

Economics C23-1

Lecture 10

The Antebellum Financial System

I. Money: what is it?

Bank Money



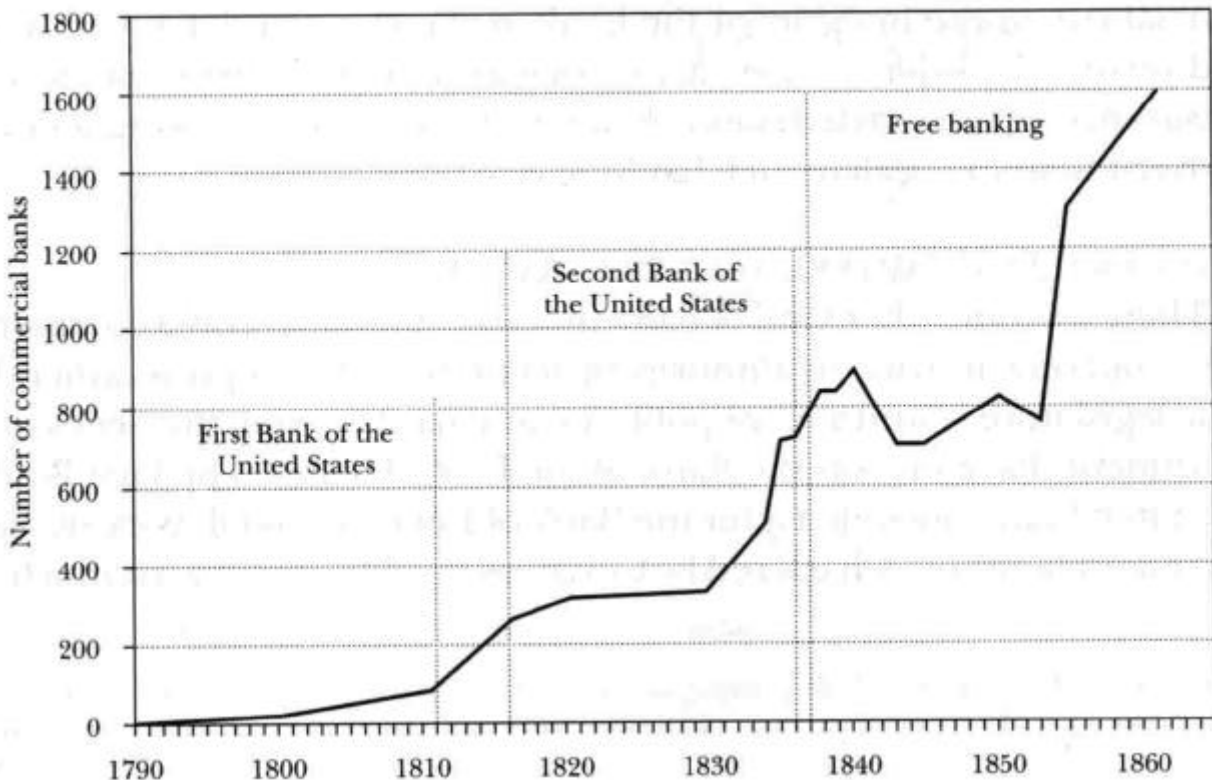
A One-Dollar Bank Note Issued by the Delaware City Bank in 1854

Source: Margaret Myers, *A Financial History of the United States* (New York: Columbia University Press, 1970): 129.

Store of value?
Medium of exchange?
Unit of account?

II. Banks: what do they do?

The Growth of Commercial Banking
1790–1861



Some details:

$$\begin{array}{l} \text{Money Supply} \\ \mathbf{M} \end{array} = \text{bank liabilities} + \text{currency} \\ = \mathbf{D} + \mathbf{C}$$

**before 1865, liabilities are almost all notes,
payable in legal tender (gold and silver,
plus Greenbacks after 1862)**

High powered money (the monetary base), the legal tender is held by banks as reserves or by the public as currency

$$H = R + C$$

Banks hold legal tender as reserves against liabilities

$$D = R/r$$

where r is the reserve ratio (set by prudence or law)

Public holds currency when it's more convenient than other bank liabilities

$$C = cM$$

where c is the currency ratio (but it's not independent of r – why?)

If c and r are constant, we can write the stock of high powered money $H=cM+rD$

Re-arranging in terms of D yields

$$D = (H - cM)/r$$

Substituting back into the definition of the money supply, we get

$$M = H / (c + r - cr)$$

III. Problems: A. too few banks?

The Geographic Distribution of Banks
1830

PANEL A



1850

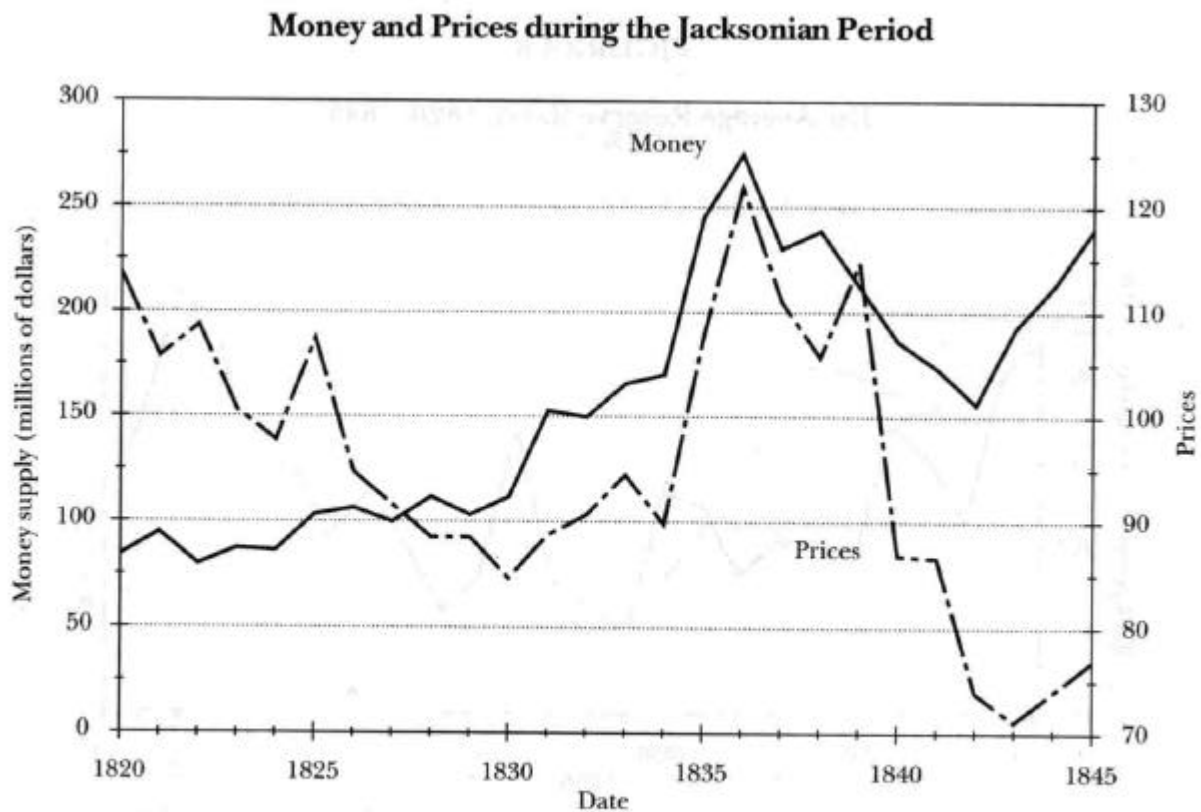
PANEL B



Source: Charles O. Paullin, *Atlas of the Historical Geography of the United States*, (Washington, D.C.: Carnegie Institution, 1932): Plate 154, Panels C and E.

B. The “Bank War” and its impact

1. the post-1837 collapse



Source: Price data from Ralph C. H. Catterall, *The Second Bank of the United States* (Chicago: University of Chicago Press, 1902): 158. Money supply data from Peter Temin, *The Jacksonian Economy* (New York: W. W. Norton, 1969): 71, 159.

2. the “free banking” experiment

Cumulative Noteholder Losses under Free Banking to 1860

State	Free Banking Years	Cumulative Losses (\$)
Michigan	1837-60	1,000,000
New York	1838-60	394,700
Indiana	1852-60	227,900
Minnesota	1858-60	96,600
Ohio	1851-60	77,600
Vermont	1851-60	24,500
Illinois	1851-60	21,300
New Jersey	1850-60	6,000
Georgia	1838-60	3,000
Alabama	1849-60	0
Massachusetts	1851-60	0
Connecticut	1852-60	0
Tennessee	1852-60	0
Wisconsin	1852-60	0
Florida	1853-60	0
Louisiana	1853-60	0
Iowa	1858-60	0
Pennsylvania	1860	0
TOTAL		\$1,851,600

Source: Hugh Rockoff, “The Free Banking Era: A Reexamination,” *Journal of Money, Credit, and Banking* 6 no. 2 (May 1974): 150. Reprinted by permission. Copyright 1974 by the Ohio State University Press. All rights reserved.