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CLEVELAND AND THE GOLD RESERVE

A Thesis
Presented for the Degree of
Master of Arts

By
John J. Sekula

University of North Dakota

1933
This thesis, submitted by Mr. John J. Sekula in partial fulfillment of the requirements for the Degree of Master of Arts, is hereby approved by the Committee of Instruction in charge of his work.

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CHAPTER I

The so-called gold reserve was not as its name indicates a reserve at all until late in the nineteenth century. It was, at first, simply the annual balance of gold in the Treasury. It was not, as sometimes stated, a fund pledged to redeem the legal-tender United States notes. In reality it was only a part of the available cash, and the proportion and character of the fund depended only on the practice of the Treasury from time to time.

In 1861 specie payments were suspended. The people began to withdraw their money for hoarding and the specie reserve was dwindling rapidly. The war crisis and the suspension of specie payments soon rendered the currency system of the country quite inadequate. To meet the stringency, the Treasury began issuing United States legal-tender notes. The first of these non-interest bearing legal-tender notes was authorized by an act of Congress February 12, 1862 and were issued March 10, 1862. These notes were legal tender for all debts public and private, except duties or imposts, and interest on the public debt. They were exchangeable for United States six per-cent bonds and redeemable at the pleasure of the United States after five years.¹

On June 7, 1862 the Secretary of the Treasury recommended a further issue of legal-tender notes to supply the need of more currency. A bill authorizing the additional issue of $150,000,000.
legal-tender notes was signed by the President June 11, 1862. The act of March 3, 1863 authorized a further issue of $150,000,000, bringing the aggregate issue up to $450,000. The highest amount of legal-tender notes outstanding at any one time was on January 3, 1864, amounting at that time to $449,338,902. This sum included legal tender notes, fractional currency, and short term interest bearing notes.

It was not expected that the notes issued would stay in circulation permanently since all non-interest bearing notes issued, with the exception of fractional currency, were convertible into six per cent bonds. In his report for 1865 Secretary of the Treasury McCulloch expressed the opinion that the legal tender acts were war measures and ought not to remain in force any longer than should be necessary to enable the people to prepare for a return to the gold standard.

The greenbacks continued in circulation, however, and the currency situation was becoming troublesome. Paper money depreciated rapidly and coin was already out of circulation. To correct this evil the Secretary of the Treasury recommended the retirement of the greenbacks to contract the volume of currency, and Congress, by the act of March 12, 1866, authorized the retirement and cancellation of ten millions of legal tender notes within six months of the passage of the act. Under this act the amount outstanding was reduced to $356,000,000 on December 31, 1867. Between that date and January 15, 1874 the amount
increased to $382,979,815 and on June 20, 1874 the maximum amount outstanding was fixed by law at $382,000,000.3

Besides these United States legal-tender notes there were in circulation millions of national bank notes. Section 3 of the act of January 14, 1875, authorized the increase of national bank notes but required the Secretary of the Treasury to retire legal-tender "greenbacks" to an amount equal to eighty per-cent of the national bank notes issued, until the amount of greenbacks outstanding should be $300,000,000. This act was repealed in the Silver Purchase and Coinage act of 1878. Up to that year $35,318,984 legal-tender notes were retired, leaving in circulation $346,681,016. From May 31, 1878 the Secretary of the Treasury was required to re-issue any legal-tender United States notes received in the Treasury.4

On April 25, 1870 the Secretary of the Treasury transmitted a bill to Congress providing for the revision of the coinage laws of the United States. It was considered for five sessions of Congress and it finally became a law February 12, 1873. This act provided that the Unit of value of United States currency should be the gold dollar. It also provided that the silver coins should be a trade dollar of 420 grains Troy, a half dollar, quarter, etc. All silver coins were made legal-tender to the amount of five dollars. The act also provided that the silver dollars previously coined, of which there were but few in existence, maintained their legal-tender qualities, but the coinage of new full legal-tender dollars was discontinued.5
There was at first complete acquiescence in the result of this legislation, and not until the decline of silver in 1875 and 1876 were any suggestions made for the further coinage of silver dollars. In both these years the currency of the country was inconvertible paper and no gold or silver coins were in circulation. Strong agitation for the use of silver as coin, both in and out of Congress, especially in the silver producing west and in the south, was carried on through the years 1876, 1877, and 1878. John Sherman, then Secretary of the Treasury, in citing the current silver problem in his report of 1877, came out in favor of the use of silver as coin but only within certain limitations. He warned the country against the dangers of free coinage and recommended limited coinage from bullion purchased by the government on the open market, maintaining it by redemption, or otherwise, at par with gold coin. He said in effect that if the silver dollar was restored to our coinage it would add to the convenience of the people, but should be coined under the same rules as to issue and convertibility as other forms of money. The United States could not fix the market price of silver alone, as its price is influenced by all nations who use the metal.6

Silver Legislation in 1878

The agitation for the coinage of silver continued. The two factions leading the fight were the Inflationists, who clamored for the coinage of silver because it would bring more and cheaper
money, and the silver producers of the west whose main purpose was to create a market for their silver.

Notwithstanding the recommendation of the Secretary of the Treasury and the veto of the President, an act for the coinage of silver dollars was passed by Congress February 28, 1878.7

In analyzing the causes of the passage of the act of 1878 it will be found that it was passed through the efforts of the silver producers, who united their efforts with the true inflationists.

During the summer of 1876 a number of silver bills came up in the House. On July 18, 1876 W. D. Kelley introduced a bill to coin standard silver dollars and to restore their legal-tender character.8 A similar bill was introduced by Bland of Missouri July 25, 1876.9 At the next session Bland reported his original bill from the committee on mines and mining. This bill was introduced December 12, 1876 and was the same as that introduced by Kelley.10 The following autumn the Kelley bill, containing a free coinage clause, was again brought up by Bland. It passed without debate November 5, 1877 by a vote of 163 to 44, and was sent to the Senate.11

In the Senate the bill was in charge of Allison of the finance committee. Allison reported the bill with important amendments, the chief of which was the striking out of the provision granting free coinage, and the bill was made the special order for December 11, 1877, and thereafter it received full debate. The free coinage provision was struck out and a clause directing the government purchase and coinage of not less than
$2,000,000 worth and not more than $4,000,000 worth per month was inserted by a vote of 49 to 22. The silver men were strong for full coinage, but yielded, after fighting the proposed measure, because it was better than none.\textsuperscript{12}

The discussion and debate then centered on the price of silver and the amount of silver in the dollar. Senator Booth, of California, introduced an important amendment regarding silver certificates which passed 49-15. The whole bill as amended passed the Senate February 15, 1878 by a vote of 48-21.\textsuperscript{13}

The bill, as amended by the Senate, without the free coinage clause, proved unsatisfactory to the silver faction in the House. There were many protests but the belief was expressed by the advocates of silver that it would be well to take what they could get. At some time in the future they could try to gain more ground. A vote on the bill was taken and it passed by 203 to 72. The bill was then sent to the President, who vetoed it February 28, 1878. In his veto message President Hayes expressed his objections in the following argument. He held that neither the interest of the people nor of the government would be promoted by disparaging silver as one of the two metals which furnished the coinage of the world. He favored silver coinage only when the intrinsic value of gold and silver would be as nearly equal as their relative commercial values would permit. If a country was to be benefitted by silver coinage, he said, it could be done only by the issue of silver dollars of full value, which would defraud no man. A currency worth less than it purports to be would
in the end defraud both the creditor and the debtor. 14

In comparing the President's objections with the provisions of the bill it will be found that they do not coincide with its provisions. He was in favor of silver coinage, but only with the condition that full value dollars be coined. It was shown time and again by Treasury officials that it would be a disadvantage to coin silver dollars of full value because of their size. Furthermore, the dollar provided in the act would defraud no one, as the President feared, since it and its representative, the silver certificate with which the coin was interchangeable, was avowed by the bill to be receivable for all debts. In reality the main objection to the bill was that it contained restrictions as to the total amount of silver dollars coined, and this later proved to be its chief objection. President Hayes vetoed the bill, however, and it was passed over his veto on the same day by a vote of 196 to 73 in the House and 46 to 19 in the Senate. 15

The act provided for the monthly purchase and coinage, by the government, of not less than $2,000,000 nor more than $4,000,000 of silver bullion and that the silver so coined should be legal-tender at their nominal value, for all debts and dues, public and private, except where otherwise stipulated in the contract.

Just when the countries of the Latin Union, accustomed as they had been to silver, preferred not to give up gold, and had wholly ceased coining silver in 1878, the United States undertook the task of saving silver for the benefit of the silver producers.
The price of silver fell steadily after 1876 and the ratio of silver to gold was also falling. Not a mint in Europe dared open its doors to silver, but the United States alone came forward in an attempt to uphold the value of silver.

The Bland act was put into effect immediately. Its operation may be studied from the chart on the following page. It can be seen from the chart that the circulation of silver dollars was relatively small, $65,000,000 was the highest point reached. Besides bringing back the coinage of the silver dollar, the act also introduced the silver certificate into our currency. Section 3 of the act provided that any holder of the coin authorized by this act might deposit the same with the Treasury or any assistant Treasurer of the United States, in sums not less than ten dollars, and receive silver certificates. These certificates were receivable for customs, taxes, and all public dues. While they were not full legal tender, they were received equally with silver dollars because of their convenience and if refused they could readily be exchanged for silver dollars. It was only by the use of these silver certificates that any considerable amount of silver could be kept in circulation.

The Bland act produced an important effect upon our coinage system. The law itself clearly showed that while the silver dollar was not to supersede the gold dollar, Congress appeared ready to adopt abimetallic standard of silver and gold of equal value and purchasing power. The Bland act limited the amount of silver dollars coined each month, but it did not limit the total
A. Silver dollars in circulation.
B. Total silver in circulation:
   - Silver dollars, silver certificates, Treasury notes of 1890.
C. National Bank notes in circulation.
amount nor the period of time during which that coinage was to continue. The market value of the silver in the dollar, at the date of the passage of the act, was 93\frac{\text{cents}}{\text{gold}}; in November 1873 it was about 86 cents. As the process of coining silver progressed, the silver dollars began piling up in the Treasury while the value of silver bullion declined. The Secretary of the Treasury had predicted that this condition would arise. In his report of 1878 he said:

"It was no doubt the intention of Congress to provide a coin in silver which would answer a multitude of purposes of business life, without banishing from circulation the established gold coin of the country. To accomplish this it is indispensable either that the silver coin be limited in amount or that its bullion value be equal to that of the gold dollar. If not its use will be limited to domestic purposes."\textsuperscript{16}

Silver coin could not be exported, as gold could, at its commercial value in bullion, and if issued in excess of demands for domestic purposes, it would fall in market value and would finally become the sole coin of standard value. It is a well known fact that when two currencies, both legal tender, are issued without limit the cheaper one, alone, will circulate. \textsuperscript{4}\textsuperscript{r}, however, the issue of the cheaper money is limited to an amount demanded for circulation, it will not depreciate since its current use will keep it at par.

In a few years following the passage of the act of 1878, distrust of silver money was marked. Silver accumulated in the Treasury almost as fast as it came from the mints. Much of the silver put into circulation was in the form of silver certificates,
but as these certificates were exchangeable for gold, they were soon returned to the Treasury. Besides this, much of the silver put into circulation was finding its way back into the Treasury through the revenue channels being now receivable for customs, dues and taxes. Thus the only effect of the attempt on the part of the Treasury to circulate silver was to diminish the gold supply.  

The total coinage of silver dollars under the Bland Act amounted to $378,166,793. Since under that act the government was required to coin at least 2,000,000 silver dollars each month and since only a limited amount could be forced into circulation it can easily be seen what a burden was placed upon the Treasury. From July 1, 1878 to the middle of 1880 almost all the silver coined stayed in the treasury vaults and only a small number of certificates were out. During the fiscal year 1880 the amount of outstanding certificates was increased from $12,374,270 in July to $51,166,530 on June 20, 1881. This increase was due in part to the demand for notes for general circulation, but chiefly to the operation of the departmental circular of September 18, 1880, under which exchange in the sub-treasuries in the west and south payable in silver certificates was furnished free by the Department for deposits of gold coin with the assistant Treasurer in New York. This policy called for a transfer of funds to distant parts of the country. Under this policy a large amount of silver certificates had been paid out at the sub-treasuries, for the seasonal moving of crops. After 1881 the circulation of
certificates had increased only slightly, but silver dollars were piling up in the Treasury vaults.

The advocates of silver claimed that this troublesome situation caused by the act was due to the Treasury policy. They argued that if the Treasury paid out silver, silver would be just as good money as gold. Facts proved to the contrary, however, for just as soon as silver began accumulating in the Treasury, alarm was felt by the trade world. The Treasury officials held that if silver was paid out from the Treasury to meet the obligations of the government it would be a virtual confession that the gold in the Treasury was exhausted and that the silver standard was in force. The Treasury was not lawfully forced to make payments in gold, but in coin at the discretion of the Secretary of the Treasury. But in order to maintain the government credit and the confidence of the people, the Treasury Department was obliged to meet the government's obligations in gold and in gold only.

Resumption of Specie Payments

Under the act of 1875 the Secretary of the Treasury decided, as a preparation for resumption of specie payments, to build up a gold reserve amounting to at least forty per-cent of the United States notes outstanding.

In his report of 1877 the Secretary advised the creation of a gold reserve of $120,000,000. This amount, he said, would be
sufficient to take care of the United States notes outstanding, the volume of which was to be reduced to $300,000,000 by a provision in the Resumption Act of 1875. Congress, however, in view of the strong popular feeling against contraction of currency, by an act approved May 31, 1878, forbade retirement of any United States notes after that date leaving the amount in circulation $346,681,016. Since the policy of the Treasury was to keep a reserve of forty per-cent of the notes outstanding, the amount of the reserve was increased to $138,000,000.\textsuperscript{19}

At the close of the year 1877 the gold reserve amounted to $63,016,050, of which $15,000,000 was obtained by sale of four and a half per-cent bonds and $25000,000 by sale of four per-cent bonds, the remainder being surplus revenue. According to the Treasury policy this reserve was too small and subsequently, on April 11, 1878, Secretary of the Treasury Sherman contracted with certain bankers in New York and London for the sale of $50,000,000 of four and a half per-cent bonds. The bonds sold at a premium, bringing the net proceeds of $50,500,000 gold coin into the reserve fund. Another issue of $5,500,000 four per-cent bonds brought the total bond sales for resumption purposes to $95,500,000. To this was added surplus revenue from time to time. The amount of gold coin held in the Treasury as a reserve on November 23, 1878 was $141,888,100.\textsuperscript{20}

In anticipation of resumption, and in view of the fact that the redemption of United States notes was mandatory only at the office of the assistant Treasurer in New York City, it was deemed
important by Secretary of the Treasury Sherman to secure the cooperation of the associated banks of that city in the ready collection of drafts on those banks and in the payment of Treasury drafts held by them. A satisfactory arrangement was made by which all drafts on the Treasury held by them were to be paid to the clearing house at the office of the assistant Treasurer in United States notes; and, after January 1, 1879 United States notes were to be received by the banks as coin. It was necessary to secure this cooperation with the New York banks so that United States notes would be accepted for payment as readily as gold, thus lessening the burden on the gold reserve. Everything was ready and the outcome looked bright for the resumption of specie payment. Secretary Sherman, in his financial report of 1878, made the following comments:

"Every step in these preparations for resumption has been accompanied with increased business and confidence. The accumulation of coin, instead of increasing its price, as feared by many, has steadily reduced its premium on the market so that it is now merely nominal. The present condition of our trade, industry, and commerce, our ample reserve, and the general confidence in our national financial condition seem to justify the opinion that we are prepared to commence and maintain resumption on and after the first day of January, 1879."

In order to establish confidence in the Treasury and to clear up all doubt as to the meaning of "coin" as written in the Resumption act, Secretary Sherman let it be known that the Resumption act contemplated redemption in gold coin only.

On January 1, 1879 the gold reserve was $133,508,800. The Treasury was ready to resume specie payments. Confidence in
United States notes was restored. Even before that date, in view of resumption, United States notes and gold coin were freely received and paid in private business as equivalents. That confidence in United States notes was restored is shown clearly by the fact that from January 1, 1879 to November 1, 1879 the total number of notes presented for redemption was only $11,256,678. Aside from this very little gold was demanded on the coin liabilities of the government during the period. In the meantime coin was freely paid into the Treasury and gold bullion was deposited in assay offices and paid for in United States notes. During that period the gold reserve increased from $133,508,804 to $152,737,155. This increase of some thirty millions included the eleven millions paid out in redemption of notes and proved further the degree of confidence the people had in the Treasury policy. 22

Gold Reserve Established By Law

The first step towards the creation of a gold reserve was made by Secretary of the Treasury McCulloch when he pointed out the necessity for keeping a large gold balance in the Treasury in 1865-67. Two acts determined what the size of the reserve fund ought to be. The first was the act of 1875 which provided for the resumption of specie payments. In section 3 of this act a reserve fund is tentatively provided for by authorizing the Secretary of the Treasury to use any surplus revenues in the Treasury for future redemption of United States notes. In order
to further increase this reserve the Treasury resorted to the bond sales provided for in that act. The total amount of bonds sold amounted to $95,500,000 and since the coin (gold) thus obtained could not be applied to current appropriations or for anything but redemption of United States notes, Secretary of the Treasury Sherman placed this gold in a separate fund designated as the gold reserve. He later suggested in his report to Congress a minimum gold reserve of $1,000,000.23

In 1882 Congress had, in a round-about way, established a fund of $100,000,000 as a special and definite reserve for the redemption of "greenbacks". This provision was embodied in a bill to amend the National Bank Act, then under consideration in the Senate. The reserve was established in an amendment to a section of the bill which related to gold certificates of deposit. The amendment read:

"That the Secretary of the Treasury is authorized and directed to receive deposits of gold coin with the Treasurer or assistant treasurers of the United States in sums of not less than $20, and to issue certificates therefore in denominations of not less than $20 each corresponding with the denomination of United States notes. The coin deposited or representing the certificates of deposit shall be retained in the Treasury for the payment of same on demand."24

Senator Aldrich amended this by adding a provision giving the Secretary of the Treasury power to suspend the issue of said certificates whenever amounts of gold coin and bullion in the Treasury available for redemption of United States notes should fall below $100,000,000. After prolonged discussion Senator Ingalls moved to change the word available in the foregoing
amendment for the word reserved. This was accepted, then the provisions of the act were made mandatory by the change of the word shall for may.25

Much of the discussion over the amendment centered upon the advisability of a definitely fixed gold reserve. The sentiment of the advocates in favor of a definite reserve was expressed by Bayard, Senator from Delaware. He said:

"There is at least one merit in the amendment of the Senator from Rhode Island, (meaning Aldrich,) and that is the recognition that there is such a thing in the Treasury as a reserve fund to protect the Treasury notes in circulation.

"There has been too much vagueness about the thing, too much uncertainty. . . . I shall vote for the amendment because it provides for a reserve fund beyond the power of the Secretary of the Treasury, that it is there by legal recognition, and responsible for greenback currency."

The amendment passed and the Treasurer of the United States put the sum of $100,000,000 in gold coin in a separate fund reserved for the redemption of United States notes. Thus a gold reserve of $100,000,000 minimum became definitely established.26

Financial Situation, 1880-85

Nothing serious had occurred since the Secretary's last report to disturb the easy maintenance of specie payments. The only noticeable change in the Treasury funds was the gradual increase of silver coin caused by the coinage of silver dollars and the redemption of fractional silver coin. On November 1, 1880, almost a year after the resumption of specie payments began,
the reserve was still intact, standing at $141,597,013. All requirements of the Resumption act had thus been complied with. Secretary of the Treasury Sherman expressed his confidence that resumption could be maintained. He said, however, that if the entire amount of United States notes outstanding was to be maintained at par with coin, the reserve fund must be kept unimpaired. Ordinarily the greater convenience of notes would produce a demand for them rather than for coin, but if this proved not to be the case, an ample gold reserve would safeguard redemption. In a supreme emergency, the power granted to the Secretary of the Treasury to sell bonds would supply any possible deficit in the reserve.27

The legal-tender notes, being redeemable in gold, could not depreciate as long as the Treasury had the power and means of providing gold for their redemption. They, therefore, circulated freely, and were used not only for banking purposes but were absorbed in the every day exchanges as well because of their convenience as for the fact that they could be readily redeemed. The silver dollars, coined under the Bland Act of 1878, stood on an entirely different basis. To begin with, it developed almost immediately after they were put into circulation that the banks as well as the public did not want this coin for their every day use. Thus silver began to clog the channels of public revenue, which was the only outlet for the unpopular money. As early as 1880 it was proved that it was almost impossible to keep in circulation more than thirty per-cent of the silver dollars coined.
The remainder had to be stored in the Treasury vaults. Up to September 30, 1881 over ninety-eight million silver dollars were coined, of which only thirty-two million were in circulation. The only outlet for silver seemed to be through silver certificates which any holder of silver coin could obtain by demand. Every effort to put silver dollars into circulation was frustrated by the speedy return of the coin for certificates.

While the total amount of silver dollars in circulation had steadily increased, during the years 1880-85, the per-cent of silver dollars in circulation, to the total number coined, had dropped from 30.8 per-cent in 1881 to 18.8 per-cent in 1885.28

In 1884 a commercial and financial crisis, the so-called "panic of 1884," swept the country. The silver surplus was steadily piling up in the Treasury. Foreign exchange was heavily against the United States, and the security markets were greatly affected. The crisis was brought on by the heavy liquidation of securities, and by the embarrassment of several over-capitalized railway companies. This had been further aggravated, in February 1883, by the ill-judged hint of local Treasury authorities that it might be advisable to force out silver through Treasury payments in New York.29

The panic was confined chiefly to New York. The usual symptoms in other panics such as the hoarding of money, a general run upon savings banks, failure of banks, and suspension of American industry were not present in 1884. The Commercial and Financial Chronicle of New York commented as follows:
Business in all departments was suppressed and results as to volume of trade and prices were unsatisfactory but all in all there was no real panic. The manner in which business endured the money strain proved, that the liquidating process, during the two preceding years had been thorough; and that underneath the crumbling structure of speculation was a firm foundation of genuine increased wealth.\textsuperscript{30}

The inflationists held that the fall in prices during this crisis was due to insufficient currency. On the other hand, the Treasury reports showed that, notwithstanding the gold shipments of the year 1884, the total supply of money in circulation in the United States had increased by $435,000,000, or fifty per-cent since the resumption of specie payments.\textsuperscript{31}
2. Ibid., 172-3.
3. Ibid., 173.
4. Ibid., 173-4.
5. Ibid., 175.
9. Ibid., IV, pt. 6, 6186.
10. Ibid., V, pt. 1, 149.
15. Ibid., VII, pt. 2, 1420.
17. Ibid., XII, 15.
18. Ibid., XII, 15.
20. Ibid., p. IX.
21. Ibid., pp. IX, X.

24. Ibid., XIII, pt. 5, 5166.


26. Ibid., XIII, pt. 5, 5165.


30. Ibid., January 3, 1885, XL, 2.

CHAPTER II

FINANCIAL SITUATION 1885-93

With the election of Cleveland in 1884 the country passed from the control of one party to that of another. The financial problems of the government were becoming more critical and it was evident that the new administration would have to face a difficult situation in dealing with the currency situation. Alarm was beginning to be widely felt. There was doubt in the minds of many as to what Cleveland's plans were. Under the Bland Act of 1878 the government had already minted 200,000,000 silver dollars. It had exerted every effort to force that vast amount of silver into circulation. Much of it was actually put into circulation, but during and after the depression of 1884 it began to come back into the Treasury. Obligations of the government were being paid in these dollars, while gold was constantly being drawn from the Treasury by the use of both silver and greenbacks. In other words, the government was compelled to accept silver from its debtors while it had to pay gold to its creditors. Any other course would have ruined its credit since the Treasury had to keep gold and silver at par.

The sound money men, fearing that if the gold reserve once dropped below $100,000,000 specie payments would have to be sus-
pended, believed that legislation to stop the coinage of silver would alone arrest the danger. They brought pressure to bear on Cleveland and demanded that he come out in behalf of the gold standard. The supporters of silver were also making demands and were bringing equal pressure to bear upon Cleveland. Many excited conferences were held. On February 11, 1885, president-elect Cleveland received a letter, signed by ninety-eight Democrats of the House, expressing the fear that the banks and bondholders and those having fixed incomes were making a united effort to commit him and his administration against the continued coinage of the silver dollar. The hope was expressed in the letter that he would not do anything that would place his administration in opposition to the policy of the coinage of both gold and silver. The letter stated, also, that two-thirds of the Democrats in Congress had for six years been united in defense of silver and would continue to be so.¹

As inauguration day approached the gold Democrats, especially the old leader Samuel J. Tilden, grew insistent that Cleveland answer this letter and state publicly his determination to maintain the gold standard. To Cleveland such a declaration seemed unnecessary as he had already committed himself to a sound money policy. Eight days before his inauguration, however, he consented to sign a letter prepared for him by Manton Marble.² In this letter of February 24, 1885, Cleveland stated that in his opinion a financial crisis was close at hand. He called attention to the fact that the vaults of the Treasury were heaped full of silver
coins worth less intrinsically than eighty-five per-cent of the gold dollar prescribed by law as the unit of value. He added that the sum of gold in the Treasury available for the payment of gold obligations of the United States and for the redemption of United States notes was already being encroached upon. Going further, he made his first plea to Congress for the repeal of the Bland Act for the purchase and coinage of silver. He said that to maintain and to continue the use of both gold and silver at par, the purchase and coinage of silver must be stopped.3

There was no direct reply made to Cleveland's letter, but a statement was published setting forth at length the views of the supporters of silver coinage. They argued that while it was true that the silver bullion in the silver dollar was worth eighty-five per-cent of the gold dollar, silver coins which were admitted to the same use as gold were equal in value to gold. They held that if the Secretary of the Treasury would pay out more silver and less gold the reserve would be safe. Since the matter was entirely under the president's control, no obligations existed which under our constitution were specifically payable in gold. The belief was expressed that silver could not force gold out of circulation unless an amount equal to the entire volume of gold in circulation was forced upon the country by the Treasury.4

On February 23, 1885 the House committee on appropriations inserted in the sundry Civil Appropriation bill a clause to suspend the coinage of silver from July 1, 1885 to June 30, 1886.5 To assist the plan of suspension, Randall, chairman of the committee,
submitted a resolution to suspend the rules so as to discharge the committee of the whole from the further consideration of the bill and to limit the debate to four hours. This time was to be spent in discussing only the clauses relating to the suspension of silver coinage and the world's Industrial Exposition. The resolution was defeated 118 to 152. The vote was accepted as representing the views of a majority of the House on the suspension of silver coinage.

Commenting on the failure to suspend the silver coinage, the New York Chronicle said that business would be seriously affected. This would be the natural result of the uncertainty of values created by the continued coinage of depreciating silver dollars. It was only Cleveland's firm stand on the currency question that put heart into frightened business men and continued trade and production at the normal rate.

There was every reason to anticipate that sound and conservative counsels would prevail during the administration because Cleveland had expressed himself plainly on the leading issues of the day, while his cabinet was made up of some of the ablest men in political life. Judging from the House vote on the suspension of silver coinage, Cleveland's problem was to secure the support of his party for his sound money policy.

**Condition of the Treasury**

When Secretary Manning took over the Treasury in 1885, he had
a real task before him. The situation was more serious than it appeared to be on the surface. Secretary McCulloch, preceding Manning, had permitted his balance to increase during the last month of his term. He made no bond calls against the standing surplus accumulating in the gold reserve. The reserve fund, therefore, was growing, but the policy of postponing the debt payment could be carried on indefinitely.  

In spite of the efforts of the outgoing administration to keep the gold reserve up, it had began to drop in the last months of President Arthur's term. It went down from $141,000,000 on January 1, 1885 to $125,000,000 on April 1, 1885. Cleveland and Manning recognized this threat against the reserve and began adopting vigorous measures to protect it. They permitted no bond redemptions, allowing the revenue to accumulate in the Treasury, and they used greenbacks whenever possible for disbursements, instead of using gold or silver certificates. They also made arrangement with the New York Clearing House to assist them in keeping the existing stock of gold in the Treasury. The results surpassed all expectations. At the end of the first year the reserve had been built up from 125 millions to 151 millions.  

During this period the gold reserve had fallen to its lowest level since the resumption of specie payments. As A. S. Hewitt later pointed out in the House that the country had really stood close to disaster in the early days of Cleveland's administration. He stated that to his personal knowledge, three great New York banks had secretly accumulated more than $25,000,000 in gold in
anticipation of possible disaster. The crash did not come, he said, "thanks to Grover Cleveland and that superb management of the Treasury which has made the name of Daniel Manning famous throughout the financial world."^{10}

Since the fourth of March, the Treasury Department had been admirably conducted. Manning had reversed the flow of gold and greatly strengthened national credit. Before March 4, 1885 the New York customs receipts were practically all gold and its equivalents, but after that date the proportion paid in silver certificates reached nearly 42 per-cent of the whole. Under the policy of Cleveland and Manning the per-cent of duties paid in silver certificates was cut from 41 1/3 in April 1885 to only 9 3/4 in September 1885. After the first year of the new administration the gold reserve was sound but the risks of the silver coinage act were still present. Until Congress repealed the Bland Act no revival in business, except within very narrow limits, was to be anticipated. As long as compulsory coinage was kept up, confidence in the stability of our currency could not be permanently restored.\(^{11}\)

The very success of the new Treasury policy angered the advocates of free coinage, for they would have liked nothing better than to see the nation forced upon a silver basis. Congress had no sooner met in December, 1885, than there occurred a series of attacks on the President and Secretary of the Treasury. The whole line of criticism was directed against the policy of maintaining a large gold reserve and the administration's refusal to pay out silver. Senator James B. Beck of Kentucky and Senator Eustis of
Mississippi, particularly denounced the policy of the administration of locking up so much money in the Treasury. They expressed the opinion that it was not necessary for the United States to retain a reserve for the maintenance of its credit and the payment of its cash obligations. They argued that the government could just as well pay its obligations in silver and by doing so it could relieve the Treasury of its "burden", as the gold men called the silver in the Treasury. The defenders of the government policy argued that an ample reserve was needed and absolutely necessary to maintain the government credit. They held that any increase in the reserve was a point gained in maintaining the credit of the nation. In answer to this argument the opposition contended that the resources of the country were so ample and our credit so sound that there could be no possibility of a demand upon the Treasury which could not be met. In the House, Bland, Warner of Ohio, Weaver of Iowa, and Bryan of Nebraska led a group of Democrats and western Republicans who accused Cleveland and Manning of working in the interest of the eastern bankers and the creditor classes. They denounced the policy of maintaining a large surplus in the Treasury as a plan to secure the favor of Wall Street and the banks. They contended that the money which was derived from taxes obtained from a hard working people was held in the Treasury for the benefit of the bondholder. The whole idea of the reserve was wrong, since the bondholders were not thinking of the public welfare but merely of the annual interest in gold they received from the government bonds in their possession.
Cleveland continued his sound money policy in spite of all criticism. In his second annual message he sharply challenged Congress for being responsible for the silver surplus, piling up in the Treasury. He said in effect that every fair and legal effort had been made by the Treasury department to distribute silver currency among the people. The withdrawal of United States Treasury notes of small denominations and the issuing of small silver certificates had been resorted to in an endeavor to accomplish this result, in obedience to the will and sentiment of the representatives of the people in Congress. In spite of this effort, however, the silver was steadily accumulating in the Treasury. As further expressing the same views of his first message, in his second message he again recommended the repeal of silver purchase and silver coinage. He said:

"I again urge suspension on the grounds contained in my former recommendation, reenforced by a significant increase of gold exportation during the last year, and for the further reason that the more this currency is distributed among the people the greater becomes our duty to protect it from disaster. We have abundance for our needs and there seems but little propriety in building vaults to store such currency when the only pretence for its coinage is the necessity of its use by the people as a circulating medium."

In his report of 1886 Manning assailed the silver act from all angles. He said:

"I have labored to promote the circulation of silver with unremitting energy. I have pressed its circulation at a constant expense to the Treasury when other forms of lawful money could have been circulated without such costs. Except our own, no mint in the world which gives free coinage of gold now coins full legal tender silver. We alone heap up the load. Meanwhile what good have eight years of it done the silver owners?"
The fact was that with some eight years of compulsory purchase and coinage of silver the price had declined. Furthermore, after eight years of free coinage of full legal-tender silver dollars, the people of the United States had used only 8,045,838 of the total number coined. Congress had already, since 1873, required the coinage of some 215,000,000 silver dollars. In 1885 gold coin still comprised 66% of the metallic circulation of the United States.16

On March 23, 1887 Fairchild replaced Manning as head of the Treasury Department. Fairchild, as well as Manning, recognized the danger that existed in the compulsory coinage of silver. He put forth his utmost efforts in the hope of obtaining the repeal of the silver coinage clause.

Secretary of Treasury Fairchild, in his report of 1887, brought out a new plan to solve the silver problem. His scheme was to establish a $5,000,000 reserve of silver dollars and as long as this reserve was maintained the purchase and coinage of silver was to be suspended.17 This recommendation to Congress, as well as many others, was not concurred in because of the strong sentiment in Congress against restrictions on silver purchases and coinage.

From the middle of the year 1886 for the remaining months of Cleveland's term the country enjoyed a short respite from monetary disturbances. The gold reserve remained well over $100,000,000, being over 158 million on July 1, 1886; $168,000,000 July 1, 1887; and close to or over $200,000,000 from then to March 1, 1889.18
These large surpluses were not maintained without criticism however, for the administration was constantly being assailed by members of Congress. Morrison led the attack in the House, and Vest the attack in the Senate. The whole attack was centered upon the policy of a large reserve which the administration had accumulated during the past year. The opponents of the administration all favored the plan of applying the large reserve or at least the sum in excess of 100 million to the payment of the outstanding debt. Weaver of Iowa said:

"What moral or legal right has the Secretary of the Treasury to hoard in the vaults millions, yea hundreds of millions, of money that has been drawn from the people by painful taxation when interest bearing debts are payable and due according to law. It amounts to a misappropriation of public funds and to the boldest kind of absolute tyranny."^{19}

It was still further argued that it was not necessary to keep any considerable reserve even for the purpose of redemption. It was also argued that nobody wanted greenbacks redeemed, that gold goes ten times for greenbacks where greenbacks go once for coin. Furthermore they held that the greenback was redeemable in coin but not necessarily in gold coin, and that it was impossible for silver and paper to fall below the level of gold since the volume in circulation was so limited.

In answer to these arguments it was shown that the gold reserve was not idle but was, on the contrary, the busiest and most useful fund in the Treasury. This gold supplied the country with a circulating medium three and a half times its own size. It was also argued that the balance in the Treasury was not as large as
pictured since many drafts and checks were always outstanding against it.\textsuperscript{20} On July 14, 1886 Morrison brought before the House, from the Ways and Means committee, a report on the excessive surpluses held in the Treasury. The report contained a joint resolution requiring the Secretary of Treasury to employ all its money over and above $100,000,000 in retiring government bonds. The resolution passed the House by a vote of 207 to 67, and it was next amended and passed in the Senate by a vote of 42 to 20. The amended resolution as it passed the House provided for a 100 million reserve with a 20 million working balance, but the Secretary of the Treasury was required to retire government bonds with all gold in the reserve above the smaller amount. Cleveland prevented it from taking affect by a pocket veto.\textsuperscript{21} In vetoing the resolution Cleveland said:

"It is not approved because I believe it to be unnecessary and because I am by no means convinced that its mere passage and approval at this time may not endanger and embarrass the successful and useful operation of the Treasury department and impair the confidence which the people should have in the management of the finances of the government."\textsuperscript{22}

The Republicans regained the control of the national administration, and in 1889 William Windom became the Secretary of the Treasury. In the campaign of 1888 the Republicans had denounced Cleveland’s opposition to silver coinage as an attempt to demonetize silver. They declared themselves in favor of the equal use of gold and silver as money. A clause in their platform read:

"The Republican party is in favor of the use of both gold and silver as money, and condemns the policy of the Democratic administration in its effort to
When Harrison became president the supporters of silver began an insistent demand on the party to redeem its pledge, and give the country free and unlimited coinage of silver. In November 1889 a silver convention met in St. Louis. Thirty states and territories were represented. Fiery speeches against the capitalists were made and a platform was drawn up. The platform, which Bland of Missouri wrote, demanded that the fifty-first Congress open the Federal mints to the free coinage of silver, and that the money so coined be made legal tender for all debts.

This was Harrison's first administration and he had to think of re-election. The country was sharply divided on the question and he dared not commit himself to either side. He declared himself in favor of the use of silver as money, but he also spoke against this policy if carried too far. In his first annual message he said that he had always been an advocate of the use of silver in our currency and that since we were large producers of that metal we should not discredit it. In his second message to Congress he suggested an international council to consider the question of the free use of silver as money and the adoption of bimetallism as a desired policy.

With the president thus apparently committed in favor of their theories the advocates of silver in Congress renewed their fight for unlimited coinage of silver. Many different propositions were brought forward. While some favored Secretary Windom's plan of issuing Treasury notes against deposits of silver bullion, the
notes being redeemable in equal value of bullion on demand, others insisted on free coinage and vowed they would accept nothing else. A bill embodying Secretary Windom's plan was finally agreed to in the House. The bill was amended in the Senate by the substitution of a free coinage measure. This measure passed the Senate on June 17, 1890 by a vote of 43 to 24, but the House refused to concur. The Democrats supplied the majority in favor of the measure, the vote being 28 Democrats and 15 Republicans. A long fight followed and the free coinage men finally accepted a compromise measure, the Sherman Silver Act, which was passed by both Houses and approved by President Harrison July 14, 1890. The act was a Republican measure and passed the House by strict party vote. The sectional vote is as follows:

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Of the number counted as not voting, 112 were paired, leaving only four whose vote could not be counted. Adding the pairs makes a total vote of 178 yea to 146 nays.28

The essential provisions of the Sherman Act were that the government was required to purchase, monthly, at least 4,500,000 ounces of silver, at market price, to be paid for in legal-tender notes redeemable in coin; and the coinage of silver, provided for
in the Bland Act of 1878, was to be repealed after July 1, 1891. Under the operation of the act the price of silver advanced immediately after the passage of the law. On July 14, 1890 the price of silver was $1.08 per ounce; and by September 3, 1890 it reached its highest point, $1.21. After September the price dropped rapidly until by November 1, 1891 it was quoted as only $0.96 per ounce, making the bullion value in the dollar but 74\frac{1}{2} cents. The quick rise in price was due primarily to speculation. The Sherman law brought about another peculiar result: imports of foreign silver from May 1 to November 1, 1890, exceeded exports by $7,750,000 while for the corresponding period a year earlier exports exceeded imports by $7,860,000, a total difference of $15,610,000. In other words the Sherman act provided for the purchase of much more silver yearly than our total annual production of the metal. President Harrison stressed the same point in his third annual message to Congress. He showed that the government was buying and putting aside annually 54,000,000 ounces of silver, which was 6,640,000 more than our domestic product available for coinage. In spite of this showing, however, the President recommended that the Sherman law be given further trial.

In his report of 1891, Secretary of the Treasury Foster reported a loss of $67,946,786 in gold by net exports during the fiscal year 1891 and a gain of silver by excessive imports amounting to $2,745,365. The total amount of gold exported from February to August 1891 was over seventy million. The chief cause for these heavy gold exports was the financial stringency both here and abroad. Up to midsummer of 1890 the year had been one of more
than average business activity, but after that the outlook was not so promising. Agriculture was in an unsatisfactory condition, overtrading and unhealthful expansion was apparent everywhere. The banks of the country were unduly extended and the flow of money to this country from Europe ceased. Vast amounts of American securities held abroad were forced on the New York markets in preparation for an expected collapse. Aside from this there existed a monetary stringency in England and Europe as well, caused by failures of the Panama Canal Company, the Baring Brother's Banking House, and the French Copper Syndicate. As a result of these failures a large amount of gold was needed at once and they turned to the United States for it. The financial needs of Russia and the accumulation of gold by Austria-Hungary, with a view to the resumption of specie payments caused a premium to be paid for gold exports and was an important cause of its outflow. Distrust of our monetary legislation and the fear on the part of Europe that we were drifting towards a silver basis, also had an important influence upon gold exports.34

To help relieve the stringency at home the Secretary of the Treasury increased his purchase of United States bonds to such an extent as to almost entirely exhaust the available surplus in the Treasury. From July 19 to November 1, 1890, over $99,000,000 were disbursed in payment for United States bonds and interest in an attempt to supply the country with a larger circulating medium. It was apparent, however, that while the relief afforded was timely, the unfavorable conditions were caused to a greater degree
by a want of confidence than by a lack of circulating medium.  

Throughout the period of currency difficulties the gold reserve, although pared down considerably, remained above the $100,000,000 mark. It had dropped, however, from over 190 million in 1890 to a little over 110 million in 1892.

In spite of the fact that the government was already buying more silver yearly than the country produced, the silver advocates still clamored for free coinage. They were not satisfied with the Sherman Act of 1890 and argued that it did not go far enough. A number of free coinage measures were introduced in both the House and Senate in the fifty-first Congress but the bills died in committee. The silver faction was persistent, however, and kept up their fight for free silver coinage. Finally on January 14, 1891 they succeeded in passing a free coinage bill in the Senate by a vote of 39 to 27. This bill was later killed in a House committee. In the Senate debate on the bill the measure was supported on the ground that there was insufficient currency to transact the business of the nation. They argued that the per-capita circulation in the United States was only half that of France or England, and that the country's ills were due to this shortage in the circulation medium.

In answer to the argument that the government was already buying up the nation's total silver product, the silverites cried that it was more money in circulation that they wanted, not more silver in the United States Treasury. The sound money men met this argument by showing that the circulating medium of the nation was
gradually increasing. They argued that instead of aiding the financial problem a free coinage act would merely flood the country with a currency that would rapidly depreciate and lead to disaster.37
FOOTNOTES
1. Appleton's Annual Encyclopedia, IX, 783.
2. Ibid., IX, 783-84.
8. Ibid., XL, 280.
13. Ibid., pt. 3, 3000-1.
16. Ibid., 1885, I, pp. XVII, XVIII.
17. Ibid., 1887, I
18. Ibid., 1889, I, 93.
21. Messages and Papers of the Presidents, XII, 5475-76.
22. Ibid., VIII, 5628.
24. Messages and Papers of the Presidents, XII, 5475-76.
25. Ibid., VIII, 5628.
27. Ibid., 51st Congress, 1st Session, pt. 8, 7264.
28. Ibid., 51st Congress, 1st Session, pt. 8, 7226.
29. See appendix for entire act.
30. Report of the Secretary of the Treasury 1891, I, p. XXXI.
31. Ibid., 1890, I, p. XLIX.
32. Messages and Papers of the Presidents, VIII, 5628.
33. Report of the Secretary of the Treasury, 1891, I, p. XXXI.
35. Ibid., 1891, I, 9-12.
36. Report of the Secretary of the Treasury 1892, I
Immediately after his election in 1892, Grover Cleveland set to work upon the problems which were facing the administration. The western constituencies were demanding free silver, while in the east public opinion was urging the repeal of the Sherman Silver law. To attempt repeal might disrupt his party. The increase of the public debt by issuing bonds to maintain a standard of value would but add to the number of the silver supporters. The situation was becoming a serious one. The surplus which Cleveland had so carefully guarded in his first administration was gone. In the east there was a growing fear that silver would eventually displace gold in the Treasury. In the west, there was great dissatisfaction with the Sherman law, and some of the silver supporters were determined to press their demand for free silver. European investors were thinking of ways and means to secure gold for the remaining American securities held there. Exports of domestic products were decreasing and imports were increasing. The future of the currency and finances of the country depended on the action taken by the new administration.  

Cleveland certainly needed competent assistants and wise counsel during the coming years. John G. Carlisle, of Kentucky, was chosen Secretary of the Treasury. He was wisely chosen as he
had an admirable record in supporting Cleveland's policy and principles during his speakership in the House in previous years.

The gold reserve had rapidly dwindled in the years of Harrison's administration. This was due to the president's policy of redeeming government bonds at high premium in order to increase the circulating medium of the country. On March 7, 1893 when Carlisle took office the reserve was only slightly above the 100 million mark. By arrangements with western banks it was then increased until, on April 1, 1893, it amounted to $106,892,000. But the '93 panic was on, shipment of gold to Europe increased, and prices were falling rapidly. Gold payments for customs and internal revenue duties fell off sharply and by April 18 the reserve had lost its previous gains. The anxiety in the business world was great when the reserve fell to only $100,000,000. It was commonly believed that the Secretary of the Treasury would soon cease making gold payments. In many newspapers appeared statements to the effect that the United States Treasury officials were contemplating redemption of Government bonds in silver. To offset these reports Carlisle made a public statement on April 20, 1893 that he had paid gold in the past and would continue to do so as long as he had gold in the treasury lawfully available for that purpose. He said that no order had been made to stop gold payments nor had anyone been authorized to say that such an order would be issued. He further stated that it was the purpose of the government to preserve its credit unimpaired and to maintain the parity of gold
and silver by all lawful means.

The result of Carlisle's public statement was far from being satisfactory for it contained an unfortunate expression, indicating that he would pay gold as long as he had gold lawfully available. The question still remained, could the 100 million dollars of the gold reserve be lawfully used for redemption of Treasury notes. The Secretary of the Treasury had not answered this question and the public opinion was divided as to whether he meant that only the gold not included in the reserve would be used in redeeming Treasury notes in 1890. On April 22, notwithstanding the most strenuous efforts of the Treasury Department, the gold reserve fell below $100,000,000. Cleveland finally yielded to the advice of the financiers and came to the rescue of the Treasury. He authorized a statement on April 23 which emphatically contradicted all newspaper reports concerning the policy of the Treasury Department. He stated that the redemption of government obligations in anything but gold had never been considered. He insisted that the administration was harmonious in its determination to maintain public credit, to keep faith with the public and to preserve the parity between gold and silver. He further stated that, with the confidence and cooperation of the people, the threatened dangers would be averted, and he promised legislation for a better and sounder financial plan. Cleveland's impressive declaration considerably subdued the panicky feeling in the country. The public was satisfied that the administration was harmonious in its determination
to maintain the parity between gold and silver. The change in confidence was apparent in Europe as well as in America, and this was reflected in foreign exchange markets as well as on Wall Street. The feature of the week of June 24, 1893 was the arrival in New York of a shipment of $500,000 in gold from London. The event was chiefly significant in showing an improvement in the condition of our foreign exchange. The announcement of Cleveland's policy had undoubtedly tended, in some degree, to revive foreign confidence in American investments and led to a small but decisive increase in the sale of our securities in Europe. There was as yet, however, no assurance that the flow of gold into this country would be continued. 

In the meantime there occurred the panic of July, 1893. Gold was being hoarded and money was becoming scarce. The Baring failure in London, as had been previously pointed out, considerably aggravated the monetary stringency abroad. The silver purchase act of 1890 was inflating the currency by about 50 millions annually and was bringing about a marked disappearance of gold from circulation. At the same time the Populist free silver demands aroused fears in the East of a Western dominance in Congress and the consequent destruction of the gold standard. Many business firms began to issue scrip in an effort to supply circulating medium. The Secretary of the Treasury authorized a further issue of national bank notes for the same purpose. Between March 30 and November 30, 1893 more than $34,000,000 in
such notes were issued. This addition to the currency was of little aid, however, because it immediately went into hiding. In his December report the Comptroller of Currency expressed the belief that it was not a lack of currency in circulation which had brought on the trouble. No additional amount of money would have given relief. As long as confidence was lacking and credit declining, hoarding would continue and additional issues would give little, if any, actual relief.

Repeal of the Sherman Law

The financial situation was rapidly becoming critical and a breakdown of the gold standard was threatened. Conservative Democrats realized that to relieve the situation some change had to be made in the Sherman law. All attempts to repeal the law previous to 1893 had failed. The rapidly increasing strength of the silver faction in Congress had by 1893 become a real menace to the president's policy. Cleveland and Carlisle both understood that the fight for repeal would be a bitter one, but financial developments were making it impossible to avoid the issue. When the Sherman bill became a law in 1890 not a single Democrat had voted for the measure, but in 1893 the growth of the Populist party had undermined the party and many Democrats objected to its repeal unless a free coinage bill was substituted for it. Cleveland was urged to call a special session of Congress for the repeal of the
Sherman act. Banks, trust companies and other corporations began distributing circulars demanding repeal and many chambers of commerce voted resolutions asking for the same action. The silver supporters were likewise preparing for the struggle. They were not greatly impressed with the arguments for repeal. To them the whole demand was merely a plot of Wall Street and the capitalists of the east. They sent a host of speakers over the country to stir the people against the repeal of the silver act. Colorado, the center of the silver producing region, was naturally the most aggressive in this battle for silver. Their opponents persisted in their efforts to get a special session but Cleveland still delayed action. The party had been elected on a platform promise of tariff reform and to repeal the Sherman law might disrupt the party. Another reason for the delay was the opposition in Congress. Such influential men as Voorhees of Indiana, chairman of the finance committee in the Senate, refused to take a decided stand. Cleveland stated that it was because he could not count on the support of Voorhees that he delayed in calling Congress in special session. Volney T. Malott, an Indianapolis banker, and a supporter of the Cleveland policy, assured Cleveland that Voorhees could be persuaded into favoring repeal. He said that the senator would certainly listen to the importunities coming to him from his Democratic friends in banking and business circles in Indiana. Ex-senator T. F. Bayard and Secretary of State Greshem, both friends of Voorhees, also assured Cleveland
that Voorhees could be lined up behind the administration. 9

The effects of the panic gradually spread westward and in many districts, where free silver sentiment was strong, public opinion was changing to a more reasonable attitude on the silver question. Many banks were forced to close their doors and financial stringency which followed undermined the determination of those who had clamored for inflation.

Cleveland's proclamation calling for a special session on August 7, 1893 was issued June 30. Distrust and apprehension concerning the financial situation, wrote Cleveland in his proclamation, had already caused great loss and damage, and the crisis was largely the result of the operation of the Sherman law. 10

Immediately after his proclamation calling a special session Cleveland was secretly taken away, aboard a yacht, for a serious operation. Secrecy was necessary because Vice-president Stevenson was a silver man, and with the possibility of his being President the announcement of Cleveland's condition would undoubtedly have caused a new financial crisis. Fortunately the operation was successful and Cleveland's health was completely restored.

Cleveland opened the special session with a message that was at once tactful and moderate. He began by briefly reviewing the painful business situation caused by the sudden distrust as to our monetary standard, and laid the blame for the whole
situation on our unwise silver purchase legislation. He showed that since the passage of the Sherman law the government had bought more than $147,000,000 worth of silver and that many of the notes issued for its purchase had been redeemed in gold. Between May 1, 1892 and July 15, 1893 the notes issued in payment of silver bullion amounted to a little more than $54,000,000 and during the same period about $49,000,000 was paid by the Treasury in gold to redeem these notes. Thus the prospect of the complete substitution of silver for gold seemed to be impending. The redemption of notes in gold had already encroached upon the gold reserve. Thus we had made the depletion of our gold easy, and had apparently tempted other nations to add to their stock of gold. This, he said, was shown by the fact that for the year ending June 30, 1893, gold exports had exceeded imports by more than 87½ millions. In closing, Cleveland declared that it was apparent that the operation of the silver purchase law was leading in the direction of a single standard and the payment of all government obligations in depreciated silver. He had called Congress, therefore, to obtain the repeal of the existing law for the purchase of silver.11

On August 8, Senator Hill introduced the first bill to repeal certain sections of the act of 1890, and the bill was referred to the committee on finance. On August 11, Wilson introduced a repeal bill in the House.12 Then followed a prolonged conflict between the advocates of the gold standard and their opponents.
In the House, many lengthy speeches marked the debate. Wilson, Cochran, Reed, Coombs and others carried the attack for the sound money supporters. Bryan of Nebraska and Bailey of Texas led the attack on the other side for the silver cause. The chief points made by these speakers were that demonetization favors the monied class, that silver was a lawful money of the constitution and we had no right to take it from the people, and that gold alone could not furnish a sufficient supply of money to meet the necessities of commerce. Bailey quoted the statement of Alexander Hamilton that to annul the use of either gold or silver is to abridge the quantity of the circulating medium. He further pointed out that there always would be difficulty in adjusting and maintaining a given parity between gold and silver and he advocated free coinage of silver as an aid in fixing the relative values of the two metals. He finally proposed to Wilson and those acting with him that they join the silver bloc in permanently establishing the equality of gold and silver and bind themselves to keep the gold and silver dollar at the same intrinsic value.

Bryan gave a flowing three hour speech, championing his cause. His arguments followed the familiar lines. He contended that there was neither gold enough nor silver enough to form the world’s supply of specie. He maintained that if the United States would keep its courage, it could preserve the parity of gold and silver at 16 to 1. He said that repeal of the Sherman law points to the burial of silver and to a single gold standard.

"It leads irresistibly to a universal gold monometallism;
to a realm over whose door is written, Abandon all hope, all ye who enter here."

He said further that,

"If bimetallism is impossible then we must make up our minds to a silver standard or to the abandonment of both gold and silver. Let us suppose that the worst that has been prophesied by our opponents, namely, that we would be upon a silver standard if we attempted the free coinage of both gold and silver at any ratio. Let us suppose that all our gold goes to Europe and we have only silver. Silver would not be inconvenient to use because a silver certificate is just as convenient to handle as a gold certificate and the silver itself need not be handled, except where necessary for change. If, following out the supposition, our gold goes abroad Europe will have more money with which to buy our exports, cotton and wheat, cattle and hogs."

He said that instead of adopting a gold standard in order to trade with Europe why not reverse the proposition and say that Europe must resume the use of silver in order to trade with us.

"But why adopt either gold or silver alone? Why not adopt both and trade with both gold using and silver using countries?"

In closing Bryan said,

"The last platform pledges us to the use of both metals as standard money and to the free coinage of both metals at a fixed ratio. Does anyone believe that Mr. Cleveland could have been elected President upon a platform declaring in favor of the unconditional repeal of the Sherman law?

"The President has recommended unconditional repeal. It is not sufficient to say that he is honest, so were the mothers who, with misguided zeal, threw their children into the Ganges. The question is not, is he honest, but is he right? He won the confidence of the toilers of this country because he taught that 'public office is a public trust', and because he convinced them of his courage and his sincerity. But are they willing to say, in the language of Job, 'Though he slay me, yet will I trust him.'

"Whence comes this irresistible demand for un-
conditional repeal? Not from the workshop and farm, not from the workingmen of this country, who create its wealth in the time of peace and protect its flag in the time of war, but from the middlemen, from what are termed the business interests, and largely from that class which can force Congress to let it issue money at a pecuniary profit to itself if silver is abandoned. The President has been deceived. He can no more judge the wishes of a great mass of our people by expressions of these men than he can measure the ocean's silent depths by the foam upon its waves.

"Today the Democratic party stands between two great forces each inviting its supports. On the one side stand the corporate interests of the nation, its moneyed institutions, its aggregations of wealth and capital, imperious, arrogant, compassionless..."

"On the other side stands that outnumbered throng which gave a name to the Democratic party and for which it has assumed to speak. Work-worn and dust-begrimed, they make their sad appeal... They cannot pay for loyalty except with their suffrages, and can only punish betrayal with their condemnation...

"This army, vast and daily vaster growing, begs the party to be its champion in the present conflict."14

The chief argument used by the sound money men centered on one idea: The currency famine, which the country was suffering from, was the result of distrust in our monetary system, caused by the increase of paper money and the export of gold. "Remove the cause, the Sherman Act, and you will quiet the people's fears and with returning confidence the currency will again come into its ordinary channels."15

"The Sherman law has failed to accomplish the results expected by those who formed it", said Wilson. Going further, he said that it was expected that when the United States poured over $4,000,000 legal tender Treasury notes, every month, into the channels of trade, there would be a wholesome expansion of our currency. But, contended Wilson, instead of expanding it has
worked a harmful contraction of the currency. For every million of Treasury notes thus poured out more than a million of gold has disappeared or gone into hiding. He argued that the repeal bill would bring about the desired parity between gold and silver.\textsuperscript{16}

In answer to the plea for bimetallism, Wilson said:

"We are all bimetallists except the free coinage silver men who are monometallists, all for silver."

He also argued that there should be no fear of a gold standard, since we have always been on a gold standard and on a single gold standard since 1873; and that the repeal bill does not demonetize a single silver dollar.\textsuperscript{17}

In closing the debate for the supporters of repeal, Reed gave the following two reasons why he favored repeal:

"First it seems to me to be deeply settled in the public mind from causes which can be easily understood, that the Sherman law is the cause of the unreasonable hoarding of currency throughout this country. The popular mind is so filled with the idea that the existence of the purchasing clause of the Sherman law is an element of disorder, that if we remove it we shall do more to restore confidence than anything we could do in the world.

"Second, when the time comes it will assist us on the upward path to the next period of prosperity and progress."\textsuperscript{18}

Cleveland was pleased with the victory, which was even greater than anticipated. The supporters of the Sherman Act were beaten with the decisive majority of 131. The Democratic vote was 138 yeas and 78 nays and the Republican 101 yeas and 22 nays. All the Populists voted in the negative, eight votes.\textsuperscript{19} The bill was then referred to the committee on finance in the Senate.
The vote by sections is as follows:

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The Senate, meanwhile, had also been working on a repeal bill, introduced by the committee on finance August 18. That bill contained a declaratory paragraph in favor of bimetallism, but otherwise it was a sound repeal bill. When the Senate committee received the House bill they amended it before reporting it to the Senate. The amendment was in the nature of a substitute, the committee having substituted the Senate bill for the House bill.

The fight in the Senate was not so easily nor so quickly won as in the House. The free silver forces were confident of a majority and they fully expected to kill the bill. The east and the west were clearly divided. On one side were Stewart, Teller, Pepper, Jones, Vest, Morgan, and Gorman fighting for the Sherman act, while Morrill, Hoar, Voorhees, and McPherson carried the
attack against the act. The greatest argument used by the silver supporters, which was merely a matter of interpretation, was that repealing the purchase clause of the Sherman Act was not in line with the platform adopted by the Democrats in Chicago, June 1, 1892. They argued that the platform pledged the use of both silver and gold as standard money of the country; and to the coinage of both metals without discrimination. Senator Morgan was particularly loud in condemning the repeal bill because in counteracted the pledge made to the people in his party's platform. He said that there was nothing in the bill except the death warrant for silver as a money metal. His arguments on this point, as well as those of his colleagues, had very little foundation. The very first sentence of the section of the platform referred to opens: "We denounce the Republican legislation known as the Sherman Act of 1890 as a cowardly make-shift."

The Democratic party had pledged to repeal the Sherman Act, and, furthermore, the repeal bill contained nothing as to the disuse of silver as money. Many compromises were proposed, but Cleveland would accept nothing but unconditional repeal. The western senators stood firm against repeal but those of the south and southwest were ready to yield. A vote was finally taken on October 30 and Cleveland won by a vote of 43 to 32. The bill was then sent back to the House for reconsideration. On November 1 the House concurred by a vote of 194 to 94 and the bill was signed by Cleveland the same day.
Condition of the Treasury After Repeal

Contrary to expectations, the repeal of the Sherman Act did little to lessen the burdens of the Treasury. It did not relieve the Treasury of its obligations nor did it restore confidence in the ability of the government to maintain the gold standard. On the day the silver-purchase repeal bill passed the Senate the gold reserve stood at $84,000,000. Business and financial leaders grew restive as the reserve continued to fall and they urged Carlisle to replenish the reserve by bond sales.

Very little gold was being received from dues to the Government and it was therefore impossible to increase the reserve without resorting to the issue of bonds. The Secretary of the Treasury could issue bonds under the authority conferred by the Act of January 14, 1875 known as the resumption act. Part of the third section of this act to provide for the resumption of specie payments, which refers to bond issues, is as follows:

"... and to enable the Secretary of the Treasury to prepare and provide for the redemption in this act authorized or required, he is authorized to use any surplus revenues, from time to time, in the Treasury not otherwise appropriated, and to issue, sell and dispose of, at not less than par, in coin, either of the description of bonds of the United States described in the Act of Congress approved July fourteenth, eighteen hundred and seventy, entitled 'An Act to authorize the refunding of the national debt', with like qualities, privileges, and exemptions, to the extent necessary to carry this act into full effect, and to use the proceeds thereof for the purposes aforesaid."25
The act of July 14, 1870, referred to for a description of the bonds authorized to be issued, provides:

"That the Secretary of the Treasury is hereby authorized to issue, in a sum or sums not exceeding in the aggregate two hundred million dollars, coupon or registeredbonds of the United States, in such form as he may prescribe, and of denominations of fifty dollars, or some multiple of that sum, redeemable in coin of the present standard value, at the pleasure of the United States, after ten years from the date of their issue, and bearing interest, payable semi-annually in such coin, at the rate of five per cent per annum; also a sum or sums not exceeding in the aggregate three hundred million dollars of like bonds, the same in all respects, but payable at the pleasure of the United States, after fifteen years from the date of their issue, and bearing interest at the rate of four and a half per cent per annum; and also a sum or sums not exceeding in the aggregate one thousand million dollars of like bonds, the same in all respects, but payable, at the pleasure of the United States, after thirty years from the date of their issue, and bearing interest at the rate of four per cent per annum. . . ."

In his annual report of 1893 Carlisle asked Congress for authority to sell bonds bearing a lower rate of interest than provided for in the act of 1875, and running for a shorter term of years.26

On January 8, 1894 a bill was introduced in the House to authorize the Secretary of the Treasury to borrow money, but was not reported out of the committee on ways and means.27

On January 17, 1894 the gold reserve was, after many fluctuations, reduced to $69,757,000. It was impossible to procure gold to replenish the reserve without resorting to the sale of bonds. Congress had refused the Secretary of the Treasury the authority to issue low rate bonds so, under the provisions of the 1875 act,
$50,000,000 of 5%, ten year bonds were issued and sold for $58,660,917.63 in gold. The first bond sale brought the gold reserve to over 107 millions on March 6, 1894, the highest point reached since March 25, 1893. The actual increase in gold in the Treasury was only 38 millions. This small increase came about from the fact that the subscribers to these bonds, in many cases, obtained the gold they paid for the bonds from the Treasury in exchange for United States notes.

The first bond sale did not pass without comment. The commercial and financial centers were greatly pleased with the outcome and praised Carlisle for saving the reserve. The opponents of the administration in Congress were loud in condemning the transaction. They claimed that the Secretary of the Treasury had no authority to sell these bonds. Peffer of Kansas claimed that there was no need to sell these bonds. He said the Secretary of the Treasury called attention to the fact that the high premium on Government bonds at that time made him hesitate about issuing bonds under any circumstance and not until the pressure became so great that the Government's credit, at the Secretary's opinion, was at stake, and that the Treasury was in danger did he ask for authority to issue bonds. When the authority was refused him he proceeded without the authority to save the credit of the Government.

"There is no such emergency," argued Peffer, "... how can he speak of peril when there is nearly $140,000,000 of silver coin and bullion in the Treasury besides the gold. There is a great
interest in the country that is demanding the issue of these bonds", said Peffer, "and humiliating as it is to make the statement, our Government is in practical partnership with that interest. I refer to the banking interest the brokers and the speculators, and the men who gamble on the people's credit. That is the interest that is clamoring forthese bonds; and that is the interest which must be protected at all hazards though the rest of the country may go to the dogs."  

Peffer based his argument that the Secretary did not need gold to redeem Treasury notes on section three of the Sherman Law, which provides:

"That the Secretary of the Treasury shall each month coin 2,000,000 ounces of the silver bullion purchased under the provisions of this act into standard silver dollars until the first day of July 1891, and after that time he shall coin of the silver bullion purchased under the provisions of this act as much as may be necessary to provide for redemption of the Treasury notes herein provided for."  

The silver supporters claimed that under these provisions the Secretary of the Treasury had no right to redeem Treasury notes in gold. The Secretary of the Treasury had a different interpretation of the act, however. He deemed it necessary to continue paying gold for he believed that refusal to do so would indicate to the public that the United States Government was on a silver basis.

The reserve did not long remain intact, but it continued to fall in spite of all efforts to preserve it. On August 7, 1894 it dropped to a new low of 52 millions. After that date it was
slowly replenished by voluntary exchanges of gold coin for United States notes by banks and by small gold payments from the tariff receipts, until it reached 61 million on November 14, 1894. In the meantime public credit continued to decline for there were frequent withdrawals of gold from the Treasury by individuals and institutions who presented United States notes for redemption. This gold was not exported but hoarded and thus steadily reduced the circulation. Also foreign exchanges were almost constantly at or near a rate which made it more profitable to export gold than to purchase bills of exchange, and consequently these withdrawals continued to threaten the reserve.

It soon became evident that a second bond issue to maintain the public credit was inevitable. On November 14 this bond issue of $50,000,000 was offered to the public. One bid was received for the whole sum and the sale netted $58,538,500. The transaction did not stop withdrawals of gold for in December, 1894, they totaled over 32 millions. During January, 1895, withdrawals amounted to over 45 millions. This drain upon the reserve continued until on February 8, 1895 the reserve stood at $41,000,000. Much of the amount withdrawn was not demanded for exports, but was withdrawn for hoarding. This fact seems to further establish the conclusion that the people were becoming alarmed over the critical condition of the Treasury.

The situation now became so grave that Cleveland called the attention of Congress to the subject by a special message January
28, 1895. In the message he stated that more than 172 millions in gold had been withdrawn in the first ten months, and 69 millions more than one-third of the total, during the following two months. He also brought out the fact that the silver certificates upon which this gold had been withdrawn were still outstanding and were available for use in repeating the process from time to time. He said:

"The financial events of the past year suggest facts and conditions which should certainly arrest attention. . . .

"An adequate gold reserve is in all circumstances absolutely essential to the upholding of our public credit and to the maintenance of our high national character. . . .

"While I'm not unfriendly to silver, and while I desire to see it recognized to such an extent as is consistent with financial safety and the preservation of national honor and credit, I am not willing to see gold entirely banished from our currency and finances. To avert such a consequence I believe thorough and radical remedial legislation should be promptly passed. I therefore beg the Congress to give the subject immediate attention."

In closing his message Cleveland asked Congress for authorization of bond sales on discretion of the Secretary of the Treasury, and that the United States legal-tender notes be cancelled as redeemed and thus destroy the endless chain. He also asked, in the same message, that the payment of all import duties be required to be made in gold to assure a constant flow of gold into the Treasury. Congress again failed to act on these recommendations and Cleveland and Carlisle began hurriedly planning for a third bond issue.
The first question to be settled was whether the bonds should be issued for public subscription. Any other method would be certain to draw severe criticism. Cleveland and Carlisle were reluctant to try any other method, but eastern financial leaders advised them that with so little time available, public subscription would be hopeless. The withdrawals of gold were to nearly $4,000,000 on January 30. At this rate in a few weeks more the Government would be forced to default on its gold obligations. On that same day, January 30, Carlisle sent Assistant Secretary of the Treasury Curtis to New York to see what could be done as to the sale of bonds for gold. Curtis conferred with several bankers, with foreign connections, and reported back that in his opinion, from what he had learned, that bonds could not be sold.36

In the evening of the same day several newspapers published statements to the effect that the Government was taking measures to obtain more gold. These reports had an immediate effect. On the 31st of January withdrawals dropped to $2,359,928, and on February 2 withdrawals of gold dropped to $1,454,365. After the announcement by the newspapers that negotiations had been completed which, however, was not true, the withdrawals practically ceased. In fact, about $1,600,000 in gold was returned to the Treasury. The delay, however, in making public the official announcement that negotiations were completed, created some uneasiness and gold withdrawals began to rise again.37

In the meantime, Cleveland and Carlisle were hard at work
planning the proposed bond sale. The New York bankers were ready, having been preparing to purchase the bonds since Curtis' visit to New York. On February 8, 1895, Carlisle opened negotiations with a syndicate composed of August Belmont and Company of New York, Rothschild and Sons of London, J. P. Morgan and Company of New York and J. S. Morgan and Company of London. The plan was to purchase 3,500,000 ounces of gold, at $17.80441 per ounce, payable in thirty years, four per cent bonds. One ounce of standard gold was worth $18.60465, and the difference between that sum and the contract price represented the premium received by the Government on the bonds, making the price at which the bonds were sold $104.4946. At this price they yielded to the syndicate 3.75 per cent per annum. The specifications of the contract were that not less than one-half of the gold was to be obtained abroad, also that the parties of the contract agreed as far as lay in their power to extend their financial influence against withdrawals of gold from the Treasury, pending the completion of the contract. With this contract the syndicate also obtained the option to take such bonds as might be offered for sale on or before October 1, 1895.39

The contract contained the following clause:

"The Secretary of the Treasury reserves the right within ten days from the date hereof, in case he shall receive authority from Congress therefor, to substitute any bonds of the United States bearing 3 per cent interest, of which the principle and interest shall be specifically payable in United States gold coin of the present weight and fineness for the bonds..."
herein alluded to; such 3 per cent bonds to be accepted by the parties of the second part at par, i. e., at $18.60465 per ounce of standard gold.\textsuperscript{40}

Before the contract was signed, Cleveland sent a message to Congress in order that it might be offered the earliest possible opportunity to take action on the above clause. In his message he gave Congress the terms of the contract and told Congress that if it would agree to substitute 3 per cent gold bonds for 4 per cent bonds under the privilege reserved, the saving in interest to the government would be $539,159 annually or $16,174,770 at the maturity of the bonds.\textsuperscript{41}

In support of Cleveland's message Wilson of West Virginia reported to the House, from the Committee on Ways and Means, a joint resolution authorizing the issue of $65,116,275 gold 3 per cent bonds. The views of the minority on this resolution, supported by Bryan and Justin R. Whiting were expressed as follows:

"The issue of bonds of any kind is only needed to replenish the gold reserve; and the gold reserve only needs replenishing because the Secretary of the Treasury redeems United States notes and Treasury notes in the kind of coin selected by the note holder. The note holder has no legal right to choose the coin in which the obligation shall be redeemed but has been permitted to exercise that right by a policy inaugurated by the Treasury Department at or soon after the date of resumption... We are not willing, by authorizing bonds for the purchase of gold, to pledge the Government to a policy which discriminates against silver as a standard money and recognizes gold as the only money of ultimate redemption. So long as the bondholder is allowed to choose the coin in which he is to be paid, so long will it be futile to attempt to maintain the gold reserve."

They further held that gold secured by issue of bonds is at
once drawn out by those who are interested in having more bonds issued, and that public debt is increased to the detriment of the taxpayer and for the benefit of those who desire a safe investment for surplus funds. They held that the only remedy is for the Secretary of the Treasury to redeem notes in silver when it is more convenient to do so. They declared they would never authorize issue of bonds payable specifically in gold. The minority were also loud in condemning the price at which the bonds would be sold to a syndicate which was made up partly of foreign investors.42

The resolution was then referred to the Committee of the Whole and was brought on for debate on the following day. Cleveland was bitterly criticized for his actions by the opposition. It was pointed out that Francis L. Stetson, counsel for Morgan, who helped draw up the gold contract, was a former partner of President Cleveland. The President was therefore charged with conspiring with his financial friends to defraud the Government.

In his fight against the bill Hopkins of Illinois contended that, due to the low price at which the bonds were to be sold, the syndicate would make $9,5000,000, in round numbers, when the contract was signed, and $16,000,000 at the expiration of the period the bonds had to run. In answer to the argument that by authorizing the issue of 3 per cent gold bonds the Government could save $16,000,000, Hopkins said:

"When the President sent that message to this House and undertook to unload this contract upon Congress he knew that a majority of the Senate of the United States favored free and unlimited coinage of
silver. He knew that never could a gold bond bill go through that body, to say nothing of the sentiment in this House. Then why did he send that message here? He sent it for the purpose of misleading the country. . . . He made a contract with his financial friends, giving them the enormous profits that I have indicated, and he desired by that message to mislead the public and get the approval of Congress on the idea that $16,000,000 of interest would be saved by giving such approval. . . . When President Cleveland penned that message and sent it to Congress it was not for patriotic, but political purposes."

"What is this contract?" asks Bryan in his speech on the question of 3 per cent gold bonds. "It is a contract made by the Executive of a great nation with the representatives of foreign money loaners. It is a contract made with men who are desirous of changing the financial policy of this country. They recognize by their action that the United States has a right to pay coin obligations in either gold or silver and they come to us with the insolent proposition, 'we will give you $16,000,000 if the United States will change its financial policy to suit us.' "ever before has such a bribe been offered to our people by a foreign syndicate, and we ought to so act that such an act will never be offered again.

"We cannot afford to put ourselves in the hands of the Rothschilds, who hold mortgages on most of the thrones of Europe. . . . There is another objection to this contract. It provides for the private sale of coin bonds running thirty years at 104 1/2 which ought to be worth 119 in the open market, and which could have been sold at public auction for $115 without the least effort. Why this sacrifice of the interest of the United States? The Government's credit was not in danger; the bonds of the United States were selling in the market every day at a regular premium. . . . We are told that we can avoid the sale of coin bonds at $104 1/2 by authorizing 3 per cent gold bonds. What a privilege! Why, it is less than three months since ten year coin bonds were sold by the President at a premium which reduced the rate of interest to less than 3 per cent.

"Has the credit of the country fallen so much? Nothing has occurred within three months, except the President's message, to injure the credit of the country."  

A vote was then taken and the bill was defeated by a vote of
The gold contract, held up pending Congressional action, was then signed and put into effect. $65,315,400 worth of bonds were issued to the syndicate and some $65,000,000 in gold was received. No gold was withdrawn from the Treasury to be used in payment of the bonds as had been done in the two previous cases. No gold was withdrawn from the Treasury to be used in payment until after the contract was completed. The last delivery of gold under the contract was made June 24, 1895, but the syndicate continued to make deposits of gold in exchange for United States notes until September 11, 1895. The amount so deposited was over $16,000,000. Soon after the contract was completed gold exports began again to deplete the reserve. On August 1, 1895 the gold reserve stood at over 107 millions but by September 14 it was reduced to $96,000,000 and it was falling at the rate of a million dollars a day. Morgan publicly announced that the syndicate would continue to aid the Government. By October withdrawals had almost ceased, but in November gold exports increased again and by December the situation became dangerous with the reserve at only $63,000,000. The gold withdrawals for December alone amounted to $15,481,347. The heavy withdrawals were due to manipulations in foreign exchanges. While the contract was in process of execution the parties to the syndicate in this country drew bills of exchange on their associates and others abroad and used them to supply foreign exchange for the market in New York, thereby preventing withdrawals of gold from the Treasury for export. In this way the
reserve was protected as long as the bills could be furnished, but finally, when conditions had arisen under which it was not possible to draw more bills of exchange without sending the gold abroad to meet them at maturity, gold exports began again. In his annual message to Congress, December 2, 1895, Cleveland again appealed to that body.

In this message Cleveland gave a resume of the legislation relating to silver coinage. He called the attention of Congress to the gold demands upon the Treasury and to the serious nature of the difficulties encountered by the Government in its efforts to maintain the gold reserve under the existing system of financial legislation. He said that those difficulties could be removed by the retirement and cancellation of the greenbacks and the outstanding Treasury notes issued under the act of 1890, and he asked Congress for this authority. To insure the cancellation of those notes and also to provide a way by which gold might be added to our currency in lieu of them, he asked that the Secretary of the Treasury be given the authority to sell gold bonds, the gold to be used for this purpose. Congress took no action on his recommendations.

Meanwhile the situation in the Treasury was again growing serious. The large and rapid withdrawals occasioned by the scarcity of foreign exchange in our market soon excited feelings of alarm and distrust in financial circles at home and abroad, which made the situation extremely critical. On December 20, 1895
Cleveland sent another special message to Congress urging immediate legislative action upon the subject. In this message Cleveland said:

"In my last annual message the evils of our present financial system were plainly pointed out and the causes and means of depletion of Government gold were explained. . . . The contingency then feared has reached us, and the withdrawals of gold since the communication referred to and others that appear inevitable threaten such a depletion in our Government gold reserve as brings us face to face to the necessity of further action for its protection. This condition is intensified by the prevalence in certain quarters of sudden and unusual apprehensions and timidity in business circles. . . . "The real sensible cure for our recurring troubles can only be effected by a complete change in our financial system."

In closing he asked Congress not to recess before it had done something to relieve the emergency.43

No legislation, however, was enacted, and the financial situation, instead of improving, was constantly growing more serious. The reserve continued to fall and in order to avert disaster Cleveland and Carlisle began planning a fourth bond issue. The newspapers quickly reported that another sale of bonds to the same syndicate that had previously dealt with the Government was being negotiated. Cleveland's opponents in Congress were furious when they learned of the proposed action. Many bills limiting or prohibiting the issuance of bonds were introduced in both houses but all were killed in committees to which they were referred.

On January 6, 1896 Carlisle issued a circular calling for
subscriptions for $100,000,000 in United States four per cent, thirty year bonds. This circular was furnished to the public press and printed in most of the newspapers of the country. The bids were made public February 5, 1896 and numbered 4,641, the aggregate subscriptions amounting to $688,000,000. Upon examination of the bids before the awards were made it was found that some of them had been made in bad faith by irresponsible parties who had no gold nor any means of procuring it, and these bids were thrown out. The bids of some others were suspected not to have been made in good faith, but the circumstances actually known at that time did not warrant their rejection. Among the latter class was a bid signed "William Graves and Associates", of New York, for $4,500,000 which was first accepted and later thrown out. One bid from J. P. Morgan and Company of New York was for the whole $100,000,000 at the price of $110.68. After accepting all higher bids, including the bid of Graves and Associates, and a few small ones which were also afterwards forfeited for non-payment, there remained the sum of $33,179,850 which was allotted to J. P. Morgan and Company. When Graves and other small bidders failed to comply with their bids the aggregate amount of their bids, $4,736,000, was awarded to J. P. Morgan and Company, they being the next highest bidder. This matter was made the subject of a resolution of inquiry in the House. Carlisle was notified on February 26 that a House resolution provided for a committee to investigate the alleged conduct of the Secretary of the Treasury
in refusing to deliver to William Graves $4,500,000 in the bonds of the United States and awarding said bonds to J. P. Morgan and Company, notwithstanding that Graves was alleged to have tendered the Secretary the amount of the bid for the bonds in gold at the subtreasury in New York. On March 7, 1896 in response to this request received from Nelson Dingley Jr., Chairman of the Committee on Ways and Means, Carlisle sent him a letter containing a full account of the transaction. In this letter Carlisle clearly showed by duplicates of letters and telegrams involved in the Graves transaction that, as far as the Treasury Department was able to ascertain, Graves had no associates and that he was wholly unable to comply with its terms. Carlisle stated that neither Graves or anyone else tendered any gold whatever in payment for the bonds, or any part of them, at the subtreasury in New York, or elsewhere. He said, also, that Graves had twice asked for an extension of time. Payments on the bids were due February 15, 1896 and on that day instead of receiving any gold from Graves, he received a telegram from him in which Graves abandoned his original bid of $115.3391, and proposed to take the bonds at $113.50. Between February 15 and February 19 various letters and telegrams were received from Graves. No notice was taken of those telegrams and letters for the reason that, according to the terms of the sale, the time for receiving bids expired February 15, 1896. In explaining why the bonds which were refused Graves were allotted to Morgan and Company, Carlisle held that Graves had
defaulted. He also said that if this bid of Graves' had been rejected at the beginning, the duty of the Secretary of the Treasury to award the bonds to the next highest responsible bidder would have been perfectly clear.50 Afterwards Graves instituted mandamus proceedings against the Secretary of the Treasury in the Supreme Court of the District of Columbia. In answer to the writ Carlisle presented a complete affidavit in which he exhibited all facts and correspondence relating to the subject. The text of this affidavit was much the same as his answer to the House inquiry of February 26, 1896. The mandamus petition was promptly withdrawn by the plaintiff upon the filing of Carlisle's answer.51

While the bond sale was being negotiated, the reserve continued to fall. It reached a new low of $44,500,000 on February 10, 1896, but by March 31, 1896, the gold procured from the bond sale, which netted $111,166,000, brought the reserve to $128,713,709.

No considerable variation in the reserve took place during April when gold exports almost ceased but the export of gold was again resumed on May 1. There was, after May 1, 1896, an almost daily decline in the reserve until on July 23, it stood at $89,669,975. The bankers of the principal cities then joined together in a movement for relief. The result of this was that the banks and financial institutions deposited gold with the Treasury Department in exchange for paper currency and restored the reserve to $110,782,403 by August 4, 1896. After the discontinuance of this aid from the banks, the reserve began again its
downward trend during the remainder of the month. On September 1
the reserve stood just above the 100 million mark. Foreign
exchange shifted again in the latter part of August and during
September a favorable balance in foreign exchanges checked the
outflow of gold and set in motion a rapid current in the opposite
direction. By September 30, 1896, the reserve stood at over 124
millions. 52

During the month of October redemptions of United States
notes and Treasury certificates in gold were unusually heavy and
the reserve declined to $114,000,000 by November 5, 1896. The
tide was turning, however, and the country was at last showing
increasing confidence in the ability of the Treasury to maintain
the reserve. Diminished demands for redemption after November
1896 permitted an almost daily gain in gold. The reserve continued
on its upward trend during the early months of the year 1897. On
April 28, 1897 it had reached a total of $155,639,773. 53

In addition to the gold procured through the sale of bonds,
the Treasury had secured $115,245,173 since May 7, 1893, in
exchange for United States notes, Treasury notes of 1890, and
other forms of currency. The total amount of gold received during
Cleveland's second term was $408,716,967. 54

Although Cleveland had maintained the credit of the country
and had more than once restored the reserve, he was bitterly
attacked for the methods he used in doing so. By a resolution of
May 7, 1896, in the Senate, the Finance Committee was ordered to
investigate Cleveland's bond sales of the years 1894, 1895 and 1896. The resolution called for a report on the effect the bond sales had on credit and on the general business of the United States. The committee was also ordered to inquire into the disposition of bonds purchased by certain persons in New York; to whom they were sold, and what profit was made.

On May 12 the finance committee appointed the following subcommittee to conduct the investigation:

Isham G. Harris, Tennessee, Chairman.
George G. Vest, Missouri.
Ed. C. Walthall, Mississippi.
John P. Jones, Nevada.

The first meeting of this subcommittee was held in Washington May 22, 1896. Carlisle and Morgan were summoned to attend the investigation. Morgan, who was then in London, cabled that he would return at once, and Carlisle set to work immediately preparing a report for the committee.

On June 1, 1896 Carlisle submitted his report showing all material facts and circumstances connected with the bond sales. He explained at length the monetary condition prior to each sale. He gave complete reports on each bond sale; to whom they were sold and at what price, and defended the issuance of the bonds under the Resumption Act of January 14, 1875. In answer to the question as to the effect bond sales had on credit and business of the
United States Carlisle said in closing his report:

"I have the honor to say that, in my opinion, the sales were necessary for the preservation of the credit of the Government and the security of the business interests of the people, and that they, in fact, accomplished those results. It is not possible to state in this communication all the facts upon which this opinion is based, but it may be said, in general, that the effect of each sale was to restore confidence, for the time being at least, in the power and purpose of the Government to maintain its own credit, to preserve the parity of our coins and the value of our currency, and to check the return of our securities in large amounts from other countries for sale on the markets here. It can not be certainly known what would have been the consequences to the credit and business interests of the people if the executive authorities had made an effort to maintain the gold reserve held for the redemption of our national currency and had permitted that fund to become entirely exhausted; but it is believed that such a policy would have subjected all classes of our citizens to great pecuniary loss and distress."55

At their June 12 meeting the investigation committee, after hearing Carlisle's first report, decided to call the Secretary and have him examined. The date for the next meeting, at which Carlisle was to be questioned, was set for June 15. After some discussion, the committee decided to proceed to New York for further investigation as soon as possible after their meeting on June 15, 1896.56

On June 15, 1895 the committee met again and Carlisle was examined on the syndicate contract of February 8, 1895. During his examination Carlisle testified that the bonds of February 8, 1895 were sold to the Belmont-Morgan syndicate only because the emergency was so great it was dangerous to delay and this syndicate
could and would supply the gold. On being questioned as to the visit of Belmont to Washington about a week before the contract was signed, Carlisle said that he did not first suggest the transaction but the syndicate did make a proposition which was not accepted. The Secretary said that there was no legal obligation upon him to call for bids, and, furthermore, Morgan and Belmont did not form the whole group taking the bonds, they merely were the heads of a large syndicate. In answer to questions as to the price received for the bonds Carlisle admitted that he traded bonds for gold at less than the market rate but this was necessary because of the excitement and uneasiness in the market. As to the Graves bid, Carlisle explained that he notified Morgan that he was required to take those bonds and that Morgan had made no claim for the bonds. Assistant Secretary of the Treasury Curtis was next examined. He was questioned wholly on his missions to New York prior to the bond sales, both as to his authority and as to his instructions. In his testimony Curtis said that he was first sent to New York by Carlisle in January 1894. His mission was to ascertain the general situation, what the people thought of the gold withdrawals and whether the people thought that they would continue. He said that he did see Morgan, Belmont and others on other trips prior to the February 1895 bond sale, but that he made no proposition to them. On another visit to Morgan on February 2, Morgan thought that they could get the gold but he said that he was not prepared to make a definite proposition.
Morgan and Belmont then came to Washington to see Carlisle. Curtis testified that they did not bring a contract with them but that the form of the contract came from the Treasury Department. 58

The subcommittee then proceeded to New York for further investigation. Here, ten witnesses, including Belmont, Morgan, Francis L. Stetson, William Graves, John A. Stewart, Conrad Jordan, Henry Chapin Jr., James T. Woodward, Harlan A. Whipple, and James Irvine were summoned and examined. Nothing resulted from the investigation. The committee had tried to prove that there had been a plot involving President Cleveland and Secretary Carlisle and certain eastern bankers. Belmont and Morgan declined to answer any questions that dealt with the disposal of the bonds and prices received for them. This refusal was based on their claim that the committee could not force them to reveal private business transactions. Their position was correct for the statute in regard to recalcitrant witnesses before Congressional committees applied only to hearings in the District of Columbia. On June 20 the committee adjourned and returned to Washington. 59

When this subcommittee returned to Washington it reported to the whole committee what was done, or rather, what could not be done. No further business was transacted other than the printing of the testimony received from the witnesses. The report was made to the Senate on March 2, 1897, when Peffer's resolution, submitted to that body February 7, 1897, was brought before the Senate. The resolution is as follows:
Resolved. “That the Committee on Finance be, and it is hereby instructed to report to the Senate during the present session of Congress what action the said committee has taken in the matter of the investigation under the resolution adopted in the last session of Congress directing an investigation of bond sales of the Secretary of the Treasury.”

In the short debate which followed it was brought out that the subcommittee had not agreed on a report. Senator Aldrich reported that Harris, who was Chairman of the subcommittee was ill and that he was not attending that session, therefore no report could be given. Vest, who did most of the questioning of the witnesses, said in his brief report that the main purpose of the investigation was to find if any of the bonds purchased by the syndicate were sold to any Government officials, and at what price. He said that the subcommittee endeavored to comply with instructions, but since the witnesses declined to answer and since they were unable to make them answer there was nothing left for the subcommittee to do except to return and report the refusal of those witnesses to answer those questions. He said, however, that the minority of the subcommittee suggested to the whole committee that the witnesses be subpoenaed and tried before the Senate bar where the witnesses could be held for contempt if they refused to answer the questions. But it was pointed out by Hill of New York, who called the investigation a farce in the first place, that bringing the witnesses to Washington would serve no purpose because they could not be forced to answer. He said further that some member of the Government had to be definitely charged with
having received bonds before the witnesses could be forced to answer any questions involving that official. Since no one was charged with having done wrong, further investigation was but a waste of time and money.62

When Cleveland and Carlisle retired at the end of the term they were probably the most unpopular men in the South and West. For four years Cleveland had struggled against heavy odds. His party was broken up by the Populists, led by Bryan, who were a constant obstacle in his effort to maintain the gold standard. He had forced through Congress the repeal of the silver purchase act, insisting that the country was in peril. With all the resources of patronage and social power in his hands, Cleveland did not use them in this conflict.

In his fight to preserve the gold reserve, and the gold standard, Cleveland lost the support of his party. He had the satisfaction, however, of knowing that he had maintained the existing standard of value and had lived to see the end of the free silver fallacy, which later gripped the West and South. While Cleveland's whole policy, including the bond sales, can be justified only on the basis of the emergency, it was evident that the majority in Congress was ever ready to criticize and was quite ignorant of the real condition.

When Congress assembled in 1893 the country was in the throes of a panic. The stringency on the money market was great, so naturally the money question was paramount. Both Democrats and
Republicans had for years been coquetting with the free silver craze. Both parties were divided on it. The increasing amount of silver in the Treasury was driving out gold. Congress failed to give the relief he had asked for, and Cleveland was forced to rely entirely on his own resources. He maintained the gold reserve by his sale of bond issues, one after the other. By this means, alone, he was able to restore confidence and avoid loss of national credit.
5. Ibid., LVI, 690.
6. Ibid., LVI, 1034.
8. Ibid., I, 361.
10. Messages and Papers of the Presidents, N. Y., 1907, XIII, 5828.
11. Ibid., XIII, 5834-36.
13. Ibid., 315.
17. Ibid., 415.
18. Ibid., 953.
19. Ibid., 1008.
20. Ibid., 445, 1009.
22. Ibid., 2338.
23. Ibid., 2958.
24. Ibid., 3067.
25. Investigation of Bond Sales, Senate Documents, 54th Cong.,
26. Report of the Secretary of the Treasury, 1894, Washington,
1895, I, pp. LXVIII-LXIX.
27. Cong. Rec., 53rd Cong., 2nd Sess., pt. 1, Washington, 1897,
561.
28. Senate Documents, 54th Cong., 2nd Sess., Washington, 1897,
4-6.
29. Report of the Secretary of the Treasury, Washington, 1894,
I, pp. LXVIII-LXIX.
1170-74.
31. Ibid., 1175.
32. Report of the Secretary of the Treasury, Washington, 1894, I,
pp. LXIV-LXIX.
33. Investigation of Bond Sales, op. cit., 9-10.
34. Report of the Secretary of the Treasury, Washington, 1895, I,
pp. LXIX-LXX.
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37. Ibid., 331.
38. Investigation of Bond Sales, op. cit., V, 225.
39. Chase Economic Bulletin,
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Investigation of Bond Sales, op. cit., V, 9-10.
40 Ibid., 10.
42. Ibid., 2141-42.
43. Ibid., 2181.
44. Ibid., pt. 4, Appendix, 284.
45. Ibid., pt. 3, 2201.
Investigation of Bond Sales, op. cit., V, 9-11.
47. Messages and Papers of the Presidents, Washington, 1907, XIV, 6072-79.
48. Ibid., 6091-92.
49. Investigation of Bond Sales, op. cit., V, 13.
50. Ibid., 181-84.
51. Ibid., 194-99.
53. Ibid., Washington, 1897, Appendix 1, 7.
54. Investigation of Bond Sales, op. cit., V, 15-16.
55. Ibid., 3-16.
56. Ibid., 221.
57. Ibid., 222-43.
58. Ibid., 243-56.
59. Ibid., 256-326.
61. Ibid., 2600-1
62. Ibid., 2601-3.
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