SILVER MONEY

PROF. ANTAL FEKETE

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2020

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PRINCIPIA PRESS, INC.

BLOOMINGTON, INDIANA

1939

Underground Kiadó Kft.

www.undergroundkiado.hu

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PREFACE

The purpose of this book is to present in one volume the back-ground and principal devlopments in the use of silver as money since the beginning of the nineteenth century. The silver question was an important and controversial one from about 1876 to 1896, and again become a subject of dispute during the early 1930's. The present situation cannot be understood fully without some knowledge of the past.

The literature of the former period is extensive, and I have relied largely upon secondary sources for the earlier chapters of this book. For the recent period, comparatively few general surveys have appeares as yet, and I have made use of contemporary newspaper reports and published government documents. I have had no access to any inside sources of confidential information which eventually may make it possible for a future historian to write a fuller account of the developments of recent years and the real reasons therefor.

Since the material, especially for the recent period, has been gathered from diverse sources, it has seemed worth while to give references in considerable detail, for the sake of such readers as may wish to study the subject more fully.

A Selected Bibliography of the books and articles which have been found helpful in the preparation of this study has also been included. It is arranged by groups of chapters, and brief descriptive comments follow most of the titles. This Bibliographie makes no pretense of being complete, but it is planned to be helpful to those who wish to pursue the subject further.

In the Appendixes are included various numerical date and the texts of important legislation enacted anc executive measures taken concerning silver in recent years.

The charts have been planned with care to bring out certain quantitative aspects of the silver question which sometimes are lost sight of in controversial argument. Since statistical data are so quickly out of date, space has been left in many of the tables and charts for the reader, if he desires, to add figures for the next few years, although, in view of the sudden and violent changes in the silver situation, it cannot be guaranteed that sufficient space will be available on the vertical scales.

My interest in silver developed during a residence in Changsha, China from 1909 to 1928, where, as treasurer of Yale in China, I found the fluctuations in its price a perplexiong problem. Since then I have spent much of my spare time on the general subject of silver, and was occupied for more than a year of full time in the preparation of this book. Just after the manuscript was completed and accepted by a commercial publisher in March, 1934, I was appointed a special agent of the Treasury Department to assist Professor James Harvey Rogers in his study of the silver problem in China and India. At the request of the Departement, publication of the book was deferred while I was in its employ. A four-month stay in China was of great help in supplementing what I read of the developments in that country during six years of absence, while two months in Bombay gave me a better appreciation of what I had formerly learned from the reports of the various commissions that had studied Indian currency.

Since then the manuscript has been completely rewitten and brought up to date as regards the numerous developments in the silver situation. I wish to emphasize, however, that I not made use of any confidential material obtained while in the service of the Department, and that I have no knowledge of official opinion except what is available to the public.

My thanks are due to Alfred Cowles 3rd, president of the Cowles Commission for Research in

Economics, for including this book in the series of Cowles Commission Monographs.

I am also grateful to Wallace B. Donham, dean, and Clinton P. Biddle, associate dean, of the Harvard Graduate School of Business Administration, by whose courtesy I had the use of an office at the school and the facilities of the Baker Library while writing the book.

I am indebted to C. W. Handy of Handy & Harman for furnishing me with an unpublished series of monthly high and low silver prices running back to 1893, which is shown in Chart 2, as well as for helpful correspondence and conversations on the subject of silver. The editors of several journals in the United States and China have kindly given me permission to use ideas or wording from articles of mine which have published during the past twelwe years; these articles are all listed in the Bibliography, but detailed references have not been made when a sentence or a paragraph here and there has been incorporated in the text. My wife, Marjorie B. Leavens, collected and preserved for me a mass of newspaper material about silver which appeared during my absence from the country in 1934, and which it would have been very difficult for me to assemble otherwise.

The Bibliography will give some idea of the numerous writers whose works have had a share in educating me about silver. It has been my good fortune to have the acquaintance of the two who perhaps have been the most prolific in their publications about the white metal: to conversations and correspondence with Herbert M. Bratterof Washington and Eduard Kann of Shanghai I owe a great deal, as I do also their comprehensive writings.

The manuscript has been read, in whole or in part, at various stages of its preparation, by the following, who have been kind enough to give me the benefit of their suggestions and criticisms, but the responsibility for all statements is wholly my own: Herbert M. Bratter, of Washington, D.C., author of Silver Market Dictionary, and numerous other publications on silver; Harold T. Davis, professor of mathematics at Northwestern University and research associate of the Cowles Commission; Eduard Kann, of Shanghai, exchange broker and author of The Currencies of China and numerous other publications on silver and Chinese economics; Y. S. Leong, of Washington, D.C., author of Silver: An Analysis of Factors Affecting Its Price; Richard S. Meriam, professor of business sconomics, Harvard Graduate School of Business Administration; Jeannette P. Nichols, of Swarthmore, Penn,. who is engaged in a study of silver diplomacy with special reference to American politics; Joseph E. Reeve, of the Federal Deposit Insurance Corporation, who has made a study of monetary proposals for curing the depression; Frances V. Scott, research assistant, Harvard Graduate School of Business Administration; W. H. Spaulding, of Handy & Harman, New York bullion dealers; and Gerhard Tintner, assistant professor of economics, Iowa State College.

The proof has been read by Alfred Cowles 3rd and Francis McIntyre of the Cowles Commission, and J. R. Kantor, professor of psychology, Indiana University, and editor of the Principia Press, all of whom have discovered errors with otherwise might have been overlooked and have made suggestions for greater clarity of expression; the responsibility for any mistakes which remain in my own.

My thanks are also due to Richmond F. Bingham, Grace E. Crockett, Forrest Danson, Mary Jo Laeley, Aileen C. MacLaughlin, Lucille Marian Nelson, Fred H. Shantz, Marion White, H. Catherine Williams, and Kathryn Withers, who have assisted in the preparation of the manuscript or charts or in seeing the book trough the press. The Dentan Printing Company also been very co-operative in the manufacture of the book.

DICKSON H. LEAVENS

Colorado Springs,

february 8, 1939

CHAPTER I SILVER AND GOND BEFORE THE NINETEENTS CENTURY1

Thence we sailed against the Spaniard with his hoards of plate and gond
Which hw wrung with cruel tortures from the Indian folk of old.
CHARLES KINGSLEY, The Last Buccaneer

Silver and gold have been regarded as precious metals from the earliest times. Because of their beauty, their original use was as ornaments. The demand for this purpose made them universally acceptable as common media of exchange. The monetary use, in turn, created a new demand, which, as the economic system developed, became predominant.

The value of either metal in terms of other commodities and their relative values in terms of each other have varied greatly through the ages. These variations have resulted from differences in the absolute and relative production of gold and silver, from their changing popularity both for luxuries and for a medium of exchange, and from their movement between different countries. Laws and conventions which have fixed the relation of the two metals in the monetary system have also been an important factor.

Gold probably came into use befor silver, because it was found in nuggets and in dust mixed with sand, from which il could be washed by crude methods. Silver, on the other hand, usually occurred in ores, from which it could be extrected only by smelting. Some silver in its native state, however, probably was available in prehistoric periods in Mexico, North America, and Egypt. It was found also in a natural alloy with gold called electrum. It is not improbable that, because of the relatively small supply of the white metal, silver may, in some prehistoric times and places, have been as precious as gold or even more so. With the development of mining and smelting, however, silver became more plentiful and less valuable than gold.

In classical times the two metals were well known. Athens operated silver mines at Laurium, and from them gave each citizen an annual dividend of ten drachmas during a prosperous period in the sixth and fifth centuries before Christ. Rome obtained silver from mines in Spain which were an important factor in her struggles with Carthage. In addition, she acquired much silver and gold as plunder from her conquered enemies. The adoption of silver coinage in 269 B. C. gave to money the name argentum, perpetuated in French as argent. Later, with the growth of luxury under the Empire, the tide turned; the precious metals began to flow outward in trade for the purchase of silk and other products of Asia. Tho coinage was debased gradually as Rome declined in power.

During the Dark Ages little gold and silver were mined in Europe. William Jacob estimated, on the basis of a 10-per-cent decrease every 36 years by abrasion and export, that the stock of the precious metals had declined to less than £35,000,000 by the year 806 A.D., but that from then until the discovery of America mining in Europe was revived tu such an extent that the stock probably was maintained at about that level. Among the new silver mines were those at Joachimsthal in

Bohemia, opened at the beginning of the beginning of the thirteenth century. Here in the sixteenth century were coined the Joachimsthaler, later abbreviated to thaler, and then corrupted to dollar, a name adopted for the Spanish „pieces of eight" and their successors, which have circulated in so many countries of the world.

During the period from the fall of Rome to the discovery of America, the decreasing supply of the precious metals was accompanied by a declining price level. Under such conditions even the smallest gold and silver coins were too large for daily transactions. Europe during the feudal period was practically on a barter economy, with little use of any money.

In trade with the Orient there was a tendency to export silver rather than gold, since an ounce of gold was worth only eight or nine ounces in silver in Asia as against ten to thirteen ounces in Europe. To some extent gold came into Europe as silver went out. On the other hand, the Crusaders sometimes brought back both the precious metals as booty.

The discovery of America opened up large supplies of both gold and silver. At first these were obtained by plunder of the Indians. Afterwards extensive mining operations were carried on by the Spaniards, especially in Bolivia, Peru, Colombia, and Mexico. At the same time mine production in Europe was increasing. As a result there was an enormous increase in the total money supply of Europe. World production for the next three centuries is shown in Table 1. The injection of this great amount of gold and silver into the monetary system of Europe brought about the transition from a barter economy to a money economy. This process was accompained by rising prices and by increased economic activity, which has reactions on the whole structure of European civilization.[2]

As shown by above table, the quantity of silver produced during the sixteenth century was 32 times that of gold, and during the seventeenth century was 44 times that of gold. The ratio between the value of equal weights of gold and silver, which has been about 11 to 1, rose gradually, with some setbacks, to about 15 to 1, where it remained for two hundred years until the latter part of the nineteenth century.[3]

The American silver found its way into circulation partly through new coinage in various countries of Europe, and partly in the form of crude „pieces of eight" or coins of eight reals, struck in Mexico and South America. Later the minting was improved and the coin became known as the Spanish dollar. It bore the head of the reigning king on the obverse and the Spanish arms with the Pillars of Hercules on the reverse. During three centuries, when many European coins were being debased, the Spanish dollar was held very closely to its original weight and fineness and as a result it became practically a world currency. It was legal tender in the United States until 1857, and was long the principal medium of exchange in many parts of Asia. After its coinage was stopped by the independence of the Spanish American colonies, the dollars of Carolus IV continued to be sought after in China, where they acquired a scarcity value well above that of their bullion content. Occasional specimens were to be found in circulation in the interior of China well into the twentieth century.

After Mexico became independent in 1821, the new Government continued to coin in dollars or pesos of the same weight and fineness, but with a Mexican republican device, until Mexico adopted the gold standard in 1904. These dollars gradually replaced the Spanish dollars in the trade of the Far East. They made up the greater part of the silvers coins circulating in China until the Chinese Government in 1914 began coining silver on a large scale. The term „Mexican" or „Mex." is still used in China to distinguish the Chinese dollar currency from American „gold" dollar currency.

Two mains features stand out in the history of European coinage during the sixteenth, seventeenth, eighteenth centuries. First were the attempts to establish a fixed value ratio between the two metals for coinage purposes. Since different coinage ratios were set in different countries, and since the commercial market ratio might be still different, there was always a tendency for the coins of whichever metal was undervalued in the coinage ratio to be culled out and exported or melted for sale. Thus, when gold was undervalued, the circulation would consist chiefly of overvalued silver; to correct this, the government would set a new ratio, but very likely go too far, and the reverse process would set in. For example, the English guinea, so named because it was to be coined from gold brought from Guinea in West Africa, was set as equivalent to 20 shillings silver in 1663. Later conditions caused it to pass for as much as 30 shillings, although this was in terms of short-weight coins. Toward the end of the century it was set officially equivalent to 22 shillings, then to 21 ½ shillings, and finally in 1717 to 21 shillings.[4] Although the guinea coin was replaced later by a new 20-shilling sovereign, the name continues to this day as a money of account, or rather as money in which to state professional and club fees, marine insurance rates on heavy risks, and generally for any transactions that are considered a little superior to the plebeian pounds, shillings, and pence.