Inflation and Deflation in the Gilded Age

**Explanation of inflation:**
- Banks print extra money (greenbacks) or money supply expands (silver)
- Loans generate additional secondary economic activity
- As a result, there is too much money chasing too few goods
- Therefore, prices increase

Grant had no clear monetary policy and had to contend with Democrats and Liberal Republicans:
- **Silver** was part of the money supply since Hamilton’s financial plan.
  - As more and more silver is discovered in the west, its value per ounce decreases. However gold and silver were linked a 15:1 ratio. People stop using silver as currency because it has lost its value. (By 1900 ratio is 40:1)
- **During Civil War**, the Union printed greenbacks to fund the war. Suspended specie payments (gold.) Greenbacks create inflation.
- **Resumption of specie payments** and the “gold standard” greenbacks begins after Civil War
- **Panic of 1873**
  - too much expansion/overinvestment in railroads and related industries
  - ripple effect through entire economy
    - 15,000 bankruptcies
    - 15% unemployment
    - Freedmen’s Savings and Loan collapses. ($7 million lost)
  - Resumption of greenbacks for gold stopped temporarily during Panic
- **Crime of 1873**
  - Congress had stopped the coinage of silver
- **Resumption Act (1875)**
  - US returns to gold standard and will slowly take greenbacks out of circulation by 1879
  - helped end the “Long Depression” that followed the Panic of 1873
- **Farmers**
  - always in debt
  - demand inflationary/soft money policies
  - protective tariffs hurt farmers
  - railroads also harmed farmers
    - short vs. long haul rates
    - grain elevator fees
  - farmers organize
    - Grange (Patrons of Animal Husbandry) 1867
      - advocated regulation of railroads and grain elevators
      - Interstate Commerce Act (1887)
        - *Munn v. Illinois* States may regulate grain elevators
        - *Wabash v. Illinois* States may not regulate interstate commerce Railroads
Farmer’s Alliance
  • Mary Lease- “raise more hell and less corn”
Greenback Party (1876)
  • advocated paper money and inflation
  • Greenback Labor Party
    o elected member of congress
    o ran presidential candidates in 1876, 1880 and 1884
    o unable reestablish the greenback
Farm Reform Movements are predecessors to the Populist Party
  • Bland-Allison Act(1878)
    o restored silver coinage at 16:1 ratio
    o increased the money supply and caused inflation

Politics in the Gilded Age

Election of 1880
  • Hayes not nominated by Republicans
    o was a compromise candidate in 1876
    o scandal of Election of 1876
  • Republicans pick James Garfield presidential nominee and Chester Arthur as VP (Arthur was from key swing state of NY and represented the Stalwart faction of the Republican party)
  • Garfield wins a close popular vote (39,213) and defeats Winfield Scott Hancock.
Garfield assassinated by Charles Guiteau
  • “I am a Stalwart. Arthur is now president”
  • Garfield dies a slow agonizing death after 11 weeks
Corrupt Arthur becomes president
  • Congress initiates civil service reform with Arthur’s strong support
    o Pendleton Act 1883
      ▪ compulsory campaign contributions from federal workers is illegal
      ▪ Federal jobs given on the basis of qualifications not cronyism and patronage
      ▪ initially covers only 10% of federal jobs
    o Arthur loses support of party for passing Pendleton Act and is not re-nominated

Election of 1884
  • Republicans nominate James G. Blaine from Maine (was unable to win support in 1876 and 1880 as a Half-Breed from Stalwart and Reform Republican oppositions)
  • Reform Republicans known as Mugwumps back Cleveland
  • Dirty Campaign
    o Mulligan Letters published to show Blaine link to the railroad corruption of the 1870’s
    o Cleveland is revealed to have fathered a bastard child
      ▪ Ma Ma! Where’s my Pa? Gone to Washington. Ha Ha!
    o Republicans accuse Democrats of being party of “Rum, Romanism & Rebellion”
  • Very close election. Irish vote for Cleveland. Democrats win swing state of NY.
Cleveland 1885-1889
- first Democrat elected since Buchanan
- politically conservative, maintained many Republican policies
  - Mugwumps want more reform
  - eventually gives into Democratic patronage
  - vetoed many bills, including Civil War Pension Bill
- proposes a lower tariff (1887)

Election of 1888
- Republican and Business raise $3 million to elect Benjamin Harrison (Grandson of William Henry Harrison), because of fears of a lower tariff.
- Harrison barely wins electoral vote, Cleveland wins popular vote by a larger margin than his victory in 1884

Benjamin Harrison 1889-1893
- Republicans return to power
- Tariff had created a huge surplus
- “Billion Dollar” Congress
  - Speaker of the House, Thomas B. Reed
    - changed the rules of the house to strengthen the power of the majority
    - “Reed’s Rules”
  - first Congress to spend more than a billion dollars
  - funded through the McKinley Tariff (48% rate on certain imports)
  - Increased Civil War pensions
- Mid Term Congressional Elections of 1890
  - Republicans lose their majority
  - Farmers and Democrats repeal the McKinley Tariff

The Populist Party
- formed from farm and labor groups who felt unrepresented by the Democrat and Republican Parties
- Platform
  - inflation through the free coinage at the ratio of 16:1 to gold
  - graduated income tax (16th amend)
  - government ownership
    - railroads
    - telegraph
    - telephone
  - direct election of US senators (17th amend)
  - one term for the president
  - adoption of citizen sponsored legislative tools
    - initiative
    - referendum
  - shorter workday
  - immigration restrictions
- William Jennings Bryan
  - ran for president as a populist and then as a Democrat
  - “The Wonderful Wizard of Oz” by L. Frank Baum
    - Populist allegory?
Election of 1892
- Harrison (145) loses to Cleveland (277). Populist candidate James B. Weaver wins 22 electoral votes
  - Populists try to gain black vote in the South, but Southern racism trumps their economic interests and put more restrictions on voting rights
- Most successful third party candidate in US history

Cleveland 1893-1897
- Panic of 1893
  - caused by over speculation in railroads and financial problems in England
  - because of uncertainty, silver is traded for gold.
  - silver’s value was over-inflated
    - ratio should have been 40:1 rather than 16:1 ratio established in 1790 by Hamilton
    - US gold reserves drained to only $100 million (considered the bare minimum to maintain the paper currency
    - Sherman Silver Purchase Act of 1890 repealed
  - Gold drain continues.
    - J.P Morgan finances a $65 million bond sale to keep the US financially stable. European faith in US is restored. Gold standard is maintained.
- Wilson-Gorman Tariff
  - Cleveland attempted to lower tariff rates but in order to gain passage, Congress increased many rates
  - established a 2% tax on income over $4,000 (declared unconstitutional in Pollock)
  - Democrats adopt populist/free silver philosophy, which was not supported by Cleveland

Republicans regain control of Congress in 1894

Election of 1896
- William Jennings Bryan, populist, wins Democratic nomination
  - “Cross of Gold Speech”
  - advocated populist reforms including 16:1 ratio for silver
- McKinley
  - did not campaign
  - well financed by business ($7 million)
- McKinley wins
  - labor voted Republican
    - fear of economic ruin?
    - pressure from employers?
- Shift in importance from the agrarian to the urban vote