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OFF THE SHELF

The Deluge Before the Dollar

By STEPHEN KOTKIN

Correction Appended

IN “A Nation of Counterfeiters” (Harvard University Press, $29.95), Stephen Mihm takes us back to the screwball days between the American Revolution and the Civil War, when the dollar did not exist.

No U.S. dollar? That’s right, at least not as we know it, in the form of paper money. America’s currency, such as it was, was issued by hundreds of private banks. They put out notes after supposedly depositing bonds or other assets with the banks of the states. But 19th-century America abounded in phony banks issuing bogus notes. And often even the chartered banks circulated paper way beyond what they could even partly back up, acting as legal counterfeiters.

“Bank notes, which put the ‘capital’ in capitalism, were nothing more than glorified I.O.U.’s,” asserts Mr. Mihm, an assistant professor of history at the University of Georgia. In other words, they were mere promises to pay in gold or silver at the issuing bank, if such a demand were made. Legitimate notes were discounted in third-party transactions if their bearers looked suspicious, while notes of nonexistent banks could pass at par if people took them at face value.

“Bills could function whether counterfeit or not,” the author writes. It was literally confidence money.

This is a fun book. Mr. Mihm has a tendency to opt for entertainment over explanation. Unfortunately, he fails to provide enough context to follow his delightful narrative, or sustained international comparisons to help judge the American story. And he blithely asserts that establishment of a dollar backed by the federal government in the 1860s and 1870s finally turned America into a “genuine nation.” What was the United States before then — under Washington, under Jefferson? A knockoff?

Still, Mr. Mihm’s creative account of the early American economy shines, spotlighting the on-the-edge inventiveness, and over-the-edge cons, that have made the United States so rich in risk, reward and redemption.

In Britain at the time, counterfeiting was a treasonable act, punishable by death. But the United States had precious little precious metal like silver — try minting coins out of buffalo chips. “Americans’ faith in paper currency,” Mr. Mihm asserts, “was less a choice than a necessity.” Dubious currency, too, he says, helped meet an insatiable demand for capital and credit.
Much of the outright counterfeit money — aside from those notes that banks issued way beyond prudent limits — originated in the border areas between the United States and Canada. The epicenter became a dirt road known as Cogniac Street, in the Quebec village of Dunham, whence the fakes circulated thanks to the new Champlain and Erie Canals.

Fraud’s benefits, Mr. Mihm suggests, bypassed the South’s economy. Forgers on the Canadian and then the Ohio frontiers tended not to venture down the Mississippi because the South had a dearth of top engravers, as well as vigilante experience in tracking down fugitives (that runaway slave problem).

The Cogniackers were rarely jailed. Bail was routinely skipped, making it a kind of business tax. Convictions were overturned via bribes. If anything, law enforcement became an unwitting instrument of rival gangs.

Meanwhile, Mr. Mihm writes, “many of the families involved in the selling and shoving of notes intermarried, creating new criminal alliances.” Ace counterfeiters like Seneca Paige, Ebenezer Gleason, and Stephen Burroughs acquired mythic status as romantic outlaws who outdid those “speculators” at real banks as well as the authorities.

Horse thieves doubled as distributors until special carriers arose to deliver packages of counterfeits (called “boodle”). Small-time “passers” also joined the Cogniacking trade, as it was called, cradling babies while trying to pass phony notes. Some dipped the counterfeits in oil to give them the appearance of having already circulated widely. Thus was money made.

Clerks at shops and banks consulted detection aids, like the often-updated Thompson’s Bank Note Reporter. But the sale of signature-comparison pamphlets mostly helped counterfeiters to improve their imitations. Predictably, Thompson’s detection aids themselves became a target of counterfeiters.

Forget about the victims of the swindling — Mr. Mihm does. “The United States,” he argues, “was hardly held back by these illicit additions to the money supply.” Bank panics, even the serial private-bank failures (their notes lived on as “paper corpses,” backed by nothing) provided only grist for the mills of the forgers.

“Though often a nuisance,” Mr. Mihm argues, “counterfeiters performed a public service,” stepping into the breach.

He points out that private banks of the conservative Boston establishment attacked sham notes with some success. But efforts to reinforce Alexander Hamilton’s original hopes for a federal bank to provide oversight were subverted in the 1830s by President Andrew Jackson, who opposed “concentration of power.”

The Civil War brought federal government action. To finance the Union’s cause, the Treasury introduced a federal greenback, the Secret Service ruthlessly pursued forgeries, and legislation taxed the prewar notes of private banks into history’s dustbin. By contrast, the Confederacy’s wartime graybacks failed, lacking the backing of a strong central government. (The slave states had revolted in part against centralized
power.) Even before war’s end, paper greenbacks dominated in Dixie, too.

Moneymakers had to find realms other than the currency in which to flourish, like Ponzi schemes and, more recently, sliced and diced mortgages. As the “Working Man’s Advocate,” a labor newspaper, huffed back in 1833 about America’s apparent national ethos, “Make money, honestly, if you can, but at all events, make money.”

And on that rests today’s global financial system.

Correction: January 13, 2008

The Off the Shelf column last Sunday, a review of “A Nation of Counterfeiters,” a book about the history of American counterfeiting, referred incorrectly to a practice in Britain, where counterfeiting was once considered a treasonable act. It was punishable by death without “benefit of clergy,” meaning the special protections once granted to clergy members and certain others to be tried in separate church courts and to avoid some types of punishment; it did not have to do with “access to clergy” for absolution rites.