The Almighty Dollar

By Marcus Junkelmann, ©MoneyMuseum

"The dollar has become another word, an almost sacred word, for money in every language."

(Senator Benjamin A. Javits, 1951)

The dollar is part of the Americanised world culture of the second half of the 20th century, along with the English language, multinational firms, jeans, McDonald's or Coca Cola. But unlike jeans or Coke, the dollar is a truly fundamental problem of world politics and the world economy, since many of the social and political developments that affect a large section of humanity depend in large measure on the dollar's ups and downs.

The rise of the dollar to its present dominant position took place in parallel with the rise of the United States to the position of a superpower and a trendsetter for the Western world. This process was inaugurated by the First World War, and achieved a breakthrough as a result of the Second World War. The internationalisation of the dollar and the American way of life were not the result of a planned imperialist campaign, but took place as a result of the interplay of existing circumstances and the changing political and economic line-up, whose causes initially lay outside the sphere of influence of the US. But once the two world wars and their political and economic consequences had laid the foundations for this internationalisation, the new conditions did indeed lend themselves to being systematised to serve a generally more or less impenetrable "imperialism".

The colonial era: from tobacco as a currency to the dollar

The beginnings of the great world currency of the 20th century were modest and confused. The British colonists who settled in 1607 in Virginia and in 1620 in New England brought the pound sterling with them as their currency, but there were so few coins in circulation that they were forced to resort to all manner of alternative currencies: maize, beaver pelts, tobacco leaves, Indian wampum belts and many other expedients. This shortage of cash did not change for a long time – the colonies were not permitted to mint their own coins, there was a ban on the export of coins from Britain, and the permanently negative balance of trade with the mother country meant that more money left the American colonies than entered them.

It is important not to fall into the trap of imagining that the future United States was seen as a "land of unlimited opportunities" even during the colonial period. At that time, it was above all the West Indies, with their highly profitable exports of cane sugar, indigo and other tropical and subtropical products which were regarded as lucrative colonial possessions, coveted by all sea powers and fiercely fought over. Comparable "cash crops", above all tobacco, were grown, though to a far smaller extent, in Virginia and the other southern colonies, so that these areas were the first to arouse the interest of British investors. The north-eastern colonies only began to gain importance when there was a sustained boom in seaborne trade in the late 17th and the 18th century. The famous "triangular trade" between Africa, America and Britain began: ships from New England and New York took black slaves from Africa to the West Indies, where they were greatly in demand and well paid, owing to the extremely high mortality rate among other peoples caused by the climate. With the profits from this trade, and from the sale of North American products such as salted and pickled meat, and wood, of which there was a shortage in the West Indies, American traders bought sugar, molasses for making rum, and other West Indian products, which they traded for high profits in the North American colonies and in Britain. The most important currency that flowed into the pockets of the Anglo-American traders in these transactions was not the pound sterling but the Spanish peso. Privateering, i.e. legalised piracy, which was practised throughout the endless Anglo-Spanish wars from North American harbours and which was primarily aimed at the Spanish silver fleet, brought many pesos into the North American colonies.

Pesos, talers and "dolares"

From the 16th century onwards, thanks to their possession of the South American silver mines, the Spaniards produced an unprecedented quantity of coins, which had profound consequences for the European money market. At that time, both Spain and the Holy Roman Empire (i.e. Germany) were ruled by the Hapsburgs. That explains how it came about that the name of the commonest German silver coin, the taler (short for Joachimstal, a silver-mining area in Bohemia, where it was first minted) began to be applied to the Spanish peso of equal weight, in the Spanish adaptation dolares, which then became "dollars" in English.

Although the pound sterling remained the official currency in the British colonies, actually far more Spanish dollars circulated there than British sterling coins. But since "proper money", of whatever origin, remained in short supply, improvised means of payment never entirely disappeared during the entire colonial period, and towards the end of the 17th century were even replaced by a more progressive variant – the first real paper money in the Western world. In 1690 Massachusetts began to issue paper notes, which did not breach the Royal monopoly on the minting of coins. Other colonies followed, and in 1729 Benjamin Franklin, the archetypal versatile "self-made man", wrote a pamphlet defending paper money, entitled "A Modest Inquiry into the Nature and Necessity of Paper Money". Franklin, who not only invented the lightning conductor, but coined the American motto "time is money", wrote this treatise not entirely without self-interest, since he thereupon took on the very profitable task of printing the paper notes for the colony of Pennsylvania.

The "creative chaos" of the colonial period is often seen as a decisive influence on the emergence of the American monetary mentality: a gift for improvisation, a low opinion of solid financial principles, a tendency towards risky speculation, and a readiness to accept high inflation rates.

The birth of the USA and its monetary system

Once the long colonial wars between France and Britain had ended in favour of Britain and its colonies in 1763, estrangement soon set in between the mother country and its American subjects, who refused to pay any new taxes without representation in Parliament. They felt disadvantaged by the laws on trade and manufacturing, saw themselves degraded to the role of mere suppliers of raw materials, and felt obstructed in their hopes of extending their settlements to the west into the area between the Appalachians and the Mississippi. In 1775, lengthy disputes finally led to armed conflict and to a revolution against the British crown. On the 4th of July 1776, representatives of the 13 British colonies, making reference to human rights and to the right of resistance to a tyrannical monarch, declared their colonies independent and called them from then on the "United States of America". The American War of Independence, called by Americans the Revolutionary War, which lasted till 1783, was at one and the same time a civil war within the 13 colonies, since a large number of Americans remained loyal to Britain. The outcome of the war was decided by the entry of France, Spain and the Netherlands into the war on the side of the rebels.

The separation from Britain had already been anticipated by developments in the monetary field. Of the various competing currencies, the pound sterling was abandoned at the beginning of the Revolution, and the Spanish dollar was raised to the status of the sole legal currency. Since the finances of the colonies fighting for their independence were in a parlous state, the paper money issued in huge quantities by the Continental Congress in Philadelphia ("Continental Currency") suffered such total inflation that its worthlessness became proverbial ("Not worth a Continental"). Without the military and financial assistance of France the war would never have been won.

For the French monarchy, however, that help proved to be decidedly counterproductive. On the one hand, revenge had been taken on Britain, France's hereditary enemy, but on the other hand, France had derived no concrete benefit from it save fame and honour. What remained was a stimulating memory of the American patriots' struggle for freedom – and a huge mountain of debts. The attempt to get those debts under control by involving the States General, the parliament of the French people, led directly to the French revolution. It was no coincidence that the Paris revolutionaries sent the key of the Bastille to George Washington, the victorious commander of the American patriots. The trophy hangs to this day at Mount Vernon in Virginia, the home of the general and first President of the new United States.

The Spanish silver dollar as a national currency

At the suggestion of Thomas Jefferson, another Virginian, the author of the Declaration of Independence and later the third President of the United States, the Spanish silver dollar (the "Spanish milled dollar") was made the national currency in 1785, using a decimal system which was a pioneering innovation in the international monetary system. The symbol for dollar still in use today ($), an S with a single or double line through it, is a reminder of the Spanish origin of the US currency. It developed out of the abbreviation P8 for Peso (i.e. "piece of eight", a coin worth 8 reales).

There was heated debate on the question as to whether the one-dollar coin should bear the head of "Liberty", the goddess of freedom, or that of George Washington. It was at the express wish of the national hero, who did not want to be forced into an attitude reminiscent of a monarch, that the decision was taken in favour of the goddess.

In 1792 the Coinage Act drawn up by Washington's finance minister Alexander Hamilton was passed, which laid down a bimetallic standard for the dollar. The exchange rate between silver coins and gold coins was fixed at 1 to 15 (corrected in 1834 to 1:16). Hamilton, who favoured a strong central authority supported by the financial power of the prosperous and economically active part of the population, managed in 1791, in the teeth of fierce opposition, to force the creation of a "Bank of the United States", whose existence was, however, limited to 20 years.

The leader of the opposition to this centralistic, capital-friendly course was Thomas Jefferson, the leader of the Republican Party – which was incidentally the forerunner of today's Democratic Party, not that of the later Republican Party, which latter was not founded until 1854 in the course of the anti-slavery movement. Hamilton and Jefferson represented the two fundamental extremes in the interpretation of the principles of the Constitution which shaped public life in the US. It was an antithesis of potentially great explosive force for financial and monetary policy. For Jefferson, one of the most important intellectuals brought forth by the Enlightenment, the ideal was a nation of free independent farmers. He was deeply distrustful of political centralism and of the concentration of economic power in the hands of prosperous businessmen, traders and bankers. This made him the natural spokesman of the states in the South and West, whose farming and individualistic interests harmonised with that ideal. Farmers and planters also regarded cheap money and the acceptance of inflationary tendencies as favourable to their interests, since their products could then be sold more cheaply. Demands for such a policy have been made repeatedly by representatives of the farming community in the course of US history.

Hamilton, by contrast, was supported by trade and business circles, which were dominant in the coastal cities of the New England and Atlantic states. Many of his measures turned out to be fundamental, even though the Republicans, once they came to power in 1801, did their best to reverse as much as possible of the work of their opponents, or to modify it to their taste. The "Bank of the United States" was quietly allowed to disappear in 1811.

Chaos and attempts at order: the period leading up to the Civil War

Once the aftermath of the Revolutionary War and the turmoil of foundation had been overcome, the young republic experienced a phase of rapid growth both in the size of its population and in the extent of its territory and its economic power. Whereas the population of the 13 colonies had stood at 2.2 million in 1770 on the eve of the Revolution, there were 3.9 million inhabitants of the United States in 1790, 5.3 million in 1800, 7.2 million in 1810, 9.6 million in 1820, 12.9 million in 1830, 17 million in 1840, 23.2 million in 1850, and 31.5 million in 1860, before the outbreak of the Civil War. The composition of immigrants changed over the decades. In the 17th and 18th centuries most of them had been English, Scottish, Irish-Scottish and Welsh; only in Pennsylvania and New York had there been significant minorities of non-British origin, of Germans and Dutch respectively. The southern colonies, later to become the southern states, had received an influx of negro slaves that increased rapidly from the late 17th century. There were around 400,000 of them in 1770, and by 1860 there were 4 million, plus 460,000 free negroes, half of them in the North. In the second third of the 19th century the composition of immigrants changed profoundly, as Irish, Germans and Scandinavians streamed into the country.

By the peace treaty of 1783, the vast area between the Appalachians and the Mississippi, as yet almost without white inhabitants, became part of the United States, and was duly opened up in the late 18th century and the first decades of the 19th century. In 1803 the enormous Louisiana Territory, extending from the Mississippi to the Rocky Mountains, was purchased from France, and in 1819 Florida and the Gulf Coast were obtained from Spain. In 1836 the Texans, most of whom had come to Texas from the US, won their independence from Mexico and obtained annexation by Washington in 1845, resulting almost immediately in a war between the US and Mexico (1846-47), which ended with the comprehensive victory of the US and the "incorporation" of the South-West of the US right to the Pacific coast. At the same time, the border dispute with Canada in the Oregon area was solved, so that by 1848 the republic had attained its final contiguous territorial extent. The only later additions were Alaska, purchased from Russia in 1867, and Hawaii, annexed in 1898.

Before the Civil War, the average American still lived in a rural environment, even if by 1860 only 40% of the population were actually farmers or agricultural labourers. Only one sixth of Americans lived in towns with over 8,000 inhabitants. Yet the trend towards urbanisation was unmistakeable, above all in the northern and central Atlantic states. Population growth in the towns was more than twice the average for the whole country. The most populous area, the conurbation around New York and Brooklyn, had a million inhabitants by 1860.

As with urbanisation, industrialisation began to affect above all the North-East in the middle of the 19th century. Trade, shipping and shipbuilding had a long tradition behind them in these states. In the years around 1850, the Americans were building the largest and fastest sailing ships of all time, the "clippers", and were well on the way to exceeding the tonnage of the British merchant navy. But then there was a severe setback. Although the steamship was an invention of the American Robert Fulton, the Americans – unlike the British – failed to introduce the new technology into their ocean-going ships in time. The privateers of the Confederacy then caused severe harm to the merchant navy during the Civil War, above all by forcing many ships to seek refuge under foreign flags. It was only during the First World War that United States merchant tonnage recovered its 1855 level.

"King Cotton"

Most other industries, however, helped by protective tariffs, underwent a steady boom. Initially, heavy industry was not of major importance, but it received a huge boost as a result of the material requirements of the Civil War. As late as 1860, two thirds of the supplies of iron and steel, including most railway rails, were imported from Britain. Before the Civil War, the most important industry was textile production. The enormous boom in the cotton-processing industry in Massachusetts and the other New England states went hand in hand with the explosive growth in cotton production in the southern states in the first half of the 19th century.

The reign of "King Cotton" had only begun in the South after the invention of the cotton gin, a machine for removing the seeds from cotton bolls, by Eli Whitney in 1793. Before that, the production of rice, indigo, sugar cane, hemp, and above all tobacco, were far more important. At the same time, the demands of the textile industry in Britain, France and the northern states of the US increased immensely, a demand which was met almost exclusively with the exports from the southern states of the US, which thus more or less held a world monopoly. Whereas 4,000 bales of cotton had been produced in 1791, ten years later the figure had risen to 100,000 bales, in 1835 to over a million and in 1860 five million, which latter represented two thirds of the entire value of US exports.

But industrial development lagged far behind that of the North. The reason for that was largely that the South's capital was bound up to a far greater extent in the possession of land, and above all, in the possession of workers. The cotton boom of the 19th century was only made possible by the labour of an army of millions of negro slaves. Cheap white labour was hard to obtain in the lower-lying areas of the South, in which the great monocultures were established. That was above all a result of the immensely powerful competition from the slave-owning system, which under the prevailing circumstances was more economical than free labour, and thus discouraged European immigrants.

It was first and foremost the controversial question of slavery which divided the country into two increasingly hostile camps, but there were in addition a number of other problems which caused conflict between the North and the South. One of the most important was the question of protective tariffs, which the North-East demanded for its young industry, but which the South was not prepared to pay, since it exported agricultural products but had to import industrial goods. It was this issue that led to the first sharp conflicts between some Southern states and the federal government. The federal government shared the basic interests of the North, since the tariffs were by far the most important of the federal government's sources of income, which at that time were decidedly sparse.

Even though the federal government suffered from a chronic lack of money, the nation lived in considerable prosperity in comparison with other countries. On the eve of the Civil War, the United States, with an average per capita income of 128 dollars, was the second richest country in the world, after Australia and approximately equal to Britain; the North-East taken alone was by far the richest with 181 dollars per head. This brilliant picture was somewhat marred by the "panics" caused by over-speculation, the worst of which before the Civil War occurred in 1837 and 1857. The North, with its dependence on capital, was hardest hit, but the panics also severely affected Britain and large parts of Europe, since American securities were traded there in large quantities.

Shares in American companies, above all in the flourishing railway industry, were extremely attractive, since they offered interest rates that were scarcely to be had anywhere in the Old World. And money from European shareholders was urgently needed, as the colossal task of opening up the country could never have been accomplished in so short a time with the financial resources of the US alone.

For Sale: land in abundance

The basis for rampant speculation was provided by the vast areas of cheap land that were distributed in the western territories during the 19th century. To encourage growth, the federal government, which administered these territories, sold the land at rock-bottom prices to settlers and entrepreneurs, who were expected to rapidly set up the necessary infrastructure of roads, canals and railways. Once that had been done, the value of the land naturally rose immensely. The prospect of quick and astronomical profits now induced many speculators to buy up vast areas. They borrowed the money for this from one of the innumerable, completely uncontrolled banks that existed all over the country. But when President Andrew Jackson, in one of his solitary decisions in December 1836, ordained that federal land could only be sold for payment in cash in gold or silver, he not only shattered the speculation, but the whole money market of the US. Even some of the likewise highly indebted states were forced to suspend payments on all their debts. The severe economic crisis resulting from the panic of 1837 lasted till 1841, and can be regarded as the classic example of this type of catastrophe, which plagued the US during the 19th century at intervals of about two decades.

There was another measure with which “Old Hickory”, as the folksy Andrew Jackson was nicknamed (his opponents preferred the name “King Andrew I”) intervened massively in the economic life of the United States, and that was his fanatical campaign against the “Bank of the United States”, which had been refounded in 1819. In a truly Jeffersonian way, the former general from Tennessee saw the central bank as an instrument of exploitation and of undemocratic manipulation. He refused to extend the licence of the “monster”, and distributed the federal funds among favoured state banks (“pet banks”). The chaotic financial and monetary system, which was chaotic enough already, was made even more confused by this strong-man act.

The period before the Civil War was marked by an unprecedented proliferation of banks. Not only did the individual states have their own banks, which energetically operated their money-presses, but hundreds of private banks of widely varying size and dependability (including the so-called “wildcat banks”, established for obvious reasons in remote areas) produced banknotes and put them into circulation. The resulting indescribable chaos naturally created ideal conditions for forgers. Shortly before the Civil War, about 7,000 different banknotes were in circulation in the US, of which about half were described as “suspect”.

The Gold Rush

At the end of the 1840s, there was a dramatic development on the money market. The cause was the discovery of gold in California in 1848, which set off the famous Gold Rush. In 1834 President Andrew Jackson had altered the exchange rate of gold to silver from 1:15 to 1:16. Silver was now undervalued due to the sinking price of gold; there was a chronic shortage of silver coins, and indeed of all “small change”. The Spanish-Mexican silver coins which continued to circulate could only partially relieve the situation. From 1849 the urgently needed one dollar coins were minted in gold. The increase in gold production was indeed impressive: it rose from $889,000 in 1847, to $10 million in 1848, $40.9 million in 1849, $50.4 million in 1850, the climax of production, but did not fall below $40 million in the years that followed. Silver money practically disappeared from circulation during the 1850s, especially since foreign coins were abolished as legal tender towards the end of the decade. But the basic principle of the bimetallic currency was retained.

At the same time, an end was put to the private minting of coins, which had been widespread although unconstitutional. Copper coins, however, which were not regarded as a part of the official currency, continued to be minted and distributed in great variety by private firms.

To solve the problem of the federal finances after Andrew Jackson had done away with the central bank, a system of independent branch banks spread all over the country was established, which often served as customs posts and mints as well. This "Independent Treasury System" was founded in 1840 and existed until 1920.

The Civil War and its after-effects

The Presidential election of 1860 was won by the Republicans, a party which exclusively represented the interests of the North: limitation of slavery, high protective tariffs, free distribution of federal land to settlers, development of communications using federal funds. The South answered with the constitutionally questionable measure of secession, and attempted to set up an independent confederation of states, the Confederate States of America (CSA). The issue of federal property in the seceded Southern states led to open war in 1861, the Civil War or War of Secession.

The North possessed such an overwhelming superiority in people, finance and material, that there could be little doubt of its eventual victory, provided the population were prepared to bear the heavy sacrifice of an extended war of aggression, and provided there was no intervention by European powers. This last was fervently hoped for by the South, convinced that British industry would collapse without American cotton. Those hopes did not materialise.

The cost: human lives and inflation

The Civil War lasted four years (1861-65), and was the most severe test the US had to face in the whole of its history. During it, 630,000 soldiers died, more than the United States lost in all the wars of the 20th century put together. The economic efforts and effects of this "first modern war" were correspondingly immense. For the South, defeat brought utter ruin. Its financing had been achieved thanks to war loans and the unrestrained issue of paper money. Both loans and money were completely worthless at the end of the war. The sad joke familiar to Germans from the periods of German inflation in the 20th century, about taking one's money to market in a basket and bringing one's purchases home in one's purse, goes back to the Southern states in the Civil War period. Whole areas had been systematically destroyed, and the freeing of 3.5 million negro slaves without compensation for their owners was a gigantic loss of property which robbed the Southern economy of its traditional basis.

Since there had been no preparation whatever for war, the North likewise faced great problems in mobilising its superior resources and bringing them to bear. Here too, the great majority of the financing was raised by bonds, whose purchase was promoted with phenomenal publicising skill by the banker Jay Cooke, and by the issue of unbacked paper money. These two together amounted by the end of the war to the then vast sum of over 2.6 billion dollars. Although taxation was considerably raised from its prewar level – among other things, the first income tax in US history was introduced – taxes brought in only just under 670 million dollars altogether.

The secession crisis of 1860 and the outbreak of war in 1861 led to rapidly increasing inflation in the North as well, which was exacerbated by numerous military reverses. At the beginning of 1862 the "Legal Tender Act" was passed, which authorised the issue of "United States Notes", not backed by gold, initially to the value of $150 million, but eventually $450 million. Their reverse side was green, which brought them the nickname “greenbacks”. They reached their lowest point in 1864, when they sank to half their equivalent value in gold. But then recovery set in, as it became more and more obvious in the second half of the year that the North was going to win the war.

From 1864 the standardisation of the issue of paper money also made great progress. The “National Banking System”, established in this year, gave the federal banks privileges over other issuers of paper money, especially when a year later taxes were imposed on banknotes from non-federal presses. The shortage of small change remained a chronic problem. There were practically no silver coins left in circulation, and all manner of stopgap measures were resorted to, such as the use of postage stamps as currency. In 1864 the issue of copper coins was finally brought under federal authority. The inscription “In God We Trust” (from 1865) is a witness to the Civil War mentality.

The boom in the Northern states

Despite all the shortages and currency crises, the war was an enormous stimulus for the economy of the North. Since the opposition from the South had disappeared, the Congress could impose high protective tariffs, which were to remain typical of US economic policy. It has been said, not unjustly, that the war accelerated the industrial development of the North by about a generation. But the boom also benefited agriculture. Just as the South had profited half a century earlier from Whitney’s cotton gin, wheat production in the Middle West made enormous progress thanks to the massive use of Cyrus Hall McCormick’s invention of a harvesting machine. The shortage of labour during the war considerably speeded up the mechanisation of agriculture; from 1861 to 1865 the number of harvesting machines increased from 100,000 to 250,000. The United States became the world’s greatest wheat exporter. The increase in wheat exports was no less dramatic than that in cotton exports had been. In 1760, 12,000 tons of wheat were exported from the British colonies; this rose to 430,000 tons in 1860 and to six million tons in 1890. This led to sinking cereal prices worldwide.

The development of the communications network, above all the railways, was of cardinal importance for agricultural and industrial development. On the eve of the Civil War the United States had 30,000 kilometres of railways, of which over two thirds were in the North. The Civil War was the first “railway war” in history. Whereas a large part of the rail network in the South was systematically destroyed, the Northern network was energetically extended. At the end of the war there were 53,000 kilometres of railways, and the trend continued unabated: by 1873 the network had grown to 100,000 kilometres. In 1869 the first transcontinental railway was completed, and at the beginning of the 20th century the US had over 4 million kilometres of railways, almost half of all the railways in the world.

“The Gilded Age”

“The Gilded Age” was the name given by Mark Twain to the formative years of the American economic superpower following the crisis of the Civil War. In his book of the same name, he traced the mental roots of that time to the turmoil of the war and the postwar years: “The eight years from 1860 to 1868 uprooted centuries-old institutions in America, changed the politics of a people, transformed the social order of half the country and had such a profound effect on the national character, that its influence cannot be reckoned at less than that of two or three generations.”

By 1870 the per capita income in the North was twice that in 1860, the number of industrial firms had increased by 80% in the same period, the estimated national assets in the North and West had increased from 10 to 25 billion dollars. It is also typical of the mentality of the period that in 1870 three times as many patents were granted as ten years earlier. Almost all branches of the economy and almost all areas – except the South – were affected by this breathtaking boom. For some young industries it was especially spectacular.

The extraction of oil in western Pennsylvania, which had not begun until the end of the 1850s, quadrupled during the war. The yield of the silver mines in Nevada and other western states rose from $150,000 in 1860 to $38 million in 1876. Iron and coal, which already benefited enormously from the war, experienced a huge boom in the postwar years, when more and more layers of top-quality, easily exploitable deposits of iron ore were discovered around Lake Superior, and at the same time new methods of steel production were developed which took account of American conditions (the Bessemer process). The iron ore was transported by ship and rail to Chicago, Cleveland, Milwaukee, and above all to Pittsburgh, which lay near the great coalfields of West Pennsylvania. These favourable conditions, the initiative of dynamic entrepreneurs such as Andrew Carnegie and Abraham Hewitt, and last but not least the protective tariffs, enabled the US, which in 1860 had imported almost all its railway rails from Britain, to become one of the largest iron and steel producers in the world beside Britain and Germany in the 1870s, and to rise by the turn of the century to be the unchallenged leader in the field. Hand in hand with the rise of the steel industry went the extension of coalmining, which tripled between 1865 and 1880. The abundant supplies of wood had been the most important source of energy until the Civil War; it was the development of the steel industry that brought about the great change.

John D. Rockefeller

Until well into the early 1870s, American industry consisted of a great variety of competing firms, most of them small or medium sized. Then there began a process of concentration which caused many of the small firms to go to the wall. Their demise resulted from the formation of "trusts", by which were meant interest groups within an industry. These groups agreed a price strategy among themselves in order to avoid the risks of unregulated and often ruinous competition and to produce goods as economically as possible. The result of such amalgamations was the emergence of immense industrial empires controlled by a few firms and a small number of major capitalists. The pioneer of trust-building was John D. Rockefeller, who founded his Standard Oil Company in 1870 in Cleveland, Ohio. Within a decade he made Standard Oil the largest and richest industrial organisation in the world, and controlled the whole of the United States oil industry. He achieved this by attaining the highest possible level of efficiency within the firm, plus a ruthless policy of squeezing out his competitors. A decisive factor was that he succeeded in playing off the rail companies that transported his oil one against the other, so as to pay less in freight costs than other oil firms, whose prices he was then able to undercut in their home areas until he had captured the market from them.

Rockefeller was one of a new type of businessman of whom Senator John Sherman wrote in a letter to his brother, the famous Northern general: "The truth is that the end of the war finds our treasures still untouched and makes our leading capitalists think on a great scale which surpasses everything that has been undertaken hitherto in this country. They talk of millions with the same confidence as they earlier talked of thousands."

Men like John D. Rockefeller, Andrew Carnegie, John Pierpont Morgan, Jay Cooke, Cornelius Vanderbilt, George Pullman, Cyrus H. McCormick, Gustavus Swift, Jay Could and Andrew Hewitt were the real heroes of an era one might call the heroic era of American large-scale capitalism.

Admired and hated, their economic influence far exceeded that of most politicians of their day, making them idols emulated by all who shared the dream of becoming a self-made man. It was during the Civil War and the first decade after the war that they laid the foundation stones for the fabulous fortunes of the American plutocracy.

The dizzying success and wealth of those men formed one extreme of an economic system marked by the crassest form of social Darwinism. The opposite extreme was the decline of many small businessmen and the misery of the working masses. One must not, however, overlook the fact that on a material level at least, the advantages for the majority of the population outweighed the disadvantages. Mass production and mass transport, by large-scale industry and the railways, lowered the prices of many consumer goods and contributed to the rising standard of living at the time.

Farmers, too, felt the negative results of progress sharply. Exporting brought in its train a risky dependence on the world market, overproduction led to a collapse in prices, rail transport made farmers dependent on the railway companies, who held a monopoly and could dictate their prices. In 1870 wheat fetched only half its 1867 price.

An especially vital concern of the farmers, as of other sections of the population who were suffering from shortage of capital, was the struggle for cheap money. The currency dispute inflamed passions for years after the war. Its starting point was the 450 million dollars' worth of unbacked paper money ("greenbacks"), mentioned earlier, which had been spent during the war on a questionable constitutional basis. The representatives of trade and finance wanted a solid gold-based currency, since the constantly fluctuating rate of exchange between paper and metal currency was a disruptive factor for their business. Above all, it would have been a huge advantage for large-scale capitalists if the federal government had had to repay in gold the debt incurred in paper money during the war. The farmers in the South and West, however, most of whom were in debt, wanted to keep the paper money, and if possible wanted to see new cheap money issued, even though that would have fuelled inflation. Industry was divided on the issue. Credit-hungry, vigorously expanding industries such as the railways and the steel industry were likewise in favour of cheap money. There was even a "greenback party", which openly agitated for the inflationary issue of paper money.

Economic crisis and bankruptcies

In 1875, in the "Resumption Act", Congress resolved to keep the greenback, but to reduce the number in circulation by more than 100 million and to restore gold backing on 1st January 1879. This compromise between the advocates of "hard money" and "soft money" had been largely brought about by the severe economic crisis that followed the "panic" of 1873. Beginning with the collapse of the great credit institute of Jay Cooke in September 1873, there had occurred a chain reaction of bankruptcies which hit an especially large number of the over-indebted railway companies.

The crisis, which destroyed thousands of firms every year and caused unemployment which reached 14% in 1876, only ended in 1879. It was not the only symptom of the unhealthily overheated economic climate of those years. From 1870 a series of corruption scandals shook the country and showed up the cynical profit-seeking of extensive sections of the economic and political classes.

But all these abuses could do nothing to lessen the attractiveness of the US for the rest of the world, especially since the economic crisis of the 1870s affected Europe no less severely than the New World. More than ever, immigrants poured into the "land of unlimited opportunities". In 1870 there were 38.5 million people in the US, in 1880 over 50 million, in 1890 almost 63 million and at the turn of the century 76 million – the population almost doubled in 30 years. The composition of these masses of new citizens began to alter, changing the character of the population, which had been dominated by Anglo-Saxons, with strong Irish and German elements. In the last quarter of the 19th century, it was above all millions of immigrants from southern and eastern Europe who arrived – Italians, Poles, Hungarians, Russians, Jews, all of whom had only played a very minor role up to that time. This was the beginning of that truly cosmopolitan mix of peoples which the United States was to become in the decades before and after the turn of the century.

The battle between the "silverites" and the "goldbugs"

In the years between 1875 and 1896 a bitter struggle arose between the adherents of a silver-based and a gold-based currency, the "silverites" and the "goldbugs". The question of "silver or gold" divided the nation hardly less than had the slavery issue a few decades earlier. In the view of the historians Morison and Commager, "free silver" was the "most exciting political issue for the American people".

The acuteness of the silver problem had two principal causes: the indebtedness of the farmers in the West and South to the financiers of the North-East, and the vast increase in national (and international) silver production in the last quarter of the 19th century.

In 1873, the issue of silver dollars was stopped, as they had become undervalued in relation to gold dollars. But in the same year, silver to the same value as gold was mined in the US ($36 million), and in the following years silver production overtook that of gold and by 1890 had reached the value of $57 million. This caused a sharp fall in the price of silver. As a result, the "silverites" took the place of the "greenbackers" in the mid-1870s. They demanded the free and unlimited issue of silver dollars at the existing exchange rate of silver to gold. This would naturally have resulted in cheap money and would have enabled the farmers to repay their debts under favourable conditions. At the same time, this would have been in the interests of the silver producers in Nevada and other territories in the far West. So the reintroduction of the silver dollar was propagated as the "forefathers' dollar", and the cessation of the minting of silver coins in 1873 was branded "the crime of '73".

In 1878 the proponents of silver did indeed succeed in getting the "Bland-Allison Act" passed, which obliged the government to buy silver every month to a value of 2-4 million dollars at the previously current rate of gold to silver, and to mint it into dollar coins. Since successive Treasury secretaries invariably kept to the lower of these limits, the law did nothing to change either the shortage of cash nor the fall in the price of silver. It did, however, mean that a few years later (1886) a new form of payment, "silver certificates", came into being. They were backed by the silver holdings of the government, which grew steadily as a result of the constant purchases of silver enjoined by the law, and could be converted into silver coins. They came into circulation in increasing numbers as paper money beside the greenback, especially since the numbers of the latter in circulation were limited by law. Later, gold certificates ("yellowbacks") were issued.

The agitation in favour of silver continued, and increased in effectiveness in 1889/90, when the six silver-producing territories in the West were incorporated into the Union as states and sent representatives to Washington.

The result was the Sherman Silver Purchase Act of 1890, which laid down that the government was to buy 4.5 million ounces of silver at the market price every month. It did this by means of "Treasury notes", which were redeemable in gold and silver coins, at the traditional rate of exchange. This meant in effect that the US Treasury had to buy up the entire silver production of the US, while silver prices continued to fall, since at that time many countries introduced the gold standard. Accordingly, greenbacks and Treasury notes were redeemed in gold in immense amounts, which reduced the government's gold reserves to an alarming extent. The resulting uncertainty led to the severe panic of 1893. This led President Grover Cleveland in the same year to force through the repeal of the 1890 law.

Gold wins in the end

In 1896 there occurred the last and decisive clash between the proponents of silver and gold. William Jennings Bryan, the Democratic Presidential candidate, made himself the spokesman of the farmers and debtors in the West and South, and challenged the financial power of the North-East:

"You come and tell us that the great cities favour the gold standard; we answer that the great cities are founded on our wide and fertile prairies. Burn your cities down and leave our farms standing, and your cities will rise again as if by a magic hand; but destroy our farms, and the grass will grow in the streets of every city in this country… Behind us we have the producing masses of the nation and the world, we are supported by trade interests, the interests of the labourers and of all those who toil anywhere; we will answer the demand of those people for the gold standard by saying to them: You will not force this crown of thorns onto the brow of labour, you will not nail mankind to a cross of gold."

But the development was not to be stopped. Whereas agricultural production had accounted for 50% of national assets in 1860, by 1910 it was to account for a mere 20%. So, after a dramatic election campaign, Bryan lost to the Republican Willam McKinley. Henry Adams remarked on the defeat of Bryan: "For a hundred years the American people had hesitated, vacillated, had swayed back and forth between two forces… The issue now revolved around the question of the gold standard, and the majority finally decided, once and for all, in favour of the capitalist system with all its machinery."

In 1900, through the "Gold Standard Act", McKinley made the gold dollar weighing 25.8 grains, at 9/10 fineness, the "standard unit of value".

On the way to becoming a world power

Towards the end of the 19th century, America's "manifest destiny", the opening up of the continent from the Atlantic to the Pacific, was completed – the last wars with the Indians were fought, the western expansion, which had extended over almost three centuries, was concluded, the "frontier" had passed into history. It did not take long for the United States to lose another of its characteristics, that of history's greatest immigrant country. From 1917 a start was made on the regulation of immigration, in 1921 quotas were introduced, and in 1929 immigration ceased to be a major element in population growth. In that year, the US had 124 million inhabitants.

Although the attention of most Americans was focused on national affairs, a trend towards the internationalisation of their foreign policy was unmistakeable, which at times clearly crossed the borderline into aggressive imperialistic intervention. That was true especially of the activities of the US in Latin America, but in the Pacific too, it asserted its power. One of its characteristics was a combination of economic and political pressure ("dollar diplomacy"), but military intervention also occurred. "Whether they want to or not," wrote Alfred Thayer Mahan, the great theorist of naval strategy, "the Americans must now begin to direct their gaze outwards." In the two decades before the First World War, the Americans drove the Spaniards out of the western hemisphere (the War of 1898), took possession of Puerto Rico, Hawaii, Wake, Guam, Tutula and the Philippines, and established protectorates over Cuba, Nicaragua and Panama, including de facto possession of the Panama canal, built under American direction. When President Theodore Roosevelt's mediation brought the Russo-Japanese War to an end in 1905, the United States could definitely be regarded as an internationally respected great power.

Aggressive dynamism and expansion were also characteristic of the economic development of the years around the turn of the century. A flood of inventions rapidly changed both the production methods of industry and people's everyday life. Electricity, the telephone, the refrigerator, the internal combustion engine, the car, the aeroplane – in other words the basis of 20th century civilisation, became a fundamental part of life within a few years. In the US, thanks to its enormous industrial capacity, the step from invention to mass production went faster than in any other country in the world. The pioneering methods with which Henry Ford made a product that had formerly only been affordable for the elite, such as the car, into a commodity for the masses, were especially significant. Assembly-line production enabled him to put a car on the market in 1908 that cost only $400. At the same time he developed hire purchase ("the installment plan"), which revolutionised the credit industry and laid the foundation of a system which brought an improvement in the standard of living for the average citizen by reversing the order of saving and consumption. "Consumption must be democratised," wrote Ford, "consumer credit is the best means of abolishing class diferences faster." Whereas in the whole of the year 1900 only just over 4,000 cars were produced in the US, 6,000 cars left the Detroit works of Ford alone in a single day in 1920. In close combination with the rise of the car industry, oil production and roadbuilding expanded dramatically.

Financial barons and giant banks

The concentration of economic power grew to an alarming extent through the formation of impenetrable trusts. Several presidents, in particular the reforming Republican Theodore Roosevelt, took action against these over-powerful economic organisations on the basis of the "Sherman Anti-Trust Act" of 1890, but with limited success. The severe panic of 1907 was attributed in large measure to the machinations of the closely interwoven financial circles of the time, and New York's Wall Street became a bogey for the whole nation. A committee of inquiry set up by Congress, the Pujo Committee, concluded in 1912 that the New York banking empires controlled by Morgan and Rockefeller comprised a total of 314 directorships, with resources of over $22.24 billion. This naturally increased the popular anger towards trusts, large-scale capital and corrupt local politicians, anger which was additionally fuelled by the "muckraking" campaigns of investigative journalists.

Once the victory of the Democrat Woodrow Wilson in 1913 had brought to an end the rule of the Republicans, almost unbroken since the Civil War, a start was immediately made on a banking and currency reform. "We must have a currency which is not rigid like the present one, but which reacts easily and elastically to solid credit," the new President declared to Congress, "and the control of the banking and money-issuing system which our new laws will set up must be public, not private, must be grounded in the government itself, so that the banks are the instruments of commercial life, of individual enterprise and of private initiative, not their masters."

The "Federal reserve Act" of 23rd December 1913 created a national banking system on the basis of a decentralised regional structure. The country was divided into 12 districts, each with a Federal Reserve Bank (District Bank). All national banks had to become members of these banks, and banks belonging to the individual states could become associated members. Within 10 years, 70% of banking resources were controlled by the Federal Reserve System, which was supervised by a Board whose members belonged to the government or were appointed by the President. The

Federal Reserve Banks issued “Federal Reserve notes”, backed up to 40% of their face value by gold, which became after the First World War the dominant means of payment (with notes from $5 up to $10,000).

As a replacement for the central bank abolished by Andrew Jackson 70 years earlier, the Federal Reserve System proved to be flexible and capable of responding to varying regional needs. It also inaugurated an era of stronger influence of the state on financial and monetary policy, as demanded by the Democrats.

Likewise in line with the Democrats’ policies was another measure taken by Woodrow Wilson in 1913: the reduction of the extremely high protective tariffs introduced by the Republicans. The new “Underwood tariff” was not in any sense the introduction of free trade, but customs duties did decrease from an average of 37% to 27%. To compensate for the loss of customs revenue to the federal government, a graded income tax was introduced in the same year.

Despite these forward-looking initiatives, the American economy was rocked, above all in the years 1913 and 1914, by a severe panic which was partly caused by overcapacity in some industries, especially steel, partly by a demand for the return of foreign capital as a result of the simultaneous crisis in Europe. The outbreak of the First World War initially exacerbated these difficulties, but soon developed into the greatest stimulus the American economy had received up to that time. And that was to have economic and social consequences which tore the United States out of its isolation and put it on the way to becoming the superpower of the 20th century.

“Over there!” – the First World War and its consequences

Although the United States did not enter the First World War until 1917, the conflict had immense consequences for the country from the very beginning. The Wilson administration at first tried to adhere strictly to its neutrality, although the sympathies of the great majority of the population lay with the Allies. Warring countries were to receive neither credit nor ammunition. But the demands of economic necessity were stronger. As early as 1904-5, the American steel and shipbuilding industries had been given a great boost when they supplied Japan with materials for its war against Russia. The decrease in demand when peace was concluded had led to a crisis in those industries. The Great War in Europe now offered the Americans a chance to make full use of their overcapacity and to allow American foreign trade to flourish. A year after the outbreak of war, the United States and the Allies were economically so closely interwoven that the cutting of the links would have meant economic ruin for the United States and military defeat for Britain and France.

That the potential of the US benefited the Allies in such a one-sided manner was due on the one hand to political goodwill, on the other to the fact that the Allies, thanks to British command of the seas, had imposed a very effective blockade of the Central Powers. In 1915 the banking house of John Pierpont Morgan became the official trading agent of Britain and France in America, and arranged huge credits. Even while the United States was still neutral, it delivered goods to the Allies worth seven billion dollars, three billion of which were on loan. This boom not only benefited the steel industry, the ammunition industry and shipbuilding, together with other industries directly concerned with war, but also for example farmers. Thus the value of wheat produced increased elevenfold between 1913 and 1917.

Economic interlinking, political and ideological sympathies, and the provocation represented by the German U-boat war thus contributed equally to the declaration of war on Germany by the United States on 6th April 1917. The mobilisation and rationalisation of American economic potential was entrusted to the “War Industries Board” (WIB), directed by the Wall Street stockbroker Bernard Baruch. In the course of the war, Baruch became a sort of economic dictator.

The WIB regulated the production of 30,000 articles, laid down maximum prices, intervened in labour law, took the railways under state management and cut domestic agricultural consumption in order to increase exports to the Allies. Never before had the economy of the United States experienced such profound intervention by the state. The measures applied here later served as a model for Franklin Delano Roosevelt's New Deal strategy.

"The business of the United States is business"

There can be no doubt that with its enormous potential, the United States decided the outcome of the First World War in favour of the Allies. As far as financial policy is concerned, the most important result of the war was that the US changed from being a debtor nation to being a creditor nation on a grand scale. In 1914 the United States had been in debt to foreign countries to the tune of four billion dollars; in 1918 it had a credit balance of eleven billion. The repayment of these debts cost the former wartime allies of the US almost their entire gold reserves and led to the abandonment of the gold standard in Europe. Since the United States returned to a high-tariff policy under Wilson's Republican successors, it was made well-nigh impossible for the Europeans to repay their debts through exports. The financial effects of the First World War, beneficial though they may have been initially for the US, led in the long run to severe international economic crises whose victims the Americans themselves became.

The two-edged nature of the war-induced boom became apparent in the spending policy of the federal government, whose indebtedness rose from 1914 to 1919 from 1 billion dollars to the hitherto unimaginable sum of 26.6 billion dollars. This was naturally a result of the immense war spending. The direct costs of the war to the US amounted to 26 billion dollars, a third of which were raised by taxes, two thirds by loans, but to that was added ten billion dollars that had been lent to the Allies. Together with losses through interest and pension payments, war costs added up by 1936 to a total of 42 billion dollars.

By far the greatest part of that money, including the sums lent to the Allies, had been spent abroad, so that it benefited economic development and a positive balance of foreign trade. Although the end of the First World War led to a sharp decrease in exports and plunged the flourishing agricultural economy into a chronic crisis, the recession of the years 1920 and 1921 was soon replaced by a sustained prosperity which lasted to the end of the "Golden Twenties". Many industries expanded strongly, above all the car industry, roadbuilding and the oil industry.

The idealistic internationalism of the Wilson era gave way to disappointment and isolationism. People yearned for a return to "normalcy" (normality), the reduction of state intervention, and tax reductions, and wanted as little as possible to do with affairs outside America. President Calvin Coolidge gave eloquent expression to the general mood when he proclaimed "The business of the United States is business."

The Great Depression and the New Deal

When Herbert Hoover, who had organised agriculture during the war with brilliant success, won the presidential elections of 1928, people in America looked into the future with optimism. Despite inflation, the dollar maintained its value in gold. As so often in the history of the US, prosperity and optimism led to an unhealthy fever of speculation, which went hand in hand with a rampant running up of debts. At the end of the 1920s, the private and public indebtedness of the US totalled between 100 and 150 billion dollars. In October 1929 the great bubble burst. On the 21st share prices began to fall, and on the 29th the catastrophe occurred – the stock market crash. On that one day, share prices in New York fell by 15 billion dollars, four times the entire federal spending of that year. The Wall Street Crash set off the infamous "Great Depression", which unlike earlier panics was not overcome within a few years, but lasted for more than a dozen years. The Great Depression developed into the worst crisis in the US since the Civil War.

The paradox was that the situation was the result of the enormous power of the American economy and the strong position of the dollar. In 1929, only 6% of the world's population lived in the US, yet 77% of the cars in the world were produced there, 68% of the crude oil, 56% of the cotton, 47% of the raw steel, 40% of the coal, and 21% of the wheat. And yet American industry and agriculture had long since given up exploiting its full potential. The problem was that neither national, nor (by a long margin) international, purchasing power had kept up with all that overproduction.

The chain reaction set off by the crash on the New York stock exchange soon affected Europe. American financiers had made large foreign investments after the war, which now collapsed. That made the European debtors of the US completely insolvent, with catastrophic results for their currencies. Britain, Germany and a number of other countries were forced to abandon gold backing for their currencies in 1913. By contrast, the volume of gold flowing from European debtor countries to the US enabled the US to maintain the gold standard, as a result of which the dollar replaced the pound sterling as the world's reserve currency. Good though that achievement may look on the surface, its consequences were initially devastating for the US. Its economy, which had showed the first signs of recovery in 1931, was forced even deeper into recession by European insolvency. Thousands of banks were forced to close, and there was no end in sight, since customers who no longer had any faith in the security of their deposits, stormed the banks on a massive scale, demanding to have their balances paid out in banknotes or in gold.

The Roosevelt era

The Depression made voters turn their backs on the Republicans, who had ruled since 1920, and gave the Democrat Franklin Delano Roosevelt a resounding victory in 1932. The next few years were to see the most far-reaching monetary changes the US had ever experienced. Roosevelt planned a comprehensive reform programme which presupposed a considerably stronger influence of the federal government on the social and economic life of the US, which, while protecting individual freedoms, swept away the excesses of the extremely individualistic laissez-faire advocated by the Republicans and was intended to create a social-liberal welfare state. This programme was given the pithy name of "the New Deal".

In his inaugural address on 4th March 1933, Roosevelt announced: "I will ask Congress for the only remaining means of confronting the crisis – comprehensive executive authority to wage war on the emergency, a power as great as would be granted to me if we were in fact to experience invasion by a foreign enemy… The people of the United States demand discipline and resolute leadership. They have made me the present instrument of their wishes."

The new President did in fact refer to martial law when two days after his inauguration he ordered a week-long "bank holiday", which caused all transactions to cease. This was intended to calm the panic with which people wanted to save their bank deposits. On 12th March, in the first of his radio "fireside chats", he asked in a psychologically masterly way for understanding for his measures: "I would like to talk to the people of the United States for a few minutes about banking – with the comparatively few who understand how a bank works, but especially with the overwhelming majority who use banks to maintain accounts and to draw cheques. I would like to tell you what we have done in the last few days, why it was done and what the next steps will be… Since the trust of the public was undermined, a large part of our population attempted overhastily to have their deposits paid out in banknotes or gold – an onslaught so great that not even the most solid bank bank could raise enough cash to cope with the demand. The reason for that was that under the pressure of the moment it was of course impossible to sell completely solid assets of a bank and turn them into cash except at panic prices well below their real value… It does not require a prophet to tell you that as soon as people have found out that they will get their money – that they will get it when they need it for any legitimate purpose – that then the phantom of fear will soon disappear. People will be happy to put their money where it is in safe protection and where they can use it conveniently at any time. I can assure you that it is safer to have your money in one of the reopened banks than under the mattress… We have provided the machinery to get our financial system in order again; it is now up to you to give your support and make it work."

The people allowed themselves to be convinced by the President – by the end of April, two billion dollars were taken out of circulation and once more entrusted to the banks. Among the measures that decisively contributed to the further calming of the situation was the "Banking Act" passed in June, by which a "Federal Deposit Insurance" was set up, whose purpose was to ensure the solvency of banks and prevent chain reactions by insuring deposits to a certain level. In 1934 the newly-founded "Federal Reserve Board", under state supervision, put an end to wild speculation. But it was above all the enormous increase in federal spending that shifted the centre of gravity of financial and monetary policy from Wall Street to Washington. That spending was on the one hand needed to realise at least part of the reform programme of the New Deal, and on the other hand it was an essential job-creation measure – in 1934 there were 13 million unemployed in the US. So the government had no choice but to apply the deficit spending policy advocated by the British economist John Maynard Keynes, which it was hoped would boost the economy and in the long term bring rising tax revenues. Between 1933 and 1940 the federal debt rose from 22 to 42 billion dollars. When an attempt was made in 1937 to limit spending to balance the budget, this at once resulted in a further economic slump.

The gold reserves

As well as unemployment, the crisis in agriculture was the worst long-term problem the New Dealers had to contend with. At the beginning of the 1930s, prices for agricultural products had sunk to half their 1914 level. A devaluation of the dollar was intended to provide relief from this. In 1933 the "Thomas Amendment" was passed, which laid down that coins of silver and other cheaper metals were to be valid without limit as full legal tender, and were to be valid for any form of debt repayment. At the same time the president was given powers to devalue the dollar by up to 50% against gold. Following the theories of the economist G.F. Warren, the government bought gold at home and abroad at high prices, in order to depress the price of the dollar. When this proved to have little effect, at Roosevelt's suggestion Congress passed the "Gold Reserve Act" on 30th January 1934, which devalued the dollar by 40.94%. At the same time, gold coins and gold bars were taken out of circulation by making their possession a punishable offence. That was intended to prevent panic buying as in 1933. The enormous, constantly growing gold reserves of the US were thus nationalised, and were stored from 1936 in Fort Knox in Kentucky. Gold backing for paper money remained in force, but the dollar had gone over from the "gold coin standard" to the "gold management standard".

The devaluation of the dollar by Roosevelt was a unique phenomenon in monetary policy. The decision was not forced by the exigencies of inflation, but was made for the national purpose of inducing a rise in agricultural prices. Here, however, it failed to live up to expectations, like many of the economic initiatives of the New Dealers, which only began to become really effective under the special conditions of the Second World War.

The crisis in agricultural prices brought the advocates of a bimetallic currency back on to the stage. It was above all, however, the representatives of the six great silver-producing states in the Rocky Mountains who urged the Treasury to buy up silver on a large scale and to introduce the silver standard alongside the gold standard. Since Roosevelt desperately needed the votes of the Senators from the silver states to get his New Deal programme through Congress, the Silver Purchase Act was passed in June 1934. It laid down that the Treasury was to buy silver until it reached the market price of $1.29 per ounce, and until a quarter of the federal reserves of precious metals were held in silver. There were, however, ways of carrying out these measures half-heartedly, so that the introduction of a proper bimetallic currency did not in fact take place. But at any rate Roosevelt's silver policy did result in a considerable rise in the price of silver in 1935, which hardly affected the US but had devastating effects on Asian silver-backed currencies, above all on that of China.

As the political horizon began to grow darker towards the end of the 1930s, and the outbreak of the Second World War began to seem more and more likely, and finally took place, the United States had still not by any means escaped from the Great Depression, but the New Deal had brought a variety of new initiatives, and above all had given the nation back its self-confidence. Internationally, the US was regarded more than ever as a relatively safe haven, and its currency as one of the best-backed currencies in the world alongside the Swiss franc. Between 1934 and 1939 the federal government's gold reserves rose from 8 to 18 billion dollars. The war further accelerated the accumulation of gold. In the year 1940 alone, the reserves in Fort Knox grew by another 4.4 billion.

The Second World War and the world domination of the dollar

In many ways, the situation in the first years of the Second World war resembled that in which the US had found itself before its entry into the First World War. Although officially neutral until December 1941, the sympathies of the Americans clearly lay with the Allies, and, by an economic policy which was hardly compatible with neutrality, the US government favoured Britain and the other countries fighting against the Axis powers. Nevertheless, the great majority of the population showed little inclination to intervene actively in the conflict until the attack on Pearl Harbour aroused the Americans' fighting spirit.

War and economic boom

The new war proved to be an even greater stimulus for the US economy than the First World War. The government abandoned all inhibitions in its "deficit spending". It spent 320 billion dollars during the war – that was twice the total amount the federal government had spent since the foundation of the republic. Despite drastic tax increases, above all for the upper income brackets, only a tiny part of that sum could be accounted for by taxes. So the federal debts rose to 280 billion dollars by 1945, six times those of 1941, which had already been regarded as irresponsible by economic experts. The amount of money in circulation rose from six billion dollars in 1939 to 27 billion six years later, of which 23 billion were in Federal Reserve notes. Nevertheless, inflation, at 33%, had not been excessive (in the First World War it had been 60%).

All in all, the war fully confirmed Keynes's theories. The enormous spending by the government resulted in an unprecedented economic boom, which finally put an end to the Great Depression. Military service and armaments production (between 1940 and 1945 alone, 3000,000 aeroplanes were produced) ensured full employment. The net income of farmers increased between 1940 and 1945 by 200%, and even that of industrial workers rose by 70%.

When the war ended with total victory by the Allies in 1945, the US was economically, militarily and politically the most powerful country on earth. In contrast to the other victorious powers – let alone the losers – the United States had neither suffered great losses in population, nor had its territory been affected by foreign occupation, by bombing or other material damage. Its industry and agriculture were able to develop their full strength, and no end to the boom was in sight, since only the US was in a position to meet the needs of countries suffering from the effects of war. Thus the Second World War was not followed as usual by regression and deflation; in contrast the high state spending and economic expansion continued unabated.

This was of course due not only to the fact that the US led the process of reconstruction in Europe and the Far East, but also to the continuance of a situation similar to war, for which the term "Cold War" soon came to be used. More than four decades of confrontation with the Soviet Union and its allies, which had developed directly out of the situation at the end of the Second World War, were bound up with "proxy wars" in the Middle East, the Far East, and in the Third World, in which the US was twice directly involved (in Korea and Vietnam), and above all with an arms race which acquired unprecedented dimensions and life-threatening laws of its own as a result of the atom bomb and other technical innovations. This necessarily led to a close, politically influential intertwining of military and industrial interests, the "military-industrial complex", of which the former supreme commander of the western Allies and later President, Dwight D. Eisenhower, warned in 1961 in his farewell speech.

Money power, world power

The unique position that American economic power had attained by the end of the Second World War made it inevitable that the dollar would become the absolutely dominant currency outside the Communist block. At that time, the US possessed four fifths of the world's entire gold reserves. Even before the end of the war, in July 1944, representatives of 44 countries had met in Bretton Woods in New Hampshire to create a world monetary system that would prevent a recurrence of the after-effects of the First World War. As was to be expected, the US substantially succeeded in getting its proposals accepted.

The result was the International Monetary Fund, whose task was "to promote the stability of exchange rates, to maintain well-ordered exchange arrangements and to avoid devaluation as an instrument of economic competition". As a monetary unit, the dollar of 15 5/21 grains, of 9/10 fine gold, was laid down. In this way, a national currency became the de facto international unit of payment in place of gold. In relation to this basic currency, other currencies stood in a fixed rate of exchange which could only be changed under certain conditions. That of course meant that the financial and monetary policy of the US, which was primarily actuated by national concerns, necessarily had direct effects on the currencies of countries that joined the Bretton Woods agreement.

As a result of the ever more immense deficits of the federal government, and the repeated alarming rises in the inflation rate, the effects of this system on the world economy in the course of the 1960s became frightening. Right from the time of Bretton Woods, the dollar had been overvalued in real terms against gold. This overvaluation was by no means the least of the reasons why the American balance of trade went into deficit in the late 60s and early 70s. The vast overseas investments, made partly for political, partly for economic reasons, and the "multinationalisation" of large firms, which were becoming subject to ever stronger competition, further contributed to that deficit. The steadily increasing volume of money in circulation, a result of the deficit and inflation, gradually made the gold backing of the dollar, fixed in 1945 at 25%, appear illusory. President Richard Nixon took the logical step and abolished gold backing for the dollar in 1969 – the last major currency to lose it. Since then the dollar, too, has been a "manipulated paper currency" without intrinsic value. A few years later, in 1973, the Bretton Woods system, which had already become undermined in many ways, was abandoned, and the era of the dollar as the internationally recognised reserve currency was ended.

But the role of the dollar as the most important and influential currency in the modern world is by no means at an end. The complete collapse of the Soviet Union, the great competitor of the US in terms of world power, created a completely new situation at the end of the 1980s and opened up the hitherto closed Eastern block states to the dollar. The arms race, which had escalated more and more powerfully for decades, had acted as a catalyst to expose the intrinsic weaknesses of the Soviet economic and social order, and had decisively contributed to the end of the communist dictatorship. That means that the great victory with which the US ended the Cold War was not least a victory of American economic power and thus of the dollar. Naturally, the vast deficits with which the US bought that victory have also affected its economic position. The way in which the nation recovers from those efforts, how it comes to terms with the challenges presented by the remains of the Soviet empire as it dissolves into chaos, by a steadily uniting (?) Europe, by the oil-producing countries, and by the manifold problems of the Third World, will also decide the future role of the dollar.