

# EIR National Economy

## THE 'SPECIE RESUMPTION' FIGHT

# Henry Carey's Battle to Save Lincoln's Economic Revolution

by Robert Ingraham

*"The 'greenback' has fallen on the country as the dew falls, bringing with it good to all and doing injury to none."*

—Henry Carey, in *"How To Outdo England Without Fighting Her"* (1865)

During the discussion following his speech to a Rome economic conference on July 2, 2002,<sup>1</sup> EIR Founding Editor Lyndon LaRouche was asked by a leader of an Italian consumer organization to comment on the current nature of private central banks, such as the U.S. Federal Reserve. LaRouche replied that today's private central banks are a legacy of a prior aristocratic power, one which dominated Europe in earlier centuries, but which survived the birth of modern constitutional states. He referenced, in opposition, the issuance of "greenbacks" under President Abraham Lincoln as an example of the sovereign creation of money, coherent with the proper role of government in promoting infrastructure, industry, and the common good of its citizens.

LaRouche is the author of the New Bretton Woods proposal for bankruptcy reorganization of the world financial system, a proposal growing in influence all over the world. From Europe, where nations are suffering under the loss of sovereignty imposed by the Maastricht Treaty; to South America, where Brazil and Argentina are battered by the policies of the International Monetary Fund; and in the United States itself, where 20 years of free market economics and deregulation have brought the nation to financial ruin, the

1. LaRouche in 2004 Press Release: "LaRouche discusses monetary and financial reform with political leaders in Rome," July 2, 2002. LaRouche items available at [www.larouchein2004.com](http://www.larouchein2004.com).

issue of the day is the reassertion of the principle of national economic sovereignty.

During the last century, the two most successful examples of "national economics" were the use of the Reconstruction Finance Corporation under President Franklin Roosevelt, and the establishment of the Kreditanstalt für Wiederaufbau in post-World War II Germany. In both cases, these institutions were used as the instruments of government to finance large-scale economic recovery programs.

In Rome, LaRouche stressed that, under a New Bretton Woods system, we will have state money creation, in the form of credit issued through the private banking sector, and directed into the infrastructure and productive projects decided by the individual governments.

In American history, such an approach is known as the "American System" of economics, and it derives from a tradition stretching back to Benjamin Franklin and Alexander Hamilton. The axiomatic principle of the American System is the supremacy of the sovereign nation-state over private capital, and the use of the government's sovereign powers to promote policies of economic development, by means of protective tariffs, internal improvements, and national banking.

The importance of Lincoln's greenback policy is that it represents—to this day—the most successful implementation of this policy of "national economics." Its more profound importance lies in its philosophical underpinnings. The greenback policy was not simply an economic reform or a financial mechanism. It flowed from the notion that the proper outlook of government must be based on the Platonic notion of *agapē*, or as that is defined Constitutionally, an unshakable commit-



*Abraham Lincoln's Presidency represented the most advanced achievement of a nation-state governed by the American System of political-economy. After his assassination in 1865, an onslaught was organized from London to dismantle his policies. It was Henry C. Carey, Lincoln's chief economic adviser, who organized the resistance to that British assault.*

ment to the General Welfare or “Common Good” of the nation’s population. Such an approach subsumes policies such as large-scale infrastructure development, public education, scientific research, and health care, which will transform the potentials of the nation’s posterity.

The Presidency of Abraham Lincoln represented the most advanced point—up until now—of a nation-state governed by such philosophical principles. Following Lincoln’s assassination, in the years from 1865 to 1879, an onslaught was organized from London to dismantle his policies and to eradicate the moral intent associated with them. A successful resistance, and counterattack, to that onslaught was led by Lincoln’s chief economic adviser, Henry C. Carey. This article is the story of that battle.

### **The British Plot to Bankrupt America**

In 1861, the British Empire provoked the Southern secession in order to destroy the United States.<sup>2</sup> Their plan was to break up the country, and then economically to subjugate what was left of both halves. The British financed and politically backed the Southern slave-holders, and built the rebel warships. At the same time, through a network of Boston-based aristocrats, they ran the radical abolitionist movement. This was a gang/countergang operation. In addition, through their agents on Wall Street, they attempted to bankrupt the U.S. government, to ensure that the Union would not have the economic or budgetary means to oppose Southern secession.

With the outbreak of the Civil War, the British organized

an international credit boycott, cutting off all funding sources to the U.S. government. The Lincoln Administration turned to the New York Associated Banks, and arranged a loan of \$150 million in gold. But on Dec. 28, 1861, Associated Banks head James Gallatin suspended gold (specie) payment to the Federal government, unleashing a chain-reaction payments crisis, which culminated with the U.S. Treasury suspending gold payment on all government obligations—domestically and internationally—effectively taking the United States off the international gold standard. The U.S. government was bankrupt.

The New York bankers—working with their counterparts in London—moved quickly to try to force Lincoln into a total surrender of national economic sovereignty. In January 1862, Gallatin presented the bankers’ ultimatum to the Treasury: 1) pay for the war effort through a massive increase of direct taxation of the population; 2) deposit all U.S. government gold in the private New York banks and make those banks the sole (monopoly) agent for the marketing of U.S. government debt (primarily bonds to be sold in London); 3) suspend the “sub-treasury laws” (government regulation of banks); and 4) withdraw all government-issued paper currency, so that only gold and private bank notes would circulate as currency. If Lincoln refused, the bankers would plunge the nation into chaos, and the war would be lost.

If these measures remind you of the IMF today, you are not wrong.

President Lincoln rejected the bankers’ demands. Instead, he proposed a series of revolutionary economic measures. He would use the sovereign power of the United States to issue more than \$400 million in paper currency (legal tender “greenbacks”); and through his agent Jay Cooke, the U.S. Treasury sold \$1.3 billion of so-called 5:20 government bonds

2. Anton Chaitkin, *Treason in America* (Washington, D.C.: Executive Intelligence Review, 1998).

## Allen Salisbury, Reviver Of the American System

No presentation of the history of the fight for the American System of political-economy in the 19th Century, would be complete without acknowledging the role of Allen Salisbury, a now-deceased leader of Lyndon LaRouche's political-philosophical association, the International Caucus of Labor Committees. It was Allen who rediscovered, and brought alive for millions of Americans, the real political battle over free trade which lay behind the Civil War, and resurrected for them great thinkers such as Henry C. Carey.



The tangible fruit of this work was his book, *The Civil War and the American System, America's Battle with Brit-*

*ain, 1860-1876*, which today is still an indispensable source for the writings of Carey and his fellow combatants from that period.

Allen's work, as all valuable historical research, can only be appreciated if it is understood as coming from his *passion* for both the truth, and the welfare of mankind. Allen was first inspired on this topic, in reaction to the mid-1970s cinematic fraud called *Roots*, which he understood to be a deadly assault on African-Americans', as well as others' knowledge of the history of the United States. He polemicized wittily, and effectively, against those whom he considered the new slave-masters; but he didn't stop there. Rather, he chose to present the *real* history of the fight against free trade, which he knew to be the only true and principled fight against slavery.

As one of his collaborators in this work, I have often thought of how invaluable Allen would have been today, against the scurrilous vilifiers of Abraham Lincoln and others of his tradition—had Allen not suffered an untimely death at the age of 43 in 1992. Lacking him, we rely on creating new young historians, to wage the battle for truth.

—Nancy Spannaus

(redeemable in 5 years, reaching maturity in 20 years)—not to foreign bankers, but directly to the American public.

### The Legal Tender Act

At Lincoln's urging, in 1862 Congress passed the Legal Tender Act, authorizing the U.S. Treasury to issue \$150 million in paper currency (later expanded to \$450 million). This currency would circulate as "legal tender in the payment of all debts, public and private, within the United States," and would be "receivable in payment of taxes, internal duties, excises, debts, and demand of every kind." These notes became known as greenbacks.

Congressman Thaddeus Stevens, a Pennsylvania ally of Carey's, and the prime sponsor of the Act, said on its passage by the House, "The full Legal Tender Act has been hailed with delight throughout the whole length and breadth of the Union by every class of people." In the Senate, however, the Act was amended to say that the greenbacks would have only a limited status as legal tender, and that they could not be used to pay "interest on bonds and notes which shall be paid in coin."

This amendment was attacked vehemently by Stevens. Commenting on the Senate action, he said, "They fell upon the bill in hot haste, and so disfigured and deformed it, that its very father would not know it. Instead of being a beneficent and invigorating measure it is now positively mischievous. It has all the bad qualities which its enemies charged on the original bill, and none of its benefits. It now creates money—one for the banks and brokers and another for the people. It

discriminates between the rights of different classes of creditors, allowing the rich capitalists to demand gold, and compelling the ordinary lender of money on individual security to receive notes which the government had purposely discredited."

As a result of the amendments, greenbacks could not be used to pay interest on the \$1.3 billion in 5:20 war bonds, even if the bonds had been originally purchased with greenbacks! This inconvertibility of the greenbacks into gold became a major issue in the fight over what later became known as "specie resumption."

Nevertheless, greenbacks circulated as what Henry Carey called "the people's money," used in local communities, to finance farms, businesses, and manufacturing concerns. Their use, combined with the other credit-generating policies of Lincoln's government, unleashed the greatest industrial expansion in human history. This was a "nation-building," or more aptly, a "republic-building" policy.

The full story of the "Lincoln Revolution" can be found elsewhere,<sup>3</sup> but a partial list of the measures adopted under his leadership from 1861 to 1865 includes: protective tariffs for American industry; the issuance of legal tender (greenback) currency; a National Banking System; the founding of a National Academy of Sciences; the creation of the Depart-

3. Anton Chaitkin, "The Lincoln Revolution," *Fidelio* magazine, Vol. VII, No. 1, Spring, 1998; and Rochelle Ascher, "The Lessons of Abraham Lincoln," *New Federalist*, "The American Almanac," available at: [http://members.tripod.com/american\\_almanac/](http://members.tripod.com/american_almanac/).

ment of Agriculture and passage of the Homestead Act; the creation of Free State Land Grant Colleges; and the construction of the Transcontinental Railroad. This scientific and industrial revolution continued after Lincoln's death. From 1865 to 1890, railroad mileage went from 45,000 miles to 157,000, more than in all of Europe. Thousands of miles of telegraph wires were built. Revolutionary industrial processes were brought on line, such as the Bessemer steel process. Industrial expansion, led by the iron industry, occurred at a staggering pace.

In the years after the Civil War, the impact of the Lincoln economic revolution spread all over the world,<sup>4</sup> and set into motion a new political directionality, which threatened to eliminate the power of the British Empire and achieve global hegemony for the ideas of the American Revolution.

### Henry Carey, American System Economist

The intellectual author of Lincoln's economic program was Henry C. Carey<sup>5</sup> of Philadelphia. Carey was the pre-eminent American economist of his day; and for more than 20 years, from the 1850s until his death in 1879, he was the leader of the "American System" faction in American politics. His father, Mathew Carey, had been a protégé of Benjamin Franklin, and the Carey family, through its publishing house in Philadelphia, were at the center of the continuing pro-republican leadership in America.

After Lincoln's death, it was Henry Carey who, almost singlehandedly, led the battle for 14 years to prevent the destruction of Lincoln's policies. Today, the descendants of Carey's enemies have written him out of the history books, but in 1870, the mere utterance of the name, "Henry Carey," was enough to send a meeting of British Lords into paroxysms. He was hated and feared by the British aristocracy, whose free trade colonial policies he fought to destroy.

Carey's—and Lincoln's—American enemies were based in the oligarchical families and financial institutions of Boston and New York. These included Wall Street bankers, cotton brokers, and New England "merchants" who operated as the junior partners of the British East India Company in the China opium trade.<sup>6</sup> The Lincoln Revolution—particularly the high protective tariffs and the issuance of greenback notes—had been accomplished over the fierce opposition of this Boston and New York financial oligarchy. As early as the 1860 Republican Party convention, these forces had tried to stop the adoption of the economic planks authored by Henry Carey.<sup>7</sup>

The two primary political organizations of the Boston-

based Tories were the American Social Science Association, and the American branch of the British Cobden Clubs (a.k.a., the Free Trade League). The Cobden Clubs had been founded in London in 1866, under the direction of John Stuart Mill. They functioned as world-wide propagandists for the free trade policies of the British Empire. The American Social Science Association was founded in Boston in 1865, as an offshoot of the British Association for the Promotion of Social Science. These two organizations functioned as the command centers in the war to destroy the Lincoln Revolution.

The membership of these groups represented the elite of the British-allied Tory faction in America. Key leaders included Henry and Charles Francis Adams, Jr. (both grandsons of John Quincy Adams); powerful merchants (drug traffickers) such as Abiel A. Low, John Murray Forbes, and the Lawrence family; the top leadership of the abolitionist movement, including Franklin Sanborn (the founder of the Social Science Association), A.A. Lawrence, Henry Ward Beecher, and Charles Sumner; cotton merchants such as Edward Atkinson; publishers and editors such as William Cullen Bryant and Charles Francis Curtis; and many others.

The most influential publication associated with these networks was the Boston-based *North American Review*<sup>8</sup> magazine. Beginning in 1842, the *Review* was run by a series of Boston Brahmins, including Francis Bowen, Andrew Preston Peabody, James Russell Lowell, Charles Elliot Norton, Henry Adams, and Henry Cabot Lodge. On a political level, its editors polemicized fiercely against Lincoln's and Carey's economic policies, and after 1865 the *Review* was the most prestigious establishment voice demanding "specie resumption," and withdrawal of the greenbacks. Epistemologically, the *Review* was the main American outlet for the ideas of John Stuart Mill, Thomas Malthus, Charles Darwin, and Herbert Spencer ("Social Darwinism"). The former "radical abolitionists" running the *Review*, also promoted the new and upcoming ideas of race hygiene, and the "music" of Richard Wagner. (Note that the Boston-based former abolitionists now blatantly opposed civil rights for freed slaves.) Originating in London, this conspiracy aimed at eradicating every trace of the agapic ideas of the American Revolution, to be replaced by the oligarchy's bestial view of mankind.

Carey directly countered these British agents on the philosophical, as well as the economic level, asserting that man's wealth grows, through his exercising his God-like power over nature, and exerting his "capacity for progress." The American System of Economics, Carey argued, was based on this idea of labor, as opposed to the British Malthusian view, which utilized free trade and other kinds of looting to degrade mankind into bestiality.

4. Anton Chaitkin, "The 'Land-Bridge': Henry Carey's Global Development Program," *Executive Intelligence Review*, Vol. 24, No. 19, May 2, 1997.

5. Allen Salisbury, *The Civil War and the American System* (New York: Campaigner Publications, 1978; reissued by EIR, Inc. in 1992).

6. For more on the Boston drug runners, see Chaitkin, *Treason in America*, op. cit., Chapter 9.

7. Letters from Henry Carey to William Cullen Bryant, *New Federalist*, April 8, 2002.

8. Archives of the *North American Review*. Available at: <http://cdl.library.cornell.edu/moa/browse/journals/nora.html>.

## Onslaught on Lincoln's Policies

No sooner had Abraham Lincoln been murdered on April 14, 1865, than Boston Social Science Association leader Simon Newcomb published an article, "Examination of Our Financial Policy," in the April issue of the *North American Review*. Newcomb demanded—with the war coming to an end—that the nation return to "sound financial principles." He called for drastic "contraction of the currency," an immediate return to gold convertibility (specie payments), and an end to all protective tariffs. In other words, the total abandonment of the Lincoln Economic Revolution, and the subjugation of the United States to the British Gold Standard!

A few days later, Treasury Secretary Hugh McCulloch, also an Association member, authored a brutal personal attack on Henry Carey that appeared in the *Chicago Tribune*. McCulloch echoed every one of Newcomb's policy demands. The top priority of these traitors was to destroy America's productive economy. Between 1861 and 1865, the Civil War monetary growth had financed the most aggressive scientific, technological, and industrial expansion in human history.

The first act of political war was to force through a policy of drastic "currency contraction," i.e., the forced withdrawal of currency from circulation, in order to bring the U.S. economy to a crashing halt.

It is impossible to overstate the national leadership taken by Henry Carey in the fight to defeat this attack. Between January 1866 and the March 1869 inauguration of President Ulysses Grant, Carey issued a torrent of writings, totaling over 1,000 pages. These were released as open letters, newspaper articles, columns, and longer theoretical works. They were reprinted in millions of copies, in newspapers, pamphlets, and leaflets all over the United States. They had the effect of creating and educating a nationwide resistance to the treasonous plot, and their influence reverberated throughout the country, across party lines, and into every political institution and social layer.

In December 1865, Treasury Secretary McCulloch released his First Annual Report, demanding blanket authority to begin the immediate withdrawal of all legal tender greenbacks from circulation. On Dec. 18, the House of Representatives voted 144-6 to cooperate with the Treasury, "in a contraction of the currency with a view to as early a resumption of specie payments as the business interests of the country will permit."

### Carey's Open Letters

Faced with this Congressional collapse, in January and February 1866, Henry Carey released a series of Open Letters to Treasury Secretary McCulloch. Under the title of "Contraction or Expansion?—Repudiation or Resumption?"<sup>9</sup> these Letters appeared in more than 60% of the nation's newspapers, and were read by millions of Americans. The Letters

9. All quotes from Henry Carey can be found in *Henry C. Carey, Miscellaneous Works* (New York: Burt Franklin; originally published in 1883).

ignited an "anti-contraction" fight virtually overnight, serving as a clarion call to the American people to defend Lincoln's revolution.

In the fourth of these Letters, Carey went to the core of the contraction issue, exposing it as a brutal betrayal of the General Welfare, the issue which stood at the very heart of the Lincoln Presidency: "A war upon what is called 'paper money' is therefore a war upon the poor in favor of the rich; and that the war being made upon it has precisely that effect is proved by the fact, that the western farmer is now being impoverished by reason of such a reduction in the price of corn and oats, that the former is being used as fuel while the latter is being sold at 8 cents per bushel; houses and lots in the neighborhood of Wall Street commanding at this moment prices such as had never before been heard of. That such a war can have no end other than that of political revolution the most complete, is so absolutely certain that, regarding as I do the future of the country and that of the administration as being inseparably linked together, I feel it a matter of positive duty most respectfully to ask that you should once again examine this question."

In the Seventh Letter to McCulloch, Carey defines the real strategic issue at stake: "The question, my dear sir, now before you for determination is, in my belief, the most momentous one ever yet submitted to the decision of a single individual. We have just now closed a little internal difficulty [the Civil War—ed.]; leaving yet for settlement the one great question as to whether the world is, in all the future, to be subjected to that British and anti-national system which has for its especial object that of enabling bankers and brokers to enslave the farmers and laborers, of the outside world. . . . Contraction, by means of which the price of money is being so rapidly carried up, looks in the first of these directions and must result in giving the victory to England."

As a result of Carey's intervention, in April of 1866, Congress passed the compromise Loan Act (a.k.a., the Contraction Act), which authorized the Treasury to begin withdrawing greenbacks from circulation, but limited the withdrawals to a maximum of \$10 million in the first six months, and \$4 million per month afterwards, far below what McCulloch had demanded. Nevertheless, this legislation signalled a fundamental shift in direction for the nation.

Additionally, the withdrawal of greenbacks was only one part of the "contraction" policy. In October 1866 Secretary McCulloch authorized the issuance of \$890 million in interest-bearing government notes, of which \$290 million were converted into long-term bonds. The purpose (and effect) of this was to soak up available investment capital, effecting a drastic shrinkage of circulating currency. During the next two years, several more of these re-financing schemes were implemented, resulting in hundreds of millions of dollars being removed from circulation.

Overall, between 1865 and 1877, the amount of money in circulation in the United States (including banknotes, legal tender notes, other interest-bearing circulating instruments,

and specie), went from \$2.1 billion to \$606 million, or from \$58 to \$14.60 per capita. The dollar rose dramatically in value (along with the value of the national debt), while commodity prices plummeted. Measured in commodity values (i.e., real physical-economic terms), the debt of the country doubled during this period.

In August of 1867, Henry Carey exposed the traitors behind this plot in another series of Open Letters, titled “Reconstruction: Industrial, Financial, and Political.” These were addressed to Sen. Henry Wilson, a Massachusetts Republican and former radical abolitionist. Again, these letters were reprinted and circulated throughout the country.

In the First Letter, Carey identifies the conspirators: “Sad experience is now teaching the farming and mining States that for them the only ‘result’ thus far recently achieved has been that of a change of masters, Massachusetts having, so far as regards material interests generally, taken the place of South Carolina, and New England at large, in reference to some of high importance, that of the States so recently in rebellion. Power has gone from the extreme South to the extreme North, and the sectionalism of to-day is likely, as I think, to prove quite as injurious as has already proved that of the past. . . . [T]he Union is to-day, in my belief, more endangered than it had been in the years by which the war had been immediately preceded.”

In the Twelfth and Thirteenth Letters of this second series, Carey states the crucial nature of the fight within the Republican Party: “The Fort Wayne (contraction) decree of Secretary McCulloch, likely to prove of far more enduring importance than the Berlin and Milan decrees of the Emperor Napoleon, is now nearly two years old. As it stands it constitutes the great financial blunder of the age, having already, by the paralysis of which it has been the cause, cost the country more than the whole amount of the national debt. Let its policy be persevered in and it will constitute the greatest in history, for it will have cost the Union its existence. . . .

“With each successive day there has been seen an increased desire to centralize in the trading cities the disposable capital of the country—hoarding with banks and bankers, trust and deposit companies. . . . From that hour money tended to accumulate in all those cities, and to become more and more inaccessible to men by which it could be made to create demand for human service. From that hour the poor tended to become poorer and the rich to become richer. . . .

“The next [Republican] convention, like that of 1860, will find itself compelled either to endorse or repudiate the monopolies of which I have spoken; to be for or against the doctrine of equal rights; to be for or against the doctrine of equal rights; to be for or against that industrial independence without which any attempt at financial or political reconstruction is a useless waste of time and words.”

## The Fight for the Grant Administration

One of the major inflection points in the battle came with the next Presidential election.



*Henry Carey led the unsuccessful fight to prevent President U.S. Grant from endorsing the specie resumption policy. In an open letter to the new President, titled “Shall We Have Peace?” Carey argued that the only way to overcome the political and economic crises facing the nation, was to carry out the rapid industrial development of the South, combined with a continuation of the nationwide economic development policies of the Lincoln years.*

At the 1868 Republican National Convention, Carey’s allies were in the minority. The Republican platform endorsed McCulloch’s contraction and resumption policies. The platform’s economic plank was written by Rowland G. Hazard, a Rhode Island former abolitionist and wool manufacturer. Hazard, a member of the Boston Social Science Association and sponsor of the Boston Brahmins’ “Concord School of Philosophy,”<sup>10</sup> was also a collaborator of Herbert Spencer, and one of John Stuart Mill’s closest friends in America.

The battle for control of the incoming Grant Administration pitted Carey and his allies against the entire New York-Boston Tory apparatus. The most urgent issue before the nation was that of Southern reconstruction. Carey had already defined the only viable approach to reconstruction in his 1867 Letters to Henry Wilson, where he said, “Industrial and financial reconstruction must precede the political one to have any, even the slightest chance, of permanence.”

Two days after the Nov. 3 election, Carey released a series

10. The Concord School of Philosophy was part of the Transcendental project of the Boston drug runners.

of Open Letters to President-Elect Grant, which were circulated under the title “Shall We Have Peace?” Carey proposed to the incoming President, that the only way to overcome the political and economic crises facing the nation, was to carry out the rapid industrial development of the South, combined with a continuation of the nationwide economic development policies of the Lincoln years.

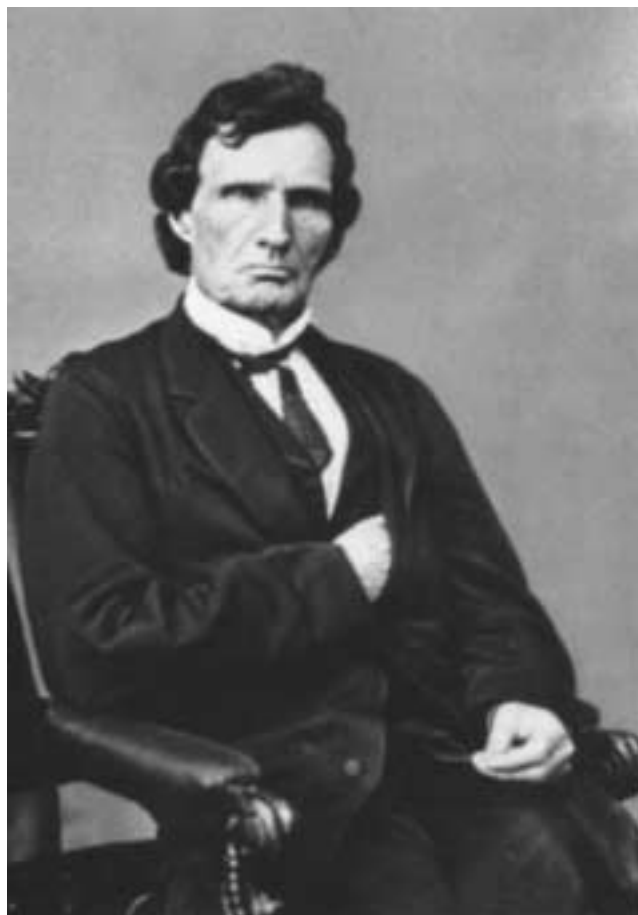
He stressed the crucial importance of the economic independence of the nation: “In all time past, the price of money having been wholly dependent on the price in England, the most important intelligence from beyond the Atlantic was that which was to be found in the price of British securities on the Exchange of London. With each arrival, therefore, our railroad shares went up or down because the Bank of England had seen fit to purchase a few Exchequer bills, or had found in necessary to part with some of those it previously had. . . .

“Throughout the war the government allied itself with the great body of the people, those who had money to borrow, interest to pay, labor and labor’s products to sell, comprising nineteen-twentieths of our total population; and hence it was that the war resulted in success so complete. Since then there has been a constant effort at separating the government from that great class, and bringing it into close alliance with that very trivial one, so far as numbers go, which profits by high rates of interest and low prices of labor; and hence it is, there has recently been so much danger of seeing control of the country pass into the hands of those who, North and South, had participated in the rebellion. To that end the greenback, everywhere claimed as the people’s money, has by those in high places been denounced, small as is the quantity, when compared for the real need for it.”

One month after the publication of Carey’s Open Letters to Grant, David Wells, the Special Commissioner on Internal Revenue, released his long-expected report on the nation’s finances. Wells, a leader of the Boston Social Science Association, had been appointed by the government to conduct a study of the nation’s financial health. The report which Wells issued, presented a catastrophic picture of the government’s budget and finances, blamed the crisis on high tariffs and paper currency, and called for measures even more extreme than those advocated by McCulloch, including immediate specie resumption and cremation (burning) of the greenbacks. In effect, Wells was advocating more of the poison that had already put the U.S. on the downslide.

Upon reading the report, Congressman William Kelly of Pennsylvania, Carey’s closest ally in the Congress, sent a letter to Carey, which read: “I regard his [Wells] report, supplemented by [Amasa] Walker’s letters, as the most insidious Free Trade document that has ever been published in this country.”

Between January 1869 and the Grant inauguration in March, thousands of copies of Wells’ report were distributed, or printed in newspapers throughout the country. Soon after the publication of the report, Wells was elected the president of the Cobden Clubs in the United States. Carey responded



*Rep. Thaddeus Stevens (R), a Pennsylvania ally of Carey’s, sponsored the 1862 Legal Tender Act, authorizing the U.S. Treasury to issue the famous “greenbacks,” to finance the war effort. Then in 1869, he led the fight in Congress to repeal Treasury Secretary Hugh McCulloch’s “Contraction Act,” withdrawing the greenbacks from circulation.*

with his “Review of the Wells Report,” which was circulated as a series of Open Letters under the title “Protection and Revenue, Public and Private.”

In February of 1869, one month before Grant’s inauguration, Congress repealed McCulloch’s Contraction Act. The repeal fight was led in Congress by Carey allies William Kelly and Thaddeus Stevens. The victory, however, was short-lived. Shortly after his inauguration, President Grant called for the retirement of the greenbacks, and a return to specie payments. In March 1869, at the request of the new President, Congress passed the Public Credit Act of 1869, which committed the United States to the (eventual) return to specie payment for all debt, i.e., a return to the British Gold Standard. The original Act said: “The faith of the United States is solemnly pledged to the payment in coin or its equivalent of all Federal obligations, except those where specifically exempt,” and it was amended to include, “and to make provisions at the earliest practical period for a return to specie.”

On July 14, 1870, Congress passed another “Refunding

Act,” later modified by an act of Jan. 20, 1871. This authorized the issuance of \$1.8 billion in 10-, 15-, and 30-year bonds, payable in specie. This not only resulted in further currency contraction, but also began a massive shift in the holdings of U.S. government debt to a syndicate of London banks which purchased almost the entirety of the bonds. By December 1871, gold was being drained to London at the rate of \$66 million per year.

## Carey Rings the Alarm

In May of 1869, Carey published a work called “Our Future.” His language and message are blunt: Break with the treasonous policies of London and Boston *now*, or everything accomplished under Lincoln will be lost:

The most powerful, most dangerous, and most unpopular of free-traders [David Wells] had the offer of the Treasury. Most narrowly, as we are assured, did the nation escape the injury that must have resulted from being represented at Vienna by the President of the British Free-Trade League. Almost without exception our chief representatives in Europe are free-traders. Our consuls and consuls general belong mainly, as I believe, to that school which teaches that ‘the smuggler is the great reformer of the age.’ The last of all qualities now demanded in men who are to represent the country abroad is that of being in policy truly and distinctively American disciples in that school in which Hamilton and Clay were teachers. . . .

For half a century the South governed us, and the end of that government was found in a rebellion. Avoiding Scylla we have fallen on Charybdis, the money monopoly of the extreme North working almost as much mischief as before had done the slavery of the South.

Let the Treasury now terminate its alliance with the money-lending aristocracy; let it look a little kindly on the money-borrowing democracy; let it seek to unite itself with the real Congress, and it can then have any intelligent legislation for which it may see fit to ask. Let it fail to do these things, and the downfall of the party will come as certainly as darkness follows the setting of the sun. It came into power as advocate of the rights of the laboring many, black and white, northern and southern. It loses power as it becomes more and more the ally of the few by whom the many are governed, these latter feeling that the whip of the money lender and the lash of the slave-driver are close kindred with each other.

Britain makes answer by buying up our journals, and by scattering well paid lecturers throughout the country, many of them professing to be Republicans, but all mainly engaged in making free-trade votes. British gold is thus undermining an Administration whose members wait, as it seems to me, with folded arms,

the arrival of the time when they shall find themselves compelled to cry—“Too late! Too late!”

Moving in one direction we shall dictate law, thus securing to ourselves a permanent place as *the Great Power of the Earth*. Traveling in the other we shall find ourselves compelled to accept as law the decision of Britain, and shall forfeit the place we now seem to have secured.

The President might, if he would, prevent all this. He might, if he would, have the whole nation at his back. To that end, however, it would be required to know if his Administration meant to look for support to its working men; or, on the other hand, to the bankers of Wall and State Streets, the capitalists of Boston and Lowell, Liverpool and Manchester, all of whom are now so well represented by Messrs. Wells & Atkinson, the Springfield Walker, and other members of a League that derives its chief support from contributions of British and other foreign gold. . . .

War now exists between British capitalists and American workingmen, farmers, miners, and mechanics. It is a war that can have no end other than that of final and utter ruin to the one or the other. On which side does the Administration propose to fight? For one, I do not pretend even to guess at the answer that may here be given, nor do I know of any one who does. Every hour that such answer is delayed gives strength to that democratic British free-trade party [i.e., the racist U.S. Democratic Party of 1869—ed.] whose advent to power seems now so near at hand.

“Cut boldly!” said the sibyl to the hesitating Roman king. Let the Administration now take the same advice—let it “cut boldly,” and on the American side, and all may yet be saved. Will this be done? I fear not!

## The Lawful Collapse

In capitulating to the assault against the greenback, the Grant Administration was abandoning the power and right of the government to issue Legal Tender notes, which was, as Carey accurately put it, “the plain and enlightened exercise of a high sovereign prerogative, never to be doubted.” It had capitulated to the private banking system, centered in London.

Within four years, the catastrophic results of this action, coming on top of the treachery under the Johnson Administration, began to hit. On Sept. 18, 1873, the financial house of Jay Cooke and Company declared bankruptcy. Cooke, a Lincoln ally, was destroyed when London and Wall Street bankers slandered him as a credit risk and British banks called in his loans, on funds he had committed to the construction of the Northern Pacific Railroad. The Cooke bankruptcy unleashed financial chaos, and the worst economic depression in the history of the country. The New York stock markets shut down for the first time in their history. Within 24 hours of the Cooke bankruptcy, 37 banks and brokerage firms collapsed. By the end of 1873, more than 5,000 commercial





*The bankruptcy of Lincoln ally Jay Cooke in 1873, engineered by London and Wall Street bankers, unleashed the worst economic depression in U.S. history up to that time.*

enterprises had folded. It was a long, deep economic depression.

The business failures were accompanied by an unprecedented depression in prices (deflation), which lasted into the 1890s, and even worsened after 1884.

In a period predating unemployment benefits and a social safety net, the human suffering was beyond belief. In 1874 there were 93,000 unemployed in New York City, 25% of the workforce. In Chicago, 20,000 destitute men besieged the City Council.

1875 witnessed more business failures than in 1873 and 1874 combined. Hardest hit by the industrial collapse were Ohio and Pennsylvania. Wage cuts and lock-outs produced strikes in the iron and coal industries.

Earlier, in 1871, the National Labor Union (NLU), an organization led by William Sylvis, a key labor ally of Abraham Lincoln, issued a manifesto calling for repayment of all government bonds in greenbacks. In 1872 the NLU created the National Labor Reform Party, which fielded electoral slates in many parts of the country. After Sylvis' death, the NLU was replaced by the National Industrial Congress, founded under the leadership of German-American Robert Schilling. An ally of New York Iron manufacturer Peter Cooper, Schilling also became a key collaborator of Ohio Democrat Thomas Ewing, Jr.

In April of 1874, with the country suffering a horrible economic depression, William Kelly and other Carey allies succeeded in getting both Houses of Congress to adopt what became known as the amended "Inflation of Currency Bill." The bill authorized an increase in greenback circulation to \$400 million, and an increase in bank-note circulation by \$46 million. The bill passed the Senate 29 to 24, and the House 140 to 102, with strong bipartisan support.

Within days, a massive campaign was organized out of Boston and New York, to pressure President Grant into vetoing the bill. The *Financial Review*, a publication owned by Social Science Association leader Francis Sanborn, polemicized fiercely against the legislation. Mass rallies were organized in both New York and Boston by the Tory "Reform Leagues" of those cities. The 3,000-person Boston rally featured Edward Atkinson, John Murray Forbes, and John Quincy Adams II. In New York City, the rally included August Belmont, A.A. Low, Cyrus Field, Francis Walker, and Charles Francis Adams. The "reformers" swamped the White House with petitions demanding a veto of the bill. In April, the Boston and New York Reform Leagues sent a delegation to meet with Grant. Days later, on April 22, Grant vetoed the bill.

The effect of the veto on the Republican Party was devastating. In July, Grant followed up the veto with a message to Congress, demanding repeal of the Legal Tender Act, and full specie resumption. The demoralized Republican Party was in complete disarray. The November elections produced a Democratic Party landslide, with the Democrats taking control of the House of Representatives for the first time since 1854.

### **Specie Resumption: London Takes Control**

The word "specie," as it was used in the 19th Century, simply refers to gold (bullion), or gold coins, which were misdefined as the only legitimate form of wealth. During certain periods, silver was also minted, creating a limited bi-metallic system, in which case both gold and silver were considered legal specie. In 1821, the British government established the international gold standard, with the (gold-backed) British pound as the world's reserve currency. In 1844, Britain enacted the Parliamentary Bank Act (a.k.a., the "Peel Act"), which among other things, fixed the international price of gold at 3 pounds, 17 shillings, 9 pence, per ounce. Under the international British Gold Standard, all public and private debts—and all financial obligations, including paper currency—were redeemable in specie, upon demand. Throughout the 19th Century, the City of London, through its Gold Standard, controlled world monetary affairs. It also directly dominated the world supply of gold. In 1873, London banks held 120 million pounds of gold, while New York had but 40 million, and French and German banks a mere 13 million and 8 million, respectively.

During the 1840s and '50s, the major London banks functioned as the "lenders of last resort" to major businesses and governments. A large portion of foreign governments' debts were held in London. Through its control of this debt, added to its dominance in the gold markets, London was able to wage economic and financial war against its enemies, including, most definitely, the United States. This is precisely what the British-allied New York Associated Banks attempted in 1861, when they suspended specie payment, and tried to bludgeon the Lincoln Administration into surrendering the eco-

conomic sovereignty of the United States.

The wartime issuance of greenbacks, and the break with the British Gold Standard, created the basis for true economic independence. Lincoln himself acted to defend the national currency in 1864, when he ordered the closing of the New York Gold Room, the center of “free-market” speculative activity aimed at destroying the greenbacks. These actions and ideas represented—and still represent—a mortal threat to the private oligarchical central banking system.

Thus when Ohio Republican Sen. John Sherman introduced the Specie Resumption Act on Dec. 21, 1874, he was acting to re-establish British control over the American financial system.

The lame duck Republicans fell in line behind it. The bill passed the Senate, 32 (all Republicans) to 14 (12 Democrats and 2 Republicans). On Jan. 7, 1875, it passed the House, 125 (all Republicans) to 106 (86 Democrats and 20 Republicans). William Kelly led the Republican fight against it. On Jan. 14, 1875, Grant signed the Specie Resumption Act.

Its full implementation was delayed, however, until Jan. 1, 1879, at which time the United States was required to return to complete specie convertibility. That gave the Carey-led nationalists time to mobilize.

### Ohio’s ‘Rag-Baby’ Election

Nine months after the passage of the Specie Resumption Act, the first all-out battle to force its repeal came with the Oct. 12, 1875 Ohio gubernatorial contest—the famous “Rag Baby” election. The economic depression was now two years old. More than half of the Ohio iron furnaces had closed. Top wages in the iron industry were cut from \$3.00 to \$1.50 per day, and wages of coal miners were down 33%. Because of the scarcity of circulating money, many industries began using the “truck system” of paying their workers in goods or store orders. Frequently the pay was in the form of scrip, certificates to purchase goods at company stores. This scrip became the circulating medium for whole towns.

At the 1875 Ohio Democratic convention, Thomas Ewing, Jr.<sup>11</sup> and his allies seized control of the state party. Ewing had proposed a platform plank calling for repeal of Specie Resumption. It was blocked in committee by the Copperhead<sup>12</sup> party bosses, so Ewing introduced it on the floor of the convention, where it passed 386-266. Following this victory, two additional planks were adopted, one condemning the policy of currency contraction, and the second calling for the replacement of national bank notes with legal tender greenbacks. The convention then renominated Governor William Allen and chose as his running mate Ewing ally Samuel Carey. The Allen/Carey ticket campaigned on only one issue,

11. Information on the Ewing family can be found at the Archives of Ohio History, *Journal of the Ohio Historical Society*, at <http://publications.ohiohistory.org/ohstemplate.cfm?action=intro>.

12. “Copperhead” was the popular term to describe pro-Confederacy and/or “anti-war” Northerners, particularly Democrats.



Cartoonist Thomas Nast invented the figure of “Rag-Baby,” purporting to depict the worthlessness of paper currency, in a campaign to defeat William Allen in the Ohio gubernatorial race of 1875. Allen campaigned on the issue of immediate repeal of the Specie Resumption Act.

the immediate repeal of the Specie Resumption Act.

The Boston/New York Tory apparatus was terrified of the possibility of an Allen victory. The Allen campaign was vilified in Cobden Club-controlled newspapers throughout the nation. In *Harper’s Weekly*, cartoonist Thomas Nast invented the figure of the “Rag-baby” to depict worthless paper currency, and ran numerous cartoons using the caricature, many of which were reprinted all over the country. One of the most famous depicted William Allen holding a rag-baby in one hand, and brandishing a bullionist heart impaled on a spear in the other hand. Around Allen’s head was a banner, reading, “Vive la Guillotine,” “Tremble tyrants, the Sans Culottes are coming,” and “more greenbacks or death.”

The national Democratic Party leadership openly opposed Allen, and New York Governor Samuel Tilden, a protégé of August Belmont, arranged a \$100,000 contribution to Rutherford B. Hayes, Allen’s nondescript Republican opponent. The New York City Democratic press was full of anti-Allen articles, many of which were reprinted in Ohio Republican newspapers. Inside Ohio, Democratic Senator Allen Thurman, a “hard money” ally of Belmont and foe of Ewing, repeatedly spoke out, attacking the Allen/Carey anti-resumption platform.

On Oct. 12, Hayes defeated Allen by 5,000 votes, out of

600,000 votes cast. The day after the election, the *Cincinnati Enquirer* editorialized, “The state election yesterday was marked by events of the most extraordinary character. The Democratic ticket was assailed, and the platform upon which it was nominated bitterly opposed by the organs of the so-called Democrats of New York. They urgently called upon the people to elect our Republican opponents. . . . The wealthy Democrats of New York contributed large sums in behalf of Hayes. . . . That this had some influence upon the result is beyond question.”

The political fallout of the pro-resumption Hayes victory was immediate. In November, the Pennsylvania Industrial League (led by Henry Carey allies Joseph Wharton and Henry Lea), broke with Carey and Kelly, and endorsed specie resumption. *Iron Age*, the publication which had printed dozens of Carey’s articles, also abandoned the fight. In its November 1875 issue, *Iron Age* editor John Williams printed a signed editorial endorsing resumption. Most Pennsylvania Republican Congressmen also went over to resumption.

Splits and fissures were occurring in political parties and institutions all over the nation. In June, the New York Chamber of Commerce had split, with a dissident faction led by Peter Cooper and former New York Mayor George Opdyke, forming a new organization called the New York Board of Trade. The first act of this group was to send a memorial to Congress attacking the Specie Resumption Act as “a standing menace against all business enterprises.”

## The Battle Resumes in Congress

The Congress re-convened in December, amidst a furious national battle over the issue of resumption. The first showdown came in the House, where Democrat Michael Kerr, a “hard-money” stooge of August Belmont, was chosen Speaker over Ewing ally Samuel Randall. Bills to repeal the Specie Resumption Act were immediately introduced in both Houses of Congress, but they were killed in committee. Repeated attempts to introduce repeal legislation from the floor were ruled out of order. On Feb. 1, 1876, Speaker Kerr refused to recognize Rep. John Atkins of Tennessee when he rose to introduce repeal legislation. Later in the month, Rep. William Holman of Indiana suffered identical treatment.

In January 1876, Henry Carey Baird (Henry C. Carey’s nephew) issued a call for the withdrawal of all national bank notes and their replacement by greenbacks.

On March 20, a bill to repeal specie resumption passed the House 110-109 (with 74 abstentions), but was killed in the Senate. On Aug. 5, a second repeal bill passed the House 106 to 86 (with 101 abstentions). This too was killed by the Senate’s Republican leadership.

Hopes for shifting the policy through the 1876 Presidential elections were also dashed, by the actions of the New York bankers, and their controlled politicians, in preventing platforms in opposition to Specie Resumption. August Belmont squashed a revolt in the Democratic Party, and in the

Republican Party, the “Mugwump” Tory faction successfully mobilized to defeat the changes of James Blaine, who, although he had voted for Specie Resumption, was close to Carey, and a strong advocate of the protective tariff.

At the Republican convention, Rutherford B. Hayes was nominated on the seventh ballot. After his nomination, the alliance of the Mugwumps and New York Republican boss Roscoe Conkling voted up a platform, which read in part: “In the first act of Congress, signed by President Grant, the national government assumed to remove any doubt of its purpose to discharge all just obligations to the public creditors, and solemnly pledged its faith ‘to make provision at the earliest practicable period for the redemption of the United States notes in coin.’ Commercial prosperity, public morals, and the national credit demand that this promise be fulfilled by a continuous and steady progress to specie payment.”

The Boston Tories ran both campaigns. Tilden’s campaign manager was Carey-hater David Wells, while anti-nationalist strategist Carl Schurz advised Hayes on economic policy, and wrote the economic section of his March 1877 inaugural address, which read in part, “The feeling of uncertainty inseparable from an irredeemable paper currency is one of the greatest obstacles to a return to prosperous times.”

The only force which campaigned against Specie Resumption was the Greenback Party, founded in March of 1875 in Cincinnati. The party nominated New York iron manufacturer Peter Cooper for President. In the November election, Cooper received only 80,000 votes. A combination of sectarianism and disorganization doomed the campaign from the start. In addition, the campaign was sabotaged by anti-Lincoln and anti-Carey agents.<sup>13</sup>

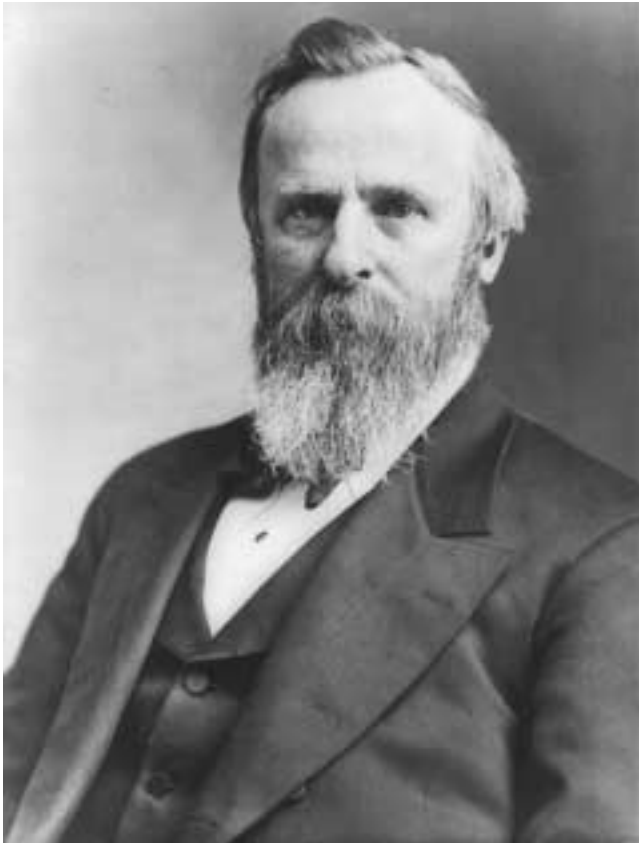
## The Depression Spreads

By 1877, the country was in the fourth year of economic depression. Railroad construction was at a standstill. Newspapers reported cases of starvation and suicide among the unemployed. The word “tramps” came into use, to describe the new phenomenon of homeless workers. Labor strikes began to hit the country. The first signs were in 1875 in the textile and coal industries. These included the Fall River textile strike of ’75, and the “Long Strike” of anthracite coal workers in Pennsylvania.

In the year Rutherford Hayes was inaugurated President, the nation experienced a labor revolt, beyond anything in the previous history of the country—the Great Strike of 1877. This began when workers in Baltimore struck the Baltimore & Ohio Railroad over new wage cuts, on top of previous cuts

---

13. Typical was the role of the Chicago-based Marcus Pomeroy, the war-time editor of the Copperhead *LaCrosse Democrat*. Pomeroy despised Abraham Lincoln. During the 1876 campaign, he issued broadsides under the names of Hot Drops, and Meat for Men, which threatened violence, bayonet-armed greenback militia, revolution, and western/southern secession. As a provocateur, Pomeroy was the perfect foil for the Boston Brahmin apparatus.



*President Rutherford B. Hayes, a staunch proponent of specie resumption, presided in 1877 over the biggest labor revolt in the history of the country, and deployed Federal troops against strikers.*

in both '75 and '76. The workers took over the railroad yards and blocked the trains. At the peak of the strike, 15,000 joined, and the strikers took control of most of the city.

The strike spread rapidly throughout the Midwest. In most locations, coal miners joined the actions. In Martinsburg, West Virginia, the National Guard fought a gun battle with the strikers. On July 18, President Hayes ordered in Federal troops. On July 20, Maryland Governor Carroll called out the National Guard, and nine strikers were killed as the Sixth Maryland Regiment fought block to block to retake the city.

In Pittsburgh, 16 were killed in open war with Federal troops. In St. Louis, the strikers took over the entire city. On July 24, riots broke out at the railroad yards in Chicago, and the Mayor mobilized 5,000 vigilantes, in addition to calling in both the National Guard and Federal troops. Actions spread to other cities, including Buffalo, McKeesport, and Erie. By July 25, all railroad traffic from Canada to the Gulf of Mexico and from the Hudson River to the Mississippi River was halted.

The series of strikes, riots and battles lasted three weeks. In the end, the labor actions were crushed everywhere.

The Great Strike of '77 was, in some ways, the moral

*punctum saliens* for the Republican Party. James B. Weaver, a Union Civil War hero, and the Republican candidate for Governor of Iowa in 1875, walked out of the Republican Party on the day he learned of Hayes' order to use Federal troops against the strikers. (Weaver would be the 1880 Greenback Presidential candidate.) The moral divide for the Republican Party was the issue of the General Welfare, and whether or not they would continue the outlook, which Abraham Lincoln so clearly expressed in his first annual message to Congress in 1861: "There is one point to which I ask a brief attention. It is the effort to place capital on an equal footing with, if not above labor, in the structure of government. . . . Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not existed first. Labor is superior to capital and deserves much higher consideration. Let the worthy men who toil up from poverty beware of surrendering a political power they already possess, and which if surrendered will surely be used to close the door of advancement against such as them, and to fix new disabilities upon them till all of liberty shall be lost."

Henry Carey knew that if the Republicans abandoned this outlook, the Lincoln Revolution would be destroyed. In his 1866 reply to the Wells report, Carey had said: "Throughout the war the government has been in alliance with the landowner, the trader, the manufacturer, the laborer, and the borrower of money, against the lender of money, and to that alliance has the country been indebted for all its recent success."

In the years preceding his death, Carey warned again and again, that the financial demands of specie resumption, would lead to an unprecedented impoverishment of the producing classes, and that this represented an unforgivable political betrayal of the Lincoln legacy.

### **Renewed Fight Against Specie Resumption**

In 1878 a renewed effort was made to pull together a nation-wide coalition, with the aim of sweeping the November Congressional elections, and creating a national mandate for the repeal of specie resumption. This time, the leading role was taken by the Knights of Labor, the dominant labor force in the country. Their leader, Terence Powderly, was at the center of the Henry Carey-run (anti-British) Irish political circles in Philadelphia.

Powderly and his allies made the decision to move beyond the Greenback Party apparatus and to organize an entirely new party. The sectarian policy of 1876 was abandoned, and a drive launched to rally all the elements of the anti-resumption fight. In Detroit, Moses Field, the Greenback Party leader and former Republican Congressman, organized a meeting of manufacturers and industrialists, an element that had been largely missing in the 1876 Greenback campaign. William Kelly attended and spoke at the meeting, and Henry Carey sent a letter of support.

In February 1878, a national convention was held in To-



*Knights of Labor leader Terrence Powderly was at the center of the Henry Carey-run Irish political circles in Philadelphia. In 1878, he and his allies organized a new party, which became known as the Greenback-Labor Party, and fielded candidates in thousands of congressional and other election races.*

ledo, Ohio. Dominated by the Knights of Labor and other Carey allies, the convention abolished the original party structures and created a new political party, which they named The National Party. Robert Schilling, the Ohio labor ally of Thomas Ewing, wrote the new party's constitution. The first plank of the party's platform called for "a purely national circulating medium, based on the faith and resources of the nation and issued directly to the people, without the intervention of any system of banking corporations, which money shall be legal tender in payment of all debts, public or private."

The key issue was the strategy for the November elections. The convention endorsed a Powderly proposal for "fusion" tickets; i.e., a strategy to capture the House of Representatives with a cross-party majority. To that end, the Party would run its own candidates in districts where both the Republican and Democratic candidates were "hard money," and form fusion tickets in districts where a Carey Republican or Ewing Democrat was running. The campaign strategy was focussed heavily into labor districts.

Quickly dubbed the "Greenback-Labor Party," the party fielded candidates in thousands of races. In October the party won two of the five Congressional seats in elections in Maine. In Massachusetts, the party ran almost exclusively fusion tick-

ets, challenging the Brahmin political machine on its home ground. Former Republican Congressman Benjamin Butler ran for Massachusetts Governor, on a joint Democratic-Greenback Labor ticket. William Kelly, himself, ran for reelection in Pennsylvania on a Republican-Greenback Labor fusion ticket. Terence Powderly was elected the Mayor of Scranton, Pennsylvania on a straight Greenback-Labor ticket.

The opposition was massive. Newspaper editorials warned of an impending French Terror. Thomas Nast's "rag-baby" cartoons were revived and printed everywhere. Groups like the Honest Money League of the Northwest, under Lyman Gage's leadership, were deployed to stop the threat. Anti-Greenback broadsides and pamphlets were distributed by the millions.

In the November elections, the Party won more than 1 million votes outright, and elected 14 Greenback-Labor Congressmen, with an additional 7 to 10 elected on fusion tickets. Additionally, many anti-resumption Democrats and Republicans were elected on their own, giving the House an absolute majority favoring repeal of resumption.

In the South, the Nationals supplanted the Republicans as the second largest party. In Texas, the party won 12 state legislative seats and elected one Congressman. The party won 61,000 votes in Missouri, 10% in Tennessee and 22% in Mississippi; and it elected 18 state legislators in West Virginia, 14 in Arkansas, and 2 in Georgia. Strong votes also occurred in Alabama and Arkansas. The party was racially integrated, and the majority of Greenback-Labor votes in the South came from black voters.

### **The British Gold Standard Reigns**

In the month of December 1878, fourteen separate bills were introduced into the Congress, in a last ditch attempt to repeal the Specie Resumption Act. All failed. On Jan. 1, 1879 the Act took effect. The United States was officially back on the British Gold Standard. All U.S. government debt and all foreign bond obligations were now payable in gold. All U.S. circulating currency—of whatever kind—was convertible into gold upon demand, and the amount of greenbacks in circulation was cut to \$300 million, with a plan for their eventual retirement.

Legislation was passed requiring the Treasury to maintain a gold reserve of \$100 million, in order to meet any demand for redemption. Obtaining foreign gold became a priority, and this hinged on keeping U.S. exports cheap, and the price of wages, farm produce, and raw materials low. Prosperity was now defined by the status of the balance of gold payments, not by the yardstick of either the physical economy or the state of the general welfare of the population.

Beginning with the Hayes Administration, the major preoccupation of the Treasury was in building up and maintaining the U.S. gold reserve. John Sherman's first act in office, as Hayes' Secretary of the Treasury, was to negotiate a gold loan from London. This was followed two months later by

negotiating a second gold loan from the sale of 4% bonds. In April of 1878 Sherman arranged—through the Houses of Morgan and Rothschild—a huge \$50 million gold loan from London. This became known as “Sherman’s Coup,” and was said to “have secured resumption.” These foreign bond sales continued through the ’80s and ’90s.

A syndicate of U.S. banks, working as partners with their friends in London, completely controlled the refinancing of U.S. government debt. These swindlers included Morton Bliss and Company, August Belmont (for the Rothschilds), the Seligman Brothers, and Drexel-Morgan.

The period from 1870 to 1895 saw a total collapse of wholesale prices. Wheat went from \$1.06 to 50¢ per bushel; cotton from 15¢ to 4¢ per pound; corn from 53¢ to 25¢. Wheat and cotton were the two chief U.S. exports, and a major source of foreign gold. The deflation caused an increased looting of the country’s physical economy; e.g., the cotton harvest of 1895 was 2.5 times that of 1870, yet brought the farmers less money. The collapse in farm income led to massive foreclosures. By 1893, loan companies owned 90% of the land in western Kansas. Overall, wholesale prices fell 50% from 1870 to 1896. Farm prices even more.

Part of the swindle, was the use of the national debt to loot the U.S. economy and workforce. In 1866, U.S. government debt was \$2.8 billion. Over the next 20 years, \$2 billion in principal (and \$1.2 billion in interest) was extracted out of the U.S. economy to pay the debt down to \$800 million. This, however, was completely illusory. In real physical-economic terms, things actually got worse. In other words, during this period, the United States made \$3.2 billion in debt payments; but by 1885, measured in commodities, the government’s debt was actually 50% to 200% higher in physical economic terms!

In 1894, the dollar value of U.S. commodity exports was \$1,020,000,000, of which more than \$800,000,000 (or 80%) was from the export of agricultural products. The sale of these farm exports represented the largest single source of gold coming into the United States. By depressing the price of farm goods, while simultaneously demanding specie payments on U.S. foreign debt, British policy both drained gold out of the American economy, and increased the need to further expand American exports in order to obtain more gold. Throughout the ’80s and ’90s, the United States ran large trade surpluses in order to obtain gold. The British intent was to turn the United States into a supplier of cheap farm goods and raw materials. If not for the high protective tariffs, erected to defend U.S. manufacturing, this plot might well have succeeded.

## The Devastating Results

Specie resumption put the U.S. financial and economic system in a straitjacket. Domestically, the Federal government was prevented from funding the productive economy, while the bulk of private capital flowed into Wall Street-dominated speculative activities. From London, British control

over both gold and the market in foreign debt, gave them the ability to manipulate U.S. financial markets at will.

Between 1880 and the first World War, the United States was battered by a continuous series of financial crises, including the major Panics of 1884, 1893, and 1907.

A demand by the New York banks for gold redemption of government bonds brought on the 1884 Panic. By the end of the year, 10,968 business had failed, with liabilities of \$226 million. The economic impact hit the West and South particularly hard. Between 1885 and 1888, there were an additional 51,748 business failures, with liabilities of \$757 million.

The Panic of 1893 resulted from a policy of severe credit contraction imposed by the Bank of England from 1890 to 1893. New capital issues by the Bank went from £142.6 million in 1890 to 104.6 million in 1891, 81.1 million in 1892, and 49.1 million in 1893. At that time, British new capital issues accounted for 75% of all foreign investment in United States. Between 1890 and ’93, huge quantities of British assets in the United States were sold off. In the last three months of 1890 alone, gold raids from Europe took \$40 million in specie out of the country.

On Feb. 20, 1893, the Philadelphia & Reading Railroad, with a debt of \$18.5 million and only \$100,000 cash on hand, declared bankruptcy. On April 21, the Treasury’s statutory gold limit was breached, and Pennsylvania Steel announced bankruptcy. On May 3, a massive sell-off took place on Wall Street, and on May 4, National Cordage, the most widely held security in the country, collapsed, its share price having gone from \$140 to \$20 in less than 48 hours.

In June, 128 banks failed across the United States. In July, the Erie Railroad filed for bankruptcy. In August, the Northern Pacific followed suit. In October, the Union Pacific Railroad went bankrupt, followed by the Atchison, Topeka & Santa Fe in December. For the 12 months of 1893, 15,000 companies failed; 500 banks went into receivership; 30% of country’s rail system became insolvent. The suddenness and intensity of the economic shutdown was worse even than the Cooke collapse of 1873.

Unemployment rates rose to double digits and remained there for six years, hitting a peak of 18.4% in 1894. Industrial unemployment rates were 50% to 100% higher. Hardest hit of all were the South and the West.

The 1907 Panic began when another London-imposed policy of contraction and interest-rate hikes drained specie out of American markets. In October, a series of runs hit New York banks. On Oct. 21, the National Bank of Commerce announced that it would stop clearing the checks of the Knickerbocker Trust Company. On Oct. 22, Knickerbocker Trust suspended payment. Between Oct. 24-25, the stock market suffered a near meltdown.

These financial panics and economic depressions were accompanied by brutal austerity against the American people. Desperation strikes and labor actions swept the country,

driven by a fight just to survive. In 1886-87 alone there were 3,000 strikes in the United States.

The year 1888 witnessed the "Great Railroad Strike," with tens of thousands of workers striking in Chicago, Milwaukee, St. Paul, and throughout the West.

In 1892, Carnegie Steel, led by London/Wall Street stooge Henry Clay Frick, attempted to impose an 18% wage cut at its Homestead Plant. When the union resisted, Carnegie fired all the workers, and hired 300 Pinkerton guards to protect the scabs. In the ensuing Battle of Homestead, 9 workers were killed and 40 wounded, while 7 Pinkerton guards were killed and another 200 shot. Eight thousand Federal troops were brought in, and over the next four months the strike was savagely crushed. Fourteen more strikers were killed and 163 seriously wounded.

In 1894, the Pullman Company in Chicago laid off one-third of its workforce and cut wages for the rest by 40%. The workers struck, and the company responded by firing all the strikers. Within days, almost all the railroad workers west of Chicago went on strike. President Grover Cleveland ordered in Federal troops. The strike was crushed and one-half of the workers were laid off.

Other major strikes included the Lehigh Valley Strike, the Chicago Union Stock Yard Strike, the 1895 Brooklyn Street-Car Strike, the 1900 first Anthracite Coal Strike, and the Great Anthracite Coal Strike of 1902, where the entire Pennsylvania militia was mobilized, and 8,500 militiamen served in coal fields.

Almost all of these strikes failed, and the unions were broken. Most of the industries would remain non-union until the 1930s or '40s.

## Carey's Battle Comes to an End

Henry Carey died within months after the implementation of specie resumption in 1879. With him died the leadership of the American Intellectual Tradition, in its philosophical, as well as economic, depth.

Carey knew well that the policies of specie resumption were not simply economic. They were part of a broad assault on the concept of the General Welfare, and the introduction of the anti-human ideas of Malthus, Darwin, and Spencer, and they relentlessly propagandized for these theories until they became dominant in American academia. Thus, while Carey's name has been virtually extinguished from the history books, the advocates of Social Darwinism, imperialism, and free trade took over the literary and intellectual culture of the nation.

Some of the key traitors were Francis Bowen (1811-90), a leading Professor of Moral Philosophy at Harvard, who fostered pragmatist William James and a phoney school of "American Political Economy," where he originated the idea of burning all the greenbacks (cremation); Charles F. Conant and his son, respectively agents of the U.S. Treasury, and of the pro-imperial banking establishment; William Graham Sumner, the leading American Social Darwinist of the 19th

Century; Simon Newcomb, today famous for developing the "Quantity Theory of Money," and other menaces.

Henry Carey knew that it was this oligarchical view of humanity which was the real black heart behind London's economic policies. He polemicized fiercely against Malthus, Social Darwinism, and other bestial ideas. Throughout the post-Lincoln period, Carey wrote continuously defending the nobility of man made in the image of God.

Here is one example: "That we may understand the direction in which [nations] are moving, whether toward civilization, wealth, and power, or toward barbarism, poverty, and weakness, it is needed that we compare their present with their past and satisfy ourselves as to whether their policy has tended in the direction of developing those qualities which constitute the real *man*, the being made in the image of his Creator, fitted for becoming master of nature and an example worthy to be followed by those around him, or those alone which he holds in common with the beasts of the field, and which fit him for taking place among men whose rule of conduct exhibits itself in the robber chieftain's motto, 'that those may take who have the power, and they may keep who can.' "

## Erosion of the Carey Forces

After Carey's death, there was no successor. By 1880, the forces around William Kelley were reduced to a small minority in Republican ranks; the Democratic Party was firmly in the hands of the Wall Street/Confederate faction; and the Greenback-Labor Party had already begun to collapse. The Greenback-Labor Party never survived the loss of Carey's strategic guidance. It ran presidential candidates in 1880 and 1884, but sectarian and fringe elements, which had always existed in the movement, increasingly came to the fore, until its disappearance.

Thomas Ewing's efforts to overthrow the Wall Street/Confederate grip on the national Democratic Party failed. The emergence of the "Solid South" electoral bloc relegated the Democratic Party to the role of a regional vehicle dominated by the pre-war slave states.

The British unleashed a rage-filled "populist" crusade to take over the remnants of the greenback movement. This culminated in the 1896 "Cross of Gold" campaign of Ku Klux Klan supporter William Jennings Bryan.<sup>14</sup> Virulently pro-free trade, and absent of any commitment to a scientific or industrial development policy, the Bryan Democracy was nothing but a return to rabid ante-Bellum agrarianism. Based almost entirely on the southern and western Farm Associations, which by the 1880s had replaced the Grange movement as the dominant rural political force, the populists recruited some disoriented western greenback leaders, including James Weaver of Iowa and Ignatius Donnelly of Wisconsin, but never attracted any of the industrial or labor greenbackers,

14. At the 1924 Democratic National Convention, Bryan personally intervened to block a resolution condemning the Ku Klux Klan, that had been introduced by supporters of New York Governor Al Smith.

such as the Knights of Labor.

When the Democrats and Populists both nominated Bryan in 1896 on a “free-silver”<sup>15</sup> platform, the Boston Brahmins organized a split in Democratic ranks and formed the pro-gold standard National Democratic Party (NDP). Founders of the NDP included Social Science Association members Edward Atkinson, Charles Francis Adams, Jr., Horace White, and E.L. Godkin.<sup>16</sup> This was essentially the same Mugwump crowd that had sabotaged James Blaine’s Presidential campaigns in 1876, 1880, and 1884. The Gold Democrats received a dismal 1% of the vote, and the party soon went out of existence; but it had fulfilled its purpose, which was to pressure the Republicans into remaining solidly in the pro-gold camp.

The best of the Republican Party leaders—such as James Blaine and William McKinley—continued the fight for industrial and scientific progress. The key battle which they fought—and won—was in maintaining Henry Carey’s policy of high protective tariffs.

Blaine came within a hair’s-breadth of the Presidency, losing the 1884 presidential election to Grover Cleveland by only 24,000 votes, out of 10 million cast. An unprecedented campaign of smears and slanders was conducted against him in the Mugwump press, led by *Harper’s Weekly*.

In 1890, William McKinley authored the McKinley Tariff which reestablished the high tariff rates of the Civil War, and as President, in 1897, McKinley signed into law the Dingley Tariff, the highest protective tariff in the nation’s history.

All of these accomplishments, however, occurred within a U.S. political environment characterized by the continuing erosion of the Carey forces, and the increasing Anglophile takeover at the top of both political parties. In 1900, for example, McKinley’s Treasury Secretary Lyman Gage—the same Lyman Gage who fought Ewing in Ohio in 1875, battled the Greenback-Labor Party in 1878, and endorsed the Gold Democrats in 1896—convinced McKinley to sign the Gold Standard Act, which officially and legally subordinated the United States to the British Gold Standard. Gage bragged to newspapers that the United States was now “bound by law to maintain a parity of value between all forms of money issued or coined by the United States and the Gold Dollar.” The act also mandated the total withdrawal from circulation, of all

---

15. After 1874, a number of attempts were made to remonetize silver, including the Bland-Allison Act of 1877 and the Sherman Silver Purchase Act of 1890. Motives varied. Henry Carey endorsed Bland-Allison as way of countering the economic impact of McCulloch’s contraction policies. Blaine backed silver re-monetization for similar reasons. Conversely, many supporters of Specie Resumption, notably John Sherman, backed silver remonetization simply because the U.S. government lacked the gold reserves needed for full convertibility. If some quantity of silver could be minted, then foreign specie obligations could be met more easily. Bryan’s 1896 silver crusade was something else entirely. Absent of any strategic orientation, this was simply single-issue populism run amok, a true Hobbesian worldview.

16. Other activists in the 1896 NDP campaign included Woodrow Wilson and Louis Brandeis.

remaining greenbacks.

Carey’s closest ally in Congress, William Kelly, died in 1890. James Blaine died in 1893. McKinley was assassinated in 1901. From that point on, the Lincoln/Carey policy would have no national voice. This situation would not change until the 1932 cross-party campaign of Franklin Delano Roosevelt, when he reassembled a national political majority, against the “economic royalists” of Wall Street, and in defense of the “forgotten man.”

## Restoring Sovereignty

Abraham Lincoln had said, in a speech shortly before his 1861 inauguration, that the American Declaration of Independence “gave liberty not alone to the people of this country, but hope to all the world, for all future time.” The Union victory in the Civil War, combined with the influence of Henry Carey’s ideas,<sup>17</sup> not only preserved that historic mission of the United States, but spread “American System” economics all over the world.

The tragedy is in what might have been. As a result of the defeat on specie resumption, the global power of the British Empire—and its financial hegemony—remained intact. Resumption resulted in the total monetary and financial subjugation of the United States. The Panics of 1873, 1884, 1893, and 1907 were all artificial; i.e., the effects were real, but they didn’t occur due to any internal weaknesses of the American economy. The panics—and depressions—all originated from decisions made in London, which were imposed from the outside on the productive U.S. economy. British oligarchs had a sly phrase to describe this: “When London sneezes, New York catches pneumonia.”

If the policies and outlook of the Lincoln Revolution had continued after the Civil War, the productive economic capabilities of the United States would, in short order, have so far outstripped those of the European colonial powers, that those powers, including Britain, would have continued to operate only as an increasingly marginalized force, within an entirely new global geometry. They would have been forced to adapt to the reality of that new geometry, precisely as Carey had laid out in his 1865 Letters to Schuyler Colfax, “How To Outdo England Without Fighting Her.”

Think for a moment about what transpired in the 50 years following Carey’s death, from 1879 to 1929: European imperialism, World War I, the spread of romanticism and existentialism, the cultural degeneration of the 1920s, the unleashing of the great 1929 depression, and the rise of fascism. Had Carey’s entire economic strategy been implemented, what would the 20th Century have been then?

Now think about the situation we are facing today. Think about the potential for humanity’s development under LaRouche’s New Bretton Woods system, and consider the alternative, if we fail to win our political fight.

---

17. See footnote 6.