The Administration's Silver Policy

I.—An Opponent's View

By Charles B. Spahr

THE Democratic Administration was elected upon a platform demanding the expansion of the currency. When it came into power, the scarcity of money in Europe, caused by the strengthening of the gold reserves by France and Russia, the adoption of the gold standard by Austria, and the demand for gold occasioned by the panic in Australia, had forced European investors to sell their securities in the United States—the only country in which money was comparatively plentiful and from which gold could be obtained. These sales, of course, reduced our own stock of money, producing here the same kind of depression from which Europe had been suffering. Yet, although this depression extended from Europe to the United States, no sooner was it felt here than the moneyed classes with one accord attributed it to the increase of our silver currency by the Sherman Act, passed two years before and succeeded by exceptionally good times. Every merchant and manufacturer and farmer knew that he was suffering from the fall of prices. He knew that money of every sort, gold, silver, and paper, would buy more than before. Yet the money-lending classes cried the louder that it was the fear of a depreciated currency which had depreciated everything except currency. At this juncture India suspended the free coinage of silver, intensifying the danger of international monometallism, and changing the fear of insufficient currency into a panic. At such junctures in England the Government sets aside the Bank Act and allays the panic by increasing the currency. At such junctures in Germany the national bank is by law authorized to increase the currency. At this juncture in the United States the President, elected on a platform pledging more currency, called Congress together to cut off even such increase as the existing law provided.

Congress assembled, and the President submitted his message. The collapse of credit which made men unwilling to *buy* goods on credit, though anxious to sell them, and the fall in price of everything except money, President Cleveland attributed in so many words to the fear of a depreciated currency. This imaginary fear he attributed to the fifty millions a year of currency issued under the Sherman Act, though under this Act no one could get a dollar of currency without depositing a gold dollar's worth of silver bullion. Despite the fact that our country has needed for fifteen years $60,000,000 a year increase to its currency, while the gold-mines supply the whole world with less than $30,000,000 a year available for currency, he nevertheless demanded that the United States should stop using silver and join in the international demand for gold.

In administering the Sherman Law the Administration showed the same ignorance of the principles governing the value of currency, and the same determination to carry into execution the demands of the creditor classes which are enriched by the scarcity and dearness of money. When the question came before the Secretary of the Treasury whether the Sherman Act notes should be paid in silver or gold, it was ordered that they be paid in gold at the option of the holder. President Cleveland, in his message to Congress, claimed that this interpretation of the Sherman Act was necessary because this Act declared it to be "the established policy of the United States to maintain the two metals on a parity with each other." He maintained that if the Government used its discretion to redeem these notes in the silver reserved against them, it "would necessarily result in their discredit and depreciation." This he urged despite the patent fact that the four hundred millions of silver certificates and silver dollars issued under the Bland-Allison Act of 1878 had never been redeemable in gold, yet always were at par. These same silver certificates, a month after the message was written, among the New York bankers who were decrying them actually commanded a premium of one per cent. over gold. President Cleveland ignored completely the economic law that the value of money depends upon the supply of money, and not upon the cost of the material out of which it is made.

This strained construction of the Sherman Law was, however, only the beginning of the wrenching of the laws in the interests of the contractionists. The Sherman Act, in the first clause, ordered the Secretary of the Treasury to purchase "silver bullion to the aggregate amount of 4,500,000 ounces, or so much thereof as may be offered in each month, at the market price thereof, not exceeding $1 for 371¼ grains." This order the Administration refused to carry out, on the pleas that the market price of silver was the London market price, and that dealers would not sell the required amount to the Treasury at as much less than the London price as it thought they ought. The text was clear and the perversion equally clear, but by means of it the expansion of the currency was prevented, and the powerful classes applauded the violation of the law. The subsequent wrenching of the Resumption Act of 1873, in order to issue $50,000,000 of bonds to buy gold, is still fresh in the public memory.

Meanwhile, on November 1, the Sherman Act was repealed, and those who believed with President Cleveland declared, in the words of the New York "Evening Post," that they might now "look for an immediate revival of business activity in every direction." Confidence, they said, was now restored, though the only confidence that had ever been lost was the confidence that goods would bring money, and never the confidence that money would bring goods. With the contraction of the currency the confidence that goods would bring money decreased, as common sense and economic law declared that it would. Prices went down, as they have always gone down when the currency has been contracted. Manufacturers refused to pay old prices for labor and to produce goods on a falling market. So tens of thousands were thrown out of work. Merchants were forced to mark down prices as they have not since 1873; while farmers, who, on November 1, thought themselves ruined when May wheat was selling at 76, now find it selling at 67, or less than one-half its price before the demonetization of silver began.

The times were worse than ever; an election was approaching, and the representatives of silver districts in the South and West who had voted for the repeal of the Sherman Act gladly seized the opportunity of the Bland Seigniorage Bill to vote for the resumption of the silver issues, which the passage of the repeal bill had ended. The Seigniorage Bill was of no particular importance, since it would add to the currency, all told, only what Senator Sherman in 1890 declared to be the normal increase of a single year. This bill President Cleveland vetoed, and his veto has the merit of consistency. But in it he made it certain that platform pledges are to be repudiated down to the last detail, and no silver currency is to be issued unless bonds are simultaneously issued for the strengthening of the gold reserve. A silver currency backed by a gold reserve is not a silver currency at all. To print on silver our promises to pay gold is as senseless in the eyes of bimetallists as in the eyes of monometallists.

Apparently the facts which have converted most of the world's thinkers to a belief in bimetallism, and which have aroused the masses wherever they have thought upon this question, have been lost upon President Cleveland. That which has taken hold of the hearts and consciences of men is in no sense the desire to increase the demand for silver, but the desire to decrease the demand for gold, which has already forced the disastrous appreciation of gold, and makes its supply increasingly inadequate to the currency needs of the world. President Cleveland, by repealing the Sherman compromise and obeying in every detail the demands of the contractionists, has rendered to bimetallism the same service that President Pierce rendered to the anti-slavery

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cause by the repeal of the Missouri Compromise and detailed obedience to the demands of the slave-owners. The indebtedness of the country is not confined to the West and South. A large part of the fifteen thousand millions of debt is owed, as well as owned, in the East, and President Cleveland's silver policy has forced every thinking man to consider the evil and the wrong by which the burdens upon debtors in every rank in life have been so inhumanly increased.

II.—A Supporter's View

By Richmond Mayo-Smith[1]

In commenting upon the above arraignment of President Cleveland's silver policy I do not think it worth while to discuss the question whether he has fulfilled his party's pledges. Neither is it necessary to consider whether the Democratic party has been false to its pledge to inflate the currency or not. The Democrats of the South who preferred to take their chances on the Democratic platform rather than with the Populists probably knew what they were about. It was commonly understood that both the Republican and Democratic candidates for the Presidency were opposed to "free coinage," while the authors of both platforms "winked" towards silver as far as they dared, in order to catch votes. Probably many gold-money men voted for the ticket because Cleveland stood on the platform, and many inflationists voted for Cleveland because of the platform. However this may be, the real question is whether the policy of repealing the Sherman Act and vetoing the Seigniorage Bill, of maintaining the gold reserve and delaying free coinage of silver until after international agreement—which seems to be the line on which President Cleveland is conducting his Administration—is a wise one.

The panic of 1893 does not seem to me attributable simply to the demand for gold on the part of Austria and Russia. In order to obtain that gold from us it was necessary to sell here our securities, and if it had been simply a question of retaining gold, we could have bid as high to retain it as Austria or Russia to get it. The real reason why our securities sank so rapidly in value was that Europe believed us to be approaching dangerously near to silver monometallism. Our silver certificates were redeemable in silver dollars, our greenbacks and Treasury notes might be redeemed in silver dollars, and must be so as soon as our gold supply was exhausted. The Sherman Act compelled the issuing of new notes every month, which, if presented for redemption in gold, exhausted the reserve, and which, if redeemed in silver, brought us to the silver basis. To attribute the events of the summer of 1893 to simple contraction of the currency owing to European demand for gold seems to me to assign a very inadequate cause for a very great effect.

Mr. Spahr says, still further, that in such times of panic the Bank Act is suspended in England, the German Bank overissues, etc., while all we did was to contract the currency by repealing the Sherman Act. It is true that there was a great scarcity of currency in the summer. But the Sherman Act was not repealed until November 1, so that could hardly have been the cause. Relief came to some extent by the expansion of the National bank circulation, by the use of Clearing-House certificates, and by the importation of gold borrowed on the best securities. The scarcity of currency in midsummer was caused, not by the demand for gold by Austria, but by the hoarding in this country—hoarding due to lack of confidence.

The adequate and only adequate explanation of the panic of 1893 that I have seen adduced is that upon which the repeal of the silver-purchasing clause of the Sherman Act was recommended by President Cleveland—viz., lack of confidence. That is a more potent cause of falling values than the contraction of the currency, for it makes men unwilling to buy at any price. But what connection had the Sherman Act with the lack of confidence? Simply that men believed it to be forcing us to a pure silver currency, and that values would soon be regulated by the silver dollar, worth sixty cents or less. Is it any wonder that the European holders of American securities hastened to get rid of them! There *was* a "scramble for gold," but it was caused by the Sherman Act, not by its repeal. Distrust contracted the currency with a violence and malignity compared with which the power of the Administration, with all its distribution of spoils to base politicians, seems petty indeed.

President Cleveland is condemned for interpreting the declaratory clause of the Sherman Act, "it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law," as meaning that he should redeem the Treasury notes of 1890, at the option of the holder, in gold or silver. Just before, Mr. Spahr says each Sherman note represented a gold dollar's worth of silver in the markets of the world, so that there was no need of restricting their issue. If so, where was the danger of giving the holder the option of receiving gold or silver? What sense has the declaratory clause if it is not that "coin" means gold or silver at the option of the holder of a United States note payable in coin? It certainly was not necessary to inform the world that it meant an option on the part of the United States to pay gold or silver.

That the silver certificates stand at par with gold certificates and gold coin is not due to the fact that they represent forty-seven cents' worth of silver, but to the fact that the Administration redeems greenbacks and Treasury notes in gold. It is no new fact in economics that a debased currency, if limited in amount and enjoying the confidence of the people, may stand at par. That is precisely the position of the silver certificates. The policy of all Administrations since 1879—and the country has apparently acquiesced in this policy—in keeping United States notes redeemable in gold and treating silver certificates as on the same plane, together with the limited amount of the latter, has kept them at par. It seems to me inconsequent to blame President Cleveland for doing by the Treasury notes of 1890, payable in coin, what had been done by the greenbacks ever since 1879. If Congress intended the Sherman notes to be treated as silver certificates, why did it not make them silver certificates at once?

The selling of bonds to replenish the gold reserve and the veto of the Seigniorage Bill were, of course, in the same line of policy—viz., the redeemability of United States notes in either gold or silver, which keeps our whole currency system on the gold basis. The alternative would have been, not to have repealed the Sherman Act, to have signed the Seigniorage Bill, to have allowed the gold reserve to escape, to have paid United States notes in silver. For not choosing this alternative the President is denounced, not only as a tool of the moneyed classes, but as an enemy of bimetallism and of the debtor class.

It seems to me that we have right here the key to President Cleveland's silver policy, and at the same time its justification. What he has been fighting against in the above measures is not bimetallism, but the sudden jumping from gold values to silver values represented now by 47 on a scale of 100. If that should happen, there would be a dislocation of monetary and fiduciary relations compared with which the evils caused by contraction would seem as trifling as a spring zephyr compared with a Western blizzard.

On this point we have the testimony of one of the most distinguished bimetallists of the world, Professor Walras, of Lausanne, Switzerland. He writes ("Gazette de Lausanne," February 27, 1894):

> The monetary system of the world is placed between two chasms. . . . The first is the continuous and persistent lowering of prices due to the scarcity of money in a gold-monometallic system, to the detriment of the active men in agriculture, manufacturing, and commerce. . . . The other is the elevation, at first surely sudden, afterwards perhaps also continued and persistent, of these same prices, due to the superabundance of money which would follow immediate bimetallism, to the detriment of landed proprietors, workingmen, and capitalists.

Professsor Walras believes that the second danger is more threatening than the first, because England and the other monometallic nations are already alarmed by the

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