The Journal of the Gilded Age and Progressive Era **14** (2015), 77–79
doi:10.1017/S1537781414000553

REPLY TO WALTER NUGENT

Finance, like most other economic arrangements, exists in context. As we look back on the Battle of the Standards, the question is how the financial system worked in the 1890s and the alternatives the American people then faced. Conditions change. As Milton Friedman, a critic of the decision to abandon silver in 1873, wrote, "In 1896, it was too late to undo the damage." Adopting free silver in the 1890s "would have produced major disturbances in both price levels and international trade" that, in his opinion, would have outweighed any benefits.[1] Of course, Friedman may have been wrong, but the answer is to be found in the 1890s, not the 1870s.

Gold has always had a psychological appeal that is hard to explain, but in the 1890s the gold *standard* tied together the currencies of the leading industrial nations, eliminating fluctuations in exchange rates and the considerable costs associated with them. The experience of India shows the difficulties faced by those outside the system. India did attract a good deal of outside investment in the late nineteenth century, but most such investment went into securities denominated in British pounds rather than Indian rupees, a silver currency. The depreciation of the white metal substantially increased the burden of servicing these loans, in rupees, leading the Indian government to close its mints to silver in 1893. In 1898, India effectively linked the rupee to sterling and adopted a sort of secondhand gold standard.

On the whole, silverites poorly understood the workings of this system. For instance, they commonly asserted (as does Nugent) that France operated on a bimetallic standard in the late nineteenth century and thereby avoided the deflation that created such hardship in the United States. France did indeed have a dual standard until 1873, when the falling price of silver led it to close its mints to the white metal. Although initially conceived as a temporary measure, the prohibition became permanent. Silver already coined remained in circulation, and the Bank of France retained the legal right to redeem its notes in silver if it so desired, but in practice the bank kept the value of silver coins stable against gold. French policy therefore differed little from that of the United States in the 1880s and 1890s, when the country had a large circulation of silver coins that the government kept at par with gold even as the market price of silver declined. Much to the irritation of goldbugs, this similarity did not prevent silverites (or Nugent) from holding up France as a model for the United States to emulate.[2]

Nor did silverites understand banking very well. They actively opposed various proposals floated in the 1890s to make the currency more elastic—that is, responsive to temporary shifts in the demand for money, such as those associated with the harvest or a financial panic. Britain, France, and Germany all had central banks that could temporarily expand the money supply, mitigating these problems. Most of the proposals floated in the United States did come from bankers, who had a firm eye on their own interests. Nevertheless, an elastic currency would have greatly benefited farmers, and their

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https://doi.org/10.1017/S1537781414000553 Published online by Cambridge University Press

representatives could have modified bankers' ideas to take their concerns into account, as indeed would happen with the 1913 Federal Reserve Act. In the 1890s, however, silverites showed little interest in such possibilities.

Like financial reform, international bimetallism represented a serious attempt to reconcile the various interests at stake in the Battle of the Standards. Supporters included Presidents Harrison and McKinley, as well as Senator George Hoar and Representative Henry Cabot Lodge of Massachusetts. The latter did not favor bimetallism from political calculation—Massachusetts was the hardest of hard-money states. Harrison and McKinley most certainly *were* alive to the political benefits of international bimetallism, but that does not mean that their support was cynical. Both dispatched missions to Europe to negotiate currency agreements, and had those talks yielded agreements, they would undoubtedly have implemented the results. McKinley supported the legal consolidation of the gold standard only after negotiations on international bimetallism had failed and increasing production of gold was rendering the whole question irrelevant.

Silverites did understand *money*, as opposed to banking and credit. They recognized that by devaluing the dollar and increasing the money supply, free silver would probably raise prices substantially. Although beneficial to farmers, this shift would hurt other interests, and not just bondholders. The real income of workers increased substantially in the late nineteenth century as wages remained stable and prices fell. This trend, like the fall in farm prices, had a variety of causes, but workers had good reason to fear inflation.

Instead of recognizing that both sides had legitimate interests at stake, silverites and goldbugs resorted to invective—a common tendency, then and later. Goldbugs often described farmers as dimwitted deadbeats. As a prominent New York journalist wrote, "The average western American is a man of … unbounded ignorance … He absorbs it from the newspapers which form his only reading. They … teach him the most absurdly false doctrines in matters of political economy and finance." In the Battle of the Standards, "The east will stand for gold and honesty—the west for silver and knavery."[3] Silverites fashioned conspiracy theories that cast their opponents as the puppets of British financiers. Populists claimed to have circulated over 300,000 copies of Sarah Emery's *Seven Financial Conspiracies*, and although most silverites were cautious about repeating her accusations—in part because they were demonstrably false—talk of conspiracy was common in print, on the stump, and on the floor of Congress.[4] Certainly, the more level-headed silverites discounted such claims, but they were nevertheless pervasive, as even historians sympathetic to silverites have conceded.[5]

In the 1890s, the gold standard stabilized exchange rates and facilitated access to foreign capital but imposed an inflexible monetary policy. Goldbugs and silverites differed on whether the benefits were worth the costs, a calculation determined by a mixture of self-interest and ideas about how the country should develop. The issue is perennial. At this writing, Greece, Portugal, Spain, and Italy are all pursuing deflationary policies so that they can remain in the European Monetary Union and retain access to the Continent's markets and resources, even as substantial minorities in each country argue that they should abandon the Euro and adopt national currencies that they could then devalue. We like to imagine that new arrangements and approaches will banish old dilemmas, but in this case they have not.

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NOTES

[1]Milton Friedman, "The Crime of '73," 1177.

[2]See, for instance, the speech of Sen. William B. Bate, Sept. 23, 1893, *Silver Speeches*, 10.

[3]W. L. Alden, "The Battle of the Standards in America," *The Nineteenth Century* 40 (1894), 200.

[4]See, for example, the speeches of Bate, 6, 27; Sen. Fred Dubois, Aug. 22, 1893, 14; and Sen. James George, Sept. 20 & 22, 1893, *Silver Speeches*, 7; Emery, *Seven Financial Conspiracies*, 5.

[5]See Ostler, "The Rhetoric of Conspiracy and the Formation of Kansas Populism."

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