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Prof. Dowd's Noble Lecture.

"THE LATE FINANCIAL TROUBLE.

A STRONG PLEA FOR A SOUND CURRENCY—THE PROFESSOR DOES NOT BELIEVE IN THE PERIODIC CHARACTER OF PANICS—THEY GENERALLY OCCUR, HOWEVER, AFTER A TIME OF EXCEPTIONAL PROSPERITY.

The following is the lecture delivered by Prof. Jerome Dowd, of Trinity College, at the Y. M. C. A. of Charlotte, last Thursday evening. Prof. Dowd said:

LADIES AND GENTLEMEN:—

No one knows more about the effects of fire than one who has been hurt—provided he comes out alive. Upon the same logic I maintain that the man who knows most about the financial trouble is one who has been in it and felt its effects—provided he has come out alive. As I have been a sufferer from the recent panic, I congratulate you on your wisdom in selecting me to enlighten you upon its causes and effect.

There are a great many different varieties of panics. The military panic had its origin in a general of Bacchus who contrived to strike terror into an opposing army. When a young dandy or dude banks too much on the cut of his clothes or the charm of his intellect, and finds himself rejected about the time he ventures to spoil the crease in his pants—his condition may be said to be that of a panic. When your Uncle Sam presumes too much on his resources and ventures too far in his flirtation with Dame Fortune, he often experiences a similar sensation—a sudden collapse of confidence and, perhaps, the rupture of a suspender.

Financial panics are like the others named, in their origin and effects, only that money is at stake instead of life or love.

Panics occur generally after a period of exceptional prosperity. The expansion of the supply of money stirs up the spirit of enterprise. Credit becomes easy upon which vast new enterprises are set to work. Speculation runs high and everything apparently turns to gold. At least something happens which absorbs the gold or silver, upon which credit is based. Then credit contracts, confidence disappears and a panic breaks out—everybody wants to unload and buyers flee from the markets. Prices fall lower and lower and those who have payments to make are involved in failure. One bankruptcy follows another until the prevalence of low prices tempts money to come out from its hiding place.

Panics in England have been somewhat periodic in their visitations and some economists believe that a kind of natural law produces them. Mr. Jevons says they are caused by spots on the sun. "The principal cause," says he, "is the exportation of spicie. Spicie is exported to pay for the import of grain during years in which the harvest is bad. Bad harvests are the result of inclement summers and these are caused by the spots on the sun." If Mr. Jevons is correct in his views, the Democrats in Congress are making a great mistake in attributing the recent panic to the Sherman law.

However, I do not believe in the periodic character of panics and I am inclined to think that their causes be somewhat nearer us than the spots on the sun. I believe that all panics can be traced to bad legislation or reckless financiering and that it lies within the province of statesmanship and the science of finance to prevent their occurance.

I do not believe that the panic which has just swept over the United States with such disastrous result, had its origin in the Sherman law, but I do believe that the large volume of silver coinage since 1878, exaggerated the effects of the panic, and constituted a vulnerable point for the attack of a panic which was almost world wide in its sweep.

I agree with Senator Daniels, in his recent speech, who says that "the panic began in South America, where there is no Sherman law. It swept over Great Britain, where there is no Sherman law, and where castles of the British money princes came tumbling down.

It swept on to Australia, whose people are the richest in the world per capita, and who have no Sherman law. It agitated Austria, Italy, and India, and is now giving Europe the chills, without the frigid presence of a Sherman law."

In September, 1857 a panic began in the United States. In November it crossed the Atlantic where it raged with violence. It spread from England to Hamburg, Scandinavia Copenhagen and Stockholm. It invaded Germany, Vienna, Egypt, the Indes and Java and completed the circuit of the world by way of Chili. Buenos Ayres and Rio Janeiro.

The fact that the movement of gold from this country began two years before the Sherman act, does not harmonize the Shermen act, does not harmonize with the theory that that act is entirely responsibe for our financial trouble.

A panic breaking out in one country is like an epidemic of cholera—it will spread when ever conditions exist that invite it. The inflation of our currency in the last few years has given an artificial stimulus to trade and superinduced an enlargement and expansion of credits. From 1880 to 1890 the private indebtedness of the United States increased $19,700,000. The funded debt of the railroads increased 129 per cent., the loans and over drafts of banks increased from $994,000,000 to $2,171,000,000. State and municipal indebtedness increased $12,000,0001

The departure of gold from our shores last spring and summer left this immense pyramid of credit standing upon its apex and, of course, a collapse and panic were inevitable.

In order to show the part played in the late crisis by the coinage of silver, I shall have to go somewhat into a discussion of the principles involved in the use of gold and silver as money.

People who have no special occasion to study finance and economic questions, and amature statesmen who, by reason of the principle of rotation in office, annually fill our halls of legislation, very naturally believe in the free coinage of silver and gold. I believed in it and advocated it once myself.

The immediate cause of all panics is a scarcity of money, although the real and remote cause may be its superabundance. Hence the masses who see only surface causes cry out for more money and the more they get and the more worthless and abundant it gets—the more they cry for it. There has been a chronic complaint of lack of money throughout all ages The superstitious belief in the increase of the circulating medium as a means of growing rich has infected all races of mankind and perhaps accounts for the multiplicity of articles used as money by primitive communities.

Ancient Greece attempted to maintain a triple standard consisting of gold, silver and oxen. Homer tells us that a certain prize for a wrestler was valued at 12 oxen.

Mr. Jevons relates that a noted Paris singer "made a professional tour around the world and gave a concert in the Society Islands. In exchange for a selection from Norma and a few other songs, she was to receive a third part of the receipts. When counted, her share was found to consist of 3 pigs, 22 turkeys, 44 chickens and 500 cocoanuts, besides considerable quantities of bananas, lemons and oranges. As the fair signer could not consume or utilize any considerable portion of this quintuple variety of money, it became necessary in the meantime to feed the pigs and poultry with the fruit." This incident illustrates some of the disadvantages of having too many standards of value.

The North American Indians experimented to a considerable extent with the double standard. Furs and black and white beads were used as their money. A string of black beads one foot long was worth two feet of the white beads. The furs went out of fashion in England and destroyed the equilibrium of their currency.

Corn, tobacco, eggs, dried cod fish, nails, bullets, cotton, iron, lead, tin, coffee, nickel, silver and gold and nearly everything else has been used separately or conjointly by various nations and people throughout the past.

Mr. Edison, our electrician, has recently suggested the idea of condensing the nutritious elements of wheat into small packages and using them for money. This system of money would eliminate the necessity for the sub-Treasury scheme, and if our currency failed to command respect abroad, we could eat it.

The progress of civilization has produced or been followed by a diminution in the number of standards used in commercial transactions. The primitive societies have many standards, the more highly developed nations of the earth have only one.

The efforts of nations to maintain two or more standards of value have probably been as destructive to human progress as all the wars since the beginning of the world. Within the past few centuries the evils of a double standard have been to a great extent exorcised by a scientific study of the laws underlying the use of gold, silver and other metals as money. Nearly every nation on the globe has at some time attempted to maintain free coinage of gold and silver upon a fixed ratio, but up to the present writing there is no record that the effort was ever successful. The monetary derangements and commercial calamities entailed by the efforts to establish a double standard were baffling and mystifying alike to statesmen, scholars and financiers until a comparatively recent time. Aristophanes observed the fact that bad money drove away good money, but did not or could not explain the reason why nor suggest a remedy for the evil.

The fact or principle that bad money drives out good money was not generally understood until enunciated by Sir Thos. Gresham a counselor of Queen Elizabeth. The principle is now known as the Gresham law throughout the civilized word. If any nation confers the debt-paying privilege upon any two metals or commodities to an unlimited extent the debts are sure to be paid in the more easily acquired commodity.

Some of the early American colonies allowed taxes to be paid in cattle with the result that the tax-gatherer was overloaded with the lank and spavined variety while the slick and fat were hoarded for home consumption. If the United States were to enact that wheat and corn should be legal tenders upon a fixed ratio, the cheapest article would circulate and the one having the higher market value would be withdrawn for the same reason that the lank and spavined cattle was paid to the tax gatherer and the fat and sleek retained at home. The same principle applies to the use of gold and silver.

Until a recent time the English people suffered great annoyance from bullion dealers and bankers who made a profit by collecting for the melting pot, the new coins from the mint and passing the old and worn ones into circulation.

In 1858 the government of Japan recognized gold and silver as legal tender at a ratio that undervalued the gold coin. The English merchants trading in Japan took advantage of the discrepancy and used gold and silver to purchase the Japanese gold at the undervaluation and drained it from that country.

A similar discrepancy between the market and the legal ratio of gold and silver in France between 1849 and 1869 drove out silver and established the gold standard. In 1870 by a change in the market ratio the gold began to disappear and silver to come back.

Sumner relates in his work on American currency that the legal ratio of gold and silver in Massachusetts in 1762 undervalued siver making it the dearest metal with the result that it was displaced by gold.

In 1779 the attempt of Congress to make a fiat paper money circulate on parity with gold, resulted in driving all specie out of circulation leaving a depreciated paper currency for the business of the country worth only 2 cents on the dollar. In 1780 this paper money with the seal of the government on it, (which according to some statement is all that is necessary to give value to money) this paper currency was pasted on the walls of barber shops in Philadelphia and a dog coated with tar and these legal tenders was paraded in the streets.

The excessive issue of paper money by the Middle and Southern States about 1813 drove specie out of those States and caused a suspension of payments by the banks.

This process has taken place with every attempt to maintain a double standard. The displacement of one money for an inferior kind was a constant source of annoyance to the American Colonies prior to the adoption of our constitution. The financial history of that period furnishes many instances of the operation of the Gresham law.

The market ratio between gold and silver is now about 1 to 24. If we should attempt the free coinage of silver upon the present legal ratio —1 to 16—the inevitable result would be to drive gold out of circulation.

A banker or merchant could go into the markets abroad with one grain of gold and purchase 24 grains of bullion silver. He could take those 24 grains to the American mint and for 16 grains have a silver dollar coined, leaving 8 grains as a prfit on the transaction. This process carried on upon a large scale would be very remunerative, and quickly leave us with an immense volume of silver money depreciated to its market value, because no gold would be left in the country upon which to maintain it.

In 1794 the United States government provided for the free coinage of gold and silver upon the ratio of 15 grains of silver to 1 of gold. At that time the actual market ratio was $15\frac{1}{4}$ to 1. Therefore gold was undervalued as compared to silver. It became the dearer metal, being at a premium over silver at from 5 to 7 per cent. between 1821 and 1834. In obedience to the Gresham law the gold was driven away, and silver became the standard of value. The disappearance of gold was everywhere commented upon. Owners of silver bullion carried it to the mints to be coined, because it was worth considerable more in coin than in bullion.

From the foundation of our govenment to 1834 only $11,825,000 of gold was coined—a period of 42 years—while silver, was coined to the amount of $36,575,000.

In 1834 the statesmen, seeing that the free coinage of the metals had worked evil, attempted to rectify the matter by altering the ratio. Seeing that the gold dollar was worth more in the markets of the world than the silver dollar, they concluded to diminish the quantity of gold in the dollar so as to bring it down on an equality with the silver dollar. So, without any regard to the effect on contracts or the interity of our monetary standard, the gold dollar was debased—6 580 per cent was taken out of the gold dollar, reducing it to 23 22 grains of pure gold. This brilliant achievement cost every creditor in the country $2\frac{1}{2}$ cent on every dollar due.

Even by this change the legal ratio and the market ratio did not agree. The legal ratio was about 1 to 16 and the market ratio abeut 1 to $15\frac{3}{4}$. Thus the relation of the two metals was reversed—the silver dollar became worth more than the gold in the gold dollar. In obedince to the Gresham law, silver, the dearer metal, was driven out of circulation and gold came back for coinage, because worth more in coin than bullion. From 1834 to 1873 there was coined at one mint $759,830,000 of gold and only $48,675,000 of silver—a period of 40 years. We coin more silver than that now in two years.

The United States has tried the free coinage of gold and silver twice. The first attempt by undervaluing gold drove it out of circulation and placed us on a silver standard basis. The second attempt by undervaluing silver drove it away and placed us on a gold standard basis. The figures I have just quoted are the proof of these statements. To illustrate how completely the Gresham law worked in the latter case but $5,500,000 of silver was coined in the 20 years prior to 1873, yet we were under a free coinage law. Now so much clamored for as a means of increasing the volume of money, Silver rose to a premium of 1 to 3 per cent and was seldom seen in commercial transactions. The fact that silver was no longer used in business—almost none coined—caused Congress to omit any provision for its coinage in the act of 1873 known as the act demonstizing silver.

The experience of the United States with the double standard is the same as that of all other nations. Every attempt at a double standard has been a failure. The reason lies in the operation of the Gresham law just illustated. The impossibility of a double standard is now recognized by the statesmen of the world, except in the United States, where a few of them persist for free coinage in ignorance of a law as well established as that of gravitation and in blindness to the history of their own country.

In obedience to the hard learned lessons of experience, the advanced nations of the world have discarded the double standard idea and adopted what is known as the composite legal tender, but erroneously and popularly termed mono metalism. This system is now firmly established in Great Britain, France, Germany, Italy, Switzerland, Australia, Denmark, Norway, Sweden, Portugal, Turkey, Brazil, Egypt, Japan and other countries. In none of these countries is there any pretentions toward a double standard. They all recognized gold as the standard of the world. Yet they are not mono-metalic countries. They use silver and other metals in limited quantities. So long as silver or any other coined metal does not get out of proportion to the gold circulation of a country there is no danger of the operation of the Gresham law. Under our limited coinage system, if an ounce of gold will buy 24 ounces of silver in a forign market, there is no danger of an influx of silver, because only a limited quantity is coined at the mint, and no man will speculate with a possibility of having the bullion left on his hands.

However, if under a limited coinage system, such as we have in the Sherman law, the volume of silver impairs or threatens to exceed the volume of gold, then the silver dollars will be presented at the Treasury and exchanged for gold. At the present rate of coinage it is only a question of a few years until the treasurer will be obliged to pay out silver, for current expenses and interest on the public debt, in such quantities, as to drive gold out of circulation.

This brings me to the interesting and vital point of contact between the operations of the Sherman law.

I do not claim that the late crisis was entirely due to the Sherman law, but the volume of silver has reached so near the limit of exceeding that of gold, that the late crisis excited the fears of our finances, caused the hoarding of gold—and a want of confidence in the integrity of our monetary standard. which partly produced and undoubtedly aggravated our troubles.

The fact that gold is now returning to our shores is cited by adocates of more free coinage experiments, as a proof that the coinage of silver has nothing to do with this crisis. They say that gold is drawn hither by the balance of trade. This is true, but what regulates the balance of trade? It is regulated by the prices that prevail in the various countries, and are not the prices governed by the volume of money? If we drive gold away by silver issues we diminish the volume of money that measurers prices, and consequently we cauae prices to fall —commercial stagnation ensues, and a panic, perhaps, such as we have just had. Now how is gold brought back to our shores? Surely by the low prices that have prevailed during the panic. As a practical illustration of this truth I will quote a fact related by Hon. Bourke Cochrane, of New York, in his recent very able speech on this subject. He says:

"If the wheat exported during June or July, 1893 had been sold at the rate which prevailed during the corresponding period in 1892, that is to say at 90 cents a bushel, $20,760,719 would have been realized instead of $17,289,964, which shows that the agricultural producers of this country have sustained a loss of $3,500,000, and this was the sacrifice they were compelled to make in order to bring back into the channels of our trade the honest circulation medium expelled by the operations of the Sherman law."

Having stated my views respecting the causes of the late financial trouble. I shall conclude with a brief statement of some of its effects.

An unfortunate feature of all the evils resulting from legislation tinkering with the money question is that the poor people, the middle class and wage-earners, are the greatest sugers. The bankers and capitalists very often suffer loses, but when the laborer loses his little savings or is thrown out of employment, his all is gone.

In 1640 the derangement of the currency by legislation in Massachusetts colony, completely prostrated the colony and produced wide-spread misery among the poor. For a considable time after that, more people went back to Europe than came over. Some of the colonies were plunged into misery and ruin by land loan schemers about 1719. Speaking of the results of them a writer said: "The evils of litigation abound. People of estate cannot raise money. Individuals depending on their labor are forced to take one half to two-thirds in goods."

I will quote a single instance recorded by Sumner illustrating the many hardships and penalties inflicted by the excessive issue of paper money in 1779. A young lady in Pennsylvania was left a competence by her father which her guardian had invested in real estate six years before. He now proposed to pay her fortune in paper money worth two cents on the dollar. Referring to this flat money scheme a statesman of that day said. "It polluted the equity of our laws, turned them into enemies of oppression and wrong corrupted the justice of our administration, destroyed the fortunes of thousands who had most confidence in it, enervated the trade, husbandry and manufactures of our country and went far to destroy the morality of the people.

Unwise legislation brought on the panic of 1819 and in August of that year 20,000 laborers were thrown out of employment in the city of Philadelphia. A proportionate number were idle in all the principle commercial cities of the North and all the newspapers were filled with advertirement of sheriffs' sales.

The crisis of 1834 precipitated by another effort to have two standards of money, caused hundreds of failures, and general stagnation in trade Within a few weeks not less than 20,000 people depending on their daily labor for their daily bread were thrown out of employment. Being profoundly impressed with these facts Daniel Webster said: "He who tempers with the currency robs labor of its bread. He panders, indeed, to greedy capital, which is keen sighted and may shift for itself; but he beggars labor, which is honest, unsuspecting, and too busy with the present to calculate for the future. The prosperity of the working class lives, moves, and has its being in established credit and a steady medium of payment. All sudden changes destroy it. Honest industry never comes in for any part of the spoils in that scramble which takes place when the currency of the country is disordered. Did wild schemes or projects ever benefit the industrious? Did irredeemable bank paper ever enrich the laborious? Did violent fluctuations ever do good to him who depens on his daily labor for his daily bread?"

Lord Macaulay impresses the same lesson when he says: "It may be doubted whether all the misery which has been inflicted on the English nation in a quarter of a century by bad kings, bad ministers, bad Parlaments, and bad judges was equal to the misery caused in a single year by bad crowns and shillings."

Mr. Sumner in his concluding remarks on the history of American currency says: "We often boast of the resources of our country, but did not make the country. What ground is there for boasting here? What have we made of it? No one can justly appreciate the natural resources of this country until, by studying the deleterious effects of bad currency and bad taxation, he has formed some conception of how much, since the first settlers came here: has been wasted and lost,"

The late financial panic has, in my opinion, thrown out of employment more laborers—done more to discourage the wage earner from saving and pressed more people over the line of poverty—than any our country has ever experienced. It has spread its black wings of despair over many homes and left countless imprints of sorrow on the faces of helpless woman and children.

This brings me to the point of suggesting some good effects that may possible result from the recent panic. In a republican form of government safety from bad legislation lies in the education of the masses. The wide spread study and discussion of the currency questisn will undoubtedly result in the propagation of sound views upon this question among n larger class of voters than has heretofore had and intelligent comprehension of it. Prior to 1879 there were very few people of either party who did not believe in the free coinage idea. Now the number in either party who favor the composite standard, is legion. The debates in Congress are rapidly educating the people in line with the enlightened people of the other great nations of the earth, The knowledge gained by the discussion of this question will go far to relieve the people in general and tha wage earners in particular from the hardships of unwise legislation.

Many obstacles to a solution of the silver question arise from a misunderstanding of the question at issue.

There is no proposition pending in the United States to demonetize silver. We have simply been coining too much of it, and we must suspend or diminish the coinage temporarily until our gold coinage assumes a healthier proportion to the volume of silver. Without coining any more silver we should still have nearly $600,000,000 of it, with $700,000,000 of gold to sustain it.

France has $700,000,000 of gold and $800,000,000 of silver, yet it has the gold standard as we have had it since 1873.

The free silver advocates maintain that the so called demonetization of silver by various governments has caused the depreciation in the market value of silver. If that is so, its remonetization by the United States would not restore its value, unless all other nations should also remonetize it, However, if by remonetizing it, or by any other legislative slight of-hand, the value of silver could be restored or raised to the skies, it would not prevent the operation of the Gresham law.

But the fall in the value of silver is immediately due to natural causes. It was the ratio to gold of 1 to 10 in the 15th century, and has been steadily falling ever since, owing to its abundance as compared to gold. The fact that the production of gold for a period of years is greater than silver will not appreciably affect their relative values, any more than a wet spell around Lake Erie would make that body of water larger than the Atlantic ocean. The relative values of gold and silver are determined by the relative total stock, and not by any one or a dozen years' production.

Another fallacious argument of the free coinage men is that the demonetization of silver has caused a great decline in prices.

Uncontrovertible statistics answer this argument by showing that the products of the farmer and the wages of the laborer will buy more now than they could before silver declined. So if the demonetization of silver has had anything to do with prices, it has been a boon rather than a curse to those classes. The real cause of the fall in prices is the invention of machinery, cheap transportation and the general increase in the productive powers of the people. The fall in prices has been a blessing to all of us by enabling us to purchase more articles with the product of our labor. No people can progress in any other way than by a decline in prices.

By limiting the coinage of silver so as not to exceed the volume of gold, the latter metal can be kept in the country and the silver used to widen the base for credit transactions. Under this system more money can be kept in circulation than under a regime of free coinage.

Under our limited silver coinage system we have coined and kept in circulation 70 times as much silver as we coined during all the free coinage period from 1792 to 1873.

The composite legal tender insures the use of silver while preventing the abuse I have enumerated to-night. There is no more reason in having two standards of value than in having two yard sticks of different length in a dry goods store. There is the same season why all nations should have the same standard of value in their transactions as there is that all the dry goods merchants of Charlotte should have a yard stick of the same length.

The fears of some people lest the gold should be insufficient for the standard of the world, are without just foundation. Whether we have the gold standard or not the total stock of gold and silver will be so much. Having a double standard will not increase the total stock, while it will always keep one or the other metal out of circulation. The composite standard will utilize all the gold in the world and as much silver as the gold will sustain. I see no reason to fear that the supply of gold will ever be sufficient for all the nations of the earth.

For myself I have never opposed the principle of the Sherman law. I think it is one of the wisest devices for maintaining an abundance of both metals ever conceived by a statesman. Its defect has been that the coinage has been too rapid. With more reasonable limitations the Sherman law might continue in operation indefinitely with beneficial results.

And now let me conclude by saying that the monetary policy of a country is not to be trifled with nor put to sleep by the opiates of party platforms, We have got to face and solve the question and we should do so promptly and boldly. Let us not be deterred from our convictions nor swerved from the path of duty by a fanatscism and demagogism that uses this great question to array class against class and that applies the epithets of "pirates," "gold-bugs" and "money tyrants" to those of us who are in line with the progress and enlightened judgement of the civilized world, Let us stand firm for the protection of the wage earner, though he slay us, and against those who would barter the welfare of the masses to support an unworthy ambition. Let us sacrifice popularity and friendship rather than be a party to debasing the currency of the people and plunging them into the misery that follow in the wake of demagogism and misguided statesmanship.

In the language of the lamented Ben Hill, of Georgia, in his closing words in opposition to free coinage in 1878:

"Teach the present generation—teach all generations that, unflinching fidelity to constitutional obligations, and fidelity to contract obligations, through all trials and at any cost, is the purest religon, the wisest statesmanship and the higest patriotism."