American Money, Parts I and II: Antebellum Through Reconstruction - Arsenal For Democracy Ep. 396 [Bill/Rachel]

Series Intro/Overview

Arsenal for Democracy this week begins a mini-series on money in the 19th Century United States. What was it, tangibly and intangibly? Was it something physical with a "real" value, or more of a unit of account on ledgers somewhere? How did people understand it at the time vs how we understand money today, in the third decade of the 21st century? How did that understanding shape the way people used money – or perhaps how did people's uses of money shape their understanding of it? What were the economic, political, and socio-cultural implications of the 19th century version of American money? To prepare for this miniseries, Rachel and I read a lot of books this summer. Some of them were directly dealing with this subject from various angles, while others were only tangentially related, or were intended to get us thinking way outside the box on the philosophical, existential questions around money in the past and present. Some of the books were good and some of them weren't very good, and we'll give our thoughts on what we got out of them as we proceed through this miniseries. The six books we read were:

- "Debt: The First 5000 Years" by the late David Graeber, the anarchist economic anthropologist, published in 2011
- "Reconstruction: America's Unfinished Revolution, 1863–1877" by Eric Foner, the American political historian, published in 1988
- "Financing the American Dream: A Cultural History of Consumer Credit" by Lendol Calder, published in 1999
- "The Rise and Fall of American Growth" by Robert J. Gordon, published in 2016, which we've already used in several episodes this summer
- "Inflated: How Money and Debt Built the American Dream" by R. Christopher Whalen, published in 2011
- "The Verge: Reformation, Renaissance, and Forty Years that Shook the World" by Patrick Wyman, published in July 2021

As you can tell from the titles, some of these books very specifically cover the second industrial revolution period that we've been focusing on for the past year and a half on Arsenal For Democracy. A couple are broader examinations of American economic history, not exclusively focusing on that period. And a couple of them get much deeper into the emergence of European proto-capitalist finance four centuries before our story, as well as the theoretical underpinnings of money as a concept going back to the misty human past.

We also drew on some money-specific episodes of Mike Duncan's Revolutions podcast where he happened to mention some financial infrastructure or coinage and monetary policies that were relevant as points of contrast.

Obviously we're not going to be going quite as broad in our examination of the topic as some of these sources, but we thought it was important to get deep into the fundamentals, the theory, and the philosophy to have a meaningful and enriched discussion on late 19th century American money. Before we jump into our first episode, we want to give a summary overview of where we're going with this so you can contextualize each part of the series and think ahead as we move through the history. We're going to talk a bit about money in the antebellum United States before the American Civil War of 1861-1865 so you can see the revolution in American money unfold more clearly. Then we'll talk about money during the Civil War and its immediate aftermath during Reconstruction, when physical money and virtual money evolved temporarily from the pre-war situation. Next we'll look at how money functioned in people's daily lives as a

practical matter, even when, or especially when, they didn't actually have much access to it physically but still needed to conduct economic activity. Then we'll try to provide better context for the dramatic national political battles over hard cash that you might have heard about in school – like the Cross of Gold speech – but perhaps didn't totally understand, in part because from a modern vantage point there's a case to be made that a lot of people at the time also didn't really grasp what they were battling over on both sides, even when they thought they understood the debate and its implications. Finally, we will have a series epilogue on the explosive emergence of things like consumer credit, auto loans, and home mortgages as the 19th century gave way to the 20th century. We'll probably return to those subtopics in more depth in future episodes outside of this series, but in this series we'll be examining them as the bookend of the processes and transformations we've been talking about, rather than as the launchpad for everything that followed.

I. Antebellum Money

Episode Intro: With that series overview out of the way, let's get into the status quo situation of money in the pre-Civil War period of US economic history, before any of the emergency measures of the war kicked in.

Narrative:
The situation on that front was of course far from static as well in the period from the American Revolution through 1860. Government policies had changed a great deal, often back and forth fairly dramatically, and most critically the end of the period had seen the twin arrival of railroad and telegraph lines all over the United States. One of the defining features of the United States economy before those two things came to prominence was how slowly materials, finished goods, money, and information traveled to and from the interior, most especially in the regions without easy navigable river access. Granted, much of world history as a whole has featured a kind of see-sawing between better and worse infrastructure and thus travel speeds. But as we've talked about on so many past episodes, nothing in past global history came close to the explosive gains in speed from developments like ocean-going steamships, river steamboats, steam railroads, and telegraphy, particularly as each of these technologies continued to improve year over year with new propellers, better boilers, better wiring, and so on.

But let's jump back in time using the books by Graeber and Wyman… Several centuries earlier, early modern Europeans, nearly a thousand years after the fall of the Western Roman Empire and the collapse of its physical infrastructure and classical taxation systems, had managed to come up with various workarounds for the incredibly slow speeds for moving cargo and physically heavy precious metals for money around the mountainous and forested interiors of western Europe. Generally these involved setting up reliable, trustworthy networks of bankers and/or money changers around the region, from Italy to the English Channel and from Iberia to Germany and so on. This had the benefit of allowing someone to carry pieces of paper around, instead of coins or ingots, and simply making necessary withdrawals or payments upon arrival. As long as the money was circulating anyway within a particular city's mercantile community for a bunch of transactions, then there was no need to carry physical money long distances between cities since someone else would inevitably have to bring its equivalent back again later. These type of paper-based credit arrangements were also crucial in the late middle ages during a literal shortage of precious metals in Europe because the money was flowing out of Europe to India and China to buy luxury goods faster than it was being mined – at least up until a late 15th century innovation in production and the exploitation of colonialism in Africa and the Americas shortly thereafter.

These early modern European merchants and financiers also initially had a transnational common financial infrastructure in the form of the Catholic Church, prior to the Protestant Reformation. And in fact, as Mike Duncan noted in one of his Revolutions podcast series, the Spanish imperial authorities managed to deploy this convenient apparatus right up until the early 19th century in some of their American colonies by outsourcing some depository banking and land mortgage lending functions to the Catholic Church in the Americas, which was accessible anywhere and everywhere in the empire to make those transfers of money in the records. Obviously this was not available in the United States as an option, since it was not a Catholic country. Indeed, this absence of a common banking infrastructure was one of the defining features of the United States. When combined with the truly American spirit of constant cons, scams, and ripoffs and the rugged individualism of refusing to let the government enforce any kind of standards and trustworthiness, this lack of a banking infrastructure meant that the United States somehow managed to simultaneously lack the reliable financial networks of 1400s Europe that facilitated trade and investment across sovereign jurisdictions but also everyone was constantly getting completely owned by financial panics and busts based on a shockingly excessive amount of financial instruments floating around based on nothing.

The United States entered a constant cycle of excessive and unreliable liquidity vs extreme credit crunches. At several points, the government was letting everyone basically issue their own money instruments on paper, which would become worthless, not so much because there was too much issued – or even because it was paper – and more because there was no bank clearinghouse process even locally let alone nationally until the 1840s (Whalen pp.26-27) and no trust that it would ever be redeemable anywhere (privately or publicly) at face value leading to immediate discounting.

Here's a paragraph from the Whalen book (p.11):
"In the early 1800s, paper money issued by private, state-chartered banks generally traded at a steep discount to the face value when converted into precious metal, especially when it was issued by banks outside of the state or local market where it was presented for payment. The notes used at that time generally promised to pay the bearer of the note a certain amount of physical gold or silver upon demand. The experience of banks failing was all too common for Americans in that period. There was a deep suspicion in the marketplace when a note from a far-away, state chartered bank was presented for payment. This was one reason that payments by and to state and federal agencies were done only in metal coins, not paper, and most contracts of the day likewise specified metal as the consideration. In the 1840s there was no clearinghouse for banks to use to validate the authenticity of paper money issued by private banks."

At other times, governments cracked down so hard on this privately-issued quasi-money by extinguishing these sources of credit completely that the economy ground to a halt.

This brings us to a key point we have to make throughout this series: Money in the United States in the 19th century included both hard currency minted from precious metals and any forms of imaginary or virtual money that existed in an array of public and private credit arrangements and de facto paper money issued by private banks and corporations chartered by the various state governments.

Here's another paragraph from the Whalen book (p.8):
"Though the Founders had made provision under the Commerce Clause of the Constitution for trade between the states free of tariff, there was no provision for a common currency or banking system, tying the nation or even individual states together. [...] To provide some liquidity,

state-chartered banks issued various forms of notes to the public in return for some future promise to pay in hard money – that is, gold. There was no common means of exchange nor any backstop for banks, which from time to time needed emergency infusions of funds. Panics occurred when public unease about particular financial institutions, companies, or the markets caused deposit runs on individual institutions..."

Overall, there was never enough of this money, hard or on paper, to go around to perform basic economic activity. The government mints never churned out enough metal coinage because after all it costs some amount of money to mine and smelt the ore and to mint it into coins, which limits how low a face value can be assigned to a given coin even without factoring in supply and demand price pressures for the metal ore itself. And even with protective import tariffs, hard metal money was physically leaving the United States, by the shipload, to pay off foreign debts and buy foreign luxury goods. Paper financial instruments, whether they were corporate stock certificates or bank transfer notes, were ultimately meant to be redeemed against some kind of hard metal currency, and these financial agents were supposed to have physical reserves on hand to pay off these papers in circulation, so unless they were flat-out scamming people (which often happened), there were some natural limitations to how much availability there was of that too.

It's important to note of course that a great deal of economic activity can be conducted just by moving paper certificates around a community back and forth, so there's not a 1:1 relationship between the paper value of money in circulation and reserves of hard coin they represent, but there's still a limit eventually at the end of the line. Financial panics, as noted in the earlier quote, tended to cause people to suddenly reach the end of the line and attempt to cash in these instruments all at once, which would effectively crunch the money in circulation back down to the physical reserves, rather than allowing for virtual activity to happen. The other, even more common, end of the line on a paper-money credit transaction chain was the federal government's steadfast refusal to accept tax payments and other revenues in anything other than the very coins it was minting and circulating in insufficient volumes for people to make payments.

Again, the defining feature of the antebellum era US economy is simply that there was not enough money going around, whether physical or imaginary. Some of this could have been alleviated with more sophisticated federal financial regimes and more trustworthy credit, but some of it was just the physical, material realities of life in the United States at the time. Banking across state lines was pretty unusual – and indeed some states were sometimes so fed up with the financial sector shenanigans that they simply refused to charter any banks within their borders at all. Low levels of interstate commerce heavily reflected the poor state of transportation and communication networks. Economic activity tended to orient toward and flow along the ocean and Great Lakes coastlines, navigable rivers, canals, and what few major roads existed. Until the railroads became a serious, reliable factor, there were large swathes of the United States where there was not much reason for an eastern, urban financial institution to be making purchases, investments, or loans outside of their own core area and across state lines. We've talked previously about this being the big reason why interstate commerce was such a small portion of US economic activity for so long. It's also critical here to remember that the United States in this era was fundamentally an agrarian economy, not an industrial economy, and the industry that did exist tended to cluster in places with decent transportation and communication networks linked quickly or closely to financial institutions. If you lived basically anywhere else, time was the enemy of money circulation. If you grew crops only in one season, or perhaps two if you were lucky, then there were going to be long stretches of time during the year when you needed money you didn't have on hand to buy equipment and seeds or hire (or

purchase) labor or you suddenly had a bunch of money from harvests and suddenly needed to pay back everyone from the other part of the year. If your harvest failed for some reason, another whole year would go by before you actually saw some money. In a previous episode, we talked about the emergence of southern agricultural capitalism for the massive forced-labor plantations growing cash crops in a way that increasingly became industrialized and heavily capitalized. But for the rest of the American agricultural economy, big-money capitalists were not flocking in this period to help farmers or farmhands see some money to rub together between harvest windfalls. As we'll dive into further on a coming episode in this series, specifically focusing on the shadow credit economy, people in farm country experienced money primarily as a virtual phenomenon on a ledger. They were purchasing equipment, seeds, and consumer goods like textiles or books or anything else on credit from local stores that would never see any repayment for seasons at a time, if not years at a time. They compensated for these long stretches without hard currency settlement of accounts by raising prices and by themselves acquiring their supplies, dry goods, and consumables on high-interest credit arrangements with faraway urban manufacturing companies and financial institutions. Mostly people just tried to make do without, as much as possible, before the economic and cultural transformations of the late 19th century that we'll get into in upcoming episodes of this series. There simply was not enough money in circulation in the rural United States to support a higher level of demand-driven economic activity. What little hard currency money was paid out at harvest time would shuttle around paying off debts and then ultimately flow back out of the countryside to the cities as vendors paid back their own creditors and so on. Or it was all conducted with the exchange of paper money instruments anyway and none of the coins ever made it out that way to begin with.

As railroads and telegraphs began proliferating more widely to the interior of the United States, it certainly became easier to communicate about economic needs and demands quickly, and it was much cheaper and faster to move goods in and out. But in the immediate period before the Civil War, the country was still experiencing the very long hangover of the Panic of 1837, which had dried up the amount of privately-backed virtual money in circulation and left all kinds of devastating debts from the banks and corporations that collapsed and obliterated people's money with them. It had also left just about everyone in a much more cautious, conservative frame of mind about the nature of money and how to circulate it or regulate it.

Prior to the Panic of 1837, the federal government had tended not to invest much in infrastructure, so states and municipalities had to borrow huge amounts of money from the private sector, regardless of reliability. Those banks in turn were capitalized by foreign investment, which fled after the crash. (Whalen, p.8) The post-1837 credit crunch really slowed down economic development of the interior for many years. And many state legislatures chose to repeatedly bail out but not significantly reform banks that they had a close relationship with for public financing. The reputation of paper within the world of American money was getting darker and darker for the population and this created a powerful national culture of hostility toward paper money of any kind, even official government paper money eventually introduced during the Civil War nearly a generation later. The economy shrank and unemployment rose as people attempted to only engage in coin-based transactions for a long while after 1837.

Unfortunately for the skeptical public desperate for metal money to do business with each other, unregulated paper money continued to grow and there was nothing to be done except to use it or hope you could get your hands on some foreign banks' paper money that had more credibility. By 1860, two-thirds of all dollars in circulation in the United States were paper instruments of some kind or another, allegedly redeemable for precious metals, while just one third of the dollars circulating was actual metal specie or coins. (Whalen p.31)

In fact, this era from 1837 until the Civil War was the so-called Free Banking Era in which hundreds and hundreds of “wildcat” banks were chartered with virtually no federal oversight and minimal state regulation. Most went bust within a few years and yet they continued to be chartered willy-nilly all the way until the start of the Civil War. Each of these banks would attempt to issue paper money – or to use the more descriptive British term, “bank notes” – and they would try to circulate this with usually very poor reception.

Whalen cites the Federal Reserve Bank of San Francisco’s modern analysis of the situation: *“State Bank notes of various sizes, shapes, and designs were in circulation. Some of them were relatively safe and exchanged for par value and others were relatively worthless as speculators and counterfeiters flourished. By 1860, an estimated 8,000 different state banks were circulating ‘wildcat’ or ‘broken’ bank notes in denominations from ½ cent to $20,000. The nickname ‘wildcat’ referred to banks in mountainous and other remote regions that were said to be more accessible to wildcats than customers, making it difficult for people to redeem these notes. The ‘broken’ bank notes took their name from the frequency with which some of the banks failed, or went broke.”*

Eventually over the course of the 1840s and 1850s, banks started setting up voluntary associations with each other, at least on a local basis, to validate and clear each other’s transactions, but again this would not be possible on a larger geographical scale until telegraphs were reliably extended deeper across the country. And even then not every bank or financial institution participated because it was voluntary, not government-mandated. (Whalen pp.26-27) Whalen notes that private banks, as depicted in the climax of “It’s A Wonderful Life” even a century later, had a ruthless habit of reacting to a momentary liquidity crisis in a competing bank by letting them collapse instead of helping them out.

THINGS TO THINK ABOUT AS WE CONTINUE THIS SERIES:
How does this change our understanding of ~what is money?~ Is all money just debt instruments and credit transactions/reconciliations? Or are debt and credit just subsets of money? Or is money just the government-issued stuff? Is it money if it can be used in any transaction or only if it can be used to pay taxes, fees, and land deed payments to the government? Is it still money if it mainly exists for speculators to bet on its appreciation or depreciation as a bearer asset? Does it matter if money is “backed” by something or “redeemed” by something, and if so, what costs and burdens does that impose on the monetary system? (Graeber had a lot of thoughts on the philosophy aspect as it meets the practicalities of day to day transactions between redemptions at the bank or later at the government.)

II. The Emergency of the Civil War and the Rollback in Reconstruction
The emergency situation of the Civil War – i.e. the need for the federal government to pay for it (ideally without raising taxes or borrowing too heavily from New York and foreign creditors, Whalen p.37) and the need to keep the economy going – forced the government to consider and then take dramatic action in 1861 and 1862 with the creation of the first nationwide paper money, considered valid for payments to the government for taxes, fees, and land payments that had been previously only accepted in precious metals. Crucially, from 1862 onward, this wartime paper money was indefinitely NOT guaranteed to be redeemable for precious metals. This was a significant break from any previous paper money instruments issued by banks in the Antebellum period, which was always at least theoretically redeemable for and backed by precious metal reserves somewhere. The wartime emergency “greenback” paper notes were fiat money instead. Whalen notes in his book that private bank notes were functionally regarded by the public as a zero-interest debt instrument where the bearer was owed precious metals, and

fiat paper money was a harder concept to understand. (p.21) This had been out of vogue since the Articles of Confederation days when the Continental Congress paid Revolutionary War troops in paper IOUs, although the federal government had periodically issued interest-bearing paper Treasury Notes, which were more similar to private bank notes than Civil War paper money. The value of greenbacks fluctuated up and down depending on how well the US military was doing during the war. They were also not completely universally accepted, because some businesses in certain regions refused to accept them as payment despite the law, and controversially because the federal government continued to require nearly all customs duties to be paid in metal to try to bring more of it into the country from abroad.

https://en.wikipedia.org/wiki/Demand_Note
https://en.wikipedia.org/wiki/Legal_tender#United_States
https://en.wikipedia.org/wiki/Greenback_(1860s_money)
https://en.wikipedia.org/wiki/United_States_Note

(Whalen p. 37-39) While Lincoln was printing paper money in 1861, 1862, and beyond, hoarding of gold coins was becoming a problem (especially as the war dragged on and it became clear that the paper money would be issued for a long time). This was exacerbated by Treasury Secretary Salmon Chase's policy of issuing Treasury bonds in exchange for hard money, further removing specie from circulation. By the end of 1861, specie payments on debt, both interest and principal, were suspended by private banks, and then eventually the Treasury. This caused a panic throughout the country, leading to even more hard money hoarding. In February 1862, the first Legal Tender Acts were enacted and $150 million in United States Notes were printed, and were declared legal tender for all debts public and private. [Note: fun fact from the Wikipedia article on United States Notes: They were issued up until 1971] However, the lack of specie to back the paper money caused the value of the greenbacks to plummet and inflation to rise. By 1864, over $400 million in greenbacks were issued. The market value of greenbacks was below half the face value. This was because there was no ability to convert the paper money to hard money equal to the face value of the greenbacks. This lack of trust in greenbacks led to government intervention, the National Bank Act of 1863 & 1864.

National Bank Act of 1863 & 1864
Important note: The US Mint issued "hard" currency for the country from the early constitutional period to present day. When we talk about the lack of a national currency before the Civil War, we are only referring to paper currency, as far as I am aware (i.e. as opposed to minted coins). Depending on the era in question, private banks up until this point issued US legal tender paper money at the state level – "bank notes" – but that was basically similar to a bill of exchange, a promissory note, or other paper instruments for financial transactions.
https://en.wikipedia.org/wiki/National_Bank_Act
two United States federal banking acts that established a system of national banks, and created the United States National Banking System. They encouraged development of a national currency backed by bank holdings of U.S. Treasury securities and established the Office of the Comptroller of the Currency as part of the United States Department of the Treasury and a system of nationally chartered banks. The Act shaped today's national banking system and its support of a uniform U.S. banking policy.
(Whalen p. 39-40) The National Bank Act helped to finance the Civil War effort. The bankers benefited because they were able to collect interest on the government bonds that they held, and make loans backed by the bonds, effectively allowing them to collect interest twice on their holdings.
(Whalen p. 42-) Chase's policy of issuing massive numbers of greenbacks caused significant inflation, and he was forced to resign in 1864. From 1861 to 1865, there was a 22% annual

increase in inflation. However, after the Civil War ended, the value of the greenback reached parity with gold coins relatively quickly. In 1865, it took $28 in greenbacks to buy a $10 gold piece, but by 1879, they were equivalent. The inflation financed the Civil War and U.S. expansion westward.
After the war, it was assumed that the federal government would contract the paper money supply. However, both the federal government and railroads had incurred massive amounts of debt and they were interested in keeping the paper money supply in circulation. Even though many American disapproved of paper money as a means of exchange, the expanding post-War economy increased the demand for money in all forms. This rising demand helped to restore the convertibility of paper money for gold at closer to face value.
However, the expansion in the economy was not equally spread across the country.

From Foner (p. 125):
The collapse of Confederate bonds and currency bankrupted the entire south, both individuals and institutions such as colleges and churches. The new national banking system drained capital from the South, and there was an onerous federal tax on cotton, which was instituted as a wartime measure and wasn't repealed until 1868. As a result, many commodities in 1865 were exchanged at barter, even in important railroad cities like Chattanooga, TN. From a Charlestonian: "The only money here is in the hands of one or two Northern exchange brokers and bankers, . . . men entirely unknown to us."

By 1870, there was a serious attempt to eliminate the first nationally-issued paper money, ironically by Salmon Chase himself, although this was only a temporary situation.

https://en.wikipedia.org/wiki/Hepburn_v._Griswold 1870 case where Salmon Chase, acting as Chief Justice, reversed his stance from when he was Treasury Secretary, and declared parts of the Legal Tender Act unconstitutional, which made US notes not legal tender, and US notes could not be used to discharge debts. From Whalen (p. 43): *Salmon Chase reportedly disapproved of the legal tender notes in principle; with no requirement for specie backing they could be printed in unlimited quantities and were therefore inflationary. Chase was also said to have recognized the necessity of issuing paper money in a time of emergency. Later, however, sitting as Chief Justice of the Supreme Court, he would declare the notes unconstitutional.*

https://en.wikipedia.org/wiki/Legal_Tender_Cases Two 1871 cases that affirmed the constitutionality of paper money. Knox v. Lee and Parker v. Davis effectively overturned the Hepburn v. Griswold ruling. From Whalen (p. 44): *[The Hepburn v. Griswold] decision angered the Administration of President Ulysses Grant, as well as the banks, the railroads, and other heavily indebted corporations, who naturally preferred to settle their obligations in paper rather than gold. When a pair of vacancies came up on the Supreme Court, President Grant nominated two railroad lawyers, William Strong of Pennsylvania and Joseph P. Bradley of New Jersey. In May 1871, a 5-4 majority reversed the Court's position and in Knox v. Lee upheld the legality of fiat money and the legal tender laws. Largely at the behest of a heavily indebted government and its equally beholden allies among the owners and managers of the railroads, the issue of greenbacks was essentially settled in American law.*

Ultimately, United States Note greenbacks continued to circulate into the 20th century up until the creation of the Federal Reserve and its currency Notes, and new ones were actually still being issued on a limited basis over this period.
https://en.wikipedia.org/wiki/United_States_Note#Post_Civil_War

While we've focused on the ownership class and their preferences, greenbackism was also seen favorably by labor. From Foner (p. 478): *Greenbackism promised to lower interest rates, thereby facilitating the establishment of cooperatives (a plausible strategy at a time when the scale of enterprise in most industries remained small), promoting economic growth, and transferring control of the currency from a parasitical "money power" to the democratic state.*

For a while there was also an effort to stop using silver as a coin in circulation alongside gold, but this too led to political backlash, especially once the price of silver began falling dramatically and it looked like it could be useful as a cheaper, plentiful, low-denomination coin instead of a previously very expensive one. (Until silver supply increased dramatically in the second half of the 19th century with new discoveries and new technologies, silver production had tended to be used for things other than money more often than not.) And to give silver coinage advocates a point in their favor, there was indeed a significant shortage of small-denomination money in the American West for decades, even into the 20th century, because of the repeated federal attempts to restrict or end circulation of cheap silver coins and because people still didn't trust paper money, which otherwise might have filled that gap in the market. This severely hurt smaller-scale economic transactions on a day to day basis and continued the pressure to engage in store credit and other such things, as we'll cover in the next episode.
https://en.wikipedia.org/wiki/Coinage_Act_of_1873

Then we'll return to this issue of silver coinage and the political battles over that.