessary to produce a bill which would have had a chance of passage. The first section dealt with the redemption of fractional currency in silver.[2] The circulating fractional currency was already worn and dirty, and since it cost a great deal to reissue it, this provision was readily accepted by everyone on the committee.[3] The second section removed the charge for coining gold from bullion.[4] The third section provided for free banking and for the reduction of the volume of United States notes to the amount of 80 per cent of national bank-notes, until the amount of legal-tenders outstanding reached $300,000,000. January 1,1879 was set as the date for the resumption of specie payments. In order to prepare for resumption, the Secretary of the Treasury

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[1] Ibid.

[2] Congressional Record, 43rd Cong., 2nd Sess., p. 188.

[3] Sherman, op. cit.

[4] Congressional Record, op. cit.

was authorized to use any surplus revenue not already appropriated or to issue 5 per cent bonds, not to be sold below par, for this purpose.

The contraction of greenbacks as national bank-notes were issued did cause some disagreement, but whether or not the legal-tenders could be reissued after they had already been redeemed presented the most serious problem among the Republican committee of eleven. "This appeared to be the rock on which the party in power was to split."[1] The bill was a party measure and the inflationists and contractionists within the party could reach no agreement on this issue. However, it was finally agreed that Sherman, who was to present the bill to the Senate, would simply make no mention of it and that he should not, when presenting the bill, commit himself either way.[2]

Upon presenting the bill to the Senate, Sherman gave a brief explanation of each of the sections of the bill and evaded the all-important question. On the first section, Senator Sherman explained to the Senate that the silver necessary could be obtained easily, especially because of the demonetization of silver in Germany. Bullion at that time, he continued, was about equivalent to

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[1] Sherman, _op. cit._

[2] _Ibid._ Sherman states that he had no doubt but what the legal-tenders could have been reissued.

fractional currency, perhaps a little above, and that it was possible to purchase all or nearly all of the necessary bullion from our own production. About the only cost, he went on to say, would be the coinage and that could be taken out of the ordinary course of business. Also, he continued, mints were already prepared to begin immediate operation, and redemption would commence as quickly as coins could be minted. Redemption, he explained, would require one to three years or how long depending on the effort put forth to accomplish it. The second section, Sherman continued, which removed the tax of .25 per cent on gold bullion for coinage would check the flow of bullion to Great Britain which had for many years coined gold free of charge. Secretary Bristow and the Director of the Mint along with many others, he said, seemed to think that this provision would prevent exportation of gold bullion to foreign countries. The third section, he explained, would give any banks, old or new, the right to issue as many bank-notes as were necessary to meet business demands of each community. He went on to explain the provision providing for withdrawal of legal-tenders to 80 per cent of the amount of bank-notes that was issued until the amount of legal-tenders was reduced to $300,000,000. It was necessary to fix a specific day for resumption, he argued, in order that everyone might know when his contracts would be measured by a gold standard. Also, Sherman added, the bill provided "ample means to prepare for and to maintain resumption."[1]

The question on what was to be done with the greenbacks after they had been redeemed was treated by the Senator in an evasive manner. He told the Senate that "troublesome questions"[2] had been omitted from the bill. He said: "If we undertake to define precisely what shall be done four years hence on the resumption of specie payments, to say whether the legal-tender act shall then be repealed before or not, we enter upon a very difficult field, and will undoubtedly divide the Senate and divide the country. Is it not better to postpone until the time comes to meet them these questions which must then arise rather than to engage in an attempt to settle them now, four years in advance?"[3] This proposal aroused little protest in the Senate at this time.

However, the loudest objection came when Sherman refused to state whether or not the greenbacks retired as new bank-notes were issued could be reissued. Sherman argued that this question was also not to be decided in this bill; undoubtedly the notes could not be reissued until the

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[1]Congressional Record, op. cit., p. 195.

[2]Ibid.

[3]Ibid., p. 196.

$300,000,000 limit had been reached, and then, the question could be decided. He argued that questions such as that would tend to defeat a bill which was designed only for resumption: ". . . this bill has provisions in it which the Senator [Schurz] and I have so diligently sought, and I will not seek to obstruct the passage of the bill or defeat it by thrusting into it doubtful questions of the law or public policy which may tend the defeat of the bill."[1] Thurman of Ohio contended that if the bill became a law with no provision for the cancellation of the $80,000,000 of legal-tenders to be retired with the issue of bank-notes there would be a possibility of inflation of the currency of $100,000,000 at the pleasure of the Secretary of the Treasury. He insisted that a question of this sort could not be overlooked: "Pass the bill in its present shape and instead of settling, you will unsettle, instead of fixing, you will unfix, the minds of the people."[2]

Senator Bayard of Delaware suggested a provision to Senator Sherman which would have meant the destruction of the greenbacks after they had been retired as bank-notes were issued.[3] Sherman, in turn, answered that this question

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[1] Ibid.

[2] Ibid., p. 198.

[3] Ibid., p. 201.

"would not come up for another three or four years; . . . we do not undertake to decide it."[1] Bayard argued that the same situation as had led to the reissue of $26,000,000 of the $44,000,000 reserve in 1873 could come up again if proper provision were not made in the bill to render it impossible. He referred to the bill as a "double-faced bill" and added that he believed the bill "to be a juggle with a question that ought to be a matter of straight-forward honest business . . ."[2]

Stevenson of Kentucky denounced the bill on the ground that it would not "give stability required by the country"[3] and that it was simply a party measure to unite contractionists and inflationists. He contended that the Secretary of the Treasury would be given too much power to inflate or deflate the currency at his discretion.[4] Stevenson also declared that he "could conceive of but one motive, and that is that contractionists and expansionists both hope to persuade the people that each have triumphed."[5]

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[1] Ibid.

[2] Ibid.

[3] Ibid., p. 204.

[4] Ibid., pp. 202, 208. See speeches by Hamilton of Maryland and by Hamilton of Texas.

[5] Ibid., p. 204.

During the course of the debates, several amendments were offered to the bill. Senator Thurman presented a provision which would have allowed one-twentieth part of the customs duties to be paid in legal-tenders or bank-notes after June 30, 1875, one-tenth after June 30, 1876, and after June 30, 1877, one-fifth.[1] Thurman argued that this provision, if adopted, would be more successful in bringing greenbacks to par with gold and in effecting resumption of specie payment than any other provisions of the bill.[2]

However, Thurman's amendment was proposed to be amended by Senator Bogy of Missouri. Bogy's proposal would have allowed all customs duties to be payable in legal-tenders or coin, at the option of the holder, on or after July, 1875.[3] Bogy maintained that the great debt to the Government was that of the importers which sometimes totaled to as much as $200,000,000 annually. Since there was only $166,000,000 supply of gold in the country, he continued, there was such a demand for gold as to depreciate the greenback 10 to 12 per cent. He went on to say that if

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[1] _Ibid._, p. 198.

[2] _Ibid._

[3] _Ibid._

the legal-tenders were made receivable for import duties, gold, which is usually sold as a commodity on Wall Street to importers, would no longer be demanded and would flow into normal channels of trade. As a result, there would be an expansion of $160,000,000. Moreover, he continued, since greenbacks would be at par with gold, there would be no necessity in keeping a special fund for the payment of bonds and interest: "I deny the proposition that a nation of the high character and standing of this need pledge any special source of revenue to maintain its credit at home or abroad . . . The character of the nation, the means, the ability, the standing, everything that belongs to the people, is pledge enough to the world to maintain our credit, and there is no necessity for this additional security."[1] It is true, the argument continued, that our foreign indebtedness is in gold, but the bonds are handled through a system of exchange thus not requiring shipments of gold abroad. Therefore, if the legal-tenders were appreciated, gold would not be needed for this exchange. In addition, Bogy maintained that the $160,000,000 in coin along with the $300,000,000 of appreciated legal-tenders which remained after the $382,000,000 then in circulation

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[1]*Ibid.*, p. 200.

had been reduced by the issue of the new bank-notes contemplated in the bill, would provide a redeeming medium of an aggregate of $460,000,000 for the $454,000,000 bank-note issue. He went on to say that the bank-notes being redeemable but not necessarily redeemed, would have value, and that gold "is only needed as a basis of value and the corner-stone and foundation for paper issues."[1] Therefore, he could see no reason for the redemption of greenbacks in gold.

Among other proposed amendments was that of Senator Saulsbury of Delaware. He proposed that the date fixed for the resumption of specie payments be set at January 1, 1877, in lieu of 1879. He stated that there was nothing in the bill looking toward resumption of specie payments anyway, so "if there is any virtue in a declaration of return to specie payments let us fix an earlier period for returning."[2] Senator Hamilton of Maryland proposed that after July, 1876, nothing but gold and silver would be legal tender.[3] Senator Schurz of Missouri offered a proposal calling for the retirement of not less than $2,000,000 of legal-tenders per month and that those retired legal-tenders should be cancelled

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[1] Ibid.

[2] Ibid.

[3] Ibid.

and destroyed.[1] An amendment proposed by Senator Hamilton of Texas called for the issuance of silver coins in their current value in fractional currency.[2] Hamilton stated that there was a 6 to 8 per cent premium on silver in fractional currency. Therefore, if the pending bill was enacted, he argued, speculators would rush out and buy all the fractional currency that they could, melt it down and send it abroad. But, he concluded, silver sold at market value would prevent this situation. All proposed amendments to the bill were rejected.

Thus the debates on the bill ended on the day that Sherman submitted it to the Senate for consideration. It passed the Upper House with a vote of 32 to 14,[3] and was approved by the Lower House with a vote of 136 to 98[4] without debate. Not one Democratic vote was cast in either chamber in favor of the bill.[5]

On January 14, 1875, a message of approval of the bill was sent to the Senate from the President.[6] Grant

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[1] _Ibid_., p. 206.

[2] _Ibid_., p. 207.

[3] _Ibid_., p. 208.

[4] _Ibid_., p. 319.

[5] Noyes, _op_. _cit_., p. 21.

[6] _Congressional Record_, _op_. _cit_., p. 459.

congratulated Congress upon having been able to fix a date for resumption of specie payment and having implied an obligation to provide legislation so as to effect it. Suggestions for further legislation were presented by the President. First, he declared that if resumption was to take place in 1879, it would be necessary to increase taxation to provide for the sinking fund that paid one per cent annually on the national debt, for the redemption of the $80,000,000 in greenbacks retired with the issue of national bank-notes, and for the redemption of fractional currency. To accomplish this increase, Grant suggested that the duty on tea and coffee be restored and that the act of June, 1872, which provided for a 10 per cent reduction of tariff on certain articles be repealed. He also recommended that provision should be made to prevent silver from being purchased for the purpose of exportation when redemption of fractional currency began. In addition, he advised that since the Government had to make monthly sales of gold in order to obtain necessary currency for current expenses, it would be practicable if the Treasury began redeeming in January, 1875, legal-tenders when presented, at a premium of 110 less interest of 2½ per cent per annum. The premium would then be reduced periodically until the interest reached .25 per cent. Finally, he suggested the establishment of a mint in a western city to abolish shipping expenses from the West to the mints in the East and then back West again.

Grant concluded his message by saying that the bill had been given his hearty approval, even if no further legislation was possible at the time. He added that he felt the subject of such importance that he hoped that it would "receive the attention of and be discussed by Congress and the people, through the press in every way, to the end that the best and most satisfactory course may be reached of executing" what he deemed "most beneficial legislation on a most vital question to the interests and prosperity of the nation."[1]

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[1] *Ibid*.

CHAPTER IV

RESUMPTION AS A POLITICAL ISSUE

The enactment of the resumption of specie payments bill did not at all completely pacify the dissatisfaction existing throughout the country over the currency question. For certain, the Nation did not accept this legislation as a scheme of salvation. An idea of the criticism of the measure from the standpoint of those who believed that the measure was inadequate as a means of bringing about resumption can be obtained from following the arguments of this periodical, always a consistent champion of "sound money." While the bill was awaiting the Presidential signature, the Nation reported that it had not seen "a single word of general praise of it in any paper."[1] It went on to say that it was generally believed, first, that resumption would be impossible without contraction. The Nation argued that since the legal-tenders carried, at that time, a discount of 12 to 14 per cent, the only way to make resumption "less heavy and pressing"[2] would be to contract. Moreover, it continued, as long as the paper currency was discounted as such, it would be

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[1] Nation (New York), December 31, 1874, p. 429.

[2] Ibid., December 24, 1874, p. 411.

impossible to keep silver in circulation. The *Nation* contended that silver had a premium of 108 in currency and was worth about 97 cents on the dollar in gold, and as long as gold carried a premium of over 8 to 10 per cent, it would be exported as fast as it could be issued. Therefore, it continued, when silver could bring more in foreign market than what $125 in currency could bring in this country, it could not be kept in circulation. If this situation occurred, the *Nation* argued, the country would again be using postage stamps as fractional currency.[1]

Secondly, the *Nation* denounced the issue of national bank-notes with a certain degree of contraction of greenbacks as they were issued: ". . . the demand for more bank-notes does not exist, as is shown by the working of the present law, and . . . therefore, the proposed measure would either produce no effect on the volume of the currency at all, or would increase it, and therefore prove a means for inflation . . ."[2] The *Nation* argued that $102,500,000 in bank-notes would have to be issued before the greenbacks could be contracted from $382,000,000 to $300,000,000. It went on to say that from $54,000,000 of bank-notes authorized by the act of July 12, 1870, only $37,720,411 had been

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[1] *Ibid.*

[2] *Ibid.*

absorbed and that the demand for bank-notes was decreasing. It reported that from the passage of this bank-note act until November 1, 1871, $24,773,261 of bank-notes had been issued. It went on to say that during the next twelve months only $16,220,210 had been issued, that in the following year from November 1, 1872, to November, 1873, $7,357,479 had been issued, and that there was a demand for only $3,576,297 from November, 1873, to November, 1874.[1] From these figures, it argued that the hope of bringing about a reduction in the volume of greenbacks by the issue of new bank-notes was vain. There was no prospect of any considerable number of new bank-notes being issued. Therefore, the *Nation* contended that resumption in 1879 by attempting to contract by this method was absurd. However, after six months following the presentation of the above argument of the *Nation*, the magazine was able to report that the "money writers of some of the papers have just awakened to the fact that the 'Finance Bill' of the last session has thus far been working contraction" and that it could "be said in its favor that as yet no inflation had been caused by it."[2] In addition, it said that since the bank-note act of 1870, the western banks had been issued $11,601,892 in bank-notes but

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[1] *Ibid.*, December 31, 1874, p. 433.

[2] *Ibid.*, July 15, 1875, p. 34.

had surrendered $9,627,066 which left an aggregate of only $1,974,826 of bank-notes in circulation in the West.[1] Therefore, it also mean that approximately $9,280,000 in greenback had been contracted in the West along with the surrender of the $9,627,066 of bank-notes.

In the third place, the Nation condemned the resumption act as "an unworthy attempt of the Republican managers to humbug the public by appearing to legislate on a subject which they really meant to shirk, and by appearing to stand up for hard money when they were really playing into the hands of the inflationists."[2] It went on to say that this effort was a "transparent sham" and that "the purpose, the only purpose, from the very first caucus" had been to "enable Mr. Dawes [Representative] to inform his friends in Massachusetts that this is a measure of contraction and a happy adjustment, while at the same time Mr. Morton can assure his supporters in Indiana that it is a measure of inflation and a happy adjustment."[3] It argued that the resumption legislation should have been about the most important acts of Congress since the war. The bill, it continued, should have been given careful debate of at least two weeks in each

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[1]Ibid., July 29, 1875, p. 65.

[2]Ibid., December 31, 1874, p. 429.

[3]Ibid.

House, as "in any other civilized legislature."[1]

The fourth objection that the Nation held toward the resumption act was that it contained no provision as to what should be done with the retired greenbacks. It protested that the powers conferred upon the Secretary of the Treasury were "enormous and alarming."[2] Moreover, it argued, the omission of the provision appeared to be a "trick to set up another 'reserve,'"[3] like the $44,000,000 reserve out of which Secretary of the Treasury Boutwell had issued $26,000,000 in 1873. It reported Senator Sherman's letter written to the Financier in reply to criticisms made by the Financier[4] on the resumption bill. Sherman's letter said that "neither the fractional currency nor the eighty-two millions can be reissued," and that he himself had "stated so when the bill was pending under debate" and that "no lawyer could put a different construction upon the bill."[5] The Nation continued

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[1] Ibid., January 21, 1875, p. 35.

[2] Ibid., December 31, 1874, p. 429.

[3] Ibid.

[4] The Financier had accused the resumption act as being a "political trick, an evasion of a public duty, and as totally inadequate for the purpose sought to be accomplished." Sherman, John, Recollections of Forty Years in the House, Senate, and Cabinet, Vol. I, p. 519.

[5] Ibid., p. 520 and Nation, January 28, 1875, p. 49.

by saying that it should remind Sherman that Secretaries of the Treasury could put their own interpretation on it. The magazine suggested that since a future Secretary of the Treasury might issue some of the redeemed greenbacks to "move the crops" or to "ease the market," long-term contracts should be formed on a gold basis.[1] It went on to say that if the community were not yet able to contract agreements on the gold basis, it would be an easy matter to stipulate in contracts the limit of depreciation on legal-tenders. Therefore, the Nation argued, the holder of the contract would be given the opportunity of placing the obligation upon a gold basis by using the price of currency at the time the contract was formed. It reported that this method had been successfully used by some.

Another provision of the resumption act which the Nation questioned was the method provided for accumulating gold for the purpose of resumption of specie payments through surplus from the current revenue. It argued that the surplus had to be that of the sinking fund, a surplus which did not exist. It reported that Secretary Bristow had estimated a deficiency of $22,093,748 in the sinking fund account. Furthermore, the Nation said, any likely surplus would be absorbed by the purchase of silver for the $40,284,952 of fractional

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[1] Nation, January 28, 1875, p. 49.

currency.[1] In addition, anxiety over the sufficiency of funds for resumption was shown by President Grant in his message to Congress, December, 1875.[2] He asked that added power be given to the Treasury for the accumulation of gold. Also, the President requested the re-enactment of the duties on tea and coffee to be used for resumption. Secretary of the Treasury Bristow stated in his report of December, 1875, that it might be impossible to accumulate enough gold in time to meet the fixed day of resumption of specie payments unless some sort of contraction were effected.[3]

On fixing a date for the resumption of specie payment by the act, the Nation stated that it was a mere promise and that such a promise by Congress in fixing a remote date for resumption would mean little.[4] It reported that the Evening Post supported the act because it had fixed a date for resumption and that the Nation itself had, too, at first tended to advocate it for that reason. However, the Nation said, "further consideration satisfied us that the promise

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[1] Ibid., December 31, 1874, p. 433.

[2] Ibid., December 9, 1875, p. 363.

[3] Ibid., December 16, 1875, p. 379.

[4] Ibid., December 31, 1874, p. 429.

was farcical and was not meant to be kept."[1] It declared that the *Evening Post* was displeased with the *Nation's* attitude toward the bill because of its unwillingness to compromise on unacceptable measures. The *Nation* contended that the objections of the *Post* were based upon the grounds, "as well as we can make out, that the practical thing to do in politics is, when you cannot get what you want, to make the best of what you *can* get; and that therefore the bill, though not what we want, is to be accepted, in spite of its imperfections, because it is all that we need look for either from the Republican or Democratic Party."[2] The *Nation* added that it considered the bill to be "fatal" and could not see a reason to "accept it or to tell people that it is acceptable."[3]

In 1876, the national political platforms of the country reflected public opinion on the currency controversy. The Greenback Party, sometimes called the Independent National Party, held its first convention at which nineteen states were represented, on May, 1876, at Indianapolis.[4] Its platform demanded the immediate and unconditional repeal of the

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[1] *Ibid.*, January 7, 1875, p. 2.

[2] *Ibid.*

[3] *Ibid.*

[4] Edward Stanwood, *A History of the Presidency from 1788 to 1897*, p. 367.

resumption act and the discontinuance of the "present suicidal and destructive policy of contraction."[1] The platform called for the convertibility of the legal-tenders on demand with Government bonds bearing interest of not more than one cent per day on $100, in other words, 3.65 per cent. The legal-tenders, it said, should be convertible into these bonds at par which would provide for the best circulating medium ever invented. The platform demanded that greenbacks should be made legal tender for all obligations with the exception of already existing contracts stipulating coin payment. It also contended that the legal-tenders should be issued by the Government only and that "in the language of Thomas Jefferson, . . . bank paper must be suppressed and the circulation restored to the nation, to whom it belongs."[2] The platform condemned the sale of gold bonds in foreign markets which had made the American people for a long time, according to the Greenbackers, "hewers of wood and drawers of water for foreigners."[3] The American people, it said, would gladly take at par all bonds that would be necessary for the Government to sell, provided that they could be redeemed at the option of the holder. The bonds,

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[1] _Ibid_.

[2] _Ibid_.

[3] _Ibid_., p. 368.

it added, should bear an interest of not more than 3.65 per cent. The sale of Government bonds for the purpose of purchasing silver to redeem fractional currency was condemned. The platform held that the present fractional currency was "more convenient and less fluctuating."[1] It added that while the bill was "well calculated to enrich owners of silver mines," if in operation, it would "still further oppress, in taxation, an already overburdened people."[2]

The Democratic Convention likewise expressed in its platform dissatisfaction with the currency situation. It denounced the "failure for all these eleven years to make good the promise of the legal tender notes," which were a "changing standard of value of [in] the hands of the people," and it charged that the non-payment of the greenbacks was a "disregard to the plighted faith of the nation."[3] The platform also denounced the so-called "financial imbecility and immorality"[4] of the Republican party. It accused the opposition party as having made no preparation toward resumption of specie payment but as actually having hindered it, despite

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[1]_Ibid_.

[2]_Ibid_.

[3]Kirk H. Porter and Donald Bruce Johnson, _National Party Platforms 1840-1956_, p. 49.

[4]_Ibid_., p. 50.

the fact, the Democrats said, of annual promises to redeem the legal-tenders soon. The platform demanded the repeal of the resumption act of 1875, denounced it as an obstruction to resumption to specie payments. It called for a wise financial system which would "enable the nation soon to assure the whole world of its perfect ability and its perfect readiness to meet any of its promises at the call of the creditor entitled to payment."[1] The platform stated that such a system would result in general confidence from the people, stimulate the economy and at no time would "create an artificial scarcity of currency."[2]

However, the Republican platform mentioned the currency problem rather briefly and in general terms. It stated that the National Government had pledged itself to redeem the United States notes at the earliest practicable time and that this pledge had been made to remove any doubt that the Government had never intended to pay the legal-tender notes in coin. The platform in dealing with the financial question concluded by saying that "commercial prosperity, public morals, and the national credit demand

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[1] _Ibid._ It may be noted that the platform did not outline the character or main features of such a system.

[2] _Ibid._

that this promise be fulfilled by a continuous and steady progress to specie payment."[1]

In 1876 and 1877, the tone of many of the state platforms evidenced the intense unrest over the financial situation of the country. Greenback groups were being formed all over the country, including such states as Massachusetts, Connecticut, and Pennsylvania. The general cry of the Greenbackers was, first, the immediate and unconditional repeal of the resumption act of 1875. The Greenback Party of West Virginia even went so far as to say that specie payment had "never been an honest monetary system in this country or in England, where commerce has sought the most convenient expedients."[2] It added that if the gold system were to again be effected in the United States, it would be better to have it happen as soon as possible. The results, it was argued, would be that the destruction of the "people's money" would be stopped, "and at the same time put it in the power of the money capitalists, by a run upon the Federal Treasury for gold, to show to the world that the system is radically dishonest."[3] It further said that it was "not the material

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[1] Ibid., p. 54.

[2] Appleton's Annual Cyclopedia, XVII, 765.

[3] Ibid.

that constitutes money, but the sovereign will that utters it, the declaration by the government that the greenback shall be equal in all its monetary functions with gold is the only sure method of bringing money to par."[1] The Connecticut Greenback Party platform opposed the fixing of an arbitrary time for the resumption of specie payment by the resumption act of 1875. It said that it had no objections to bringing the paper currency to par with gold, but the appreciation of the currency should be done by correcting defects in the monetary system and through prosperity, "not by robbing the debtors under the hypocritical cry of 'honesty.'"[2] In order to appreciate legal-tenders, the convertibility of paper currency into a low interest-bearing bond was generally recommended. The denunciation of the policy of contraction was intensely and probably representatively expressed by the Greenback Party of Massachusetts: "The increasing scarcity of circulating medium, causing, as it does, the steady depreciation of prices, has made all investments in productive enterprises unprofitable, reduced production in the limited demand of absolute daily necessity, and brought upon us the paralysis of trade, and the destitution

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[1] Ibid.

[2] Ibid., XVI, p. 204.

and enforced idleness of the laboring classes."[1] Likewise, the provision limiting the legal tender quality of greenbacks was treated with a similar distaste by the Greenback platform of New Jersey: ". . . so as to except duties on imports and interest on the public debt, was disgraceful to the Congress that authorized it, and stamped on every bill partial repudiation."[2] The withdrawal of bank-notes from circulation was generally recommended by the Greenbackers, and issuance of legal-tenders by the Government in lieu of paper money issued by banking associations was demanded. In addition, it was generally conceded by the Greenbackers that the public debt should be owned by American citizens. The remonetization of silver was demanded by most of the Greenback state platforms.

Many of the Democratic state conventions of 1876 and 1877 likewise protested against the financial policy of the Government. Some of the Democratic platforms of the East, such as that of Massachusetts, Maine, Pennsylvania, New Jersey and Maryland, simply affirmed the Democratic National platform of 1876 on the matter. It will be recalled that this platform demanded the repeal of the resumption act

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[1] Ibid., XVII, 488-89.

[2] Ibid., p. 553.

of 1875. Especially in the West did the Democrats arraign the Republican party for the financial situation. State conventions of Illinois, Indiana, Iowa, Minnesota, Missouri, and Ohio demanded the repeal of the resumption act.[1] A rather detailed platform serving as an example is that of Ohio which demanded the substitution of legal-tenders for national bank-notes and said that all circulating medium, paper or metallic, should be issued by the Government alone. It continued by saying that the legal-tenders should be receivable as customs duties and that they should be inconvertible, at the pleasure of the holder, into bonds not to bear more than 3.65 per cent interest. The Ohio platform also called for a graduated income tax that would be at least equal to the premium on the gold which the Government needed to pay the interest on the public debt. In addition, the platform demanded that silver should be legal tender in the payment of all debts. It also charged the Republicans as having schemed to raise the bonded debt to accomplish resumption. The platform also denounced sudden contraction of the currency.[2]

On the other hand, the Republican state platforms, for the most part, stood for the early attainment of resumption

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[1]State platforms may be found in Appleton's Annual Cyclopedia, XVI.

[2]History of the Republican Party, edited by Joseph P. Smith, p. 352.

of specie payment, with the pledge of the Government to redeem its notes in coin in view. A sound economy based on coin was stressed. Also, states such as California, Iowa, Minnesota, Ohio, and Pennsylvania called for the creation of legal tender quality of silver.

During this time, silver began to find its way into the American financial picture. Silver mines in the United States began to produce abundantly, such as the Grean Bonanza of Nevada, the Comstock lode, and the Consolidated Virginia mine.[1] Also, in 1873, silver had been demonetized in Germany; therefore, a great deal of old German coins were being sold on the market as bullion. Silver had been demonetized in the United States in 1873, and for the first time in many years, in 1874, silver became more valuable as coin than when sold on the market as bullion.[2] In 1877, a silver measure, the Bland Bill, providing for the free and unlimited coinage of silver, passed the House. Modified in the Senate, the Bland-Allison act allowed the purchase of $2,000,000 to $4,000,000 of silver per month for purposes of coinage. Vetoed by President Hayes, it was passed over his head by the necessary two-thirds vote in each House.[3]

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[1]Alexander Dana Noyes, Thirty Years of American Finance, pp. 36-37.

[2]Ibid., p. 37.

[3]Ibid., p. 41.

While the silver-coinage bill was pending, a concurrent resolution, the Matthews Resolution, passed both Houses. Its author, Stanley Matthews was the successor of the Secretary of the Treasury, John Sherman who had been appointed to the Cabinet in 1877. The resolution stated that in the opinion of Congress, all Government bonds that had been issued or were authorized to be issued should be payable in the silver coins authorized by the Bland bill. The resolution was embarrassing to the Treasury and alarming to foreign subscribers to United States' bonds. In the meantime, an act repealing the resumption act of 1875 was passed by the House but was killed in the Senate through disagreement.[1]

In May, 1878, a bill was passed to discontinue any further retirement of existing legal-tenders from circulation. At that time, the amount of legal-tenders stood at $346,681,000. The resumption act of 1875 had provided that the sum could be reduced to $300,000,000 as new bank-notes were issued. The bill was introduced in the House and passed without debate by a vote of yeas 117, nays 35.[2] The bill provided that "when any of said notes may be redeemed or be received into

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[1] _Ibid_.

[2] _Congressional Record_, 45th Cong., 2nd Sess., p. 2928.

the Treasury . . . they shall not be retired, canceled or destroyed; but they shall be reissued and paid out again and kept in circulation."[1] When presented to the Senate for consideration, the debates were begun by an amendment presented by Senator Bayard, a Democrat from Delaware. The amendment read: "That the said notes, when so issued, shall be receivable for all dues to the United States except duties on imports, and not to be otherwise legal-tender, and any reprint of the said notes shall bear this superscription."[2] Bayard began his argument by saying that the use of credit was not sought by the Government when it issued the legal-tenders in 1862. He contended that the Government substituted its fiat for actual money and added that it was "worse than dealing in debased coin, because debased coin still has some intrinsic value."[3] Bayard argued that if the country had remained upon a metallic basis, or issued its notes and allowed them to remain at par with gold by allowing them to be freely converted into coin, or if the notes had been issued omitting the compulsory legal tender clause, then the cost of the war would have been

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[1] _Ibid._, p. 3227.

[2] _Ibid._, p. 3861.

[3] _Ibid._

cut in one-half. The people were not suffering from a want of circulating medium or a large enough volume of currency, he continued, but they were suffering from trying with "vain attempt to maintain an inflated and exaggerated system of values, growing out of a season of fictitious and false prosperity, built upon this system of irredeemable paper currency, which, without regard to its value, has yet been called upon to serve as the standard of value."[1] He also argued that the Constitution had given Congress the right to coin silver and gold as money but that no power such as that which was being sought by this bill or of the original act of 1862 was ever contemplated in the forming of the Constitution. No form of government, he continued, could be called a government with limited powers when it issued irredeemable paper currency in lieu of coin, and, he went on to say, "the power to substitute pieces of paper totally without intrinsic value, is not to diminish value, but to totally abolish it."[2] Bayard argued that placing compulsory legal tender quality on the greenbacks did not give them additional value. Instead, he continued, that "by the very edict of compulsion, there is an implication of want of value in that which is offered, which needs to be supplemented by

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[1] Ibid.

[2] Ibid.

the arbitrary power of the Government."[1] He stated that if the Government decided to issue disks made of lead or of leather and place the compulsory legal tender quality upon them, the American people would charge the situation as being shameless and would accuse the Goverment of debasing the currency, even though there would be some intrinsic value in these disks. In any case, he added, the legal tender compulsion attached to the currency was an expression by the Government of a disbelief of its own credit or else the currency would stand without any such provision. Bayard argued that the right of the Government to demand that duties on imports should be paid in coin was necessary to collect coin for the payment of the interest on the bonded debt in gold. If not, he continued, the Government would have to continue to purchase gold at an untold premium, and he added, there might be a possibility of suspension of specie payments.

Senator Hill of Georgia also argued in favor of the semi-legal tender currency, the Treasury notes. He stated that he did not believe that the Government had a constitutional right to issue paper money, but he added that since there was a shortage of gold and silver in the country, he

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[1] *Ibid*., p. 3863.

saw no reason for contracting further. Hill proposed an amendment to Bayard's amendment to strike out "excepting import duties."[1] He argued that there was a necessity for a currency that had the purchasing power of gold, and the only obstacle to this purchasing power, he continued, was the fact that the currency was not allowed to be receivable for duties on imports. The Government was pledged to pay the interest on the bonded debt in coin, the argument continued, but "as long as it is paid in coin, it should be nothing to the creditor where the coin came from."[2] The Treasury notes issued, Hill argued, would be at par with and convertible into coin, so that the bondholder would not object to receiving them as interest on his bonds. However, if he did, since the Treasury notes would be convertible into coin, it would be a simple matter to pay his interest in coin if he so desired. Moreover, he contended, it would be best to have one purchasing agent of gold, namely, the Government, rather than innumerable importers. In addition, Hill went on to say, a law which did not allow import duties to be paid with Treasury notes would form a distinction between the paper dollar and the metallic dollar: "I am

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[1] _Ibid_., p. 3867.

[2] _Ibid_., p. 3866.

unwilling for this Government to admit that any dollar is more acceptable to the Government than the dollar which the Government itself issues."[1] He added that when each dollar, gold, silver, or paper is equal to each other, then "let us have as many as we can."[2]

Senator Blaine of Maine charged Bayard's proposed amendment as being a provision that would "muddle the currency."[3] As the legal-tenders were paid into the Treasury, they would still retain their legal tender qualities, he continued, thus giving the country two kinds of circulating paper currency. Moreover, how would it be possible for the banks, he asked, to redeem their notes since the new Treasury notes probably couldn't be used to redeem them? With the amendment of Hill, he protested, gold would never be allowed to reach the Treasury. He contended that the entire financial situation in regard to resumption of specie payments had been actually changed by the passage of the Bland-Allison act. Blaine stated that at that time, no person would be willing to exchange a paper dollar for a silver dollar except importers. He maintained that it would be possible to begin

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[1] Ibid.

[2] Ibid., p. 3867.

[3] Ibid.

immediate resumption of specie payment with $10,000,000 of silver. He argued that it would make no difference whether or not contraction were effected because it was impossible to begin resumption of specie payments in January of 1879. He added that if the bill would give "content to any uneasy souls between the oceans, why not give it to them?"[1] Blaine went on to say that when silver would be released, whoever owed a debt in coin would naturally pay it with silver, thus putting the country on a silver basis. He said that a few days prior, Secretary of the Treasury Sherman had released $100,000 in silver dollars in New York and the silver was all back in the subtreasury the next day as payment on import duties. Therefore, if silver were released, Blaine added, it would immediately stop gold from coming into the Treasury.

Senator Morrill of Vermont argued that whether or not the currency was contracted did make a difference. He stated that even if resumption of specie payments was effected with silver, an ample reserve would be necessary. As long as people refuse to accept silver for redemption, he continued, of course, there would be enough silver: ". . . but the moment the conviction rests upon the people that we are to have nothing better than silver, then it will

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[1]*Ibid*., p. 3868.

be necessary that we shall have a suitable quantity of it in order to make resumption possible even in silver . . ."[1]

The bill was passed by the Senate the same day on which it was submitted for consideration with a vote of 41 yeas and 18 nays. All amendments were rejected. Thus the controversy on whether or not legal-tenders could be reissued after they had been paid into the Treasury and redeemed, was once and for all settled.

In 1878, unrest throughout the country over the currency continued. The National Greenback party existed still. In general, it still clamored for the repeal of the resumption act. The party demanded that all debts, both public and private should be payable in legal-tenders. Also, the substitution of greenbacks for national bank-notes was demanded. Especially did the party demand the discontinuance of the issue of any further Government bonds. The Missouri Greenback party demanded that the bonds be paid immediately in "absolute money" until liquidated, and if the bondholders refused to accept legal-tenders in payment, the Government should loan this money to the people at a 2 per cent rate of interest to "afford relief to the laboring man."[2] The Missouri Greenbackers also called for an income tax on "all

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[1]Ibid.

[2]Appleton's Annual Cyclopedia, XVIII, 577-78.

descriptions of property, rights, credits and effects, and all kinds of incomes, annuities, and gains by interest, discounts, or otherwise, as the only just and economical mode of levying taxes exempting from income tax all products of trade, earnings of labor, wages, rents, and annuities to the amount of $1,000 for each person.[1] It stressed that stocks and bonds should not be exempt from taxation. The Indiana Greenbackers demanded that the Government should use funds hoarded for resumption of specie payment to buy the bonded indebtedness, and that additional paper money should be issued for that purpose.[2] The Illinois Greenback platform called for the issue of at least $400,000,000 in greenbacks.[3] Also, many of the Greenbackers called for the unlimited coinage of silver.

The Democratic state party platforms, in dealing with the financial situation, often took a similar stand as that of the Greenbackers, especially the western Democrats. The repeal of the resumption act was demanded; the substitution of greenbacks for national bank-notes was also demanded; the party called for unrestricted coinage of silver; the

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[1] Ibid.

[2] Ibid., p. 442.

[3] Ibid., pp. 431-32.

payment of all debts, both public and private was demanded. Also, it was stated that only the federal Government should issue currency.

In general, the Republican party recognized the gold and silver value and recommended a currency that could be converted into coin. The Illinois, Indiana, and Kansas platforms called for the payment of import duties in coin. The Kansas convention demanded the substitution of legal-tenders for national bank-notes. It added that enough greenbacks should be kept afloat, following the law of supply and demand.[1]

As the day for resumption of specie payments neared, certain difficulties faced Secretary Sherman. The House was controlled by a Democratic majority, and the Republicans had control of the Senate with a plurality of six. The general agitation in the country against the act itself was certainly a disadvantage. The popularity of the greenback and the increasing demand for silver coinage in the United States was alarming to foreign investors. Bristow had not accumulated any gold reserve for the purpose of resumption of specie payments because he disapproved of the loss of interest that would result.[2] The gold supply in the country outside

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[1]State platforms may be found in Appleton's <u>Annual Cyclopedia</u>, XVIII.

[2]Davis R. Dewey, <u>Financial History of the United States</u>, p. 374.

the Treasury was only $100,000,000, and it was evident that United States would have to depend on accumulating gold from Europe which was also attempting to accumulate gold for the same purpose.[1] However, as luck would have it, the tide of good fortune turned in time for the United States. A record grain crop in the country in 1878 was accompanied by a crop failure in Europe that same year; the entire crop production of Europe decreased 15 per cent from the average of the preceeding three years.[2] In addition, there was a great revival of trade and industry in this country, and the balance of trade became favorable, thus turning a tide of gold toward us.

In addition to the favorable economic conditions of the country, probably an equally important factor was the financial management of Secretary Sherman. He was able to accumulate through the sale of bonds, $95,500,000 and through surplus revenue from time to time, making the aggregate of $133,508,804.50 in coin for the day of resumption of specie payments.[3] On December 17, 1878, paper currency touched par with gold, and on the date fixed, resumption of specie payments was quietly effected.

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[1]Don C. Barrett, _The Greenbacks and Resumption of Specie Payments_, 1862-1879, pp. 200-201.

[2]Noyes, _op_. _cit_., p. 55.

[3]Albert S. Bolles, _The Financial History of the United States, 1861-1885_, p. 55.

CHAPTER V

CONCLUSION

The struggle over the currency question from 1873 to 1879 revealed a great diversity in opinion as to how the financial situation should be solved. It has been the aim of the investigator to discover whether or not certain principles of finance were advocated by specific sections of the country or supported by particular political parties. The main questions included the effect of inflation on resumption of specie payment as to how and when resumption could be accomplished and the importance of inflation to the growth of business interests.

Especially in the debates over the Inflation bill of 1874, sectionalism in regard to the currency was shown. The hard money principle was defended in the East since that section was, in general, the creditor section. It was argued that the importance of a gold basis for the currency was inescapable and that inflation of the paper currency would forever postpone the promised day of resumption of specie payment. The Easterners contended that the legal-tenders had been a sort of forced loan by the Government during the terrible years of the war and that the "faith of the nation" depended on resumption of specie payment which had been solemnly pledged by the Government. The depression had been caused, they argued, not from the want of additional paper currency but from the fluctuating currency which had destroyed confidence. In addition, it was argued that a gold currency was necessary because of its intrinsic value and because gold had always been accepted by civilized nations, to maintain the financial prestige of the Government. On the other hand, the debtor sections, the West and the South, championed the cause of the inflation of the currency. They contended that the lack of circulating currency had paralyzed trade and industry and that only an increase in the volume of the currency could relieve this stringency. The refusal of Congress to allow further issuance of legal-tenders, it was argued, would be to burden the debtor and to enrich the creditor. No party lines were followed in the voting in Congress on this particular bill.

The resumption act itself indicated sectional difference on the currency question. It will be recalled that the bill had been agreed upon in a caucus of the outgoing Republican Congress before its presentation for consideration. The omission of whether or not the legal-tenders could be reissued after they had been redeemed, the provision providing for the contraction of greenbacks as new bank-notes were issued, and the fixing of a day, somewhat remote, for the resumption of specie payment, would indicate that the bill had been contrived to preserve party unity. Indeed its vagueness left the measure exposed to various shades of interpretation. The Democrats voted solidly against it in both Houses; there would have been little reason for their allowing such an ambigious bill to pass, from eastern or western standpoint. The state party platforms of three years subsequent to the passage of the resumption act, continued to follow party lines. Probably the denunciation of the Republican financial scheme was more severe in the West than in the East. The Greenback movement, although originally a labor movement of the East, had shown definite prominence in the West by 1878.

Despite the turbulence and demands for its repeal, the resumption act continued to stand as the date set for actual resumption of specie payment neared. The conversion of an unfavorable balance of trade into that of favorable and national prosperity abolished unfortunate difficulties that otherwise would have been encountered. It appeared that the hard money faction had been victorious, so ended the long political struggle over resumption of specie payment.

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