

## WILLIAM M. GOUGE JACKSONIAN ECONOMIC THEORIST

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WILLIAM M. GOUGE, an important economic theorist and publicist, was an almost forgotten figure in the history of American ideas until the publication of Arthur M. Schlesinger, Jr.'s *The Age of Jackson* (1945). With the appearance of Schlesinger's epoch-making and controversial work historians have begun to re-examine the critical rôle of the thinkers of the Jacksonian era. Their investigations have led them to quite diverse interpretations concerning the nature of Jacksonian democracy. Since Gouge is one of the central figures in the controversy, his ideas require a closer examination.<sup>1</sup>

Gouge, while an editor of the *Philadelphia Gazette* in the 1820's, became well known locally as an authority on the American monetary system.<sup>2</sup> In 1831 he retired from the newspaper business to study the American money system. The results of his efforts were published in 1833 under the imposing and indicative title,

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<sup>1</sup>Gouge is ignored in the standard surveys of American intellectual history: Vernon L. Parrington, *Main Currents in American Thought: An Interpretation of American Literature from the Beginnings to 1920*, II (New York: Harcourt, Brace, 1927-30); Ralph H. Gabriel, *The Course of American Democratic Thought: An Intellectual History Since 1815* (New York: Ronald Press, 1940); and Merle Curti, *The Growth of American Thought* (New York: Harper, 1943). Attention has been given to Gouge in the general works: Arthur M. Schlesinger, Jr., *The Age of Jackson* (Boston: Little, Brown, 1945); Joseph Dorfman, *The Economic Mind in American Civilization*, II (New York: Vintage Press, 1946); and Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton: Princeton University Press, 1957). See also Joseph Dorfman, "The Jackson Wage-Earner Thesis," *American Historical Review*, LIV (January, 1949), 296-306; and Bray Hammond, "Public Policy and National Banks," *Journal of Economic History*, VI (May, 1946), 79-84. For an excellent summary of current Jacksonian historiography see Charles G. Sellers, Jr., "Andrew Jackson versus the Historian," *Mississippi Valley Historical Review*, XLIV (March, 1958), 615-648.

<sup>2</sup>*Philadelphia Inquirer*, July 16, 1863; Gouge, "Times Have Changed," *Journal of Banking*, I (November 10, 1841), 149. Apparently his views while an editor of the *Philadelphia Gazette* were not very popular, for he estimated that he lost a daily subscriber for every principle he advocated.

*A Short History Of Paper-Money and Banking in the United States Including an Account of Provincial and Continental Paper-Money to Which is Prefixed an Inquiry into the Principles of the System, with Considerations of Its Effects on Morals and Happiness.*<sup>3</sup>

At first the public showed little enthusiasm for his treatise, but as the National Bank issue became more heated, demand for it steadily increased. Five editions were printed before 1840—one to sell for only twenty-five cents. Probably to that date it was America's most widely read work in economics. Many prominent newspapers, such as the New York *Evening Post* and the Jackson administration's *Washington Globe*, serialized the work and gave it favorable reviews. William Leggett, Theophilus Fisk, Orestes Brownson, and William Cullen Bryant, leading radicals of the day, read it and praised Gouge for his astute analysis. Members of Jackson's Kitchen Cabinet, such as Frank Blair, editor of the *Globe*, were overjoyed. Blair urged his friends in the inner circles of government to study Gouge's theories. Martin Van Buren and Senator Thomas Hart Benton were so impressed that Gouge was rewarded by a clerkship in the Treasury department under Levi Woodbury.<sup>4</sup>

Interest in Gouge's analysis suddenly caught fire abroad. In England William Cobbett published an edition under the title, *The Curse of Banking in the United States*. An abridged French version was published at Brussels, and excerpts appeared in the *Westminster Review*. A Canadian reformer of the Jacksonian bent, William Lyon Mackenzie, republished extensive extracts and became a die-hard convert to hard money.<sup>5</sup>

<sup>3</sup>Gouge, *A Short History of Paper-Money*, 2 parts, second edition (New York: B. & S. Collins, 1835). Only the second edition and the first part are cited in this paper.

<sup>4</sup>New York *Evening Post*, September 15, 1834; Gouge to Van Buren, July 17, 1840, Martin Van Buren Papers, Library of Congress; Gouge to L. Woodbury, April 2, 1835, Levi Woodbury Papers, Library of Congress. Gouge also served as a field investigator in various governmental agencies during the 1840's and 1850's and has been called "the first federal inspector." Leonard D. White, *The Jacksonians: A Study in Administrative History, 1829-1861* (New York: Macmillan, 1954), p. 571.

<sup>5</sup>Gouge, *The Curse of Banking in the United States* (London: Mills, Jowett, & Mills, 1833); Lucian Minor, "Diary of a Journey in the West in 1836," *Proceedings of the Massachusetts Historical Society*, XXVII (January, 1892), 286; Lillian F. Gates, "The Decided Policy of William Lyon Mackenzie," *Canadian Historical Review*, XL (September, 1959), 195, 196, 200.

Gouge spared few words in his attack on the American paper money system. Though his essay contained formidable tables of statistics, long quotations from well known American and European authorities, and frequent repetition of his thesis, it was written with the impressive clarity of the publicist. Consequently, he was looked upon by his contemporaries as a remarkable theorist. In fact his admirers composed a popular little ditty in tribute to the challenger of the mighty Nicholas Biddle, President of the Bank of the United States:

## EPIGRAM-IMPROMTU

Of modern books, the best I know—  
 The author all the world is thanking—  
 One written more for us than for show,  
 Is quaintly titled "*Gouge on Banking*."

But still improvements might be made,  
 Whilst books on books the world is scrounging  
 Let *Biddle* try to help the trade,  
 And write one titled "*Banks on Gouging*."<sup>6</sup>

Needless to say, Biddle was not equally impressed. In a reply to a letter from a Virginia congressman, Biddle wrote that there was "nothing strong or original in the book." Furthermore, "It is a book made with scissors, & what is worse, a dull pair."<sup>7</sup>

Gouge readily admitted that his basic argument against the paper money system contained few, if any, original concepts. Any intelligent man, nay even a New York Loco-Foco Democrat who worked by the sweat of his brow, knew from personal experience that paper money was of dubious value. The great European classical economists were also critical of paper money. Although Adam Smith had not opposed specie-backed notes, he had recommended that small notes be abolished. In addition Gouge cited David Ricardo as a definite enemy of a paper money system.<sup>8</sup>

Since historical evidence clearly showed that there was something decidedly wrong with a paper money system, the problem,

<sup>6</sup> *Washington Globe* as cited in *Journal of Banking* (August 18, 1841), 50.

<sup>7</sup> Nicholas Biddle to J. S. Barbour, July 11, 1833, in *The Correspondence of Nicholas Biddle Dealing with National Affairs, 1807-1844*, Reginald C. McGrane, ed. (Boston and New York: Houghton Mifflin, 1919), p. 211.

<sup>8</sup> *A Short History of Paper-Money*, v.

as Gouge saw it, was to discover the basic natural laws operating with respect to paper money. "The laws which govern the moral world are just as certain in their nature," he confidently wrote, "as those which govern the physical [world]. . . ."<sup>9</sup> Operating within the presupposition that certain definable mechanistic economic and moral laws existed, Gouge concluded that a medium of exchange must have two primary characteristics, scarcity and intrinsic value. Admittedly, both these requirements for "natural" money could be fulfilled at a given time by tobacco, corn, cattle, or any commercial good, but only precious metals such as gold and silver possessed a utility (in size and form) and a scarcity that could be conveniently exchanged.<sup>10</sup>

Even if paper money possessed the necessary requisite of scarcity, it of course did not have inherent value. Gouge made a major distinction between a promise to pay gold and silver on demand and the actual payment of specie on paper notes. Bank notes, after all, were "nothing more than an evidence of debt, and [did] not differ . . . from any simple acknowledgment of debt."<sup>11</sup> The interest on the "debt" under a paper money system, however, was reversed. The banks in reality borrowed from the people when they printed notes. And at the same time they collected interest on their borrowed notes. "It is to them that *trust is given*," wrote Gouge, "yet they receive interest as if they trusted the public."<sup>12</sup> In the final analysis bank notes did not possess intrinsic value, but were only loans from the people themselves, with the banks collecting the interest.

In addition to the objection that paper money gave special advantages to some while it was to the distinct disadvantage of others, Gouge maintained that "convertibility" was in reality meaningless. Even Nicholas Biddle admitted that there was a "constant tendency" for banks to overissue. Why should they maintain a 100 per cent reserve? Since in time of boom it was unlikely that holders of bank notes would or could conveniently redeem their

<sup>9</sup> *Ibid.*, p. 39.

<sup>10</sup> *Ibid.*, pp. 10-12; Gouge, "Intrinsic Value," *Journal of Banking*, I (February 2, 1842), 243.

<sup>11</sup> Gouge, *An Inquiry into the Expediency of Dispensing with Bank Agency and Bank Paper in the Fiscal Concerns of the United States* (Philadelphia: W. Staveley, 1837), p. 9.

<sup>12</sup> *Ibid.*

paper, the banks could continue to issue notes as fast as the bank president could sign them. Of course, when note holders did demand redemption in sufficient quantity the whole system collapsed. The collapse in itself illustrated the absurdity of convertibility.<sup>13</sup>

The only cure for such a pernicious system was ultimately to abolish it entirely. Since immediate abolition would result in rapid deflation, business failures, and unemployment, suspension should be gradual. A good place to start was the fiscal concerns of the national government. The government should receive only specie as payment for obligations. If bank notes were gradually withdrawn, small notes should be first; specie would immediately fill the gap. Ten years should be sufficient to eliminate the artificial system without any undue hardships.<sup>14</sup>

Yet, the soft-money advocates presented one formidable question to this panacea. Was there enough specie in the entire world, they asked, to meet the needs of America's growing population and expanding economy? Apparently this question bothered Gouge, for he attempted to answer it in almost every issue of his magazine, *The Journal of Banking*, published in Philadelphia in 1841 and 1842. The *Journal* frequently announced new discoveries of gold and silver, but Gouge's prime argument fell back on the old maxim of supply and demand. Investment and the needs for commercial transactions remained the same regardless of the money system. "Every tyro in political economy knows that an efficient demand ensures a supply," he declared.<sup>15</sup> When paper money was destroyed, specie would automatically flow into the United States from Europe and South America to meet the effective demand. In testimony to America's superior economy, Gouge estimated that "the United States would have, in proportion to population, four . . . yea, eight times as much gold and silver as many of the countries of Europe."<sup>16</sup>

Today we consider the creation of credit to be a normal and vital function of banking, but this Gouge feared. His approach was

<sup>13</sup> *A Short History of Paper-Money*, p. 11; Gouge, "The Banks of the U. S.," *Banker's Magazine and Statistical Register*, IX (July, 1859), 7; Gouge, "Convertible Paper," *Journal of Banking*, I (May 25, 1842), 369-370.

<sup>14</sup> Gouge, "The Bank Question," *Journal of Banking*, I (July 21, 1841), 18; Gouge to Van Buren, July 17, 1840, *Van Buren Papers*.

<sup>15</sup> *Inquiry*, p. 43.

<sup>16</sup> Gouge, "Gold and Silver," *Journal of Banking*, I (July 21, 1841), 18.

based upon a fundamental fear of the new industrialized society which was dawning and a desire to return to a simple agrarian society. Although he bitterly opposed the state incorporation of banks, he agreed that joint-stock banks which would lend "only the amount of their *own* capital, and keep safely and transfer from one account to another such sums of gold and silver as may be deposited with them, without lending the same to any body," were permissible.<sup>17</sup> Proper banking thus required unlimited liability and the use of specie as the means of exchange. Credit would not be restricted by the suspension of paper money, Gouge incorrectly argued, because credit was nothing more than the savings of someone else. Moreover, to facilitate commodity movement, bills of exchange, short term commodity notes, and credit accounts by merchants did not violate the value of money principle.<sup>18</sup>

With these arguments at hand it seemed obvious to Gouge that the paper money system was the cause of the 1837 depression, which he had anticipated as early as 1833.<sup>19</sup> "The wonder," he wrote, "ought not to be that the catastrophe has happened, but that it did not happen sooner."<sup>20</sup> Due to lucrative investment opportunities and improper banking, the banks of the 1830's had continued to increase their issues out of all proportion to their reserves. This inflationary cycle stopped either when foreign nations called in American loans or when they gained a favorable balance of trade. With the suspension of specie payments by only a few banks, noteholders became alarmed and demanded immediate redemption in specie. Once placed in motion the system fell like a row of dominoes.<sup>21</sup>

To Gouge, in contrast to the less idealistic Jacksonians, the incorporation laws for businessmen and banks violated every principle upon which a sound Jeffersonian world was based. "Why should the competition among capitalists be diminished, by form-

<sup>17</sup> Gouge, "The Banks of the U. S.," *Banker's Magazine and Statistical Register*, IX (July, 1859), 9.

<sup>18</sup> *A Short History of Paper-Money*, pp. 17-19; Gouge, "Free Banking," *Journal of Banking*, I (June 8, 1842), 387-388; Gouge, "The Bank Question," *ibid.*, I (July 21, 1841), 18-19; Gouge to Van Buren, July 17, 1840, Van Buren Papers.

<sup>19</sup> *A Short History of Paper-Money*, p. 13.

<sup>20</sup> *Inquiry*, p. 6.

<sup>21</sup> *Ibid.*, p. 36; Gouge, "Bank Currency," *Journal of Banking*, I (May 25, 1842), 371.

ing into companies, and uniting their wealth into one mass?"<sup>22</sup> he asked. The object of incorporation was to give "members of companies powers which they would not possess in their individual capacity," and this was "incompatible with equality of rights." Hence, any institution whose members acted in other than "their individual capacity" was morally unjustified. But, "What is worst of all . . . is, that want of moral feeling and responsibility which characterizes corporations."<sup>23</sup> Indeed, "To impart to corporations a moral sense of right and wrong is impossible."<sup>24</sup>

Gouge feared a rise of a corporate aristocracy, a fear which had been articulated earlier by John Taylor of Caroline. Due to the peculiar American heritage and environment, it was impossible for an ecclesiastical, landed, or military aristocracy to become established. The only type of aristocracy that could exist in the United States was an aristocracy of corporations. No effective counterweight existed except for the government to remove their privileged position.<sup>25</sup>

Furthermore, the manufacturing class, which most often took advantage of incorporation laws, was the least affected by the vagaries of the paper money system. They were in a position to control their quantity of production. When contraction occurred, the manufacturer could either hold his product off the market or lay off his employees to cut the costs of production. Gouge was clearly aware of the cumulative effects of unemployment, maintaining that when a laborer lost his job the economy lost effective demand equal to his wages. Since demand tightened, it would lead to further cuts in production, with the final result being full-scale depression. Although Gouge felt that manufacturers should demand the use of hard money, his reasoning was not based upon any sympathy for their interests, but again upon the effects on labor.<sup>26</sup> "Labor is the poor man's only commodity," he wrote. For, "If he cannot sell it today, it is lost to him forever."<sup>27</sup>

The extreme fluctuation of the price structure caused by the

<sup>22</sup> *A Short History of Paper-Money*, p. 17.

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*, p. 20.

<sup>25</sup> Gouge, "The Anti-Bank Democrat," *Journal of Banking*, I (February 2, 1842), 242.

<sup>26</sup> *Inquiry*, p. 9; *A Short History of Paper-Money*, pp. 13-15; Gouge, "American Manufacturers," *Journal of Banking*, I (March 30, 1842), 326.

<sup>27</sup> *A Short History of Paper-Money*, p. 15.

paper money system also adversely affected another primary requisite of Gouge's best society. That was land. Under "natural" conditions land prices fluctuated very little. But under "artificial" stimulation they rose faster than any other commodity. Since land was so important in the establishment of a wholesome republic, this situation was especially unfortunate. Gouge used as an illustration the purchase of some Philadelphia lots by local "mechanics." When money was plentiful and prices were rising, the "mechanics" had purchased the lots on down payments with monthly installments. Of course, when contraction came they lost their lots. The fault, to Gouge, was properly attributed to the system, not to the men.<sup>28</sup>

Unemployment and the loss of homesteads were not the only pernicious effects of the paper money system on labor. The wage-earner continually felt the wage squeeze. In a shrewd analysis Gouge explained that in a period of inflation wages did not increase in the same proportion as prices. Thus, the laborer had to pay more for the goods he purchased while his wages lagged.<sup>29</sup> Even in normal times the condition of the laboring classes "is so heart-withering that it is . . . a question whether the slaves in the Southern States is [*sic*] much worse off. . . ."<sup>30</sup> Especially intolerable was the condition of women workers. By working from ten to twelve hours per day, women earned only seventy-five cents or possibly a dollar per week. At least half of their wages went for house rent and fuel, leaving less than fifty cents for food and clothing for themselves and their families. Gouge added that "few journeyman mechanics are able to make provisions for old age." In cases of old age, sickness, or unemployment, they "must look for relief to the hand of public or private charity. . . ."<sup>31</sup>

The moral consequences of the "artificial" institutions were even more disastrous. Gouge emphasized that America's traditional virtues were at stake. Laborers could not "attend properly to the formation of the moral character of their offspring," or give them "suitable intellectual instruction."<sup>32</sup> Moreover, since children were forced to begin work at an early age, their health was

<sup>28</sup> *Ibid.*, pp. 14-15.

<sup>29</sup> *Ibid.*, p. 13.

<sup>30</sup> *Ibid.*, p. 31.

<sup>31</sup> *Ibid.*, p. 32.

<sup>32</sup> *Ibid.*, p. 31.

adversely affected, as well as the "character" of the entire community. The frontier was no safety-valve for the laborer, argued Gouge, because artificial institutions would follow.

The materialistic ambitions of the urban businessman also profoundly worried Gouge. In a real sense he reacted against the speculative spirit which motivated American advocates of free enterprise. The "mischief of this state of things," he wrote, ". . . is, that men are brought to regard wealth as the *only* means of happiness. Hence they sacrifice honor, conscience, health, friends, every thing, to obtain it."<sup>33</sup> Even if entrepreneurs practiced "industry and economy," their heirs "who know not the value of money, because they never knew the want of it . . . will lavish it . . . in every way which corrupt inclination can dictate."<sup>34</sup> Unfortunately, "Talent is estimated only as a means of increasing riches."<sup>35</sup> The man of "honesty and industry" who possessed sufficient wealth for his essentials was often far happier than the wealthy man.

With the increase of "artificial" institutions social inequalities tended to increase. "Nearly all of the secondary operations of society will tend to increase the disparity between the rich and the poor as different classes of the community. . . ." In fact, he wrote, "the rich will, in due time, become as luxurious and as corrupt, as ostentatious and as supercilious, as the 'first circles' . . . of Europe."<sup>36</sup> Evidence of increased disparity was clearly observable. Gouge maintained that public expenditure for poor relief in Philadelphia exceeded at times that of Liverpool, England. "The present order of things, by rendering the condition of some members of society almost helpless," he belligerently declared, "takes away almost every inducement to industry and economy."<sup>37</sup>

Although Gouge possessed a firm faith in mechanistic laws for political economy as well as for the physical universe, he was somewhat pessimistic about the inevitability of progress, which he defined not so much in material terms, but in moral and intellectual terms. He wrote: "We trust there has been, in the last three centuries some *real* improvement in the minds of men. Yet

<sup>33</sup> *Ibid.*, p. 31.

<sup>34</sup> *Ibid.*, p. 39.

<sup>35</sup> *Ibid.*, p. 31.

<sup>36</sup> *Ibid.*, p. 39.

<sup>37</sup> *Ibid.*, p. 40.

history and experience both show that there is a strong principle of evil which shows itself in different forms in different men, and which changes its appearance in communities with changes in circumstances."<sup>38</sup>

Gouge watched the growing power of the central government with fear. On the ground that a large powerful central government is the very antithesis of individual liberties and the good society, he vehemently attacked suggestions that the state engage in banking activities. It would be impossible to separate the interests of the public from private interests. "If controlled by the government," he declared, "money power and political power will be in the same hands—a union which will be fatal to republicanism."<sup>39</sup> Even in a severe depression public expenditures for relief would not offset the "want of just laws and institutions."<sup>40</sup> To this end the government should maintain a balanced budget so that public funds would not fall into the hands of speculators who contributed nothing but harm to society. If a government surplus accumulated, "we know not what particular merit there is in banking and speculating interests, that they should lay claim to its exclusive use."<sup>41</sup> In fact he remained consistent by writing:

If any classes of the community deserve the favor of government, in any country, they are the farmers, mechanics, and other hard-working men. . . . [But they] want no favors from government: all they ask is equal handed justice. And as they want no favors for themselves, they may demand as a right, that no favors be granted to banks and speculators, especially since granting favors to them will be doing injustice, either directly or indirectly, to the great body of the community.<sup>42</sup>

Gouge believed that wages and employment should be absolutely determined by the free operation of the natural laws of supply and demand. To be sure, inequalities would continue because of mental and physical attributes beyond human control, "But this would be *natural* inequality, and it would not be evil."<sup>43</sup> The

<sup>38</sup> *Ibid.*

<sup>39</sup> *Inquiry*, p. 11.

<sup>40</sup> *A Short History of Paper-Money*, p. 39.

<sup>41</sup> *Inquiry*, p. 27.

<sup>42</sup> *Ibid.*, p. 28.

<sup>43</sup> *A Short History of Paper-Money*, p. 41.

natural and inalienable rights of man were violated by "artificial" institutions. Apart from a laborer's right to wages, he also "has a strong natural right to the profits which are yielded by the capital which was formed by his labor. . . ."44 Hence, Gouge strongly condemned the "secondary operations" necessary for the existence of capitalism—easy credit by the use of elastic currency and the rights of incorporation.

Gouge measured his objections to "artificial" institutions more in terms of morals and emotions, with an idealized Jeffersonian world as the ultimate goal, than in terms of pure economic self-interest. He saw, as Jefferson had seen earlier, that the best society was one of small industrious "farmers, mechanics, and other hard-working men." The "people" who counted were the ones nearest the actual production of goods. Thus, by definition, all those engaged in "unproductive" pursuits were less desirable than the man who produced the actual wealth of the nation.<sup>45</sup> "In the best system that could be imagined," Gouge wrote, ". . . there should be no laws or institutions of any kind except such as are absolutely necessary, and . . . these should be perfectly just in principle and equal in operation. . . ."46 He profoundly feared the new world that was dawning, a world of triumphant industrialism. Thus, though Gouge is known to history as a Jacksonian economic theorist, he remained essentially a Jeffersonian, applying Jeffersonian values to the circumstances of a new society.

<sup>44</sup> *Ibid.*, p. 30.

<sup>45</sup> *Inquiry*, p. 28 and *passim*; Gouge, "Subscribers Names," *Journal of Banking*, I (June 22, 1842), 404.

<sup>46</sup> *A Short History of Paper-Money*, p. 41.