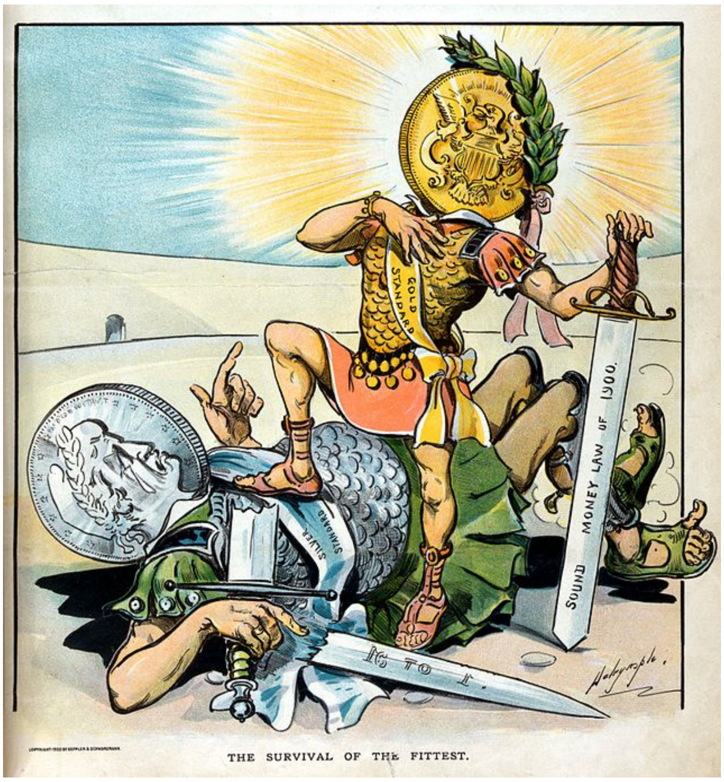
The Crime of 1873

Demonetizing silver currency for the gold standard



THE SURVIVAL OF THE FITTEST.

The post Civil War period saw Congress enact reforms on matters of monetary policy. On the 12th of April, 1866, Congress passed the Funding Act, allowing the treasury to call in and retire Lincoln’s greenbacks in circulation, and thereby contract the money supply. Again, the money trust stood to gain from this piece of legislation, just as they had done when the National Bank Act was passed in 1863.

By the end of the Civil War, Henry Charles Carey, a former chief economic adviser to Abraham Lincoln, argued for building on the precedent of non-debt-based fiat money and making the greenback system permanent. However, the Secretary of the Treasury, Hugh McCulloch, argued that the Legal Tender Acts, which gave birth to the United States notes (greenback), had been war measures and that the United States was better off abrogating the Legal Tender Acts and reverting to a specie standard "hard money".

Prior to the American Civil War, the de jure monetary standard for the United States was bimetallism, consisting of gold and silver money. This policy was enacted by the first Coinage Act of 1792, establishing a set fixture of silver in relation to gold at 15:1 (fifteen ounces of silver per one ounce of gold).

Following the passage of the Coinage Act of 1834, the 15:1 ratio was altered to 16:1, thus devaluating the mint price for silver. The conclusion of the Civil War saw drastic declines in the value of silver, peaking to a ratio as high as 40:1 at market price (forty ounces of silver per one ounce of gold). So high were the discrepancies of mint price versus market price that, doubt was cast on silver’s viability as a bimetallic reserve.

Congress had considered demonetizing silver in 1872 following trends set by Canada and European countries such as the United Kingdom, France, Germany, and Holland. One year later, the Coinage Act of 1873 became law, effectively demonetising silver, and placing the United States on a gold standard, de facto. The Act also discontinued the minting of silver dollars, albeit not entirely. Furthermore, silver coins were melted down and America's money supply contracted sharply, stirring economic depressions.

There are various schools of thought that explain the causes for silver's drop in value. One theory puts it down to the discoveries of vast quantities of silver where migration towards the American western territories was on the increase. The theory goes on to explain that an abundance of silver depreciated the price through supply and demand. Other theories advocate that the money trust conspired to both depreciate the price of silver and appreciate the price of gold to push for a gold standard. The motives given are that, gold is easy to manipulate, whilst silver is not as it is widely available; thence their explanation for the ruse. To complement this theory, it is thought that the money trust wanted the gold standard to cement their control over America's money supply, and, reinstate a central bank under their exclusive control, like they had prior to 1836.

Whatever the cause, angry people would pejoratively rename the Coinage Act of 1873 *the Crime of '73* and a new movement sprung up entitled "Free Silver".

Three years into the Coinage Act, in 1876, during a period better known as the "Long Depression", western miners, wheat, and, cotton farmers rallied to the silver cause and voiced their disapproval. They called in unison for a return to silver backed currency, or anything that made money more plentiful. Congress set up that year the U.S. Silver Commission to study the problem. In their report, they interestingly utilized the fall of the Roman Empire to serve as an analogy to their arguments:

"The disaster of the Dark Ages was caused by decreasing money and falling prices… Without money, civilisation could not have had a beginning, and with a diminishing supply, it must languish and unless relieved, finally perish. At the Christian era the metallic money of the Roman Empire amounted to $1,800,000,000. By the end of the fifteenth century it had shrunk to less than $200,000,000…History records no other such disastrous transition as that from the Roman Empire to the Dark Ages."
~ United States Silver Commission

Whilst the report blamed the demonetization of silver for the restricted money supply, this did little to remedy the problem, and, in 1877, riots broke out all over the country.

As a response to people's growing frustrations and disenchantments with their elected officials, Congress finally decided to act to relieve the pressure, hurriedly passing the Bland–Allison Act of 1878 and the Sherman Silver Purchase Act of 1890 at the behest of an initiative set by President Grover Cleveland which required the U.S. Treasury to buy up certain amounts of silver to plough back into circulation as silver dollars. Such measures were taken as a response to the growing complaints of farmers' and miners' interests, but proved insufficient in restoring currency levels prior to 1873. Previously, anyone who brought silver specie to the U.S. Mint could have had it struck into silver dollars free of charge. This service benefited miners greatly, as it fulfilled the purpose for which their silver was intended. An oversupply of raw silver drove the price down, often to below the point at which it could be profitably extracted out of the mines.

Farmers, too, suffered the consequence of the gold standard because an economy with plentiful money inflated both the demand and sales price of their agricultural produce, which benefited them; whereas an economy where money is scarce and consolidated into the hands of a few did not have the same effect on their trade. This is why a silver standard was more preferable to a gold standard. It gave more currency to money.

With banks loosening up on loans and making liquidity more available to businesses, the Long Depression came to an eventual end. The United States formerly adopted the gold standard in 1900, de jure.