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**The Fund of Trust: Monetary Reform and the Ethic of Investment in the Gilded Age**

*Note for the UCSB Colloquium in Work, Labor, and Political Economy: This paper is the sixth and final chapter in my book,* Sovereign of the Market: The Money Question in Early America*, forthcoming from the University of Chicago Press in Fall 2017. Here is a brief description of the book, which should help to place the paper in context and explain a few references to previous chapters. What should serve as money, who should control its creation and circulation, and according to what rules? For more than two hundred years, the “money question” shaped American social thought.* Sovereign of the Market *explores how and why the means of payment became a central subject of political debate and class conflict in early America. The book comprises three parts devoted to three major episodes in the career of the money question. Part I focuses on the fight over the creation of paper money in provincial New England, Part II turns to the battle over the development of commercial banking in the new United States, and Part III concerns the struggle over the international gold standard in the late nineteenth century. Each section explores a broader problem of power that framed the long conflict over currency in successive phases of capitalist development. The book considers the money question as a question of circulation raised by the growth of commerce in the colonial British Atlantic, a question of representation arising from the emergence of popular democracy along with industrial capitalism in the Jacksonian era, and a question of association tied to the ascendance of big business in the Gilded Age. More concretely, each part consists of intellectual biographies of two leading reformers who staked out opposite sides of the issue in their respective periods: the Puritan minister John Wise and the Boston physician William Douglass, the Jacksonian journalist William Leggett and the central banker Nicholas Biddle, and the agrarian organizer Charles Macune and the financial adviser Charles Conant. These paired essays pursue the connections between the money question and other aspects of early American culture including natural law and natural history, melodramatic literature and neoclassical architecture, and Christian fellowship and fiduciary trust.*

The power of money comes from its conjunction of credit and law. People accept money in payment because of their confidence that they can use it to pay other prices and debts and because the government compels them to do so through taxation and legal-tender laws. In 1864, Congress manifested the combination of faith and fiat by introducing the motto “In God We Trust” on U.S. coins above the striped shield of the federal government.[[1]](#endnote-1) Nearly two hundred years earlier, Massachusetts had created the first public “bills of credit,” vesting the sacred trust on which they were based in a special “fund for the repayment of all such sums” from tax revenues. The 1694 law marked one of the earliest uses of the word “fund,” meaning the base or bottom of something, for a stock or sum of money.[[2]](#endnote-2) In the half century after the Civil War, the nation’s currency came to be based on a different kind of fund, the fund of capital available for investment, governed by a new form of corporate trust.

Among the chief architects of that new structure of money and capital was the financial journalist, currency reformer, and exponent of empire Charles A. Conant (1861–1915). Born with the greenback and the National Banking System at the start of the Civil War, he lived just long enough to see the establishment of the Federal Reserve System on the eve of the First World War. His earliest American ancestor had been the governor of the first permanent English settlement in what became Massachusetts, who had migrated to the Puritan colony at Plymouth in 1623. Conant’s family had remained in New England and active in the church, contributing a long line of elders to the First Congregational Church in Mont Vernon, New Hampshire, until his parents moved to the Boston suburb of Winchester, Massachusetts, the year before he was born. Census records indicate that his father had initially followed Conant’s grandfather into the carpentry trade, but had become a “trader” by 1860, when Conant’s mother was working as a seamstress. Ten years later, his father was working with Conant’s uncles who owned a Boston shop engaged in manufacturing and wholesaling “Looking-Glasses, Fancy Boxes, Portable Writing Desks, &c.” After graduating from Winchester High School, Conant went to work as a reporter for the Boston Daily Advertiser at the age of eighteen, beginning a twenty-year journalistic career with a series of Boston, Springfield, and New York newspapers that brought him to prominence in political and financial circles.[[3]](#endnote-3)

“There are probably few living Americans who have made so careful a study of the science of money and finance and have done so much constructive work,” the Bankers’ Magazine commented in a 1908 profile of Conant. “Apart from two or three University Presidents,” the editors wrote, “it would be perhaps not too much to say that Mr. Conant has a wider reputation, abroad as well as at home, than any other living economist.”[[4]](#endnote-4) As a preeminent theorist of capitalist crisis in a period of protracted depression, Conant became an influential advocate for monetary and banking reform. He was also a major proponent of colonialism and “dollar democracy” as outlets for the overaccumulation of savings seeking profitable investment, a problem that drew bankers and industrialists to the money question at the turn of the twentieth century much as the surplus of goods depressing the price of staple crops spurred the monetary activism of American farmers. As the creator of a new currency for the Philippines under American rule and instigator of related monetary reforms in other countries, he pioneered the profession of foreign financial adviser, which became central to U.S. foreign policy.

Most importantly, as a prolific author and trust company treasurer, Conant played a leading part in making financial trusteeship a dominant model of corporate ownership and enterprise, of overseas investment and colonial governance, and of class relations and capitalist rule. He led the way toward a radical reconception of what Adam Smith called “the wealth of nations” as a social fund to be administered by bankers as trustees for a society of beneficiaries, directing its combined savings so as to maximize the returns on each additional dollar invested. Through Conant’s career, this chapter explores the transformation of trust into a fiduciary ideal of financial management of a monopolistic market economy, arising in response to economic crisis and in counterpoint to the democratic vision of the cooperative commonwealth.

“Congested Capital”: Crises of Surplus

In the summer of 1892, Jane Addams gave a talk to the Ethical Culture Society in Plymouth, Massachusetts, describing a common personal crisis inciting the new social settlement movement. “We have in America a fast-growing number of cultivated young people who have no recognized outlet for their active faculties,” said the thirty-two-year-old Addams, just a year older than Conant. “They hear constantly of the great social maladjustment, but no way is provided for them to change it, and their uselessness hangs about them heavily.” She and her peers bore “traces of the starvation struggle which for so long made up the life of the race,” and they felt instinctively the brutality and privation of life for so many in their midst. Yet a growing gulf separated them from “the stream of laboring people [that] goes past you as you gaze through the plate-glass window of your hotel,” creating a hunger born of privilege rather than poverty. Shut off from “half the race” and “half the humanity to which we have been born heir,” affluent, educated young people found no “outlet for that sentiment of universal brotherhood, which the best spirit of our times is forcing from an emotion into a motive.” As their social aspirations turned inward in high society and higher education, despair only deepened under the burden of unfulfilled ideals. “Many are buried beneath this mental accumulation with lowered vitality and discontent. . . . This young life, so sincere in its emotion and good phrases and yet so undirected, seems to me as pitiful as the other great mass of destitute lives. One is supplementary to the other, and some method of communication can surely be devised,” Addams wrote. The social settlement afforded a means of productively employing their faculties by transplanting young people like herself into poor communities, where their overabundance of education and cultivation could find fertile soil. “It is an attempt to relieve, at the same time, the overaccumulation at one end of society and the destitution at the other,” she wrote, “but it assumes that this overaccumulation and destitution is most sorely felt in the things that pertain to social and educational advantages.”[[5]](#endnote-5)

Many contemporary Americans were spurred into social action by similar crises of abundance, even as they decried the growth of poverty in the shadow of unprecedented wealth. Amid mounting class strife, Progressive reformers saw the signs of a societal coming-of-age in which the nation’s surging productivity and population had outgrown the social structures of its youth.[[6]](#endnote-6) Two years after Addams’s talk on the need for social settlements, Frederick Jackson Turner described the closing of the frontier of western expansion that had long provided the main outlet for surplus labor and enterprise as American society had grown. “He would be a rash prophet who should assert that the expansive character of American life has now entirely ceased,” Turner told his fellow historians, predicting that “the American energy will continually demand a wider field for its exercise.”[[7]](#endnote-7) Five years later, in 1899, Thorstein Veblen published his scathing study of idle wealth, The Theory of the Leisure Class, and Theodore Roosevelt urged “over-civilized” Americans to find a new frontier for “the strenuous life” in overseas colonies instead of degenerating into the “slothful ease” of a people that no longer needed to struggle for its collective subsistence.[[8]](#endnote-8)

Such concerns reflected an increasingly pervasive discourse of “crisis” in the industrialized world, as new technological forces and economic conditions were seen to strain the limits of the social order that had given rise to them. Traditionally associated with fateful struggles of the body and the soul, the concept of crisis had been extended in the late eighteenth century to revolutions in the body politic. Admirers and detractors alike interpreted the American and French Revolutions as the results of a structural conflict between the ossified institutions of monarchy and mercantilism and the growth of colonies and estates that the old regimes could no longer contain. A century later, influential observers in Germany, France, England, and the United States viewed the financial panics and commercial convulsions of their era as manifestations of a comparable crisis of the international economic regime.[[9]](#endnote-9)

The distinguishing feature of capitalist crisis was the paradox of plenty. Unlike premodern eras of hunger and hardship due to diseases, wars, and poor harvests, the depressions of the modern market economy were rooted in surplus rather than scarcity. They were crises of distribution rather than production, in which the rising capacity of factories and farms brought falling prices and profits, fueling a vicious cycle of business failure, unemployment, and declining demand that contemporaries dubbed “overproduction.” The major industrial nations had each “overstocked itself with machinery and manufacturing plant far in excess of the wants of production,” wrote the U.S. commissioner of labor Carroll D. Wright in 1886, concluding that “this full supply of economic tools to meet the wants of nearly all branches of commerce and industry is the most important factor in the present industrial depression.” The “great enigma of our times,” wrote the land reformer Henry George in 1879, was this: “Where the conditions to which material progress everywhere tends are most fully realized—that is to say, where population is densest, wealth greatest, and machinery of production and exchange most highly developed—we find the deepest poverty, the sharpest struggle for existence, and the most of enforced idleness.” Idle wealth accumulated alongside idle workers, spurring a restless search for a remedy among business leaders and their political allies no less than among agrarian and labor organizers by the 1890s. A quarter century of intensifying crisis and class struggle caused a general loss of faith in the self-regulating capacity of the competitive market even among those who reaped the lion’s share of the rewards.[[10]](#endnote-10)

If the existing mechanisms of market exchange could not bring the supply of labor, capital, and commodities into balance with the demand for them, neither could classical economics account for the crisis. According to the conventional “law of markets” formulated by the French economist Jean-Baptiste Say in 1803, the production and sale of commodities automatically created a corresponding demand for other commodities of equal value, as profits and wages were spent on purchases. While the supply of particular goods and services would temporarily exceed or fall short of the effective demand for them, triggering the movement of prices and reallocating production accordingly, the aggregate supply of all commodities would naturally tend toward equilibrium with overall demand, preventing a “general glut.” Chronic overproduction, which preoccupied economic theorists during the “long depression” from the mid-1870s to the mid-1890s, thus represented a crisis of economics as well as an economic crisis. The “invisible hand” that had reigned in economic theory since Adam Smith’s day appeared unable to regulate supply and demand under modern industrial conditions. Perhaps the most fully developed theory of capitalist crisis to emerge on either side of the Atlantic came from Conant’s work between 1896 and 1905, a century after Say.[[11]](#endnote-11)

What Say’s law neglected was savings, Conant wrote, well before John Maynard Keynes made much the same point. If part of the profits and wages from production were saved in the bank rather than spent in the market, then the supply of goods and services would not create equivalent consumer demand. If the bank invested the savings in building new factories, railroads, and other productive enterprises or expanding existing ones, it would create a supply of capital instead. But the supply of capital, like that of commodities, did not create its own demand. “If saving in any community no more than kept pace with new demands for capital which proved legitimate and profitable, the happy situation of a constantly progressive industrial condition would be realized,” Conant wrote. “Saving is applied in too many cases, however, to the reproduction of machinery which is already sufficient and the creation of enterprises which do not prove productive.” Invested in “needless duplication of what already exists,” such “surplus capital” fueled surplus production of commodities in excess of demand. Overproduction, he argued, resulted from “oversavings” and excess investment in redundant means of production and exchange, creating the conditions of crisis. “The salient feature of nearly every crisis has been the sinking of capital in unproductive enterprises,” he wrote. “These enterprises have usually been in new fields, whose limitations have not been accurately measured by investors or even by capitalists of presumed judgment and experience. The opening of such a field has been followed by a rush in that direction, which has quickly exhausted all its possibilities and resulted in overproduction and the loss of the capital invested.”[[12]](#endnote-12)

The tendency for risky investments in anticipation of demand to promote reckless expansion followed by panic and depression had long been a target of critics of finance such as William Leggett. But Conant contended that such waves of speculation and retrenchment were unavoidable phases of a predictable cycle. Laying the foundation for modern studies of the business cycle, he argued that periodic crises were not aberrations from the normal tendency of the market economy toward an equilibrium of production and demand, but rather inherent dynamics of capitalist development. “The seeking of special causes may be of value to enable the business community to guard against the repetition of old mistakes,” he wrote, “but the belief that conditions can be produced which will put an end to the regular cycle of credit contraction and expansion has not been justified by any theory of banking, of trade, or of public finance which has yet been tested.” Public policy should aim not to prevent crises, but rather to moderate and regulate them so that they served their vital role in curtailing unproductive investments without spiraling out of control and destroying healthy enterprises and industries. We will examine Conant’s influential agenda for empowering banks to pursue such “countercyclical policy” later in this chapter.[[13]](#endnote-13)

Beneath the business cycle, however, Conant discerned a more troubling secular trend toward the accumulation of savings with fewer and fewer outlets for its profitable investment. Each upswing of the business cycle required a fresh field of economic expansion in which the surplus savings accumulated in the previous round could be gainfully employed. Capital, like cotton, was a restless crop, needing new regions, markets, and technologies to develop as it inexorably exhausted the demands of existing enterprises and industries and yielded diminishing returns on additional investment. But in the Old World and increasingly in the New World as well, Conant saw that the frontier of new opportunities for productive investment was closing by the late nineteenth century, even as the supply of savings was growing larger and faster than ever. While short-term spikes in speculation led to painful but passing crises, the long-term buildup of what he called “congested capital” was creating a profound structural crisis for the system itself, threatening its ability to recover from ever-deeper depressions. Deprived of its vital mobility, capital was sinking under its own growing weight.

The congestion of capital had not been unknown in earlier economic eras, according to Conant. In fifteenth-century Florence, sixteenth-century Holland, and seventeenth- and eighteenth-century England, growing stores of surplus wealth had gone idle in the absence of sufficient demand for loanable funds, imperiling the earning capacity of restive fortunes. “In each of these cases the world was far from rich, and savings could not be said to exist in excess in the sense that there was more than enough for all,” Conant acknowledged. “But the question of congested capital is a practical one and not a sentimental one. The few who then saved, the many who save now, will not hand over their whole savings to the needy, except under compulsion of taxation, or under the cruel stress of an economic crisis which wipes out dividends and shrivels the value of investments.” Never before the nineteenth century, however, had a whole society—indeed, the entire industrialized world—come to depend for its prosperity on the profitable investment of savings. The advent of modern modes of production and transportation had led to an unprecedented level of savings as incomes had risen more rapidly than the cost of living for large numbers of small savers. The development of commercial banking had made possible the pooling and investment of savings on a mass scale for the first time. At the same time, the extraordinary expense of equipping industrializing nations with railroads and mass-production machinery had provided profitable employment for the phenomenal growth of savings, Conant wrote.[[14]](#endnote-14)

By the late nineteenth century, the infrastructure of modern industry and the transcontinental railroads had largely been constructed across Europe, the United States, and the British Empire, but the investment fund continued to multiply. While productivity soared, the need for capital to support basic economic development began to soften relative to its supply. “This process of equipment was substantially completed in 1873, with which year the long period of depression set in which some have ascribed, by a natural error, to changes in the monetary standard,” Conant wrote, referring to the congressional demonetization of silver that year. As the accumulation of savings accelerated while the growth of demand for new factories and railroads slowed, the interest earned from investments declined sharply, obeying the “law of diminishing returns” for capital established by the contemporary Austrian economist Eugen von Böhm-Bawerk. “In other words, capital becomes less productive in earning power where it is abundant, because less productive use can be found for the excess above a certain limit. And it is this excess which fixes the rate for all,” Conant explained. From the French economist Paul Leroy-Beaulieu, he cited turn-of-the-century statistics showing that European interest rates had trended downward since at least the 1870s, as capitalists anxious to invest their mushrooming savings competed with each other to purchase industrial, railway, and government securities at higher prices with lower yields. Americans, he noted, were facing similarly shrinking prospects for investing their savings at home by the 1890s. “A given capital which earned six per cent. a decade or two ago now earns but three or four per cent. and double the accumulation is required to render the same return,” he wrote in 1896, much as a recent reporter on Populist politics had observed that the wheat farmer was “struggling hopelessly with the question how to get as much for two spears of grass as he used to get for one.”[[15]](#endnote-15)

Nor were the consequences of congested capital confined to a small class of moneyed men as in ages past. “The congestion has on previous occasions reduced interest rates as low as the past few years,” Conant wrote, “but never before has the accumulation of capital been so enormous, nor have so many millions of individuals—those of modest means as well as the typical ‘capitalist’ of socialistic dreams—been confronted by the condition that their savings must be greatly multiplied in order to afford the old return, and that even such savings as they had could with difficulty find safe lodgment in productive enterprises.” During a depression, Conant argued, “accumulated capital suffers more than productive industry,” as wage-earners benefited from lower prices or from “public charity, contributed by taxation upon the accumulated earnings of capital.” Enterprises that were forced to operate at a loss in order to stay in business effectively transferred their profits to “the consumers of the community,” whose “wealth is enhanced at the expense of the owners of inherited or accumulated capital.” By consuming the surplus that had kindled the crisis, such short-term destruction of savings cleared the way for recovery. But Conant rejected calls for a longer-term redistribution from capital to labor or from savings to current consumption as “a reversal of the lessons taught by five centuries of civilization,” which had shown that the accumulation and reinvestment of capital formed the engine of economic progress and prosperity. In the “long period of stagnation” after 1873, “broken only by brief periods of activity after surplus goods had been consumed,” Conant saw the future if the profitability of savings could not be sustained. The fortunes of market society as a whole had come to rest on ensuring adequate returns to the “fund of capital seeking investment.”[[16]](#endnote-16)

Classical economics had been predicated on the general principle that the total wealth of market society would naturally be maximized if each household or firm was enabled to pursue its self-interest in free competition with all other enterprises. The revisionist lesson that Conant drew from his theory of crisis was that with the growth of savings, the efforts of individual businesses in pursuit of their own short-term profits actually undermined the long-term profits of capital overall, ultimately endangering the system itself. Unregulated competition maximized the production of wealth all too well, manifested in the prodigious productivity of industrial farms and factories, but in so doing it increasingly impaired the profitability of the growing mass of loanable capital on which the modern economy depended. What was needed was an autonomous institutional agent for the fund of loanable savings that would systematically maximize its returns across the economy, emancipating capital from the control of individual enterprises while regulating investment and production in lieu of the “invisible hand.” If the recurrent crises of the late nineteenth century were rooted in a structural crisis of savings, the remedy for Conant lay in the establishment of a new structure for the fund of capital itself: the modern investment trust.[[17]](#endnote-17)

“The Price Takes the Place of the Object”: The Transformation of Trust

In February 1889, the North American Review featured an essay by Andrew Carnegie on a new social movement among big businessmen, comparable in some ways to the social settlement movement described by Jane Addams. “We must all have our toys,” the steel magnate began, and the latest hobby among his peers was the creation of “trusts,” corporate combinations of competing firms to control the prices of their products. Oil and coal, sugar and salt, copper and lead, lumber and brick, railroads and telegraph lines—all the main materials of the new industrial order were suddenly subject to strenuous joint efforts to control the market. But the cutthroat competition giving rise to the trusts was more than a high-stakes game in which the best businesses triumphed, as Carnegie explained. It was a collective crisis for manufacturers drowning in a flood of their own goods, driving down prices below the costs of production for even the fittest competitors. Unlike the glut of crops afflicting small farmers, the problem for major manufacturers and railroads lay in the vast size of their operations, requiring large, long-term investments to build and maintain their facilities, and compelling them to continue running at full capacity despite falling prices, indeed even at a loss, in order to pay their fixed costs. “While continuing to produce may be costly, the manufacturer knows too well that stoppage would be ruin,” he wrote, articulating what became known as “Carnegie’s law of surplus.” Seeking a way out of the cycle of production beyond effective demand, industrialists were uniting to maintain the prices of their goods at remunerative levels. But Carnegie predicted that such monopolistic methods would prove futile as new firms offering cheaper products were inevitably drawn into the market. “The fashion of Trusts has but a short season to run,” he assured readers.[[18]](#endnote-18)

Four months later, Carnegie returned to the pages of the North American Review to consider the related problem of what he called “surplus wealth” as opposed to surplus goods. Calling for a longer view of corporate trusteeship than that of price-fixing schemes, he advocated redirecting surplus wealth from industry into philanthropy, protecting private profits from both self-destructive competition and popular outrage. Like Conant a few years later, he argued that the increasing concentration of wealth was as vital to social progress as the consolidation of manufacturing, so long as large fortunes no less than large factories were wisely managed. “It is well, nay, essential for the progress of the race, that the houses of some should be homes for all that is highest and best in literature and the arts, and for all the refinements of civilization,” Carnegie wrote. Yet he shared, for different reasons, Addams’s concern that the houses of a few had become so far removed from the homes of the many that “all intercourse between them is at an end,” and “often there is friction between the employer and the employed, between capital and labor, and between rich and poor.” The antidote to rising class strife for Carnegie lay not in a more equitable distribution of wealth, but in its more munificent management. Or as he put it, “The problem of our age is the proper administration of wealth, so that the ties of brotherhood may still bind together the rich and poor in harmonious relationship.” Carnegie aimed to persuade those troubled by widening inequality to “intrust” men like himself with “a great part of the increased wealth of the community,” while convincing his fellow capitalists to treat their private savings as a public resource. The “duty of the man of Wealth,” he wrote, beyond providing “moderately” for his family, was “to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community—the man of wealth thus becoming the mere agent and trustee for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves.”[[19]](#endnote-19)

Carnegie envisioned a union of big business and philanthropy entailing a far-reaching reconstruction of the Anglo-American institution of the trust, which had long provided a vehicle for large estates to be privately administered for public purposes. Born of the bequests of wealthy families, the older charitable trusts that had governed hospitals, universities, libraries, museums, and other cultural institutions since William Douglass’s day had been strictly limited by the directives of their donors, like early corporations restricted by their charters. The new philanthropic foundations endowed by Carnegie and like-minded corporate leaders, by contrast, exercised far greater autonomy in funding an ever-changing array of causes, from science and medicine to art and education. At the same time, their ongoing ability to support public projects derived from their latitude in investing their endowments in an equally diverse and flexible portfolio of assets calculated to produce the best earnings on behalf of the masses of recipients of their largesse. Viewing the market economy as a whole as the source of the funds that they administered, boards of trustees regarded the pursuit of the highest returns as their fiduciary responsibility to the society they served. If “the fashion of Trusts” proved more enduring than Carnegie at first foresaw, it was because it found a broader foundation than any enterprise or industry in the financial fund itself, and in the ethic of investment that he called “the true Gospel concerning Wealth.”[[20]](#endnote-20)

“Observe that metaphor of ‘investment,’” wrote the English legal historian Frederic Maitland in 1904, recalling that the word originally referred to the act of putting on clothes. “We conceive that the ‘trust fund’ can change its dress, but maintain its identity. Today it appears as a piece of land; tomorrow it may be some gold coins in a purse; then it will be a sum of Consols; then it will be shares in a Railway Company, and then Peruvian Bonds. When all is going well, changes of investment may often be made; the trustees have been given power to make them. All along the ‘trust fund’ retains its identity. ‘The price takes the place of the object,’ we might say, ‘and the object takes the place of the price.’” While Maitland proudly claimed the trust fund as the offspring of an idea conceived centuries earlier in English law, he acknowledged that the trust had gained unprecedented power in modern America through its marriage to corporate capital. “Of late years under American teaching, we have learned to couple together the two terms ‘corporations’ and ‘trusts,’” he wrote, even as he contended that the aristocratic ancestor of the modern trust had contained at its core a contract not unlike that of its corporate descendant. But like the corporation, the trust had been fundamentally transformed by its capitalist reincarnation. It had evolved from an arrangement under which family estates controlled land into an agreement through which corporations combined to control prices, and finally into a fund with which financiers controlled savings. The price indeed took the place of the object, but only as the result of a long revolution in the basis of trust.[[21]](#endnote-21)

What gave the trust unparalleled command over capital at the turn of the twentieth century was what had made it a “most powerful instrument of social experimentation” since its emergence in medieval England, according to Maitland: its extraordinary “elasticity.” “It is an ‘institute’ of great elasticity and generality; as elastic, as general as contract,” he wrote in his landmark lectures on the legal tradition of equity, in which the trust appeared as the most important English innovation.[[22]](#endnote-22) Descended from the principles of “equity” and “conscience” with which the Roman Empire and the medieval church had administered their dominions over a diverse panoply of peoples, equitable jurisprudence manifested both the supremacy of the sovereign and his compassion and solicitude for the varying circumstances of his subjects. Equity conferred open-ended discretion on the king’s chancellors to execute “extraordinary remedies” outside of the general rules, procedures, and protections of civil, canon, and common law, with special regard for the needs of those deemed incapable of exercising rights on their own behalf such as children, married women, paupers, foreigners, and the mentally ill.[[23]](#endnote-23)

In inventing the trust, the English Court of Chancery brought the paternal authority at the heart of equity to bear on the institution of property. The trust created a structure under which one party legally owned property on another’s behalf. It separated the legal right to control property, which reposed in the trustee, from the equitable right to benefit from it, which belonged to the beneficiary. It established between the two parties a fiduciary relationship—a bond based in principle on caretaking and confidence, like that between parents and children, guardians and wards, or lords and vassals. The idea of property as a trust, an office in which ownership formed the means of fulfilling social obligations, reflected its origins in a feudal system in which all English land officially belonged to the king, who entrusted it to his subjects in return for their service and allowed them to subdivide their holdings among tenants under a similar manorial responsibility. By the fourteenth century, legal restrictions and heavy taxes on the inheritance of land, originally enacted to enforce the Crown’s claim on the lands of the kingdom, conflicted with its interest in encouraging the growing power and prosperity of the landowning class. Thus the trust was born, deploying the earlier notion of property as a social estate while enabling owners to devise land indirectly to their families by transferring title to trustees, bypassing legal limits on testamentary power. In granting increasing independence to landholders, the innovation of the trust further supported aristocratic families by providing a way for wealthy women to retain rights as beneficiaries to property that they brought into marriage, circumventing the common law of coverture under which married women could not own property in their own name.[[24]](#endnote-24)

Charles Dickens’s satire in Bleak House of an interminable trust case in Chancery captures the conservatism of the family trust in general: “Innumerable children have been born into the cause; innumerable young people have married into it; innumerable old people have died out of it.”[[25]](#endnote-25) Indeed, the flexible framework of the trust provided a cocoon for the conservation and transformation of wealth not just across generations, but across historical epochs and class regimes. Just as the locus of trust transferred from the king to landowning families in early modern England, so it shifted again in the early American republic, when both land ownership and families ran up against the limits of their capacities for accumulation under the changing rules of an emerging market society. Inheritance laws that had preserved landed estates in England—prohibiting heirs from selling off property held in “fee tail,” preventing creditors from seizing land in settlement of debts, barring the division of estates among several sons when fathers died without a will—were abolished in the new nation, much as monarchical limits on devising land had fallen into abeyance with the development of the testamentary trust centuries before. As large landholdings became subject to partition, sale, and debt collection, the separation of legal rights to real property from beneficial rights to its economic value made the trust the model for American probate courts exercising equity powers in presiding over a sweeping reform of family estates. Treating land as a financial asset valued mainly for its market price, judges developed what Elizabeth Blackmar terms a “discipline of investment,” requiring court-appointed trustees and executors to assume an active role in reorganizing estates as profit-making portfolios.[[26]](#endnote-26)

Trust administrators heeded the rising mandate to make savings pay, providing a constant stream of revenues for beneficiaries, enhancing the value of trust assets, and maximizing estates’ earnings from interest, dividends, and the buying and selling of properties. Aided by the liberality of trust law in Massachusetts, the mercantile families of Boston proved especially versatile in mobilizing their savings, giving rise to a new vocation of professional trustees to manage their investments. “Bostonians from the first showed their ability to adapt themselves to changing conditions. Wealth garnered from ventures associated with one type of enterprise was used to spur on and create new wealth in succeeding business undertakings,” as Donald Holbrook wrote in his study of the “Boston trustee.” A landmark Massachusetts Supreme Court ruling in 1829 released trustees from any continuing commitment to specific investments, instructing them instead to redistribute the savings under their charge as widely as they thought “prudent” to keep up with changing financial conditions. As Holbrook wrote of his profession, “No trust manager should be tied to a prescribed or set form of investment whose character or even substance itself might be altered or entirely disappear with the course of time.”[[27]](#endnote-27)

In detaching trusts from the financial constraints of the land and other assets they traditionally had held, the courts freed them from the families they had long served as well. Consolidating the fortunes of many families under centralized management, trustees gained authority to act in the collective interests of the estate itself, defying the demands of beneficiaries when they conflicted with the growth of the endowment. In a broader sense, trust managers were empowered to act on behalf of the whole class they helped to call into being as opposed to the narrow interests of individuals and families. As the Boston physician and writer Oliver Wendell Holmes Sr. wrote of the Brahmin elite in 1859, “The millionocracy, considered in a large way, is not at all an affair of persons and families, but a perpetual fact of money with a variable human element.” The modern investment trust was distinguished from earlier family trusts by the breadth of the capital that it collected and directed, by the flexibility and diversity of its investments, and by its paramount devotion to the perpetuation of principal rather than payouts to beneficiaries. It embodied the impersonality and mutability of socialized savings like no other nineteenth-century institution, save for the modern business corporation with which it became enduringly linked.[[28]](#endnote-28)

The limited-liability corporation, which gradually supplanted the family firm and the joint-stock company as the dominant form of business enterprise, arose from the same search for a new basis of trust with which to pool the savings and plan the investments of large numbers of unrelated individuals. Its defining characteristic, like that of the trust, was the separation of the income rights of shareholders (or beneficiaries) from the administrative rights of directors (or trustees). Trusts and corporations thus converged on a shared endeavor in the second half of the nineteenth century. Trusts played a central part in channeling the savings of northeastern capitalists into the new corporate securities of western railroads, mines, stockyards, and farm mortgages, while Boston trustees fanned out onto boards of directors throughout the country, much as “financial missionaries” like Conant soon spread the Yankee gospel of wealth to Latin America and Asia.[[29]](#endnote-29)

Just as the trust had formed the model for the financial reform of land ownership in the early republic, so it provided the template for a reorganization of factory and railroad ownership in the Gilded Age. Arising in answer to the pervasive problem of overproduction, the “trustee device” found its first major use as a means of corporate consolidation in the oil industry, in which the need to limit output in order to maintain prices at profitable levels was both chronic and acute. In an 1879 agreement orchestrated by John D. Rockefeller, the stockholders of roughly forty companies controlling more than 90 percent of the nation’s oil refining transferred their shares to a single board of trustees that would preside over the entire industry on their behalf, setting prices and production limits, opening and closing plants, distributing interest and dividends, and using surplus funds to buy out remaining competitors. Within a decade, the success of Standard Oil spawned similar agreements in other refining industries including cottonseed oil, linseed oil, sugar, and whiskey along with tobacco, cordage, lead, steel, and machine-making. By the time that Carnegie wrote “The Bugaboo of Trusts” in 1889, the word had taken on a new meaning. A “trust” meant an industrial monopoly, defined by the possession of sufficient control over production to control prices as well.[[30]](#endnote-30)

Carnegie wrote in response to a rising antimonopoly movement that saw in the new combinations an arrogation of the powers of equity and a corruption of the office of trusteeship into a vehicle for private profit instead of social service. “The courts have no other function so high as the enforcement of equity, and when private enterprise puts on the cloak of chancery, calling itself a ‘trust,’ it is guilty of a species of imposition, one which at least justifies the presumption of fraud,” the Chicago Daily Tribune commented in 1887. “The execution of a trust is not only the highest office of the judiciary, but one of its more sacred prerogatives. It is contrary to public policy, as the phrase is, for private corporations, or corporations organized for private gain, to assume the place reserved for the bench.” In the late 1880s and early 1890s, a spate of state laws prohibiting agreements “in restraint of trade” along with a series of related state court cases marked the advent of the “trust question” in public discourse and the rise of what was popularly called “antitrust law,” including most importantly the Sherman Antitrust Act passed by Congress in 1890.[[31]](#endnote-31)

As stockholder agreements using the trustee device were struck down for violating the original corporate charters or for restraint of trade, business leaders created instead “holding companies” that owned outright either the financial securities or the physical assets of a host of smaller firms. Though they were often not trusts strictly speaking, the industrial behemoths that came to dominate mass production and distribution by the early twentieth century were predicated on the separation of ownership and management that originated in the law of trusts. The Supreme Court in the 1880s and 1890s bolstered the autonomy of boards of directors by granting their corporations full legal personhood as “natural entities,” endowed with the same constitutional rights and due process protections as individuals. At the same time, the court extended property rights to encompass intangible assets, sanctioning stockholders’ ownership of shares in the earnings of the enterprises in which they invested, or their beneficial claims to a “reasonable return on investment.” The delineation of the respective rights of directors and investors provided the legal basis for the emergence of a mass market in industrial securities around 1900, representing what contemporaries dubbed the “trustification” of the corporation.[[32]](#endnote-32)

Conversely, the same years witnessed the ultimate corporatization of the trust, with the rise of the trust company at the center of the new structure of investment on which the corporate reorganization of industry depended.[[33]](#endnote-33) A distinctively American institution, the “corporate fiduciary” was born with the business of fire and life insurance in the 1820s and 1830s, when corporations entrusted with individuals’ long-term savings were authorized to execute trusts and administer estates as well. As trust companies gained the power to receive deposits after the Civil War, they became essentially savings banks for the rich, paying 2–5 percent interest to depositors while investing their money in land mortgages and government bonds at higher rates. Commercial banks’ “demand liabilities”—banknotes and deposits payable in coin on demand—generally barred them from engaging in long-term lending and from paying interest to account-holders, making trust companies more attractive to those with large savings to invest. Meanwhile, as bank loans more and more commonly took the form of credits to deposit accounts rather than banknotes in the postbellum era, national banks’ exclusive power of note-issue declined in importance. Trust companies therefore increasingly competed with banks in short-term as well as long-term lending, creating “active accounts” paying lower interest rates from which borrowers could draw on demand along with “certificates of deposit” paying higher interest rates in exchange for depositors’ forgoing the right to withdraw funds for a fixed term. As banking became their main business, trust companies accumulated enormous funds from corporate and individual depositors amid the spectacular growth of savings in the late nineteenth century. But the real ascendance of the trust company as the “department store of finance” came in the decade following the crisis of the mid-1890s, with the opening of a vast new field for investing surplus savings. The rapid development of the market for industrial stocks and bonds that fueled the great merger movement of the turn of the century thrust trust companies into a preeminent position in the new financial order, far outpacing state and national banks in their growth in numbers and deposits in the decade after 1895.[[34]](#endnote-34)

Conant’s career on the national and international stage rose with them. When he became treasurer of the Morton Trust Company of New York in 1902, he took charge of one of the country’s largest investment funds. That same year, he heralded the reign of the trust company in an enthusiastic exposition of its vital new role for the American Review of Reviews, a leading journal of Progressive social thought. “The work of reorganizing old corporations and organizing new ones, taking up old securities and issuing new, which has been made necessary by the new enterprises, the consolidations, and the ‘mergers’ of the last few years, has fallen in a large measure to the trust companies of New York and one or two other large cities,” Conant wrote. When a joint-stock company reorganized as a limited-liability corporation or when a new corporation formed, he explained, it naturally turned to a trust company as intermediary and “guardian for interests of the public on the one hand and the corporation on the other.” National banks, whose notes, drafts, and checks served as the currency of everyday commerce, were prohibited by law from lending more than 10 percent of their capital to any single individual, firm, or corporation, and they were required to restrict their lending so as to be able to pay their depositors and note-holders in cash at any time. Trust companies’ larger long-term deposits, concentrated in New York, gave them greater ability to advance investors the funds for the new securities, making them leading lenders on Wall Street.[[35]](#endnote-35)

Almost overnight, it seemed, the trust companies had become the trustees of a great and growing share of the nation’s surplus savings, planning and directing investment in factories, farms, railroads, and mines across the country, regulating the nascent corporate economy as a whole. “The savings, which the people of the entire country are realizing from increased production and improved trade, are poured into the New York money market almost as promptly and directly as a current of oil through one of the Standard Oil Company’s pipe-lines,” Conant wrote in 1907. “. . . The control of these vast sums, in the form of deposits and money for investment, has placed power in the hands of the men at the head of New York finance such as has seldom been possessed by the financiers of any country.”[[36]](#endnote-36)

The trust company stood as the institutional embodiment of an emerging social ideal, one that harked back to the paternal principles of equity while making the investment fund rather than the king, the court, the family estate, or even the business corporation the ultimate repository of trust. “The purely trust functions of the old-fashioned trust company are undoubtedly the highest development of the principle of credit and of confidence. They are the highest application of that principle to the relation of man to man in business,” the U.S. comptroller of the currency, William Ridgely, told the recently formed Trust Company Section of the American Bankers Association in 1904, anchoring the new system of savings and investment in the venerable ideal of trust.[[37]](#endnote-37) “Coincident with this tendency to great consolidations,” wrote one of the leading authorities on the trust companies, Clay Herrick, in 1909, “. . . is the growing recognition among all classes of people of the value of associated effort. Here again the trust company finds itself in harmony with the times. . . . The trust company is emphatically an institution of the people. . . . It enables us to reap most of the advantages claimed for community of ownership, without the dangers that would come with the systems proposed by dogmatists.”[[38]](#endnote-38) In Conant’s words, the individualism of classical political economy was giving way to “the principle of association and coöperation” embodied in the corporate fiduciary.[[39]](#endnote-39)

More than a form of inheritance, business, or finance, the transformed trust represented a universal principle of social authority. It embodied a model of fiduciary relations not just between investors and directors, but between labor and capital, as Carnegie suggested, and between rich and poor countries, as Conant contended. Espoused in different ways by Carnegie and Conant, the ethic of investment formed a financial successor to what Ellen Meiksins Wood calls the early modern “ethic of improvement.” Arising as an ideology of the landowning gentry in seventeenth-century England, improvement meant making land profitable by consolidating private property and employing the productive labor of tenants and their hired hands. It was both a general ethical ideal, eschewing waste and valuing work, and a specific rationale for landowners’ property in the products of the labor and land they “improved.”[[40]](#endnote-40) The ethic of investment, by contrast, meant making savings profitable by consolidating and mobilizing surplus capital in the form of financial securities rather than landed estates. It likewise conceived a new “ethical subject,” “the trustee as Economic Man,” as Ritu Birla has written of late-imperial India at the turn of the century, while validating financiers’ control of the funds they collected and invested.[[41]](#endnote-41)

“How mighty is the influence of these few minds,—the inventors, the captains of industry, the resourceful authors of new combinations,—upon national economic progress is realized by few,” Conant wrote in an essay titled “The Trusts and the Public” in 1904, comparing the earlier work ethic to a new wealth ethic.

Plodding industry, which must ever be the virtue of the mass of men, accomplishes much; it is the foundation upon which all else is built. But plodding industry alone does not utilize new forces; it does not harness Niagara; it does not keep a nation at the forefront in the race with industrial rivals. The Chinese and several of the Latin peoples are perhaps to-day the equals, if not the superiors, of the Americans in their willingness to work and save; but these qualities are not sufficiently supplemented by those great powers of invention, initiative, and combination which give dominance in the modern world.[[42]](#endnote-42)

In other words, the new basis of the wealth of nations was not simply productive industry but profitable investment. The wealth ethic joined the growing mass of savers to the rising class of money managers, and it linked the peoples of Asia and Latin America to the “great powers” of the United States and its European counterparts, in fiduciary relations defined by the transformation of trusteeship. “When enterprises became national and international in their scope, it was inevitable that they should look to the fund of free capital of the entire country for their support,” Conant wrote three years later in “The Concentration of Capital in New York, and Those Who Manage It.” “. . . It was natural also that such demands should develop a special type of men trained to deal with them—the masters of finance, upon whose decision depends the creation of new enterprises which promise benefits to the community, the abandonment or reorganization of old enterprises, whose benefits have ceased or have been surpassed by more modern and efficient machinery.”[[43]](#endnote-43)

The triumph of the trust fund required a parallel transformation of the currency and credit that it controlled. Calling for the establishment of “sound money” and an “elastic currency,” Conant became a leading exponent of a federal reserve system in the United States and a “gold-exchange standard” abroad. Aiming to model the national and international monetary order on the creation of a community of capital in place of a producers’ republic, he traced the century-long development of a society of investors.

“Pioneers of Credit”: The Banking Frontier

For Conant, the roots of modern investment lay in small-town banking. Metropolitan “masters of finance” marshalling the nation’s concentrated capital were fulfilling the same basic role as backcountry bankers administering the savings of their local communities. “In distributing between depositors, borrowers and his vaults the money intrusted to him,” “the modern banker has become arbiter of the direction of investment, the organization of industry, and even of the fate of nations,” Conant wrote, highlighting bankers’ systematic selection of those borrowers who would generate the greatest return on depositors’ savings. He continued, “In every growing community much of the real burden of deciding upon the course of its future development lies with the banker. It is for him to determine the relative marginal utility of one enterprise as compared with another and to grant his support to the enterprise which promises the highest utility and therefore the most certain profits. There rests upon the banker in a sense the vital function of trustee for the community in its dealings with itself. This trusteeship is especially sacred if he deals with the money of others, and not purely with money of his own.” But the bank’s responsibility extended beyond its circle of depositors to encompass all those who accepted its banknotes in payment, indirectly lending the value of their goods and services to the bank’s borrowers. By using bank currency, every household, farm, and shop became an implicit investor in all the businesses to which bankers chose to lend. The local banker, Conant wrote, “is the trustee of the mechanism of credit for the entire community, whether its members are individually depositors with him or not.”[[44]](#endnote-44)

From the vantage of Wall Street, Main Street bankers appeared as the “pioneers of credit in their respective localities” whose banknotes “paved the way for other systems of credit which appealed to the direct initiative of the small capitalist,” such as the stocks, bonds, and other negotiable securities in which trust companies specialized.[[45]](#endnote-45) Small banks formed the tributaries of a long stream of savings flowing from depositors and note-holders like a “stream of water from a vast storage basin through mammoth supply pipes,” fostering local enterprise, while larger banks channeled the surplus into investment in big business.[[46]](#endnote-46) From Conant’s perspective in the 1890s, the history of banking appeared as the story of the development of ever more efficient mechanisms for mobilizing savings and “transferring it from place to place and from industry to industry” in search of the most profitable investment for each additional dollar saved, beginning with banknotes and culminating with stock and commodity exchanges “by which the change of a fraction of one per cent in the rate indicating the demand for credit in one market would put at its command the surplus resources of other markets.”[[47]](#endnote-47)

By the mid-1890s, however, the multiplying means of capital mobility that formed the main theme of Conant’s History of Modern Banks of Issue (1896) were proving unable to accommodate the staggering growth of surplus savings. As the main conduit for the accumulation of capital, the banking sector formed the crucible of crisis—though not its underlying cause, as Conant emphasized.[[48]](#endnote-48) Hundreds of national, state, and private banks closed or collapsed in the panic of 1893. The ensuing depression galvanized a political movement among business leaders and bankers seeking fundamental reform of the system of banking and currency.[[49]](#endnote-49) The controversy over the role of banking in the crisis sparked intellectual innovation as well, marking a pivotal period in monetary economics comparable to the seminal debate over bullion and banknotes in England at the beginning of the nineteenth century.[[50]](#endnote-50) By his own account, Conant’s two-volume treatise, The Principles of Money and Banking (1905), was one of the first comprehensive studies of the subject, based on his role as a leading theorist of banking reform.[[51]](#endnote-51)

In 1894, Conant had run for Congress from the wealthy Eighth District of Massachusetts, including Boston’s Back Bay and Cambridge, having established his reputation as an authority on financial issues through his work as Washington correspondent for the New York Journal of Commerce. He joined the gold-standard wing of the Democratic Party aligned with President Grover Cleveland, who had pushed Congress to repeal the Sherman Silver Purchase Act of 1890, eliminating one of the last vestiges of bimetallism. Though defeated in 1894 as part of a historic Republican landslide, Conant was elected as a delegate to the convention of dissident “Gold Democrats” in 1896, organized in opposition to the free-silver candidacy of William Jennings Bryan for president.[[52]](#endnote-52) “The decision which has been made by the majority of voters in favor of the gold standard is, in some sense, only a negative decision, and merely clears the ground for the radical reforms which are needed, in order to place our currency system upon a scientific basis and make it responsive to the legitimate needs of business,” Conant wrote in the aftermath of Bryan’s loss to William McKinley, explaining the immediate motive for his study of the history of banking. “The financial ills from which the United States have suffered in recent years cannot be permanently cured by a political victory over the forces of discontent. A defective currency system has undoubtedly been one among several causes which have contributed to recent agitation, and the political party which has the judgment and the courage to reform the system will do much to commend itself to the intelligent support of the American people.”[[53]](#endnote-53) Indeed, the business leaders’ and bankers’ campaign for currency reform, which propelled Conant from journalism into a powerful policy-making role, arose in direct response to the Populist movement. Co-opting agrarian calls for an elastic currency and low-interest loans for farmers, the corporate movement countered more radical demands for public, democratic, legislative control of currency and credit by advancing a far more conservative model of financial trusteeship by bankers in league with the executive branch of the federal government.

Seeking to frame the agenda for financial reform on their own terms, representatives of boards of trade, chambers of commerce, and other business groups from twenty-six states and the District of Columbia gathered in January 1897 for a monetary convention headed by the Indianapolis manufacturer Hugh H. Hanna. The convention led later that year to the appointment of a private commission to devise a platform, with Conant playing a critical part as Hanna’s assistant. But Conant’s major contribution to the new movement came in his two treatises and numerous articles on banking, in which he systematically related the glut of savings depressing investment and industry in the metropolitan Northeast to the scarcity of currency and credit sparking Populist protest in the rural South and West. He found a solution in staking out a new financial frontier on the border between country banking and corporate investment, much as Jane Addams viewed social settlements as an ideal answer to “the overaccumulation at one end of society and the destitution at the other.”[[54]](#endnote-54)

Conant’s equivalent of the settlement house was a commercial bank setting up shop in a “new country” such as the southern upcountry or the midwestern plains. With little capital and few if any depositors, the bank would simply lend out its own banknotes in exchange for the short-term IOUs of small farmers and traders, collecting the principal and interest in specie when borrowers sold their goods and their notes came due. As long as its officers ensured that money flowed into the bank’s coffers as steadily as its notes flowed out, it would stand ready to redeem its notes in cash whenever note-holders demanded it, and the bank could safely increase or decrease its lending as needed to meet the demands of local trade. Such a system was ideally suited to meet “the needs of rural districts and especially of the producing and laboring classes,” who had the least savings and familiarity with banking but the most need for short-term credit and cheap currency. In principle, Conant noted, their extraordinary elasticity could make banknotes an especially important instrument for farmers, alleviating the seasonal stringency that depressed the prices of cotton and other crops at harvest time, which the subtreasury plan of the Farmers’ Alliance had been designed to address. So too, an elastic supply of banknotes could free cash-poor farmers from “serfdom to the storekeeper” and the crop-lien system afflicting the southern states in particular. By “introducing the use of credit and stimulating the production of commodities and the transfer of capital” in the agricultural hinterland, the note-issuing country bank “paves the way for deposit banking” and other more sophisticated means of mobilizing savings for investment, Conant wrote. “The bank-note,” he quoted the contemporary French economist Léon Say (grandson of the author of “Say’s law”), “is the deposit account of humble citizens and small merchants.”[[55]](#endnote-55)

In practice, however, banknotes were in increasingly short supply relative to the demand for them in the South and West, even as surplus savings piled up in the East. Conant agreed with the Populists that the dearth of currency and credit severely suppressed consumer demand for the excess output of farm staples and manufactured goods. “This poverty of the means of carrying on transactions is a striking feature of the condition of many parts of the Southern and Western sections of the United States,” Conant wrote, “and the remedy lies in an expansive currency which shall make exchange easier and afford the buyer of credit an instrument which he can readily use.”[[56]](#endnote-56) What constricted the currency was a set of restrictions on the issuance of banknotes under the National Banking System established during the Civil War: a 10 percent tax on notes issued by state banks, which effectively limited the power of note-issue to national banks; a requirement that national banks hold a share of their capital in U.S. Treasury bonds, which, along with other capital requirements, made national banks scarce in capital-poor regions of the country; and a requirement that the banks limit their note-issue to 90 percent of the face value of the bonds they held. As the price of government securities rose steadily in the late nineteenth century—the government sought to borrow less, while the glut of savings made bondholders willing to pay more—the supply of bond-based banknotes contracted relative to the volume of transactions for which they were required. “The public, under these circumstances,” Conant wrote, “have looked to other sources than the banks for a circulating medium, and found it, until the repeal of the purchasing clause of the Sherman law, in purchases of silver bullion, by the Treasury, and the issue of government paper money in payment for the bullion.”[[57]](#endnote-57)

Contrary to agrarian currency reformers, however, Conant argued that the real remedy for the inadequate supply lay in reforming the legal basis of the banknotes, not in returning to the old alternatives of government-issued greenbacks or silver coins. The “chief object” of his history of banking was to “convince thinking Americans of the axiomatic truth that—The currency of a commercial country should be regulated by commercial conditions and not by the whims of politicians.” Only a paper currency issued by banks in the course of commercial lending was actually created by the transactions for which it was called into use. Only a “banking currency, when not disturbed by the public authority, except to enforce uniformity, safety, and convertibility with coin, is automatically responsive to the demands of business.” Only banks, through the interest rates that they charged for commercial loans, controlled the market price of currency itself (as opposed to the price of precious metals or government bonds), which was the most powerful instrument for regulating as well as responding to commercial demand for the means of exchange. Finally, only well-managed banks, through their control of “quick assets” such as short-term commercial paper that could be quickly converted into cash, always stood ready to pay cash for their own notes. Banks were therefore uniquely capable of maintaining the currency that they issued at parity with coin, which was essential to upholding the role of money as a standard of value.[[58]](#endnote-58)

“The touchstone of a sound banking currency is redemption in standard coin on demand,” Conant wrote. It was the necessity of redeeming their notes in cash on demand that compelled banks to limit their loans to the value of their capital and cashable assets, or in other words, to tether the supply of bank currency to the needs of trade, which were represented by the commercial bills against which banknotes were issued. Conant stressed that redemption in coin did not call for tying the supply of currency tightly to the supply of coin, as Populist advocates of silver coinage and more conservative defenders of gold-based currency did. It rather entailed requiring banks to maintain in specie reserves just a fraction of the value of their deposit accounts and circulating notes, while allowing the currency they created to fluctuate freely with the volume of commercial IOUs presented for discount in exchange. In keeping with the so-called banking principle espoused by most contemporary bankers and economists, Conant explained that banknotes were essentially no different than the commercial bills for which they were exchanged, except that they were more widely accepted. They were promises to pay coin on demand, just as commercial bills were promises to deliver wheat, cotton, or other commodities. “It is not necessary in either case that the signer of the engagement should possess the full amount of the commodity which he promises; it is only necessary that his reputation and other forms of property should inspire confidence in his ability to fulfill the promise.” Like that of any other business, the solvency of a bank depended on the sufficiency of all of its assets or credits, not just what it kept in its vaults, to cover its debts. Commercial banks were properly restricted in the kinds of assets they could acquire or loans they could make, according to Conant; they could not make long-term loans backed by land or real property in industrial enterprises because such securities could not be turned into cash whenever it was demanded. But banks should not be limited any more than any other business in the amount of their assets (including loans) and liabilities (including deposits and notes), so long as the former could cover the latter. In other words, banks should not be restricted in the quantity of currency they pumped into circulation, so long as they did so in the course of responsible short-term commercial lending. Freed from undue restrictions regarding their cash or capital in government bonds, banks could supply the “expansive currency” that an expanding economy and its seasons and cycles demanded.[[59]](#endnote-59)

The merits of such an “expansive theory” of banking had become increasingly apparent, Conant argued, as banks had developed more sophisticated forms of credit and currency to mobilize the growing fund of savings. Since the Civil War, the use of demand deposits and checking accounts had risen much faster than that of banknotes, constituting “much the most important part of the medium of exchange” by the 1890s. Unburdened by the outdated laws that constricted the supply of banknotes in the South and West, the proliferating paper currency arising from the growth of deposits in the Northeast was much more responsive to the vicissitudes of business activity. Forming “the great element of elasticity in the tool of exchange,” the burgeoning bank currency born of surplus savings for investment provided a model for the reform of banknotes as well. “Such currency under sound business conditions is convertible into metallic money, just as are the more formal kinds of currency in the form of printed notes,” Conant wrote, but the circulation of checks, drafts, and other transferable credit instruments based on deposits was displacing coins in all but the smallest retail transactions. Modern banking methods “have reduced the demand for gold to a very small percentage of the total demand for currency and a still smaller percentage of the total demand for means of payment. Gold has come to be required chiefly for cash payments of small amount in retail trade and for bank reserves.” Further “economies in the use of gold” were made possible by modern means of communication including the cable, the telegraph, and the telephone, allowing credits to cross the country and the ocean almost immediately so that more and more long-distance transactions could be conducted on the basis of “a given sum of gold.”[[60]](#endnote-60)

Dedicated to the dual promise of “sound money” and an “elastic currency,” the movement for banking reform achieved its first major success in the Gold Standard Act of 1900, informed partly by Conant’s work. Intended to extend the soundness and elasticity of deposit banking to banknotes, the act required the Treasury to maintain parity between gold and all forms of legal money while reducing the federal tax on banknotes, permitting national banks to issue notes up to 100 percent of the face value of the government bonds that they held (instead of up to 90 percent), and refunding many bonds at lower rates so as to provide a broader base for banknotes.[[61]](#endnote-61) The Gold Standard Act marked the beginning of a larger corporate reform designed to entrust the currency of the “producing and laboring classes” wholly to note-issuing commercial banks, liberated from the lingering constraints of government-issued greenbacks, bonds, and coins, while trust companies took charge of the deposit savings of capitalists and corporations. Conant and his allies envisioned a parallel form of trusteeship in which bigger banks would increasingly control the gold reserves of smaller ones, so that the solvency of each bank and its community of creditors would come to rest on that of the banking system as a whole. “It may prove advisable to concentrate the actual coin holdings in the hands of a few strong banks, whose notes are substituted for coin in redemptions by the smaller banks,” Conant wrote in 1896. “. . . The essential point is that there shall be an ultimate coin reserve somewhere, upon which the circulation of all the banks actually rests.”[[62]](#endnote-62)

After the development of banknotes and the subsequent shift toward checks and deposits, the third stage in Conant’s history of modern banking consisted of the concentration of capital in a small number of big banks as well as insurance and trust companies located in the “chief reserve cities,” including Chicago, St. Louis, and especially New York. The centralization of bank funds reflected and facilitated the corporate consolidation of other industries, which demanded financial institutions capable of accumulating the resources and distributing the risks of mass production for a world market.[[63]](#endnote-63) But while the management of savings had become increasingly concentrated, the issuance of currency had remained fragmented since the demise of the Second Bank of the United States in the 1830s, even under the aegis of the National Banking System, which governed a declining share of the means of exchange due to the growth of deposit banking in the late nineteenth century. England and France, Conant noted, had each granted exclusive control over banknotes and currency issues more generally to central banks since the 1840s. With its vast fund of surplus savings, he argued, the sprawling banking system of the United States required a comparable central authority to manage currency and credit and respond to crises. Its main instruments would be its control of the nation’s gold reserves and its influence over interest rates as a lender to smaller banks, representing the fourth and final stage in the progress of banking.[[64]](#endnote-64)

In December 1905, the New York Chamber of Commerce, which included among its members the nation’s largest financial institutions, appointed Conant and four other financiers to a commission on the currency. The commission issued its report the following year, recommending the establishment of a central bank with branches in leading cities. A special commission of the American Bankers’ Association (ABA) advocated a similar plan, likewise calling for self-regulation of the banking sector by leading banks. The panic of 1907 spurred the creation of a National Monetary Commission (NMC) under the direction of Senator Nelson Aldrich of Rhode Island, hiring Conant as a key staff member.[[65]](#endnote-65) The combined efforts of the chamber of commerce, the ABA, and the NMC were channeled into what became the “Aldrich bill,” calling for a highly centralized structure dominated by bankers and business leaders, which would issue currency, set national discount rates, and supervise branch banks.

In 1909, Conant wrote an influential fourteen-part series for the Wall Street Journal, making the case for a central bank. One of its primary purposes, he wrote, would be “giving elasticity to the currency” by issuing its own notes, which the central bank would put into circulation by exchanging them for the notes of smaller banks (“rediscounting”), which would exchange them in turn for commercial bills. “Moderate and reasonable provisions for the gradual substitution of the notes of the central bank for those of the local banks would soon bring order and a sense of security into our currency system,” he wrote. At the same time, the “centralization of reserves” by the bank “would greatly increase the financial power of the country by permitting the use of those reserves at all times where they were the most effective.” The bank would “afford a reservoir of unimpeachable credit and adequate currency resources in time of stress.” It would “regulate the ebb and flow of capital” through “changes in the discount rate,” the interest rate it charged to other banks. “In these matters a central bank would exercise the function of leadership—of giving definite form and substance without delay to policies obviously sound, but which nobody under the present system has power to inaugurate effectively,” Conant wrote. Crucially, as he saw it, the effectiveness of such a central bank depended on its independence from government in its ownership and largely in its management as well. While representatives of the federal government might serve on the bank’s managing board, their “essential function,” he insisted, “should be negative rather positive—not to devise constructive policies, but to check unwise policies.”[[66]](#endnote-66)

Created by Congress in 1913, the Federal Reserve System (FRS) represented a compromise between the New York–centered corporate banking reform movement and agrarian interests from the South and West that had been pushing since the Populist campaigns of the 1890s for public accountability, monetary flexibility, provisions for moving funds to the agricultural periphery at harvest time, and access to affordable loans for family farmers. The law created a more decentralized structure than the Aldrich bill, with greater public oversight and significant concessions on agricultural credit. The new currency of Federal Reserve notes was made an obligation of the U.S. government rather than the issuing banks, and the Federal Reserve Board comprised five members appointed by the U.S. president along with the comptroller of the currency and the secretary of the treasury serving ex-officio. These public officials were granted broad supervisory authority over the twelve regional reserve banks, and only a third of the board of directors of each regional bank could be stockholders, directors, or employees of banks themselves. Yet the establishment of the FRS decisively removed monetary policy from the legislative arena, creating a powerful administrative agency that insulated the banking system from popular challenges. As James Livingston has argued, the Federal Reserve was designed “to depoliticize issues of money and banking, to place such issues beyond the reach of political debate,” while empowering the reserve banks to act on behalf of the banking system as a whole and the total fund of savings it directed.[[67]](#endnote-67)

Nevertheless, Conant sounded a cautionary note regarding the limits of what the banking system alone could achieve. Reflecting on the passage of the Federal Reserve Act, he noted in 1914 that the reserve banks were like other commercial banks in being limited by law to short-term commercial lending. “Even if completely successful in its proper field, of giving flexibility and sufficiency to short-term credit for commercial purposes, the law will affect only in a way very indirect the market for investment credit for long terms.”[[68]](#endnote-68) Indeed, his own work in monetary theory pushed strongly against the idea that commercial interest rates could effectively regulate the supply and demand for savings and goods along with the supply and demand for money. The “organization of capital” through the banking sector could ameliorate seasonal fluctuations, geographical disparities, and periodic crises. But Conant believed such reforms could not address the long-term crisis posed by the accumulation of surplus savings without also opening new avenues for profitable investment abroad, which required comparable restructuring of currency and banking in the developing countries of Latin America and Asia to which American capital now turned.[[69]](#endnote-69)

“The Rule of Gold”: The Empire of Investment

The ascendance of gold as the standard of value went hand in hand with its increasing obsolescence as a medium of exchange. Surveying the reign of the international gold standard in 1930, John Maynard Keynes observed that the more the gold basis of currency came to be universally respected, the more gold itself tended to disappear from use in favor of paper notes and token coins, aside from occasional transfers of gold reserves among central banks. “It is not a far step from this to the beginning of arrangements between Central Banks by which, without ever formally renouncing the rule of gold, the quantity of metal actually buried in their vaults may come to stand, by a modern alchemy, for what they please, and its value for what they choose,” Keynes wrote. “Thus gold, originally stationed in heaven with his consort silver, as Sun and Moon, having first doffed his sacred attributes and come to earth as an autocrat, may next descend to the sober status of a constitutional king with a cabinet of Banks; and it may never be necessary to proclaim a Republic.”[[70]](#endnote-70)

No less powerful for being increasingly invisible, the gold standard indeed represented a new form of global governance by the cabinet of bankers who ruled in its name. Two months after the Gold Standard Act was signed into law in 1900, Conant associated the dawning era of economic integration with another golden rule: “the rule taught by the Saviour of men—‘All things whatsoever ye would that men should do unto you, do ye even so to them’; or, in its simpler form, ‘Thou shalt love thy neighbor as thyself.’” In a Memorial Day address in his native Winchester, Conant implicitly identified the spread of the gold standard with “that high standard which makes every man one’s neighbor,” embodied in “those economic laws under which are being worked out the vital problems of our time.” He celebrated the abolition of slavery and the passage of protective labor laws ensuring that “the door stands open” for the American worker to “attain the highest position for which he is fitted.” But he declared that these recent achievements would remain incomplete until the United States extended like opportunities to its “neighbors” across the Caribbean and the Pacific. Much as Jane Addams urged affluent Americans to make new homes in poor immigrant neighborhoods, Conant called for an “open door” not simply for free trade and immigration but for direct investment in the economic development of the nation’s new colonies and dependencies. Unlike older forms of commercial empire, the new empire of investment would provide much-needed employment for American capital as well as labor while “carrying order, civilization, and justice to the distant islands of the sea.”[[71]](#endnote-71)

A precursor of the more critical theories of John A. Hobson and Vladimir Lenin, Conant’s enthusiastic vision of imperial investment depended on the spread of the gold standard from the Atlantic core to the Pacific periphery of capitalist development at the turn of the twentieth century. Integrating the silver-based economies of Mexico, China, and their respective regions into the gold-based economy of international finance appeared essential in order to make long-term investment in the colonies attractive for metropolitan capital, and, he suggested, in order to liberate colonial producers from a predatory pattern of staple production without industrial development.[[72]](#endnote-72) But the golden rule of empire for Conant was equity, not equality. In the nation’s island possessions as on the American mainland, the ethic of investment was bound up with the ideal of trusteeship. “American liberty, like English liberty, has been a plant of slow growth,” which cannot be “torn up by the roots and transplanted in its entirety to foreign soil,” he wrote.[[73]](#endnote-73) “When a Statute declared that the Herrschaft [rule] which the East India Company had acquired in India was held ‘in trust’ for the Crown of Great Britain, that was no idle proposition but the settlement of a great dispute,” as Frederic Maitland observed in 1904. “It is only the other day that American judges were saying that the United States acquired the sovereignty of Cuba upon trust for the Cubans.”[[74]](#endnote-74)

Colonial trusteeship was central to a broader revival of the tradition of equity at the turn of the century. As Nancy Buenger has shown, the American adoption of equitable procedures and paternalistic principles in the colonies of Puerto Rico and the Philippines was closely linked to parental notions of municipal governance in Chicago and other cities. Under the banner of “home rule,” Progressive reformers campaigned for special treatment of women, children, and immigrants before the law, broadly modeled on familial government of household dependents, as in Chicago’s new juvenile and municipal courts. At the same time, the Supreme Court and the Bureau of Insular Affairs employed the same rationale regarding the colonial government’s role as parens patriae in administering the former Spanish territories.[[75]](#endnote-75) While specifically applied to the “unincorporated territories” conquered in the Spanish-American and Philippines War, notions of trusteeship provided the justification for U.S. control over the protectorate of Cuba, the canal zone of Panama, and the custom houses in the Dominican Republic as well for colonial governance of Puerto Rico and the Philippines. “Only by the firm hand of the responsible governing races . . . can the assurance of uninterrupted progress be conveyed to the tropical and undeveloped countries,” Conant wrote. “This duty, imposed upon the superior races by the evolution of events, if not by the moral order, affords the opportunity for the absorption of the surplus of savings not applied to current consumption which is going on under the existing social system.”[[76]](#endnote-76) While white racism divided the ranks of agrarian and Populist reform, posing perhaps the greatest internal obstacle to a united movement for democratic finance, notions of Anglo-Saxon supremacy were integral to the ideology of investment imperialism that Conant articulated. As the author of a new currency system in the Philippines that became a model for other countries in Latin America and Asia, and as the preeminent exponent of “dollar diplomacy,” he predicated his vision of Progressive foreign policy on the principles of financial trusteeship.

“The necessity of sending capital abroad to obtain profitable returns is the salient economic lesson of the closing days of the nineteenth century,” he wrote in one of a series of articles on what he called “the economic basis of imperialism” during the Spanish-American and Philippines War. There were logically three possible ways of resolving the “congestion of capital in excess of legitimate demand,” the fundamental cause of economic crisis in the advanced industrial countries, according to Conant. One was “the socialistic solution of the abandonment of saving, the application of the whole earnings of the laborer to current consumption,” which he dismissed as unlikely and unwise. A second was “the creation of new demands at home for the absorption of capital,” but “the proportion of capital to be absorbed was so great in proportion to possible new demands” that he deemed this an inadequate solution as well. “Aside from the waste of capital in war, which is only a form of consumption, there remains, therefore, as the final resource, the equipment of new countries with the means of production and exchange,” he wrote.[[77]](#endnote-77)

In line with the theory of marginal utility at the heart of neoclassical economics, Conant explained that capital would wield the greatest “earning power” in countries with little accumulated savings of their own, and increased returns abroad would raise the “rental” value of capital at home as well. The growth of international finance had made it possible for capitalists to invest in “new countries” not simply by lending money, but by selling the materials required for the means of production, transportation, and communication on credit. Developing countries “have not only to obtain buildings and machinery,—the necessary elements in producing machine-made goods,—but they have to build their roads, drain their marshes, dam their rivers, build the aqueducts for their water supplies and sewers for their towns and cities,” Conant wrote. He foresaw a great wave of railroad construction across Asia and Africa comparable to the rise of the transcontinental railroads in advanced countries in the mid-nineteenth century, along with a building boom in mines and factories. “These openings for capital promise to absorb many millions within the next ten or twenty years.” As Great Britain, Germany, France, Belgium, and Russia raced to invest in colonial economic development, it became urgent for the United States to stake its own claim so as “not to be crowded to the wall by the efforts of the other great civilized powers.” “The people which has invested considerable amounts of its surplus capital in foreign countries has cast off its swaddling clothes and is ready to take rank among the financial powers of the world,” Conant wrote, warning in 1907 that “the United States will not become a first-class financial power until its investments abroad are much more extended than at present.”[[78]](#endnote-78)

Such a long-term commitment of American savings in undeveloped countries would require a close partnership of finance capital and colonial government, Conant noted. Earlier international loans had often been jeopardized by “revolutionary governments, where unwise financiering, official corruption, and the adoption of an irredeemable paper currency have wrecked business and frightened away foreign capital,” he wrote on the heels of the revolutions in Cuba and the Philippines. “A new era is opening for such investments, under the protection of responsible powers, whether a direct guarantee of the interest is given by the powers themselves, or reliance is placed upon the governing capacity of the men of the Anglo-Saxon or other European races, who exercise indirectly the control over the finances of the protected country.”[[79]](#endnote-79) Along with provisions to ensure that taxes were collected and public debts were paid, the paramount requirement was the establishment of colonial currency systems that would guarantee “that investments there can be realized upon at any time in the standard money of the world,” that is, gold, as Conant wrote in a 1901 report on the currency of the Philippines. “In this respect the proper regulation of the currency is more important than the regulations governing almost any other single branch of the public administration or those affecting any one or several industries.”[[80]](#endnote-80) The danger of depreciation of local currencies based on silver threatened the principal and dividends of any international loans made in gold-based dollars. Reconstructing colonial currencies on the basis of the gold standard was therefore more fundamental than safeguarding systems of taxing and spending in attracting foreign investment, as Conant explained in an article ten years later on monetary reform in Latin America. “Fiscal reform means the restoration of a favorable balance to the budget and the prompt payment of interest on public obligations. Monetary reform reaches deeper into the heart of commercial affairs, because it alone makes possible the free interchange of products and the investment of foreign capital upon a basis which ensures its permanency in gold value.”[[81]](#endnote-81)

In the wake of the Gold Standard Act of 1900 and the U.S. conquests in the Caribbean and across the Pacific, Conant’s work on the importance of extending the gold standard to silver-based colonies became central to American foreign policy. Secretary of War Elihu Root commissioned him to study the currency system in the Philippines, where he worked closely with the U.S. territorial governor, William Howard Taft (a major promoter of the legal tradition of equity in colonial governance), in devising a plan for monetary reform. Enacted by the U.S. Congress in 1903, Conant’s plan for the Philippines formed the template for parallel currency reforms in Mexico, Nicaragua, Panama, and the Dominican Republic over the next few years, and for extensive efforts to bring China onto the gold standard. As Emily Rosenberg has written, Conant became the principal founder of the profession of foreign financial advising in the United States.[[82]](#endnote-82)

The financial face of American empire was the “gold-exchange standard,” a formula for a gold standard of value with a silver means of exchange that Conant developed in the Philippines and espoused with an evangelical zeal comparable to Charles Macune’s promotion of the subtreasury plan.[[83]](#endnote-83) First introduced in British India in 1893, the gold-exchange standard came to represent for Conant “a new monetary system” that “blazed a new path in the principles of money,” promising to revolutionize monetary theory and practice not only in peripheral countries, but in advanced industrial nations as well. It was, he wrote, essentially “an extension of the banknote system to token coins,” carrying to its conclusion the logic of the campaign for “sound money” and “elastic currency” in the United States.[[84]](#endnote-84) Indeed, the idea of creating a managed currency of token silver coins convertible into gold-standard money at a fixed rate was actually a systematization of a practice that had arisen in a piecemeal fashion in the United States and other bimetallic countries as they converted to the gold standard in the late nineteenth century. “Events are stronger than theories in shaping economic tendencies,” as Conant wrote.[[85]](#endnote-85) Yet the theory that emerged from the practice of a token currency with a fixed standard anticipated the advent of an entirely token or “fiat” currency controlled by central bankers in the twentieth century, revealing that the “rule of gold” hardly required gold itself. For the real basis of the currency that Conant helped to create was not the market value of gold, but the fiat of organized capital.[[86]](#endnote-86)

“Belief in the gold standard was the faith of the age,” Karl Polanyi wrote of “nineteenth-century civilization.”[[87]](#endnote-87) Yet until the 1870s, Britain was virtually alone in making gold its sole monetary standard, and silver coins circulated as legal tender in most of Europe and the United States until the 1890s. Bimetallism had enjoyed broad support in the French and American republics since the Revolutionary Era, allowing for unlimited coinage of both gold and silver while defining the unit of account—the dollar or franc—as a legally fixed quantity of either metal. Since a fall in the market value of gold strongly tended to be balanced by a rise in the value of silver and vice versa, a bimetallic standard was designed to prevent the value of money from fluctuating with that of either precious metal, so long as their legal ratio was occasionally adjusted to reflect changes in the ratio of their respective market values, which hovered around 15.5 ounces of silver to 1 ounce of gold for more than seventy-five years. By the mid-nineteenth century, however, the rising dominance of London and the British pound sterling in international trade and finance had spurred European and American import-export merchants and financiers to favor an international gold standard. In the 1870s, they got their wish, as large silver discoveries in the United States triggered a steep decline in the gold price of silver that continued for the remainder of the century. Germany converted to gold in 1871, and France and its allies in the so-called Latin Monetary Union (Belgium, Switzerland, Italy, and Greece) followed suit in order to avoid losing all their gold and becoming de facto silver-standard countries at a growing commercial disadvantage. The United States ceased free coinage of silver dollars in 1873 and made greenbacks and banknotes redeemable in gold in 1879. By 1880, every major trading nation had adopted the gold standard in swift succession, beginning a period of unprecedented integration of international markets that lasted until the First World War.[[88]](#endnote-88)

While silver ceased to serve as a standard of value, it still circulated as currency in gold-standard countries. Responding to mining interests and to the demands of interior manufacturers and farmers for cheap currency to counter falling commodity prices, the United States and the nations of the Latin Monetary Union continued to mint silver coins. Like copper coins and the small-change silver coins that had been issued earlier, the silver dollars minted in the 1880s and early 1890s were “token” coins: though they were still legal tender, their output was controlled by the Treasury (“on government account”), and their metallic content was reduced well below their face value, which derived from the government’s promise to redeem them in gold-standard money at a fixed rate. “Silver limps along behind gold, without enjoying the privilege of free coinage accorded to the standard metal, but nevertheless finding a large use as money, and kept at par with the standard,” as Conant explained in a 1903 article on “the limping standard.” The French economist Léon Walras in 1886 gave systematic sanction to the ad hoc policy of maintaining a sound fractional (as opposed to “full-bodied”) coinage legally redeemable in gold, akin to banknotes based on fractional reserves. In 1899, the Indianapolis Monetary Commission, for which Conant served as a key adviser, codified the “laws of token money”: controlled coinage of limited quantities of a subsidiary metal on government account, redeemable in the standard money with which it was kept at par. This “standard formula” for an elastic token coinage for domestic commerce coupled to a gold standard for international trade provided the basic structure for Conant’s vision of colonial currency.[[89]](#endnote-89)

By the turn of the century, the gold standard reigned over the north Atlantic homelands of industrial capitalism. But the silver standard prevailed across the Pacific from Central America to Southeast Asia, a legacy of the circuit of Spanish silver from American mines to Chinese merchants that had fueled world trade since the sixteenth century.[[90]](#endnote-90) When Conant took up his three-month commission in the Philippines in the summer of 1901, he arrived in a vast commercial region where the Mexican silver dollar served as the international standard of value and the main means of market exchange, stretching from the Dutch colonies of Sumatra and Borneo to British Hong Kong and Singapore, French Indochina, and coastal China. The spread of the gold standard in all the major imperial powers and the rapid depreciation of silver in terms of gold had created a widening monetary gulf between East and West.[[91]](#endnote-91)

“The rupture of the par of exchange between gold and silver countries has undoubtedly done much to divide the world into two halves, those using gold and those using silver,” Conant wrote. “It has tended to congest unused capital in the rich countries, with a depressing effect upon rates of interest . . . and has left the silver countries to struggle along with insufficient means for developing the treasures of nature which are locked in their soil.”[[92]](#endnote-92) Trade between gold and silver countries was seriously hampered by fluctuations in the exchange rate, so that transpacific merchants were forced either to run large risks or to price their goods so high as to cover any potential losses. But the more damaging consequence of the growing gap between the silver and gold worlds, according to Conant, was its deterrence of direct international investment in new enterprises and the expansion of existing ones. Western investors who borrowed money to buy negotiable securities at 3–5 percent interest could not afford to see their profits swallowed up by the comparable cost of exchange between revenues earned in silver and debts owed in gold. Filipino or Mexican farmers, industrialists, and bankers who borrowed in U.S. dollars or British pounds likewise found the costs of transferring capital prohibitive. “For this reason the accumulated capital of the great civilized countries has in recent years refused to seek investment in silver countries,” Conant wrote, while “the borrower in a silver country can under present conditions look for no aid abroad” and is therefore “prevented from taking any steps to develop the natural resources of the country.” He concluded: “Since it is in the gold-standard countries that the great surplus of capital has been accumulated, which is now being offered in the world’s money markets for the development of the tropical countries, it is absolutely essential that monetary legislation . . . should be such as to attract the investors of these countries. Experience has demonstrated that capital seeking investment can be attracted in no other way than by the adoption and maintenance of the gold standard.”[[93]](#endnote-93)

Conant recognized, however, that simply converting from a plentiful silver currency to a scarce gold currency was no more practical in Asia or Latin America than it had been in the American South and West. Whereas monetary reform in the United States had arisen in response to economic depression and agrarian resistance, in the Philippines it was imposed in the face of a five-year revolutionary struggle against colonial rule, which had just ended when Conant arrived. The new colonial government complained of exorbitant losses from paying soldiers, laborers, and suppliers in U.S. dollars while receiving revenues in Spanish or Mexican coins. At the same time, British, German, and American merchants in Manila, sugar, hemp, and tobacco planters in the provinces, and the Chinese traders who managed most of the trade between them sought to protect the competitive advantage they enjoyed by paying workers and suppliers in silver while selling their exports for gold-based dollars and pounds.[[94]](#endnote-94) “The American Government found in the Philippine Islands upon their cession by Spain a condition as chaotic in monetary affairs as in civil administration,” Conant reported in 1902, highlighting the need for a new currency to serve as a means of rule as well as a means of exchange.[[95]](#endnote-95)

Conant sympathized with Filipino planters and entrepreneurs who warned that a shift from silver to gold currency would incite workers to demand higher wages, as had recently occurred in a wave of strikes in Puerto Rico. Gold could not be subdivided into small enough coins to provide a practical means of paying wages as low as forty cents a day in silver for skilled labor, he wrote. Filipino workers, many of whom had served in the defeated fight for independence, would likely resist being paid fifty cents in gold instead of a dollar in silver even though that was the rate of exchange in foreign trade, rightly expecting that local storekeepers would not lower the prices of food and other basic necessities accordingly. “Silver is the natural money of undeveloped countries, where the scale of wages is low, and such countries can only be given the benefits of the gold standard, without detriment to their interests, by some system which combines the large use of silver with measures for linking it closely to gold values,” Conant wrote.[[96]](#endnote-96)

In principle, an expansive banknote currency backed by gold in reserve banks, such as Conant advocated in the United States, could best meet the requirements of new colonies as well, offering “a much greater economy” by obviating the need for either silver or gold in most market transactions. “The practical problem, however, with which statesmen have to deal, is the prejudice of the peoples of the East, and many of those of the West, for a currency of ringing metal rather than one of paper,” he wrote. “The recognition of money as a commodity is instinctive among primitive peoples, and leads them to prefer a form of money which possesses tangible value in itself, and permits a more satisfying form of ostentation than the display of a roll of bank bills.” With its need for a “firm hand” to regulate the supply of currency more stringently than the banknote system allowed, the colonial context called for the creation of what Conant called a “metallic bank-note,” a token coinage closely based on the silver coins that had played a supplementary role in the currency of the United States and other countries under the “limping standard.” “The adoption of a token coinage . . . promises to be the most important step which can be taken in our time in educating the undeveloped peoples to the true function of money and credit, and the final evolution of a bank note currency resting upon an adequate gold reserve,” he wrote.[[97]](#endnote-97)

In collaboration with the U.S. secretary of justice and finance (and later governor-general) in the Philippines, Henry Clay Ide, Conant worked out a plan for a token silver coinage. The official standard of value would be a gold peso worth fifty cents in U.S. money, but the principal currency would be a silver peso convertible into gold at a fixed rate. The Philippine finance minister would control the quantity of silver coins, and their metallic content would be kept lower than that of Mexican silver dollars to prevent their being exported, so that they would serve exclusively as a domestic currency. Since gold would only be required for international payments, and since the United States intended all such payments to flow through New York, the gold reserves on which the silver coinage was to be based, derived from the seigniorage charged by the Philippines mint, would be kept in New York. When merchants in the Philippines made payments abroad, they would deposit silver pesos in the Philippines treasury in exchange for drafts on the New York reserves. In this way, the gold-exchange standard would represent “the extension of the banking principle to the foreign exchanges,” allowing fund managers in New York to fulfill the role of reserve and central banks in the United States and other advanced industrial countries.[[98]](#endnote-98) “If the use of silver money can be continued while it is given a fixed and unquestioned relation to gold, the double result will be accomplished of leaving undisturbed the present customs of the people”—especially the existing structure of low wages—“and of extending a tempting invitation to American and foreign capital to enter and develop the islands,” Conant wrote. Thus the gold-exchange standard “may be made the effective means of restoring the par of exchange between the countries of the East and West, so long broken by the fall in the gold price of silver, and thereby of forging anew the link of commercial relationship which is so vital to the prosperity of both hemispheres.”[[99]](#endnote-99)

Approved by the War Department, Conant’s plan for the coinage was enacted by Congress in 1903. The new silver coins and Philippine National Bank notes were colloquially called “conants,” and his portrait appeared on some of the bills (figure 1). The Morton Trust Company, for which Secretary of War Elihu Root served as legal counsel and Conant worked as treasurer, became the reserve bank for the Philippines, as well as subsequently for Panama and the Dominican Republic.[[100]](#endnote-100) Appointed by President Theodore Roosevelt as one of three members of a Commission on International Exchange in 1903, Conant consulted with European leaders on an agenda for extending the gold-exchange standard to Mexico, China, and other countries in their respective orbits, a plan that succeeded in transforming the monetary systems of Mexico, Nicaragua, and Panama. When Conant died of stomach cancer in 1915, he was in Havana, advocating for a similar reform of the Cuban currency.[[101]](#endnote-101)

As a token of exchange value, currency always rests on confidence. Its value derives from the debts and taxes it can pay, the goods and services it can purchase, or the gold and silver for which it can be redeemed, and on the system of exchange that makes these promises possible. The promissory character of currency has led to a common conception of the growth of monetary relations as founded on trust in the impersonal market itself. “A growing reliance on mutual promises,” a leading historian wrote in 1979, “comes very close to the heart of what we mean by ‘the rise of capitalism.’” “Confidence was the engine of economic growth, the mysterious sentiment that permitted a country poor in specie but rich in promises to create something from nothing,” writes a recent scholar of money in early America. “At its core, capitalism was little more than a confidence game.”[[102]](#endnote-102)

But money is a creature of government fiat as well as public faith. Its power, like that of the market it mediates, depends on compulsion as much as confidence. For early Americans, money signified sovereignty. The rising power of the modern investment trust actually reflected the loss of trust in “the market” in the abstract, and the increasing authority of bankers, fund managers, and their close colleagues in the executive branch of the federal government, managing the market economy through their administration of currency, credit, and savings. In contrast to agrarians and Populists who viewed monetary reform as the means of the emancipation of productive labor and democratization of finance, Conant and his allies fought for the emancipation of capital from popular politics and “plodding industry,” in the name of a paternalistic ideal of trusteeship that provided the major rationale for colonialism and corporate capitalism. Their campaign for a national and international monetary order governed by the imperative to maximize profits on each additional increment of investment reflected the particular problems of surplus capital and heavy industry that rose to the fore in the late nineteenth century. Early nineteenth-century exponents of central banking like Nicholas Biddle had grappled with the rather different demands of scarce capital, plantation agriculture, and internal improvements, whereas eighteenth-century critics of paper money like William Douglass had approached the money question with the distinctive needs of transatlantic merchants and colonial creditors in mind. But like their predecessors, turn-of-the-century “masters of finance” framed their ideas in the context of the two-hundred-year struggle over the means of payment as the means of class rule.

Much of the industrial landscape that they inhabited has long since declined or disappeared. Abandoned or converted to other uses are many of the mills and mines, the railroads and streetcars, the mammoth manufacturers, department stores, and mail-order houses, along with the colonial order in the Caribbean and Pacific islands and the international gold standard that presided over the global market economy. What remains above all is the fund of trust: the “giant pool of money” seeking investment, as National Public Radio called it in the midst of the financial crisis of 2008; the many successors of the trust company, from mutual funds to pension funds to real estate investment trusts to hedge funds and other vehicles of asset securitization; the administrative and regulatory authority of central bankers and bondholders over households, corporations, and governments; and the ethic of investment that identifies fund managers’ fiduciary responsibility to investors and endowments with the pursuit of public as well as private interests.[[103]](#endnote-103) The foundations endowed by Carnegie, Rockefeller, and Ford now appear as powerful as the industries from which they arose. Carnegie scarcely anticipated that big businesses would prove to be the passing playthings of the trusts rather than the other way around. But Conant recognized that the long swings of investment and disinvestment, industrialization and deindustrialization, formed the violent rhythm of capitalist development no less than the cycles of speculative boom and bust. The structure of financial trust that he helped to bring into being was designed not to halt but to harness the systemic instability that produced recurrent panics and depressions as well as longer-term crises.



Figure 1. 1924 one-peso Philippine National Bank note, bearing the portrait of Charles Conant.

1. U.S. Department of the Treasury, “History of ‘In God We Trust,’” http://www.treasury.gov/about/education/Pages/in-god-we-trust.aspx. [↑](#endnote-ref-1)
2. See the entry for “fund” in the Oxford English Dictionary. [↑](#endnote-ref-2)
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