

# Creating a monetary and fiscal union: The American experience

Jeffrey Frieden

Harvard University

September 2013

# Worthless as a Continental



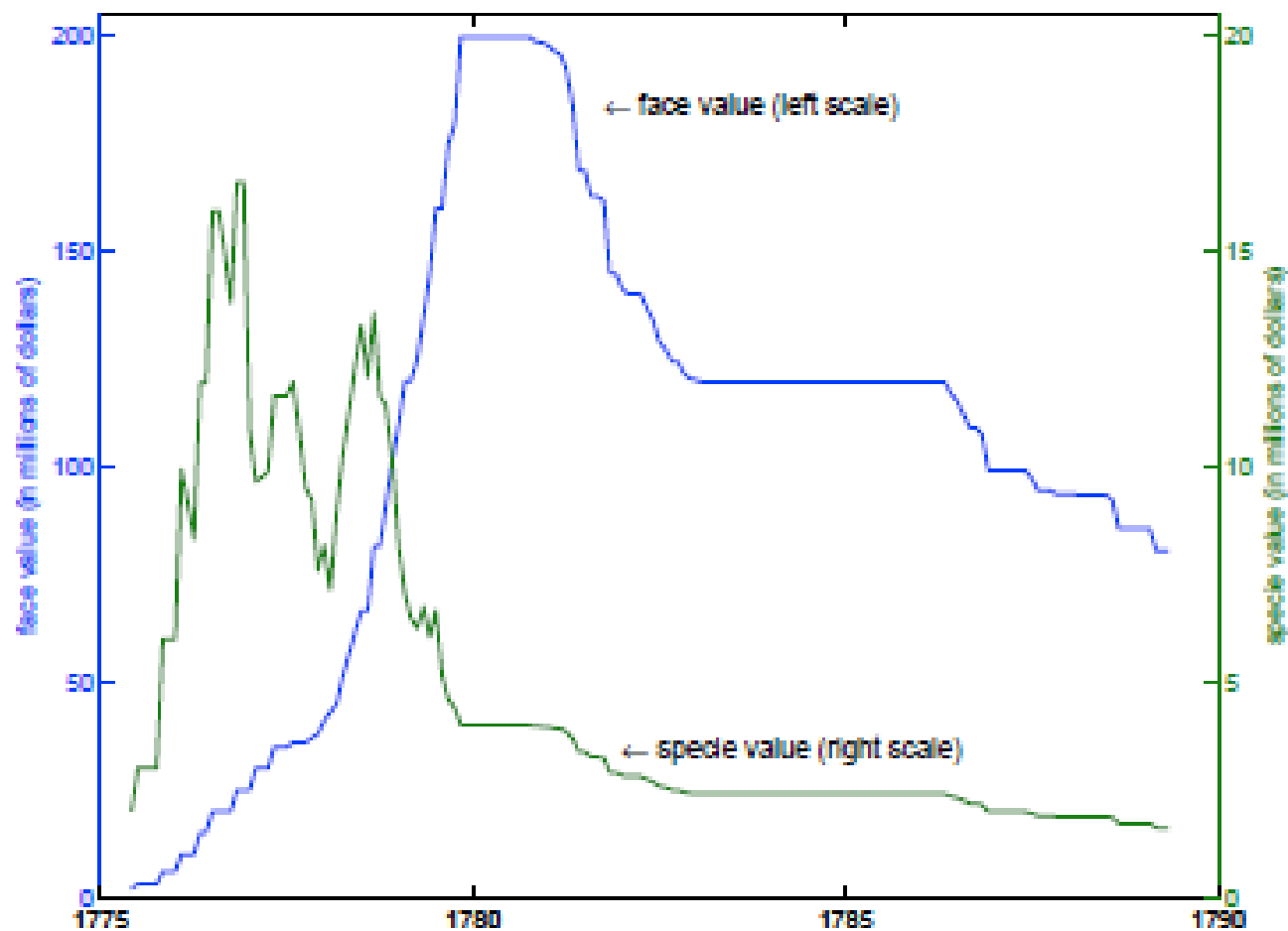


Figure 1: Face and Specie Value of the Outstanding Continental Dollars

Source: George J. Hall and Thomas J. Sargent, "Fiscal Discriminations in Three Wars"

# Hamilton on central banking

“The tendency of a national bank is to increase public and private credit. The former gives power to the state, for the protection of its rights and interests: and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufacturers flourish: and herein consists the true wealth and prosperity of a state.” (*Report on Manufactures*, 1790)



# (First) Bank of the United States, 1791-1811



# National banknote, 1798



# Hamilton on the national debt

“A national debt, if it is not excessive, will be to us a national blessing...a powerful cement of our Union.” (letter, 1781)

“To be able to borrow upon good terms, it is essential that the credit of a nation should be well established...States, like individuals, who observe their engagements, are respected and trusted: while the reverse is the fate of those, who pursue an opposite conduct.” (*Report on Public Credit*, 1790)

“In countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock, or public debt, are there equivalent to payments in specie. The same thing would, in all probability, happen here, under the like circumstances. (*Report on Public Credit*, 1790)



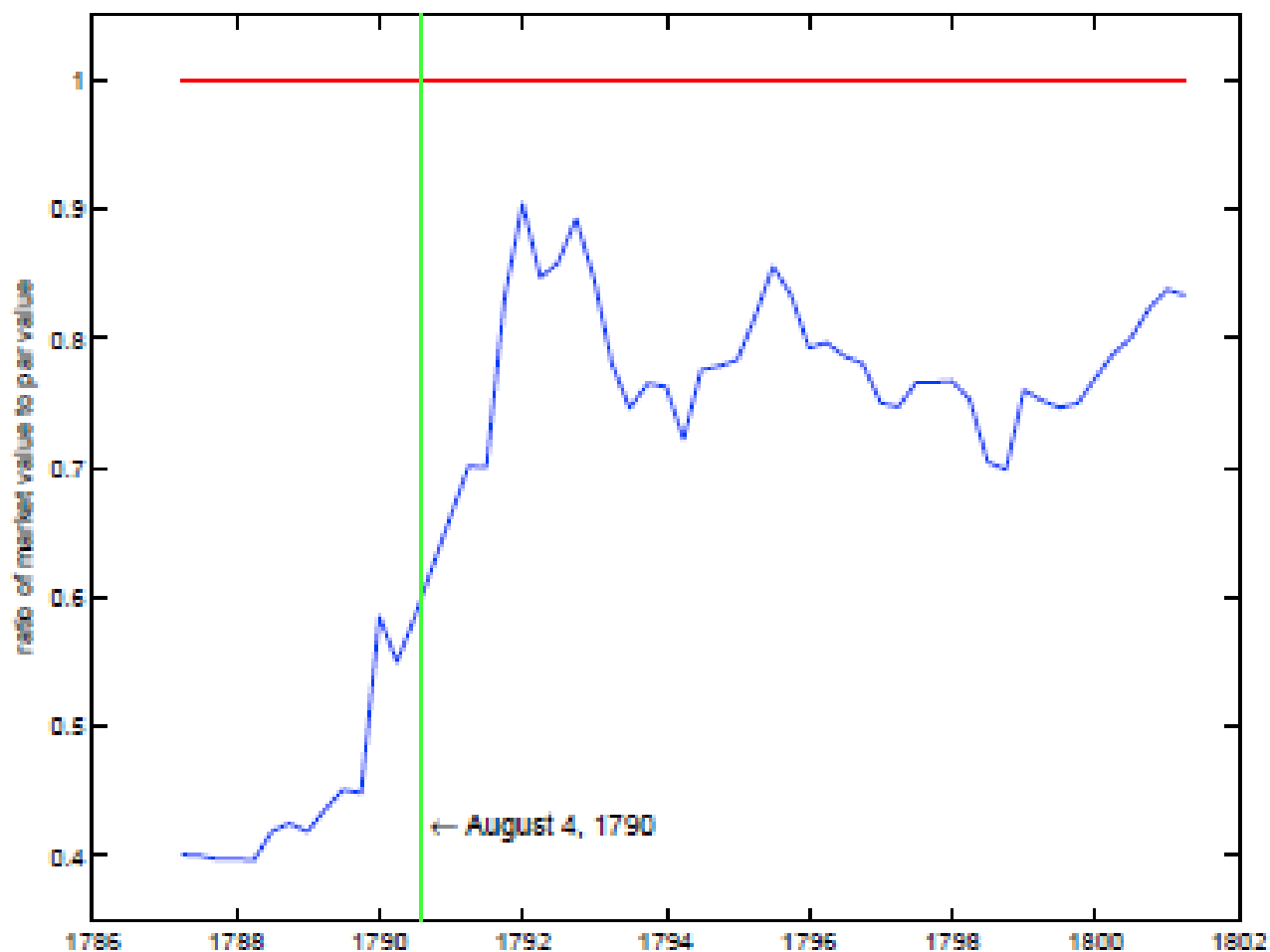


Figure 5: Ratio of the Market Value to the Par Value of the Outstanding Debt

Source: George J. Hall and Thomas J. Sargent, "Fiscal Discriminations in Three Wars"



# Second Bank of the United States, 1816-1836



# National banknote, 1829





# The Bank Wars



GENERAL JACKSON SLAYING THE MANY HEADED MONSTER.

# Andrew Jackson attacks the Bank

“The rich and powerful too often bend the acts of government to their selfish purposes....If Congress has the right under the constitution to issue paper money, it was given them to be used by themselves, not to be delegated to individuals or corporations.” (Veto Message, 1832)

“I have been a close observer of the doings of the Bank of the United States....You have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the bank....You are a den of vipers and thieves. I have determined to rout you out, and by the Eternal, I will rout you out!” (To Bank supporters, 1834)



# Daniel Webster defends the Bank

“Credit is the vital air of the system of modern commerce. It has done more, a thousand times, to enrich nations, than all the mines of all the world. It has excited labor, stimulated manufactures, pushed commerce over every sea.... It has raised armies, equipped navies, and, triumphing over the gross power of mere numbers, it has established national superiority on the foundation of intelligence, wealth, and well-directed industry.”

– In the Senate, March 18, 1834

# Effects of the Specie Circular, 1836

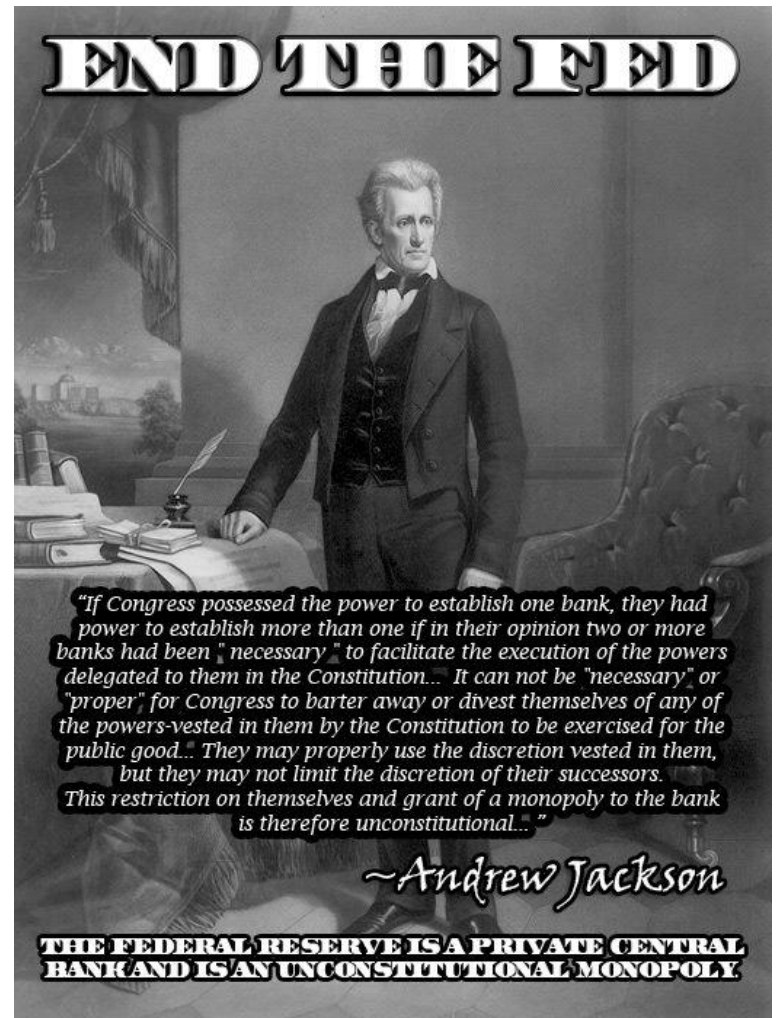


# Dead hand of history?

“Who among past presidents should Republicans turn to for lessons and guidance? Who is the Tea Party progenitor? Who offers the insight, outlook, and rhetoric for today’s GOP?”

“The answer is Andrew Jackson. Jackson was the great conservative populist of American history, and his story bears study at a time when the country seems receptive to a well-crafted brand of conservative populism.”

– Robert W. Merry, “Andrew Jackson: Tea Party President,” *The American Spectator* October 2011

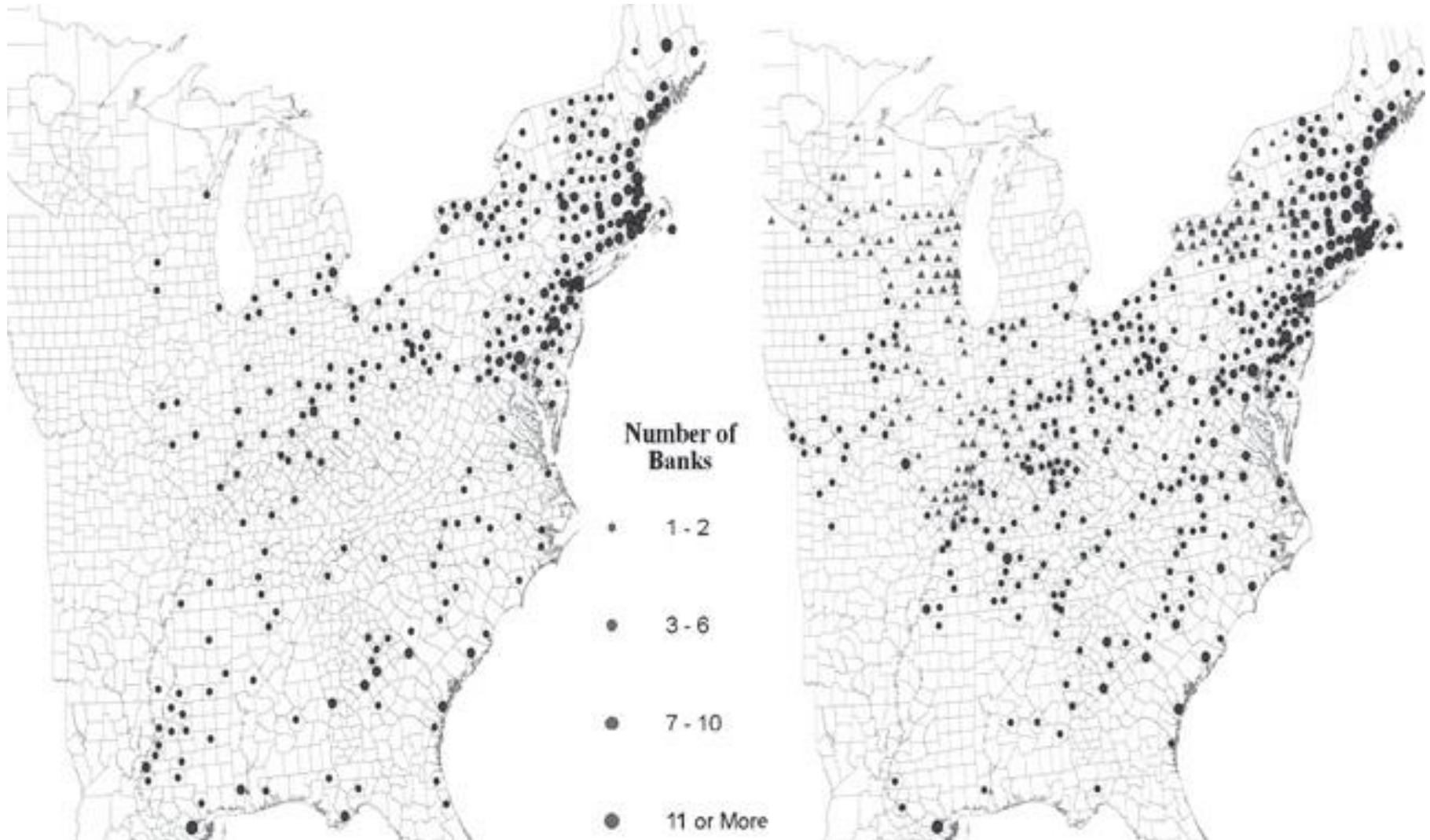




# Banks in 1836 and 1859

1836

1859



Source: Matthew Jaremski and Peter Rousseau, "Banks, Free Banks, and Economic Growth" *Economic Inquiry* 51:2 (April 2013)





**BANK NOTE**

# **DESCRIPTIVE LIST,**

**SUPPLEMENTARY TO**

**Thompson's Bank Note & Commercial Reporter,**

**CONTAINING ACCURATE DESCRIPTIONS OF ALL THE**

## **Genuine Bank Notes,**

**ISSUED BY THE**

**BANKS IN THE UNITED STATES AND CANADA:**

**GIVEN**

### **FREE OF CHARGE**

**TO ALL**

**SUBSCRIBERS WHO PAY ONE YEAR IN ADVANCE.**

**NEW YORK:**

**PUBLISHED BY PLATT ADAMS, 117 FRANKLIN STREET.**

**1859.**

If any Counterfeit is not found under the proper head, see New Counterfeits.

# VAN COURT'S COUNTERFEIT DETECTOR, AND BANK NOTE LIST.

Vol. IV.—No. 12.] FEBRUARY, 1843. [Whole No. 49.

PRICE—\$1 PER ANNUM, IN ADVANCE.—Single Copies, 12½ Cts.  
SEVEN COPIES FOR \$5, OR 20 COPIES FOR \$15, FOR ONE YEAR.

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CONNECTICUT,	4	KENTUCKY,	6	NEW HAMPSHIRE,	3	RHODE ISLAND,	4
CANADA,	7	LOUISIANA,	7	NEW JERSEY,	6	SOUTH CAROLINA,	6
DELAWARE,	6	MAINE,	3	NEW YORK,	4.5	TENNESSEE,	7
DIST. COLUMBIA,	6	MASSACHUSETTS,	3	NORTH CAROLINA,	6	VERMONT,	3
FLORIDA,	7	MARYLAND,	6	NOVA SCOTIA,	7	VIRGINIA,	6
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**NOTICE.**—We continue to send the Detector to all old subscribers, trusting that they will promptly remit or pay the dollar at the earliest possible opportunity—*advance payment being still insisted on.* In order that subscribers may know when each term expires, we will DRAW A MARK WITH THE PEN AROUND THIS NOTICE TO THOSE WHOSE TERM EXPIRES WITH THIS NUMBER. Those who do not wish to take it any longer, will please give us immediate notice at the office, or, when at a distance, through the post-master, by whom also they can remit money, free of postage. No new subscribers will be received without the money, unless at our option.

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# RATES OF DISCOUNT.

## OHIO.

Bank of Chillicothe, pay at Philadelphia,	30
Bank of Cleveland, pay at Philadelphia,	—
Bank of Cleveland,*	Cleveland,
Bank of Chillicothe,*	Chillicothe,
Do. pay at Farm & Mech. bk. Philada.,	30
Bank of Circleville,*	Circleville,
H. Lawrence, cash,	7½
Bank of Circleville,*	Circleville,
H. H. Warren, cash,	unc
Bank of Masillon,*	Masillon,
Bank of Mt. Pleasant,*	Mount Pleasant,
Bank of Norwalk,*	Norwalk,
Bank of Marietta,*	Marietta,
Bank of Geauga,*	Painesville,
Bank of Wooster,*	Wooster,
Bank of Hamilton,*	Hamilton,
Bank of Xenia,*	Xenia,
Bank of Zanesville,*	Zanesville,
Bglmont bank,*	St. Clairville,
Bank of Gallipolis,*	Gallipolis,
Bk of Steubenville, (old)*	Steubenville,
Bk of Steubenville, (new)*	Steubenville,
Bank of Sandusky,*	Sandusky,
Clinton bank,*	Columbus,
Columbiana bank,*	New Lisbon,
Commercial bank,*	Cincinnati,
Commercial bk of Scioto,*	Portsmouth,
Com. bank of Lake Erie,*	Cleveland,
Dayton bank,*	Dayton,
Farm. & Mechanics' bk.*	Steubenville,
Franklin bank,*	Cincinnati,
Franklin bk of Columbus,*	Columbus,
Farmers' bk. of Canton,*	Canton,
German bk. of Wooster,*	Wooster,
Granvl. Alexandrian Soc.*	Granville,
Lancaster Ohio bank,*	Lancaster,
Lafayette bank,*	Cincinnati,
Muskingum bank,*	Putnam,
Miami Exporting Co.,*	Cincinnati,
do. branch,	Conneaut,
Mech. & Traders' bank,*	Cincinnati,
Mechanics' Sav. Institu. *	Columbus,
Ohio Life In. & Trust Co.*	Cincinnati,
Ohio Rail Road,*	City of Ohio,
Urbana Banking Co.*	Urbana,
Western Reserve bank,*	Warren,
Western Banking Co. *	Cincinnati,
All notes under 5s,	10

## INDIANA.

State bank,*	Indianapolis,
do. branch at Bedford, Evansville, Indian-	apolis, Lawrenceburg, Lafayette,
Madison, Michigan City, New Al-	bany, Fort Wayne, Richmond,
South Bend, Terre Haute, Vin-	centennes,

## ILLINOIS.

Bank of Illinois,*	Shawneetown,
do. branch,	Alton,
do. branch,	Jacksonville,
do. branch,	Pekin,
do. branch,	Lawrenceville,
Bank of Cairo,*	Kaskaskia,
State bank of Illinois,*	Springfield,
do. branch at Alton, Belleville, Chica-	go,

## KENTUCKY.

Bank of Louisville,*	Louisville,
do. payable at	Philadelphia,
Bank of Kentucky,*	Louisville,
do. branch at Bowling Green,*	Derbyville,
Frankfort, Greensburg, Hopkinson-	ville, Mayaville,
Hotel Company,	Louisville,
Louisville Sav. Institution,	Louisville,
Louisville Gas Light and	Water works,
Northern bk of Kentucky,*	Lexington,
do. branch at Covington, Louisville,*	Par-
ish, Richmond,	—
Savings Institution,	Louisville,
All other banks in this State uncertain.	—

## TENNESSEE.

Bank of Tennessee,*	Nashville,
do. branch at Athens, Columbia, Clarks-	ville, Rogersville, Somerville,
Shelbyville, Trenton,	—
Farmers' & Mech. bk.*	Nashville,
Farmers' & Merch. bk.*	Memphis,
Nashville Banking Co. *	Nashville,
Planters' bk of Tennessee,	Nashville,
do. payable in	New Orleans,
do. branch at Athens, Clarksville, Franklin,	La Grange, Pulaski,
S. W. R.R. bank branch,	Knoxville,
Union bank & branches,	Nashville,
do. payable at	Baltimore,
do. payable at	Philadelphia,
do. payable at	New York,
do. payable at	New Orleans,
do. branch at Columbia, Jackson, Knox-	ville,
Yeatman, Wood & Co.'s checks,	Nashville,
do. payable at	Philadelphia,
do. payable at	New Orleans,
All notes under 5s,	20

## OTHER STATES.

We give below the general Rates of discount on the notes of the banks in good standing of the different States. For the broken ones, or those in bad repute and frauds, (as also for the same class in New Jersey, Delaware, Maryland, District of Columbia, Virginia, North Carolina, South Carolina, Ohio, Indiana, Illinois, Kentucky, and Tennessee,) the reader is referred to the monthly Detector.

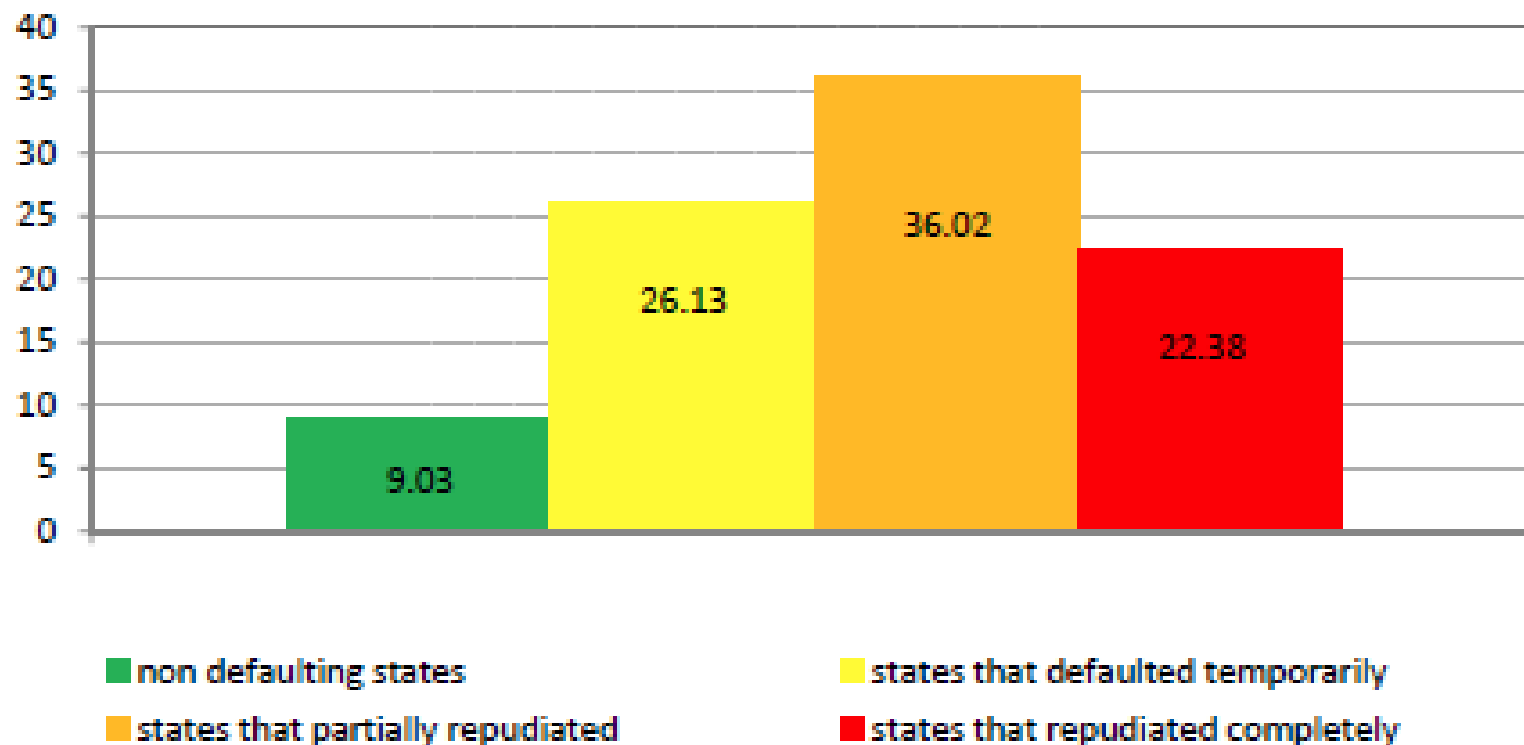
Maine,	1 dis	Louisiana,	15 to 50 dis
New Hampshire,	1	Mississippi,	no sale
Vermont,	1	Michigan,	no sale
Massachusetts,	1	Arkansas,	no sale
Connecticut,	1	Missouri State Bk,	10 dis
Rhode Island,	1	Florida,	no sale
New York City,	3	Wisconsin,	no sale
N. Y. Country,	2	Iowa Territory,	no sale
Georgia,	8 to 30 dis	Canada,	7 to 15 dis
Alabama,	30 dis	Nova Scotia,	20 dis
American Gold and Silver,	—	—	par

## A COUNTERFEITER CAGED.

Washington Taylor, charged with being concerned in counterfeiting, was committed by the Recorder last week, in default of \$1000000

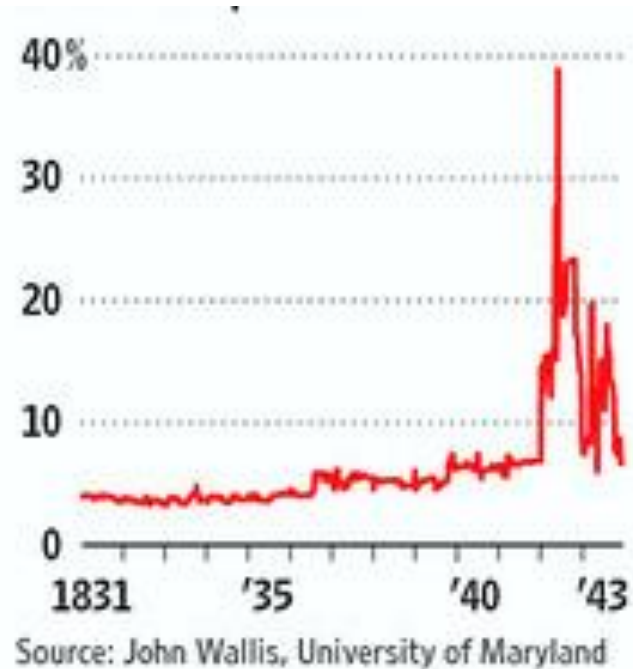


# State debt as share of state income



Source: Adapted from English, William, B. (1996). Understanding the Costs of Sovereign Default: American State Debts in the 1840's. *American Economic Review*, 86, 259-275.

# The markets react



Yield on bonds of defaulting states, 1831-1844

# Mississippi and its creditors

## MEXICAN BONDS IN DEFAULT

The Council of Foreign Bondholders announce a GENERAL RE-DISTRIBUTION of the undermentioned Bonds, deposited with them from 1922.

6% GOLD 10-YEAR TREASURY BONDS OF THE FEDERAL GOVERNMENT OF THE UNITED STATES OF MEXICO OF 1913 (THIRD SERIES C)

6% FIRST AND SPECIAL MORTGAGE GOLD BONDS OF THE MEXICAN NATIONAL PACKING CO. LTD.

Holders of the Council's Certificates of Deposit wishing to claim re-delivery of the Bonds are invited to apply to the Council for further information.

9-12 Cheapside Telephone 01-236 3641  
London EC2V 6AB (10.00 a.m. — 4.00 p.m.) 20th March 1980

## STATE OF MISSISSIPPI

The majority of the Bonds of the following debts defaulted and repudiated before the Civil War are held in Europe.

Description of Debt	Approximate Principal Amount Outstanding
6% PLANTERS' BANK BONDS, 1831-3	\$1,912,000
5% MISSISSIPPI UNION BANK BONDS, 1838	\$5,000,000

## History of the Mississippi State Debt (See also 1939 Report — under U.S.A.)

### 1933

Three heirs to original holdings of repudiated Planters' and Union Bank Bonds presented parts of their holdings to the Principality of Monaco, which, not being a "citizen or subject", should not be debarred from suing upon the Bonds before the United States Supreme Court. A declaration was sought that Mississippi's repudiating clause in her Constitution is illegal and so null and void, and that her Bonds, which have repeatedly been declared valid by her own courts, must be paid.

### 1934

On 21st May the Supreme Court gave judgment that the application of the Principality of Monaco for leave to sue the State of Mississippi in respect of repudiated Planters' Bank and Union Bank bonds must be denied. This opinion was, in substance, based upon the contention that it was contrary to the intention of the Federal Constitution that a State of the Union should be sued by a Foreign State without the former's consent. The refusal of the application to sue, therefore, prevented the hearing of the actual facts of the case. The right of the States of the Union to sue each other without consent was confirmed.

### 1947

The Council's Report for 1947 contained the following short summary of the claims of the Bondholders:—

It has been brought to the notice of the Council that, owing no doubt to the passage of time that has elapsed, the origin of these debts has been largely forgotten and that they are even sometimes believed to have been contracted during the Civil War, or during the Reconstruction or "carpet-bagger" period. A summarised history of these debts is contained in the appendices to the Council's Reports for 1939 and previous years. Both Loans were placed, for the most part in Europe, long before the Civil War, and their only connection with the postwar "carpet-bagger" régime is Section 258 of the present Mississippi Constitution which states, giving no reasons, that payment of either Bond issue is forbidden. This "Constitutional Amendment", conceived and introduced in 1875 by a Northern governor, was condemned as dishonourable by 18 per cent. of the voters. The largest taxpayers of both political parties had always been uniformly in favour of paying the Bonds (History of Mississippi, Lowry & McCardle) and previously, in 1852, a minority of thousands of honest citizens voted in the affirmative when the question of direct taxation to pay the Planters' Bank Bonds was put to the people.

The validity of the Union Bank Bonds was unanimously upheld by the Mississippi Supreme Court in 1853. The State's defiance in this instance of its own highest tribunal, and its disregard also of the message of six successive Governors before the Civil War pleading for payment of the never-contested Planters' Bank Bonds has been severely condemned by many of the highest legal and moral luminaries in the United States, including many leading citizens of the State of Mississippi itself. The attempts, which have been made from time to time either by persuasion or by legal processes to obtain practical recognition of the obligation have hitherto proved unsuccessful, but the Council cannot acquiesce in an unjustifiable default merely because it has been successfully maintained for many years.

### 1952

The Council wrote in February 1952 to the Governor-elect of the State of Mississippi inviting him, on assuming the Governorship, to give his earnest consideration to the default on the State of Mississippi Planters' Bank and Union Bank Bonds. They pointed out the injustice which was perpetrated so long ago and invited the Governor-elect to appoint a representative to discuss with them the best practical method of settling the matter in a creditable and satisfactory way. The Governor did not respond to the suggestion.

### 1978

In January the Council wrote to the Governor of the State of Mississippi requesting discussions. No reply was received.

### 1841-1979

The Planters' Bank and Mississippi Union Bank Bonds remained in default.



10

ST 70

National Currency  
SECURED BY UNITED STATES BONDS OR OTHER SECURITIES  
UNITED STATES OF AMERICA

ST 70

13198

SERIES OF 1902.

C

10



WILLIAM M. KINLEY

8470

*J. M. Miller*  
Register of the Treasury

THE

FIRST  
NATIONAL BANK  
OF

*Carmi A. Thompson*  
Treasurer of the United States

SAVONIA

WILL PAY TO THE BEARER ON DEMAND

TEN DOLLARS

Savonia, GEORGIA

8470



13198

*Wm. Harrison*  
CASHIER

*Oct 10, 1913*  
*Yves R. Cobb*  
PRESIDENT

10

ST 70

ST 70