

Econ 113: February 12, 2015

- Antebellum Labor Markets
- Antebellum Poor Relief in New York
- Antebellum Banking & Finance
 - Asymmetric Information
 - Insider Lending
 - Cotton Factors
 - Redeeming Bank Currency

- Refer to 2/10 slides for many of today's slides

The South: Cotton Factors

- Very few commercial banks in the South
- Men known as “cotton factors” were key to financial system in antebellum South
 - Secured credit for growers
 - Oversaw getting cotton to market

Free Banking Era, 1836-1864

- Meet the rules? You can open a bank.
 - No need for state legislature to charter a bank
 - Apply to a bureaucrat for a banking license
- Each bank issued its own currency
 - But variety of currency not a good thing

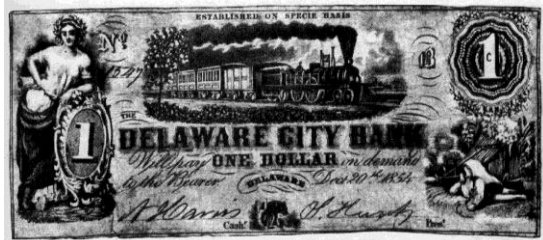
A state bank note



A bank note issued by a private bank before the Civil War. Notes like this one circulated from hand to hand as money.
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Redeeming paper currency

- State bank notes were redeemed at or (most often) below par



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

Redeeming paper currency

- Asymmetric Information problems affected "discount rate" applied to bank currency
- Redemption rates varied with
 - Distance
 - Capital/asset value
 - Location
 - General reputation
- Thompson's Bank Note and Commercial Reporter

Bank Note Reporter

An excerpt from Sheldon's North American Bank Note Detector and Commercial Reporter, Chicago, July 2, 1853. Notes of Louisiana banks were at a 3 percent discount in Chicago. Descriptions of counterfeit notes are listed under the banks.

LOUISIANA.
Bank of Louisiana—New Orleans—Wm. W. Montgomery, Pres.; R. M. Davis, Cash 3
 5s, altered from a broken bank, "Louisiana" defective.
 20s, description hereafter, as we have not seen these bills.
 50s, new plate, altered from 5s.
 500s, let. A. Nov. 1, 1839—vig. Cybele & Mercury—on the right an Indian—the bank has issued nothing like it.
Citizens' Bank—New Orleans—E. W. Moise, Pres. 3
Exchange Bank—New Orleans—H. Beard, Manager; J. E. Armor, Cash 3

Beard, Manager; J. E. Armor, Cash 3
Louisiana State Bank—New Orleans—Samuel J. Peters, Pres.; Richard Reif, Cash 3
 10s, L. Buhl cash, C. Clement, pres.—engraved by the "Western Bank note Company."
 20s, v.g. a female, agricultural implements &c., her left hand rests on the figure 2, and her right hand on the 0—on the left, a view of the place d'arms and cathedral—not like genuine.
 50s, the female in her right hand holds a sword, and her left arm rests on a sheaf of wheat—a bridge, train of cars, &c., on her right—a broad, dark colored band on right and left margin, one having the figure 50, and the other the word FIFTY upon it. The note reads the "Louisiana State Bank will pay Fifty Dollars to the bearer on demand." All these particulars are different from the genuine note, although in their general appearance they are much the same.
 100s, vig. locomotive and cars—Franklin on one end and Roman head on the other—not like genuine, and poorly done.
Louisiana State Bank—(Branch.) Wm. H. Avery, Pres.; R. J. Palfrey, Cash 3

Lowering risk of redeeming paper currency

1. Regulation (informal or formal)
 - Forstall System (est. 1842 in Louisiana)
 - require specie as reserves against notes
 2. State capital requirements under free banking
 3. Monitoring
 - Suffolk System (1824-1858)
-
- Difficulty with currency redemption slowed interstate commerce, but Southern members of Congress opposed federal solution

An Agricultural Nation

Table 2.
Labor Force: Agricultural and Non-Agricultural

	Slave	Free Agric	Free Nonag	Total
1800	28 %	53 %	19 %	1.9 m
1830	28 %	50 %	22 %	4.2 m
1860	21 %	37 %	42 %	11.1 m

Source: *Historical Statistics*, Series D167-170.

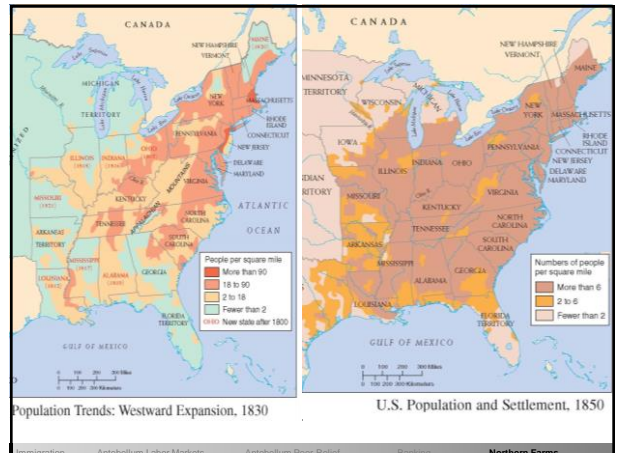
- Over 50 % of market labor force is in agriculture until early 1880s

Northern Settlement

Table 3. Northern State Settlement

	Year population >100,000	Year became a state
Ohio	1810	1803
Indiana	1820	1816
Illinois	1830	1818
Missouri	1830	1821
Michigan	1840	1837
Iowa	1850	1846
Wisconsin	1850	1848
Minnesota	1860	1858

Source: *Historical Statistics*, Series A195-A209.



Northern (midwestern) farms

- Family farms; little hired labor
- Activity: grains, corn, animal husbandry
- Size in 1860
 - Median: 49 acres
 - Mean: 64 acres

Gini Coefficient

- Measures how evenly something is distributed
 - Equal distribution: Gini = 0
 - Completely unequal distribution (one person owns everything): Gini = 1

Small Northern Farms

Table 4. Improved Acreage Northwest States, 1860

	Mean	Median	Gini
Illinois	92	73	0.46
Ohio	72	65	0.34
Indiana	65	51	0.43
Iowa	63	47	0.43
Wisconsin	54	42	0.40
Minnesota	31	26	0.26
Overall	64	49	0.42

Source: Gavin Wright, *Political Economy of the Cotton South*, Table 2.2