THE INFLUENCE OF JOHN SHERMAN ON GOVERNMENT
FINANCE AND RECONSTRUCTION FROM 1861-1875

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Chapter I
Building A National Currency During the War

The administration of President Lincoln was confronted with problems as serious as any ever encountered by a nation in time of trial. They were political, military and financial. Very early the administration had to face the problem of financial provision to carry on the war. The first report of the Secretary of the Treasury, Salmon P. Chase, showed that for the fiscal year ending June 30, 1862, Congress had to raise seven times as much revenue as had been raised the year before.¹

Silver and gold together could not meet the demands of the Government during the War. There was in circulation just sufficient specie and state bank notes to meet exchanges in normal times.² History shows that under shadow of war, gold and silver soon disappear, and in consequence every nation has been compelled to carry on its wars by use of paper money.³ The creation of a national currency of some form was therefore imperative.

The first feeble attempt to create a national currency was the issue of demand notes under the act of July 17, 1861.⁴

1 Winfield S. Kerr, John Sherman, His Life and Public Services, I, 132.
2 John Sherman, John Sherman's Recollections of Forty Years in the House, Senate and Cabinet, I, 255. Hereafter, cited as Sherman, Recollections.
4 Sherman, Recollections, 259.
They were described as "treasury notes of a less denomination than fifty dollars, not bearing interest, but payable on demand by the assistant treasurer of the United States, at Philadelphia, New York or Boston." The fatal defect of these notes was the promise to pay on demand. How could they be paid? Not from the revenue, for that was insufficient to meet current expenses. There had been no reserve fund provided for their payment, and, after they were paid there was no authority for their reissue. Still there existed the need for some form of paper money that would be available for circulation.

To make affairs worse, on December 31, 1861, under the lead of the New York city banks, specie payments were suspended throughout the country. This action was speedily followed by the Government.

Thus the opening of the year 1862 found the United States finances in an embarrassed and critical situation. In Europe the general opinion was that the Union would be dissolved; that with the "success of the South, there would be still further division between the East and the West;" and that the only "compact power" would be the Confederacy founded on slavery. Confederate bonds were more popular in England than the bonds of the United States. "The world's treasures were closed against us."

5 Ibid., Quoting report of Secretary Chase.
6 Ibid., 259.
7 Theodore E. Burton, John Sherman, 96.
9 Ibid., 410.
It was under such circumstances that the United States was thrown upon its own resources and forced to solve the problem of utilizing its own wealth without the "aid which comes from the power to borrow foreign money." The first thing to be secured was a currency, and the extreme ease of obtaining money by printing it, without directly taxing the present generation or seeming to leave to the next a debt to be paid by taxes, will probably always make it the first device thought of when a large quantity of money has to be raised at once. The question arose as to what form of credit money was to replace gold and silver for currency. It seemed the only answer was to issue for the time government notes, not redeemable in coin, but with all the "sanction and credit which the public could confer."12

Immediate action was urged upon the Congress. E. G. Spaulding formulated a bill which he reported to the House of Representatives on January 7, 1862. In reporting the bill, Spaulding called it "a war measure, a measure of necessity not of choice, to meet the most pressing demands upon the Treasury, to sustain the army and navy until they can make a vigorous advance upon the traitors and crush out the rebellion." Furthermore, he argued that "the notes will be equally as good, and in many cases better, than the present irredeemable circulation issued by the banks."13 There was much opposition to the bill even as a measure required by necessity; the House would probably have defeated the measure, had not Secretary

10 Ibid.
12 Sherman, Recollections, 256.
13 Blaine, op. cit., 412.
Chase ended his passive position and relieved the embarrassment. He wrote a couple of letters which Spaulding read publicly in the House during the debate on the bill. In one, he said he had been anxious to "avoid the necessity of such legislation." But he found it impossible "in consequence of the large expenditures entailed by the war and the suspension of the banks, to procure sufficient coin for disbursements" and therefore it had become "indispensably necessary" to resort to the issue of United States notes. Moreover, in a personal letter to Spaulding, Chase approved the legal tender clause; he stated that he "came with reluctance to the conclusion that the legal tender clause is a necessity," but that he "came to it decidedly" and "supported it earnestly." On February 5, he wrote a brief note stating, "It is very important the bill should go through today, and through the Senate this week. The public exigencies do not admit of delay."

The decision of the House was characterized thus by Sherman when he said that "after a full debate, in which the constitutionality, expediency and necessity of this measure were discussed" the House of Representatives, by a large vote, declared that it was "necessary to issue demand notes and that this clause was indispensable to their negotiation and credit."

The measure was taken up in the Senate on February 12, 1862. The greatest difference of opinion in the Senate appeared on

14 Ibid. 413-414.
16 Ibid.
17 Burton, op. cit., 106.
the legal tender clause. The leading argument in favor of the bill was made by John Sherman on February 13, 1862.19 Although he was with one exception the youngest member of the Senate, his splendid record as Chairman of the Ways and Means Committee of the House, caused him to be selected as the third member of the Senate Committee on Finance, of which Senate Fessenden was Chairman.20 He based his argument upon the necessity "to maintain the credit of the Government and to keep these notes anywhere near par;"21 necessity to give currency to the treasury notes; and necessity to meet the immediate obligations of the Government.22 Furthermore, he stressed the "necessity of it from reason" for approximately $100,000,000 was needed to pay back debts; the money cannot be obtained from banks, for they have already "tied up their whole capital in your bonds." Moreover, the money cannot be raised by taxation "for six months at least."23

While Sherman whole-heartedly supported this measure he was as much opposed to a paper currency not readily redeemable, as was any hard money man of the time. In his speech supporting the measure he admitted it was easy to criticize the bill. He preferred "gold to paper money; but there is no other resort. We must have paper money or a fractured Government."24

From the standpoint of its constitutionality Sherman considered such a currency a "necessary and proper means to enable the national Government to exercise its expressly delegated power to borrow money, to regulate commerce, to support

19 Ibid., 789ff.
20 Burton, op.cit., 107.
24 Ibid., 790.
armies and navies." Under such conditions he would not shrink from assuming his full "share of responsibility" in casting his vote for such a measure.

Senator Collamer, of Vermont, was the chief opponent in the Senate of the legal tender clause. In response to his amendment to cancel this clause of the bill, Sherman replied:

"If you strike out the legal tender clause you do so with a knowledge that these notes will fall dead upon the money market of the world.... When you issue demand notes, and announce to the world your purpose not to pay any more gold and silver, you then tender to those who have furnished provisions and services this paper money. What can they do? They cannot pay their debts with it. They cannot support their families with it, without a depreciation. The whole then depends on the promise of the government to pay at some time not fixed on the face of the note.... Justice to our creditors demands that it should be a legal tender. It will then circulate all over this country. It will be the life blood of the whole business of the country and it will enable capitalists to buy your bonds." 27

There was also much opposition to the clause of the act that provided for payment of interest on bonds in coin, which practically meant a discrimination in favor of one class of creditors, and as Thaddeus Stevens said, depreciated at once the money which the bill created. 28 In his Recollections, written in 1895, Sherman said that whatever was said to the contrary by theorists, this was the only measure that could have "enabled the government to carry on successfully the vast operations of the war." 29

There is little doubt but that the act was passed by Congress as a temporary war measure. At no time during the War was it more difficult to meet the obligations of the

25 Ibid.
27 Ibid.
29 Page 281.
Government than just prior to the passage of this act. The Treasury was nearly empty and there was no adequate circulation medium, and hence military operations were greatly impeded. It is manifest that the measure would not have been passed except for the almost bankrupt condition of the Treasury and the exigencies of the time. 30 President Lincoln signed the bill on February 25, 1862. 31

With this measure the Government embarked on a financial plan that was a distinct departure from any other method of Congress. The essential difference was that these bills were to be made legal tender. Furthermore, they bore no interest. Neither was there a sinking fund or other provision made for payment, although it was provided that "they might be exchanged for any of the coupon of registered bonds" which the Secretary of the Treasury was authorized to issue. 32

James G. Blaine called it the "most momentous financial step ever taken by Congress." It was admitted even to be a doubtful if not dangerous "exercise of power;" but the "law of necessity" overcame all other laws and asserted its right to govern. "All doubts were decided in favor of the nation, in the belief that dangers which were remote and contingent could be more easily dealt with than those which were certain and imminent." 33

Differences of opinion exist, and have always existed concerning the necessity and expediency of the legal tender provision. Sherman who was its most ardent advocate in the Senate

30 Burton, op.cit., 110.
31 U.S.Stat. at Large, XII, 345.
32 Burton, op.cit., 98.
33 Blaine, Twenty Years, 411.
regarded it as the turning point of our physical and financial history, and claimed that it would be difficult to measure the "beneficial results that rapidly followed the passage" of the measure. "The public credit was strengthened" by the provision for the payment of interest in coin on bonds. Furthermore, he stated that the "legal tender clause was acquiesced in by all classes." This national paper money was "silent as to the time of its payment" but the "implied obligation was to pay in coin as soon as practicable." 34

On the other hand it has been maintained that one of the greatest evils wrought by the act was the "legal discharge of indebtedness without rendering a fair return to the creditor. The paper dollars given in legal discharge of debts were worth much less than the specie dollars which debtors had received." 35

Another opinion was that the Government was utilizing its prerogative and was coining money for its "own financial advantage." "To attain this end, the interest which the community has in the maintenance of a standard free from sudden and violent fluctuations was openly sacrificed." This contention extends further to state that the people suffered, as did the Treasury, because it incurred a vastly greater debt which must eventually be paid by the people. 36 One writer has stated it thus, "When all elements are taken into consideration it seems certain that, before the close of the war, the 'paper money plan of finance' had cost the United States an unnecessary expense

34 Sherman, Recollections, 279-280.
35 Albert S. Bolles, The Financial History of the United States from 1861 to 1885, 149.
of more than $500,000,000."\textsuperscript{37}

The political effects of the legal tender bill were of large consequence to the administration and to the successful conduct of the war. Under the stimulus of an expanding circulation, with trade reviving, market prices steadily rising, the natural consequence was a more cheerful support of the war policy by the great mass of American people.\textsuperscript{38} Doubtless this condition of affairs carried with it elements of demoralization, but the engagement of the people in schemes of money-making proved a great support to the war policy of the Government. "Money was superabundant, speculation was rife, the Government was a lavish buyer, a prodigal consumer." Thinking men knew that a day of reckoning would come, but they believed it would be postponed until after the war was ended with the Union victorious.\textsuperscript{39}

The importance of the legal tender measure cannot therefore be properly determined if one excludes from view that which may well be termed its political and moral influence upon the mass of people. "It was this which subsequently gave to that form of currency a strong hold upon the minds of many who fancied that its stimulating effect upon business and trade could be reproduced under utterly different circumstances." However, in the judgment of a large and intelligent majority of those who were "contemporary with the war and gave careful study to its progress, the legal tender bill was a most effective and powerful auxiliary in its successful prosecution."\textsuperscript{40}

\textsuperscript{37} Chas. J. Bullock, Essays on the Monetary History of The United States, 97.
\textsuperscript{38} Blaine, op.cit., 428.
\textsuperscript{39} Ibid., 428-429.
\textsuperscript{40} Ibid., 429.
It is interesting to note that Secretary Chase had not failed to see that a "constant conflict and damaging competition" must ensue between the currency of the Nation and the currency of the State banks. It was the course of the banks more than any other agency that had discredited the demand notes and thus demonstrated the absolute necessity of imparting the legal tender quality to the paper money issued by the Government. Under the legal tender issues it was easy for State banks to extend their own circulation. It was quite practicable for them to keep in their vaults a sufficient amount of legal tenders to meet the requirements of redemption, and they were thus tempted to expand their loans and issue their own bills to a dangerous extent. "The enactment of the Legal Tender bill had not therefore given the control of the currency to the Government. It had only increased the dangers of inflation by the stimulus it imparted and the protection it afforded to the circulation of State bank notes."41

In his first report, December, 1861, Secretary Chase fully committed himself to the establishment of national banks. He thought "it deserves consideration whether sound policy does not require that the advantage of this loan be transferred from the banks, representing the interest of stockholders, to the Government, representing the aggregate interest of the whole people."42

There were in the country a number of evils in existing conditions that favored the establishment of a national banking system. Perhaps chief among these was the argument that there

41 Ibid., 470.
42 Ibid., 471.
was no uniform circulation. Moreover, there were many objections to the note circulation of the existing banking corporations. Strong impressions had been formed by people who, by bitter experiences, had suffered frequent losses from failure of local corporations. On January 1, 1862, there were in the United States 1496 banks that issued circulating notes; they were established under laws of twenty-nine states and hence were governed by twenty-nine different sets of laws. It was estimated that five per cent. of the bills in circulation proved worthless each year.\(^43\)

Another serious difficulty arose from the numerous successful counterfeits in circulation; there were more than 5500 varieties of fraudulent notes,\(^44\) and in many instances even the "most practiced cashier could not be sure whether a note was genuine."\(^45\)

Still another defect was the unequal distribution of State banks. For example, in New England the circulation of the banks was about $50,000,000 and in Ohio it was but $9,000,000.\(^46\) Furthermore, there was a loss of exchange of about one per cent. on local currency from the West to the East.\(^47\) A further difficulty rested upon the fact that the conviction was not yet entirely extinct that State banks could "constitutionally issue paper money."\(^48\) In addition to the above named evils of the currency, mention should be made of a "potent reason" for the

\(^{43}\) Burton, \textit{op. cit.}, 133.
\(^{44}\) Dewey, \textit{op. cit.}, 322.
\(^{45}\) Burton, \textit{op. cit.}, 133.
\(^{46}\) Dewey, \textit{op. cit.}, 324.
\(^{47}\) Sherman, \textit{Recollections}, 289.
\(^{48}\) Dewey, \textit{op. cit.}, 325.
establishment of the national banking system, which is "the support to be afforded to public credit and national union." Moreover, these national institutions would be convenient to deposit public moneys, since the Government would possess an ultimate control over these funds. 49

Ever since Chase made his first recommendation in 1861, the bank question was subjected to a thorough discussion among the people. It was widely discussed in the newspapers and elicited the most diverse opinions from the public. The legal tender notes were by this time popular and were "evidently preferred by the public to the notes of local banks." All that had been claimed for the legal tenders had been realized in the business of the country. The only feature embarrassing to the people was the requirement that taxes should be paid in the legal tender paper of the Government. No provision of law could have operated so powerfully for a system of national banks. The people were subjected to "annoyance and often to expense in exchanging the notes of their local banks for the Government medium." 50 With such influences at work, friends of the State banks plainly saw that the national system was growing in favor and many of them were willing "to give it a fair trial." 51

One "excellent authority" said that the "sound and conservative banks, who look to the safety, the uniformity and the stability of the paper currency of the country as essential to the prosperity and permanency of commerce and finance, consider the proposed change as desirable for the true interests of the

49 Ibid.
50 Blaine, op. cit., 476-473.
51 Ibid., 473.
people." In this view the banks properly exclude the idea of "profit to the individual;" they look at the subject in its "broader and national aspects," and conclude that the "interests of the whole country are paramount to those of individuals and corporations."52

President Lincoln specifically approved such a plan in his message to Congress in December, 1862. He expressed his doubts "whether a circulation of United States notes, payable in coin, and sufficiently large for the wants of the people, can be permanently, usefully and safely maintained." To secure such a system he knew of none "which promises so certain results, and is at the same time so unobjectionable, as the organization of banking associations under a general law of Congress well guarded in its provisions."53

At the same time Secretary Chase elaborated his recommendations of the preceding year to the same effect. He said that the "central idea of the proposed measure is the establishment of one uniform circulation, of equal value throughout the country, upon the foundation of national credit combined with private capital." He also said that the stockholders of any existing banks can in like manner organize under the Act, and transfer the capital of the old to the use of the new associations. He ventured the assertion that the issues of national currency could not be easily increased beyond the legitimate demands of business." Every dollar of circulation would represent real capital actually invested in national stocks, and the total amount

53 James D. Richardson, A Compilation of the Messages and Papers of the Presidents, 1789-1897, VI, 129-130.
issued could at all times be easily and quickly ascertained from the books of the Treasury."  

In accordance with an urgent request from Secretary Chase, Sherman introduced a bill in the Senate on January 26, 1863, "to provide a national currency, secured by a pledge of United States stocks, and for the circulation and redemption thereof." It took the usual course of any bill, was referred to the Committee on Finance, and was reported favorably on February 2, 1863, by Sherman. Almost at once he found indications of a strong opposition to the bill - hesitancy in passing a measure so radical in its character and so destructive to the existing system of State banks.

No sooner was this bill reported than the press took it up. The New York Times expressed public sentiment well in the following comment:

"Secretary Chase, upon whom the financial responsibility chiefly rests, who has made the whole subject matter of careful study, and whose opinions are emphatically indorsed by the President, and all his associates in the Cabinet, tells us that the existing bank circulation prevents or embarrasses the process of funding the public debt, by which alone United States Bonds can be absorbed and new loans obtained from the people. The fact that the pilot placed at the helm to guide the National Ship through the breakers in this perilous hour, and whose position enables him to see clearly where the dangers lie, and in what direction lies the harbor of safety, tells us this might well be taken as sufficient reason for acquiescence in his plan."

Again it stated that it was the "undoubted duty of Congress to see to it that the country has a sound national currency."

54 Blaine, op.cit., 474, quoting report of Chase.  
55 Burton, op.cit., 135.  
56 Sherman, Recollections, 293.  
57 Ibid., Knox, op.cit., 96.  
58 Sherman, op.cit., 294.  
59 January 31, 1863.
Gold and silver, as a circulating medium, had disappeared, and, in the language of President Madison, in 1815, until the precious metals shall again become available as currency, "it devolves on the wisdom of Congress to provide a substitute which shall equally engage the confidence and accommodate the wants of the citizens throughout the Union." 60 It was the duty of Congress to determine whether the National Currency "shall take the field exclusively," or, "whether it will subject the country to the manifold evils growing out of competition between the national and local currency." 61

The advocates of the bill advanced several arguments; First, that the bill was to be a war measure; secondly, it was to provide a market for government bonds; and thirdly, that the banking system proposed would secure a uniform and stable currency and would become a permanent institution. 62

In the Senate, Sherman was the chief proponent of the measure and he made the longest speech in favor of the bill. He regarded it a "misfortune of war" that Congress was compelled to act upon "matters of grave importance" without that "mature deliberation" that would be secured in peaceful times. For, he said the measure "affected the property of every citizen of the United States," and yet action on it must be concluded in a few days. 63 "We were to choose between a permanent system designed to establish a uniform national currency based upon the public credit, limited in amount, and guarded by all

60 February 2, 1863.
61 Ibid.
the restraints which the experience of men proved necessary, and a system of paper money without limit as to amount, except for the growing necessities of war." 64

Again, he argued that it must be remembered that this bill is taken up when our financial condition is not the most favorable. "Gold is at a premium of between fifty and sixty per cent., and is substantially banished from circulation. We are in the midst of war, when the necessities of the Government require us to have large sums of money." 65 Government paper money, "unsupported by private capital," can not be maintained as a currency in time of war. The issuing of notes by a "diversity of private banks under State authority, and unchecked by specie payments, is inexpedient, destructive, and in my opinion, unconstitutional." 66 He stated that the two systems can not exist together. "They will inevitably induce inflation and ultimate bankruptcy. A gold national currency as a substitute for gold and silver can only exist by combining the two systems; so that the Government may issue notes of uniform tenure properly secured, and the banks shall redeem and maintain their credit." 67

In speaking of the provisions of the bill, he emphasized the security of the noteholder. "First, he has the credit of the United States by its bonds and its guarantees; to guard against deficiency he has the deposit of one-fourth the amount in the bank; he has the individual liability of the stockholders to a limited extent; and he has the first lien on all the property of the bank, including the deposits." 68

64 Sherman, Recollections, 294.
65 Cong. Globe, 37 Cong., 3 sess., 841.
66 Ibid., 842.
67 Ibid.
68 Ibid., 843.
safe; they will be uniform; they will be convertible." 69 Those are the necessary requisites for any system of currency or exchange. 70

The bill furnished a market for United States bonds and securities - "that credit by which alone you can carry on a government in time of war." 71 Moreover, this system would harmonize the interests between the "stockholders of banks, the people and the Government," for every person who holds one of these notes would be interested in the Government, not in a local bank. 72

Sherman proceeded to list the benefits to be derived by the people of the country. They would have all that can be desired in any community: a currency limited in amount, restrained by law; governed by law, checked by the power of visitation, checked by the limitation of liabilities, safe uniform and convertible in every part of the country." 73 He considered the passage of this bill "more important than any other measure now pending either in Senate or House." We can not maintain "our nationality unless we establish a sound and stable financial system; and as the basis of it we must have a uniform national currency." 74

The ultimate aim which the advocates of this measure kept continually in mind was uniformity and security in bank note circulation. 75 Sherman listed as an advantage of the bill

69 Ibid.
70 Ibid.
71 Ibid.
72 Ibid.
73 Ibid., 844.
74 Ibid., 845.
75 J. W. Million, loc.cit., 263.
that "they would be guarded against all frauds and alterations. There would be but five or six kinds of notes in the United States," and they would become so familiar to the people that each man would be a "counterfeit detector in himself." The advantages of uniformity were not hidden from the statesmen of that day "who had been taught in the bitter school of experience" what were the disadvantages of a "mongrel currency." The great advantage of a uniform currency would lie in economy of exchange. Often debtors in the West who came to pay their debts in New York had to pay from two per cent. to five per cent. in exchange. Nothing, perhaps, can be more obvious from the debates than that the national system was to supersede the system of State banks. Sherman said, "This currency will gradually, quietly supersede the local money without affecting or deranging any of the ordinary operations of life."

Senator Davis, of Kentucky, characterized the bill as a "monster" making its appearance in our midst for the purpose of breaking down this system of State banks.

Senator Collamer, of Vermont, was undoubtedly the strongest opponent of the measure. His opposition sprung from a desire to preserve the state banking institutions. Sherman replied, and held that the State banks would not be destroyed. "If they desired circulation under the new bill they could get it. If they did not, the could carry on their operations without circulation."

76 Cong. Globe, 37 Cong., 3 sess., 843.
77 Million, loc. cit., 294.
78 Cong. Globe, 37 Cong., 3 sess., 850.
79 Ibid., 872.
80 Ibid., 886.
81 Million, loc. cit., 276.
82 J. J. Knox, op. cit., 229.
The idea of a National bank was not altogether a new one. The basic principles underlying the National Bank act were evolved by Alexander Hamilton in preparing the charter for the first United States Bank.\textsuperscript{83} Furthermore, the laws of several states, especially those of New York, were copied in preparing the provisions of this measure.\textsuperscript{84}

The act was approved by President Lincoln on February 25, 1863.\textsuperscript{85} The early development of the system did not equal the expectations of its proponents. In the first seven months only sixty-six banks were organized under the act and for the most part these were in the western states, Ohio, Indiana, and Illinois, where there was a greater need of circulation.\textsuperscript{86} Furthermore, the act failed to provide immediate means for carrying on the War. By the close of the year 1863, it had brought into the national treasury only $16,378,700 and by the last of June 1, 1865, only $235,959,100.\textsuperscript{87}

President Lincoln, in his message to Congress, on December 1, 1863, said, "The enactment by Congress of a National Banking law has proved a valuable support to the public credit.... Some amendment may be necessary to perfect the existing law."\textsuperscript{88}

The defects of this original banking act were modified by another measure passed June 3, 1864,\textsuperscript{89} to make the National Banking system more capable of becoming a permanent institution. It is interesting to note that within this short period many, who

\textsuperscript{83} A. B. Hepburn, op.cit., 306.
\textsuperscript{84} Ibid.
\textsuperscript{85} U.S.Stat.at Large, XII, 665.
\textsuperscript{86} Burton, op.cit., 137-138; Dewey, op.cit., 327.
\textsuperscript{87} J. W. Million, loc.cit., citing report of the Comptroller of the Currency.
\textsuperscript{88} Richardson, op.cit., VI, 185.
\textsuperscript{89} U.S.Stat.at Large, XIII, 99.
at first disapproved of the system, had become converted to it. Every New England Senator, including Senator Collamer, voted for the act of revision of 1864. Senator Fessenden frankly acknowledged his change of mind and "declared the plan was based upon sound principles."

Sherman, in his Recollections states:

"This system of national banks has furnished to the people of the United States a currency combining the national faith with the private stock and private credit of individuals. They have a currency that is safe, uniform and convertible. Not one dollar of the notes issued by national banks has been lost by any person through the failure of a bank. We have a currency limited in amount, restrained and governed by law, checked by the power of visitation and by the limitation of liabilities, safe, uniform and convertible in every part of the country. Every one of these conditions prophesied by me has been literally realized."

Davis R. Dewey, an authority on United States financial history, has listed three advantages derived from the establishment of banking currency based upon national government securities. First, "it not only created a special demand for bonds, but enlisted a strong and active financial interest in the general welfare of the government's credit." Secondly, by taxing State bank issues out of existence "it tended to create a demand for United States legal-tenders and other treasury issues for meeting the ordinary operations of trade and exchange." Thirdly, "the assistance of the national banks in floating the loans of the government was of the greatest importance."

90 Kerr, op.cit., 162.
91 Dewey, op.cit., 328.
92
93 Dewey, op.cit., 328.
Sherman believed that these were the "most important financial measures of the war, and, tested by time, have fully realized the anticipations and confident assurance of their authors." Sherman was not the distinctive author of either of these measures, but without his influential leadership in the Senate it is doubtful if either measure would have become law.

94 Recollections, 299.
Chapter II
The Reconstruction Period

The stormy period was characterized by angry clashes between the executive and legislative departments, which made a "dispassionate and just solution of the pending problems impossible. The returning soldiers could not forget so soon and they dominated public opinion in each of the two sections. In this contest Sherman probably found more that was distasteful than in any portion of his political career. "He was by nature conservative, but was also a very strong party man, and above all things reluctant to break from those who had been his associates in the political and financial measures of the great struggle."²

Congress met in regular session in December, 1865. In accord with President Johnson's previous acts and proclamations of amnesty, Senators and Representatives from the Southern states in process of reconstruction presented themselves for admission.³ Admission was, of course, peremptorily denied, and a joint Committee on Reconstruction consisting of fifteen members was provided for at the beginning of Congress. There can be no doubt but that the President's course "emboldened many who had resisted the national authority to maintain an irreconcilable attitude, not accepting the results of the war."⁴

1 Theodore Burton, John Sherman, 142.
2 Ibid.
3 Ibid., 153.
4 Ibid., 155.
Senator Sherman was on friendly terms with President Johnson. For two years they sat side by side in the Senate, and in the presidential contest of 1864 they were together in the campaign in Indiana and other states. For a time it was hoped that Sherman might bring about a reconciliation between Johnson and the more radical leaders in Congress. At first Sherman seemed willing to play this role as a mediator. On February 26, 1866 he spoke in the Senate stating the position of Congress on reconstruction and also the policy adopted by Johnson from Lincoln. He called particular attention to the similarity of the reconstruction plans of Congress and the President. He mentioned that all members of Lincoln's Cabinet had acquiesced in the measures which Johnson had adopted. When Senator Guthrie said he had confidence in the President, Sherman added, "So have I." To this point then evidently there was no "irreparable breach with the President," and leading Republicans had not abandoned hope that he might still act in harmony with the Republican majority in Congress.

But soon all this was changed. The President made one of his "turbulent harangues" in which he said, "I have opposed the Davises, the Toombes, the Slidells, and a long list of others. Now when I turn around, and at the other end of the line find men, I care not by what names you call them, who still stand opposed to the restoration to the Union of these states, I am free to say that I am still in the field." Furthermore, he

5 Ibid.
6 Sherman, Recollections, 367.
7 Burton, op.cit., 155.
8 Ibid., 156.
9 Ibid.
even named these men, Thaddeus Stevens, Charles Sumner and Wendell Phillips declaring that they were traitors to the basic principles of Government. These remarks operated as a firebrand; he embittered the radical leaders, their friends and supporters, but far worse he caused the more conservative elements to distrust him. Sherman was gradually aligning himself with those who were strenuously opposed to the President.

In the meantime the Civil Rights Bill was being considered by the President. Though he had vetoed the Freedman's Bureau Act, leaders in Congress were still hopeful that he would sign the Civil Rights Bill. But it was returned to Congress with a veto message. From this time on, Johnson was beaten. A policy of moderation towards the South was considered out of the question. The most radical measures received the most enthusiastic support. The presidential veto, in normal times treated with respect, was absolutely ignored; it seemed to be a source of gratification to pass a bill against the Presidential objections.

Sherman remarked that from this time forth "I heartily joined with my political associates in the measures adopted to secure a loyal reorganization of the southern states. I was largely influenced by the harsh treatment of the freedmen in the south under acts adopted by the reconstructed legislatures. The outrages of the Ku Klux Klan seemed to me to be so atrocious and wicked that the men who committed them were not only unworthy to govern, but unfit to live."

Furthermore, he stated that the weakness of the position of Congress in the controversy

11 Ibid., 156.
12 Ibid., 156.
13 Sherman Recollections, 368.
with Johnson, was "that it had furnished no plan of reconstruc-
tion and he was compelled to act upon the urgency of events." 14

There was continual wrangling and quarreling between the
President and Congress over the method of reconstruction. Many
efforts were made to legislate to provide governments for the
insurrectionary states but such a wide divergence of opinion in
the Republican ranks manifested itself, that no substantial pro-
gress was made until near the close of the second session of the
Thirty-ninth Congress. 15

Congress had convened after the holidays, on January 3,
1867. 16 On that day Thaddeus Stevens called up his bill which
was a substitute for the bill of the Joint Committee on Recon-
struction, reported at the previous session. These two bills
were referred to the Joint Committee, which in two meetings
agreed on a bill which it ordered Stevens to report to the
House. The bill, as reported, was not satisfactory to the
House; some members threatened to oppose it unless it could be
improved. Among these were Bingham and Blaine, who each offered
an amendment. Stevens was such a virtual dictator in the House
that he would not even permit them to be brought to a vote. Fi-
nally, they were fused into one - but Stevens demanded the ques-
tion and his bill passed without any amendments of consequence.
Stevens carried his bill through an "unwilling House" by "sar-
casm, taunts, and cracking the party whip." 17

Stevens' bill passed the House on February 13, 1867, and
because haste was necessary if reconstruction was to be com-

14 Ibid., 369.
16 Ibid., 369-370.
16 The following brief account is based on Rhodes, VI,
124-132.
17 Rhodes, VI, 128.
pleted in this session, it had its first reading in the Senate on the same day. There on February 14, 1867 the Bingham-Blaine amendment was offered and the bill discussed until nearly three o'clock the next morning.

In a final effort to enact a law before the day of adjournment, resort was had to a party caucus. At eleven o'clock on the morning of February 16, the Republican Senators met and appointed a committee of seven consisting of Sherman, Fessenden, Trumbull, Sumner, Howard, Frelinghuysen, and Howe to see if the various propositions might be reconciled and a bill drawn up which the caucus would accept.

Debate in the Senate had continued through the day and evening session. At about midnight, Sherman introduced the caucus bill as a substitute. The first part of it was substantially Stevens' bill and the last part of it was substantially the Bingham-Blaine amendment. This substitute bill was passed by the Senate about six o'clock in the morning of February 17, 1867, after an all night session. The House took it up the next day but refused to concur in the amendments of the Senate. The result, after some hesitancy on the part of the Senate, was to appoint a conference committee. Time was pressing but the compromisers agreed on some modifications that in the end both the Senate and House passed. On March 2, 1867 the House received the veto message of the President and promptly passed the bill over his veto; the Senate concurred on the same day and the bill thus became law.

The act as passed was substantially the one Sherman had prepared and introduced. It was milder in several particulars
than the Stevens bill. Sherman said it was "founded upon the proclamation of the President made after the assassination of President Lincoln, in which he declared that the rebellion had overthrown all civil governments in the insurrectionary states, and had sought by executive mandate to create governments there-in." In this instance, as in others, Sherman showed his "singular ability" in framing a measure upon which "discordant elements of his party" could agree.

Thirty years after the close of the War, when asperities were softened, and he had reflected upon the events of the reconstruction era, Sherman said in his Recollections:

"It became imperative, during the long period before the meeting of Congress, that President Johnson should, in the absence of legislation, formulate some plan for the reconstruction of these states. He did adopt substantially the plan proposed and acted upon by Mr. Lincoln. After this long lapse of time I am convinced that Mr. Johnson's scheme of reorganization was wise and judicious. It was unfortunate that it had not the sanction of Congress, and that events soon brought the President and Congress into hostility.... In the absence of law both Lincoln and Johnson did substantially right when they adopted a plan of their own, and endeavored to carry it into execution.... I believe that all the acts and proclamations of President Johnson before the meeting of Congress were wise and expedient, and that there would have been no difficulty between Congress and the President but for his personal conduct, and especially his treatment of Congress and leading Congressmen."

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18 Burton, op.cit., 162.
19 Ibid., 163.
20 375.
Chapter III

Resumption of Specie Payments

The return of peace brought with it the necessity for a radical reorganization of the finances. One of the immediate tasks before the government was the restoration of the standard of value by the resumption of specie payments. Various theories of resumption were expounded. One group strongly advocated a speedy return to specie payments through action of the executive department, without waiting for any legislative action.¹ As early as May 17, 1866, Chase had written to Horace Greeley, "The way to resumption is to resume."²

Another class, including many of the eastern bankers, advised the rapid accumulation of a gold reserve in order to raise the value of the greenbacks to a gold standard.³ The weakness of this plan was the difficulty of getting the gold for the gold supply was almost exhausted and the balance of trade was against the United States. However, the advocates of this plan gained ground and in the end this was an essential feature of the plan adopted, largely because it did not call for any contraction in the volume of paper currency.⁴

A third class believed that resumption could best be obtained by the retirement or contraction of the currency.⁵ This class was divided into several groups, favoring contraction in one way or another. One extreme form was the theory of David A. Wells, the so-called "cremation process." Wells said, "I

² Theodore Burton, John Sherman, 172.
³ Dewey, op. cit., 335.
⁴ Ibid., 336.
⁵ Ibid., 28
would have it enjoined upon the secretary of the treasury to destroy by burning on a given day of every week, commencing at the earliest practical moment, a certain amount of legal tender notes, fixing the minimum at not less than $500,000 per week, or at the rate of $26,000,000 per annum." He claimed that with this process the ultimate equalization of the greenbacks and gold would be only a matter of time. 6 Another similar method was known as the graduated scale plan; it proposed to "redeem United States notes in gold outright at a fixed scale of say ninety per cent. of their face value." The objection to this was the humiliation of the government to go into the markets of the world and buy its own notes at a discount. 7

A fourth class included those who stood for inactivity, instead of immediate action. 8 They thought it possible that contraction might not be necessary to attain resumption; that finance ought to wait while industry readjusted itself to the needs of peace. They believed that the problem of resumption was primarily a commercial one and need not depend upon legislative action; they talked hopefully of "growing up to specie payments." 9 Sherman was one of those who believed in the advantage of a "let-alone" policy. 10

And still another class opposed contraction outright and advocated a freer use of paper money. 11 They believed that resumption was entirely unnecessary and undesirable. A few years hence, the holders of such opinions found common ground in the

6 Ibid.
7 Ibid.
8 Ibid.
9 Ibid.
10 Sherman, Recollections, 376.
new political organization, the Greenback Party.

In 1865, Hugh McCulloch became Secretary of the Treasury. On the question of the public debt he belonged to the group that favored contraction of the legal tenders. In an address at his home in Fort Wayne, in October, 1865, he said, "If Congress shall early in the approaching session authorize the funding of the legal tenders, and the work of reduction is commenced and carried on resolutely, but carefully and prudently, we shall reach it [specie payment], probably without serious embarrassment to legitimate business; if not, we shall have a brief period of hollow and seductive prosperity resulting in widespread bankruptcy and disaster." 12 In his first report to Congress, December 4, 1865, he expressed a similar opinion. He said the legal tender notes were issued as a war measure, and as a war measure only. Furthermore, he stated that the Government possessed only limited powers and that nowhere was the authority to issue notes expressly given to Congress, nor fairly inferable from the powers actually granted. 13 Moreover, he stated that what the "country needed for a paper circulating medium, was not United States notes, the amount of which might depend upon the temporary necessities of the treasury or party interests — but a currency that might be expanded or diminished according to the demands of trade, and which could and would be supplied by the national banks." 14 While McCulloch did not favor the repeal of the notes, he felt that they should not remain in

14 Ibid.
force one day longer than would be necessary to enable the
people to prepare for a return to the constitutional currency. 15

At this point it should be recalled that Sherman was one
of the group favoring a waiting policy, as opposed to the con-
traction policy of resumption supported by McCulloch. The ob-
ject to which Sherman attached the greatest importance was the
funding of the immense national debt at lower rates of interest.
To accomplish this he regarded it as a necessary feature to
keep an abundant supply of legal tenders in circulation, and
be made by law "readily exchangeable for bonds drawing a low
rate of interest," with both principal and interest payable in
gold. 16 Furthermore, Sherman believed that it was desirable to
have some form of paper currency legal tender, a quality which
could not be given to national bank notes. No doubt he was
"very much influenced by the business prosperity which existed
after the issuance of the greenbacks." 17

Sherman himself summarized the variance of opinion he held
with McCulloch on this topic. "He was in favor of a rapid con-
traction of the currency by funding it into interest-bearing
bonds. I was in favor of maintaining in circulation the then
existing volume of currency as an aid to the funding of all
forms of interest-bearing securities into bonds redeemable
within a brief period at the pleasure of the United States,
and bearing as low a rate of interest as possible." 18 Both
favored specie payments, McCulloch by contraction and Sherman
by the "gradual advancement of the credit and value of our

15 Sherman, Recollections, 373.
16 Burton, op.cit., 175.
17 Ibid.
18 Sherman, Recollections, 376.
currency to a specie standard." Specie payments was the "primary object" of McCulloch and with Sherman it was a "secondary object to follow the advancing credit of the government." Both favored the payment of the interest and principal of bonds in coin but Sherman wrote, "He, by contraction, would have made this payment more difficult, while I, by retaining the notes in existence, would induce the holders of currency certificates to convert them into coin obligations bearing a lower rate of interest."19

In his first report to Congress, December, 1865, McCulloch made a recommendation that the Secretary of the Treasury be authorized to sell United States bonds, and with the proceeds of the sales gradually to retire the legal tender notes from circulation.20 He estimated that it would not be necessary to retire more than a "hundred millions, or, at most, two hundred millions, of the legal tender notes besides the compound interest notes, before the desired result, parity of notes with specie, would be obtained."21

The first legislative step taken by Congress was the Act of April 12, 1866. It contained two important features: "first, the power to convert temporary and short-time interest-bearing securities into long term bonds already authorized under previous bond acts; secondly, a slight contraction of United States notes."22 In dealing with the legal tenders Congress was very cautious. The law gave the Secretary authority to withdraw $10,000,000 of the greenbacks within six months, and not more

19 Ibid.
20 McCulloch, Men and Measures, 211.
21 Burton, op.cit., 178.
than $4,000,000 in any one month thereafter.\textsuperscript{23}

This act was not altogether pleasing to McCulloch. He knew there would be months when more than $4,000,000 could be withdrawn without affecting the market; and no doubt there would be other months when the withdrawal of a smaller amount would cause "considerable stringency." "What I did want was the authority to retire the legal tender notes as rapidly as it could be done, without affecting injuriously industry and trade."\textsuperscript{24}

The bill as enacted was also unsatisfactory to Sherman. When it came before the committee on finance, he alone, was in opposition to it. He said, "I could not impress my colleagues of the committee with the grave importance of the measure, and its wide-reaching influence upon our currency, debt and credit. They regarded it simply as a bill to change the form of our securities. I felt confident that without the use of United States notes we could not make this exchange."\textsuperscript{25} Moreover, he never became convinced that McCulloch's policy was wise. He wrote in his \textit{Recollections}, "I believed then, and now know, that the passage of this law was a great misfortune. It enabled the Secretary of the Treasury to retire at a rapid rate United States notes and to largely increase the bonded indebtedness of the United States. It would no doubt have brought us abruptly to the specie standard and made us dependent for circulating notes upon the issues of national banks."\textsuperscript{26}

Though the measure was not all that McCulloch desired he did the best he could to meet the requirements of the best in-

\textsuperscript{23} Ibid.
\textsuperscript{24} McCulloch, \textit{Men and Measures}, 211.
\textsuperscript{25} Sherman, \textit{Recollections}, 378.
\textsuperscript{26} Page 375.
terests of the country. In some months less than the limited amount was withdrawn, but in no one month was more than $4,000,000 withdrawn and cancelled. The total amount of United States notes retired and cancelled, before Congress prohibited further reduction, was $48,000,000, and "so little did this reduction of the amount in circulation affect the markets, that no one outside of the department would have known what was called contraction was going on but for the monthly published statements of the condition of the treasury. It was an unreasonable apprehension of what might be the effect of this contraction, rather than what it was, that raised the outcry against it." 27

Sherman claimed that if the funding clauses of the act had been "limited to the conversion of compound interest notes, treasury notes bearing interest, certificates of indebtedness, and temporary loans into bonds redeemable at the pleasure of the United States after a brief time, bearing not exceeding five per cent. interest, retaining in circulation during this process of refunding all the then outstanding United States notes, the result would have been greatly beneficial to the United States, but this was not the chief object of the Secretary of the Treasury." He stated further that the result of the refunding under McCulloch was largely to increase the amount of six per cent. bonds over $637,000,000. 28 The contraction policy not only increased the burden of the public debt, but it "created serious derangement of the business of the country. It excited a strong popular opposition to the measure adopted." 29

27 McCulloch, op.cit., 211.
28 Sherman, Recollections, 384.
29 Ibid., 385.
There is scarcely anything that the people more desire than an "abundant circulating medium, no matter what may be its intrinsic value, if it answer the purpose of money; or more dread than a contraction of the supply."30 The policy of contraction was never popular with the masses and opposition to it became so strong that an act was introduced suspending the authority to retire greenbacks. This was strongly supported by Sherman in the Senate.31 His reasons for its support express the sentiment of the country. "We hear the complaint from all parts of the country...that industry...is paralyzed and that trade and enterprise are not so well rewarded as they were. Many, perhaps erroneously, attribute all this to the contraction of the currency.... It may be wise, it may be beneficial, but still it has been so rapid as to excite a stringency that is causing complaint, and I think the people have a right to be relieved from that."32 Congress responded with large majorities in both Houses and the bill became a law on February 4, 1868; an act which suspended indefinitely the authority of the Secretary of the Treasury to make any reduction of the currency by retiring or cancelling United States notes.33

It is a fair criticism of McCulloch's policy that his "eagerness to accomplish resumption under his own administration caused him to proceed more rapidly than popular sentiment, considering all the circumstances could be expected to follow and to blind himself to any possible advantage in keeping back his operations to some extent, in view of the coming prosperity, which he fore-

30 McCulloch, op.cit., 212.
31 Burton, op.cit., 183.
32 Sherman, Recollections, 434.
33 Ibid., 386; Burton, op.cit., 185.
saw as well as Sherman and Morton." He was "sound in theory but not altogether expedient in method." He had been as acute as was Sherman in 1875, he would have provided for an issue of national bank notes under a free banking system to take the place of the greenbacks withdrawn, thus relieving 'some people from an idle fear of an improbable event.' But McCulloch maintained a large gold reserve. The _Nation_, which sympathized with his policy said, "He has not shown sufficient faith in the people's desire to return to specie payments of their own free will. All measures proposed by him have been coercive." "McCulloch was unpopular...but uttered much sound doctrine and undoubtedly had much influence on thinking men."37

After the act of 1868, suspending further contraction of legal tenders, it was useless to attempt to secure resumption by that method. Any proposition looking to a diminished volume of greenbacks "would have been promptly defeated by Congress, and even more emphatically rejected by the people."38 However, the prospects of resumption revived a little with the election of Grant, in 1868, on a platform denouncing repudiation, followed by the passage of an act to strengthen the Public Credit on March 18, 1869.39 The government was "committed to the payment of United States notes in coin or its equivalent." The extent to which Congress would then go, and to which popular opinion would then consent, was the "declaration that the United

34 James Ford Rhodes, _History of the United States from the Compromise of 1850 to the McKinley-Bryan Campaign of 1896_, VI, 342-343.
35 Ibid., quoting Sherman, _Recollections_, 520.
36 December 24, 1868, 520.
37 Rhodes, _op.cit._, 343.
38 Burton, _op.cit._, 226.
39 Ibid., 227.
States solemnly pledges its faith to make provision at the earliest practicable period for the redemption of the United States notes, in coin." 40 One of Sherman's biographers comments as follows: "All in all, it [the act to strengthen the Public Credit] is of the greatest financial measure either proposed or enacted within the first decade after the war. It not only inspired confidence in the public securities, and thus strengthened the public credit but it speeded resumption by joining the bonds and the greenbacks, in a single promise to pay and redeem both, in coin." 41

From this period on Sherman was constantly emphasizing the supreme importance of a return to specie payments. He became the "most influential and foremost champion of resumption." He argued for it on the ground of public faith. "Every United States note," Sherman said, "is a dishonored obligation, a promise to pay, but with no payment or provision for payment." 42

Then in September, 1873, occurred the panic, to be followed by a "season of severe distress, continuing, with greater or less intensity, for nearly six years." 43 If it was difficult to secure resumption before this "decided check in the onward march of prosperity," it was fourfold more difficult thereafter. 44 On the meeting of Congress, December, 1873, many propositions were embodied in bills and resolutions, nearly all of which looked toward a further inflation of the currency. Sherman had never supported any project which would cause a rapid withdrawal of

40 Sherman, Recollections, 458.
41 W. S. Kerr, John Sherman, His Life and Public Services, 1, 299.
42 Burton, op. cit., 233.
43 Ibid., 255.
44 Ibid., 256.
the greenbacks, but he stood equally firm against any further debasement of the currency by an additional issue, and against any plan which did not contemplate their final equality with gold. In 1873, Sherman took a decisive stand for resumption and from then on worked toward practical steps for its accomplishment.45 After three months of study and debate, the Senate Committee on Finance decided to report a bill to Congress which fixed the "maximum of the United States notes at $382,000,000. It also provided for a gradual payment of these notes in coin or in five per cent. bonds, at the option of the Secretary of the Treasury, from the first of January, 1876."46 Sherman favored this bill in the Senate but despite his sincere efforts there were several undesirable amendments added which greatly changed the character of the bill and greatly weakened it as a measure of resumption of specie payments. It was amended by raising maximum of notes to $400,000,000 and authorizing additional bank notes to the amount of $46,000,000.47 Thus, it was clearly an inflation measure and Senators who had previously expressed their willingness to vote for it now refused to do so; Sherman was among this group. Fortunately, President Grant vetoed this measure, on April 22, 1874. Later, on June 20, 1874, Grant signed a compromise bill fixing the amount of United States notes outstanding at $382,000,000, but it contained no provision for their redemption. Crude and imperfect as the measure was Sherman voted for it, commenting later, "because I cannot get a majority of both Houses of Congress to agree to specie resump-

46 Sherman, Recollections, 495.
47 Ibid., 504.
48 Ibid., 508.
tion I ought not therefore refuse to vote for a bill on the subject of banking and currency."48 This long struggle prepared the way for the result accomplished at the next session.

The political consequences of the panic were seen in the autumn of 1874, when the congressional elections, for the first time in fourteen years, went against the Republican party.49 The Republicans were sounder on the financial question than the Democrats and it was now clear that the policy decided on must be one of party and the "party spirit must be invoked to carry the bill embodying it through Congress."50

When Congress met for the short term, in December, 1874, an opportunity presented itself for the Republicans to recover favor in the country by enacting "conservative and sane legislation looking toward resumption."51 Nothing was to be lost politically by such action and after March 4, 1875, it would be impossible for any financial measure whatsoever to be agreed upon by a Republican Senate and a Democratic House. At the first Republican caucus of the Senators, Sherman called attention to the necessity of uniting on some measure to advance United States notes to par in coin, and he moved that a committee of eleven Senators be created to formulate such a bill. It was agreed to and the sub-committee was appointed.52

When the committee met it was at once manifest that the divergence of opinion was so great that it was almost impossible to come to an agreement. Yet, they realized that a fail-

48 Ibid., 508.
50 Rhodes, op. cit., VII, 133-134.
52 Sherman, Recollections, 508.
ure to agree meant a disruption of the Republican party. The first two sections of the bill were readily agreed to and the free banking provisions of the third section were not seriously contested. The most serious dispute was upon the question whether notes once redeemed could be reissued. Since this appeared to be "the rock upon which the party in power was to split," it was agreed that no mention should be made for or against the reissue of notes, and Sherman was directed to commit neither side in presenting the bill. After the bill had been carefully scrutinized, Sherman was authorized by every member of the committee to submit it to the Committee on Finance, and "to report it from that committee as the unanimous act of the Republican Senators."  

Acting in accordance with his instructions, Sherman reported the bill from the Committee on Finance on December 21, 1874 and called it up for action the following day. In introducing the bill Sherman said that it would "tend to promote the resumption of specie payments. It may fall short in many particulars of the desire of some Senators," but it "has demanded of every one who has consented to it thus far a surrender of some portions of his opinions as to measures and means to accomplish this great purpose." He proceeded carefully to explain each section of the act and pointed out to what extent each section tended toward resumption of specie payments. Furthermore, he explained that the bill "provides ample means to prepare for and to maintain resumption. I may say the whole credit and money of the United States is placed by this bill under the

53 Ibid., 509-511.
54 Ibid., 511; Congressional Record, 43 Cong., 2 sess., 194. Hereafter, cited as Cong. Rec.
direction of the proper executive officers, not only to prepare for but to maintain resumption, and no man can doubt that if this bill stands the law of the land from this time until the first day of January, 1879, specie payments will be resumed, and that our United States notes will be converted at the will of the holder into gold and silver coin.\textsuperscript{56}

He summarized the process outlined in the bill, in these words: "We have then fallen back on these gradual steps: first, to retire the fractional currency; second, to reduce United States notes as bank notes are increased; and then to rest our plan of redemption upon the declaration made on the faith of the United States that at the time fixed by the bill we will resume the payment of the United States notes in coin at par."\textsuperscript{57}

Sherman evaded the question concerning the reissuing of the greenbacks as long as possible, but finally admitted that undoubtedly, "until the reduction of the United States notes to $300,000,000 they cannot be reissued." But he felt it better to leave to the future "these questions that tend to divide and distract us, rather than undertake to thrust them into this bill and thus divide us and prevent us from doing something in the direction at which we aim," that is, the great work of resumption.\textsuperscript{58}

Furthermore, he stated very explicitly his position on the bill, "I take this bill not as the bill that I should propose myself, a bill which itself surrenders many of my convictions as to the means to be employed to accomplish the particular

\textsuperscript{56} Ibid., 195.  
\textsuperscript{57} Ibid.  
\textsuperscript{58} Ibid., 196.
purpose designed, but I take it because I see that every provision in it tends to the object that...I seek, and I will not weaken it by putting in questions of grammar or construction which may tend to weaken and destroy it."59

The vote in the Senate was practically on party lines; no Democrats voted for the bill and two Republicans voted against it. It passed the House practically without debate and received the approval of President Grant on January 14, 1875.60 It would probably be difficult to find a more striking illustration of party unanimity and strength than the passage of this measure. For years Congress had been considering the subject and only after the sting of defeat in the fall of 1874 was a law placed on the statute books by a "lame duck" Congress providing for specie payments at a specified date.

Though Sherman did not wholly like the bill, "his tactful management of it in the caucus committee and the fact that he had charge of it in the Senate, caused it to become known as his measure."61 He showed "imminently wise political leadership" in not insisting to the point of disagreement on his own particular views to get a bill which "bade fair" to accomplish the result. "He foresaw that the fixing of a date for resumption, and the authority to sell bonds to procure gold, aided by the revival of business - a necessary factor in success and one on which he confidently counted - would under skilful management bring us to specie payments."62

Don C. Barrett, in his recent volume, interestingly enough

59 Ibid.
60 U.S.Stat.at Large, XVIII, 296.
62 Ibid.
controverts the age-old impression that John Sherman drew up the Resumption Act. He states that on the "origin of this remarkable piece of legislation I had some interesting correspondence with Senator Edmonds." At the time of writing the correspondence he was the only "surviving member of that history-making caucus called to devise means to rid the country of a paper standard." In reply to inquiries from Barrett, Edmunds wrote, under date of February 5, 1914:

"...Senator Anthony, the Chairman of republican conferences, at the request of two or three eastern republicans called a meeting of us all to consider whether our respective views could be harmonized in such a way as to result in effective legislation which we could all cheerfully vote for. Such a meeting was held, and a committee of eleven senators was appointed to consider the subject and report to a later meeting. The committee was so composed and appointed that the various conflicting views of senators should be represented. The committee sat for nearly three weeks, more than three evenings a week in discussing, first, whether we should act at all, and, second, if we did, what we should propose in the form of a bill.... Senator Logan of Illinois and myself were appointed to draw up a bill accordingly; which became the Act of Congress above referred to. Senator Logan drew up the first and second sections and I drew up the remaining section...and the whole draft was...unanimously agreed to.... The draft was then placed in the hands of Senator Sherman as chairman of the finance committee to be reported from that committee to the Senate. He accordingly reported it. My recollection is that...the bill passed, I believe, with the unanimous support of all the republicans present excepting, possibly Senator Morton."64

It should be remembered that the provisions of the Resumption Act had to be enforced without further aid from Congress. At no time between January 14, 1875 and January 1, 1879, was there a majority friendly to the Act in both Houses of Congress.

63 The Greenbacks and Resumption of Specie Payments, 1862-1879, 181-183.
64 Ibid.
The Act remained practically inoperative so far as the proposition for immediate resumption was concerned.

When Rutherford B. Hayes became President, in March, 1877, he appointed John Sherman Secretary of the Treasury. It was perhaps fitting that the man who had such an important part in framing this act, should now be given the momentous task of putting into effect the resumption of specie payments. When Sherman assumed the office of the Secretary of the Treasury, he found that the legal tenders had been considerably reduced in consequence of the bank issues, and a large portion of the fractional notes redeemed in silver.\(^6\)

Both of these procedures were in compliance with the law of 1875. Furthermore, he discovered that no steps had yet been taken toward accumulating the reserve fund to be used for the redemption of the notes in coin on and after January 1, 1879. He found, also, that a contract was in force with certain bankers under which the Treasury was issuing four and one half per cent. bonds. Sherman immediately began practical preparation for resumption by promptly securing the consent of these contracting parties to allow no outstanding bonds to be called against $15,000,000 of the bonds sold. Thus he created, at once, a reserve fund to that extent for the redemption of the notes. The Secretary believed that with a reserve fund of forty per cent. he could with safety undertake to redeem all the notes that would be presented for that purpose on and after January 1, 1879.

Skepticism over the successful accomplishment of resumption was strong in the United States. In December, 1877, the Senate Committee on Finance called the Secretary of the Treasury in for an interview. One of the members asked him if he thought the Act of 1875 should be repealed. Sherman promptly replied that he thought not; that if the Act were repealed, inflation would follow or repudiation would result, or the "long weary agony and struggle" toward resumption would be renewed.

Some time later, in April, 1878, The House Committee on Banking and Currency called him in for what turned out to be a lengthy interview. Upon inquiry, Sherman explained how he was accumulating the gold reserve for redemption purposes. His avowed purpose was to sell bonds for coin and thus build up a gold reserve to use in resuming specie payments. From that purpose he could not be turned, nor would he admit any doubt of his ability to carry it through successfully. He expressed an opinion, to this committee, that when gold could be obtained for the notes, nobody would want it. The publication of the latter interview aided in clearing the atmosphere and confidence became general that, if let alone, he could sell the bonds and undertake resumption. Thus when Sherman felt he had the confidence of the people, and Congress would not hinder his efforts, he at once began to set "his house in order" for the great event of resumption. He authorized gold to be purchased for notes by the several assay offices and ordered interest on the public debt to be paid in coin only at New York, leaving other branches of the Treasury to pay in notes or not at all, and supplemented this order by an arrangement with the New York Clearing House under which that institution agreed to accept notes in
payment of all Government checks or drafts passing through its hands for collection after January 1, 1879, thus "doing away almost entirely with the necessity of gold for coin interest payments amounting to $100,000,000 per annum." By the designated time the Treasury had gathered together $133,000,000 of coin over and above all matured liabilities, Sherman had sold $95,500,000 of bonds and the balance was met from surplus revenue. Throughout the year 1878 the premium on gold steadily declined, though it was not till December 18, 1878, that this premium ceased and currency and gold were used together interchangeably.

The first day of January was Sunday and no business was transacted. On Monday anxiety reigned in the office of the Secretary. At the close of business came this message from the Sub-Treasury, "$135,000 of notes presented for coin - $400,000 of gold presented for notes." That was all. Resumption was accomplished with no disturbance.

To this day there is much uncertainty and division of opinion as to what were the real forces that accomplished resumption. Some claim it was due solely to Sherman's financial wisdom and skill; others, it was due to the forces of United States' improved commercial position. It is true, that without questioning Sherman's administrative ability, one must recognize the favorable commercial position of the United States as a powerful factor in effecting resumption and in maintaining it during the early years of trial. The tide of trade had turned in 1878, and the United States was exporting more than it was importing, thus commerce came to the rescue of finance. Coupled
with this happy turn of conditions, was the fall of prices occasioned by resumption itself, which in turn was a powerful magnet for attracting gold back to this country.

By most people it has been conceded that the experiment of maintaining a limited amount of United States notes in circulation, based upon a reasonable reserve in the Treasury pledged for that purpose, and supported also by the credit of the Government, has proved satisfactory.
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