
Bimetallism Before and After 1834

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Source: *The American Economic Review*, Dec., 1933, Vol. 23, No. 4 (Dec., 1933), pp. 677-679

Published by: American Economic Association

Stable URL: <https://www.jstor.org/stable/1807522>

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seeds of a commercial credit deflation which would not otherwise have necessarily occurred. A drastic deflation of security prices has repercussions of significance to the whole economic structure. It weakens greatly the condition of the banks and leads to a contraction of both investment and commercial credit by these institutions, thus doing much more damage than merely to wipe out the paper profits of the stockholding group, although the latter, according to a conservative recent estimate by Professor Starch, comprises some 10,000,000 people, or about one-fifth to one-fourth of the employable population.

Mr. Beckwith would apparently agree with the statement that an investment credit deflation is likely to bring in its train a deflation of commercial credit as indicated in the preceding paragraph. What he apparently fails to see, however, is that the elimination of investment inflation and deflation would aid, in some cases at least, in the prevention of unnecessarily severe and prolonged deflation of commercial bank credit with its deplorable consequences. One can scarcely consider the investment deflation of 1929-1932 and note its effects on banking, insurance and investment companies, without some misgivings as to the desirability of permitting investment inflation to occur without attempting its close restriction or elimination.

Finally, I cannot agree with Mr. Beckwith's conclusion that "soundly regulated commodity production is more vital than soundly regulated saving and investment, at least in the short run," for the reason that the former is impossible without the latter. His contention in this connection seems to overlook the point, which is important in my judgment, that it is impossible to time measures for controlling properly both commercial and investment credit expansion simultaneously, as well as the fact that commercial credit expansion is more definitely subject to control when inflation of investment credit is not also taking place. Investment inflation is a complicating factor which interferes with sound commercial credit policy, impairs the quality of bank credit, and is not amenable to control under any clear-cut criteria. For these reasons, if for no others, its elimination would seem to be a highly desirable objective.

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Bimetallism Before and After 1834

Presentation of scientific law is a fine art, and perhaps one should not cavil if historic facts are distorted in the illustration of a principle. Still, it may be assumed that such procedure falls short of the ideal. A case in point is the well known illustration of the operation of bimetallism before and after 1834.

Professor Taussig, for example, in his *Principles of Economics* (3rd rev. ed., Vol. I, pp. 264-265), in discussing our experience with bimetallism from 1792 to 1834 says, in connection with the point that silver was overvalued, "No gold was presented for coinage." He then describes the devaluation of gold coins in 1834 and points out that gold was overvalued "as much as the old ratio had overvalued silver" and adds, "Gold alone was now presented at the mint for coinage."

This illustration is very neat. The mint ratio overvalued silver and no gold was coined; then the change that was made overrated gold and no silver was

coined. History supports the theory! The student is instructed in the principle and is edified by a touch of his country's experience. The difficulty is that the illustration is not accurate, if the report of the Director of the Mint is to be believed. The report for 1900 shows that almost \$1,000,000 of gold was coined in 1833, over \$700,000 per year in 1832 and 1831, and \$643,105 in 1830. The total gold coinage for these four years amounted to almost one-third of the total silver coinage.

Far more striking, however, is the record subsequent to 1834. In only two of the following nine years, namely, in 1834 and 1836, did the coinage of gold equal the coinage of silver; and in each of these years, and also in 1835, the coinage of silver exceeded the amount coined during any preceding year in the country's history. There was a slight falling off in the volume of silver coinage beginning in 1837, but still it exceeded the amount of gold coinage every year until 1843.

The principle of follow-the-leader is clearly shown in this matter. A cursory examination of many recent texts in economics and also of some of the books devoted to money and banking shows a somewhat general repetition of this illustration—"no gold coined before 1834," "no silver coined after 1834." Even some of the currency historians by failing to emphasize the data that conflict with the general principle permit a wrong inference to be drawn. A notable exception is Neil Carothers in his *Fractional Money* published in 1930. He gives a full account of the matter and an able discussion of the anomalous condition in each of these two periods. His work really makes this note unnecessary, at least, in more than skeleton form.

Many of the textbook writers, including some who make no reference to the coinage feature, emphasize the point that before 1834 gold was forced out of the country because of the adverse coinage ratio that prevailed, and that silver was expelled by the change that was made in that year. The truth seems to be that gold was exported during the earlier period; but, unfortunate as it may be for classroom purposes, silver coins were also exported. Indeed, the exportation of silver dollars was so pronounced that their coinage was prohibited from 1806 to 1836. The fractional silver coins were full weight, however, and were exported in large quantities. It was estimated in 1830 that of the \$25,000,000 of silver coins that had been made only \$14,000,000 were then in the country (Carothers, p. 76). In 1831, out of the \$11,000,000 in specie in the United States Bank only \$2,000,000 were United States coins (Laughlin's *History of Bimetallism*, p. 54).

The data of coin and bullion imports and exports as given in the report of the Director of the Mint are, obviously, not complete, since coin carried by travelers is not recorded. But as the record stands it offers but little basis for the nice illustrations of many of the books. In line with the theory and in conformity with the texts that refer to this phase of the matter, there should have been no gold imports and no silver exports in the first period, and the opposite condition in the second period, but the record fails to show this. If the best possible case is made by computing net exports and net imports, the record still does not bear out the neat claims that are made for the potency of the disparity between the coinage and the market ratios. From 1826 to 1833, inclusive, the import of silver exceeded the export. This accords with the pedagogical illustration, if the word *net* is allowed to drown out the exports. But in 1834 there was almost three times as much net importation of silver as in the preceding year, and in each of the following years down to

and including 1840 the record shows net imports of silver, which on the whole exceeded those of the years preceding 1834. The cessation of revolutionary disturbances in the Latin-American countries and the revival of silver mining in Mexico on a large scale are noted by Carothers as factors in bringing about this huge importation of silver despite the unfavorable ratio.

Gold behaved much better than silver, according to the official record, but still does not bear out the illustration even on a net reckoning. During the years 1826-1833, inclusive, there were net exports of gold and net imports during the three following years. This is very good, if the imports in the one period and the exports in the other are neglected. But in 1837 and in four of the following five years the records show net exports of gold.

Schoolmen, apparently, are not alone in assuming historical verification of tendencies. In the report of the Director of the Mint for 1900, p. 514, there is a short summary of our monetary history in which appear the words, "The act of 1792 undervalued gold, which was therefore exported. . . . The act of 1834 undervalued silver . . . and silver was attracted to Europe."

Clearly, the tendency in respect to both coinage and export under an imperfectly balanced bimetallic standard was checkmated both before and after 1834 by other forces. When counter-tendencies are unknown or cannot be fully accounted for economists will perhaps do well to follow the suggestion of a wise teacher who said with some passion one day to contentious students, "This is a course in economic theory. We do not care about the facts."

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Correction

Professor E. M. Coulter's review of Dr. Gray's *History of Southern Agriculture to 1860*, published in the September issue of the *American Economic Review* (pp. 496-7) has come to my attention. He has made one error which I should like to have corrected—he speaks of me as joint author, which is entirely erroneous. On page xiii in the preface of Volume I Dr. Gray gave full credit for my work on the book. The actual selection of material used and its interpretation are entirely Dr. Gray's. He very generously included my name on the title page; but I had no idea that "assisted by" might be interpreted as joint author.

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