

7-1-1995

Mediums of Exchange in Early Huntsville

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Recommended Citation

Burrwell, Emily (1995) "Mediums of Exchange in Early Huntsville," *Huntsville Historical Review*. Vol. 22: No. 2, Article 4.

Available at: <https://louis.uah.edu/huntsville-historical-review/vol22/iss2/4>

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Plate No. 1. Circa 1790 Mexican silver coins photocopied from *Illustrated Encyclopedia of World Coins*, Hobson, Burton, and Obojski, (Doubleday, 1970) p. 285



Plate No. 2. Change tickets from R. J. Manning, 1838. Photocopied from *Alabama Obsolete Paper Money and Scrip*, Rosene, Walter Jr. (Society of Paper Money Collectors, Inc. 1984), p. 54

Emily Burwell

The currency that Huntsvillians used in the early 1800s included both paper money and coins, but both looked very different from the money used today. Coins in circulation probably included both American and foreign-made pieces, most frequently the latter. Congress had established in Philadelphia in 1792 a mint which produced US. coins including \$10 gold coins called "eagles," silver dollars,¹ and copper coins in both one cent and half cent denominations. Some of them could very well have been brought into Alabama, but most authorities on the subject assert that foreign coins were much more likely to be found on the frontier than American coins.² A law passed in 1793 made foreign coins part of the US. monetary system,³ and it was not until 1857 that Congress voted to remove them from circulation.⁴

Even foreign coins were not abundant, however. When Alabama entered the Union in 1819, the country was in a period of financial disorder due to a nationwide panic, and people were hoarding precious metals, especially gold coins.⁵ As evidence that silver coins were used in Huntsville, an early newspaper advertisement gave notice that a Mr. Estill would give silver for a few shares in Huntsville's Planters and Merchants Bank.⁶ Thus, it would seem that most coins used in Huntsville in 1819 were probably Spanish or Mexican silver coins.⁷ Plate No. 1 shows some examples of these.

Since there were not nearly enough small coins in circulation, people had to devise some other medium to serve the ordinary needs of trade. Certain businesses and municipalities issued "change tickets," which were bits of paper purporting to be worth twenty-five, fifty, or seventy-five cents.⁸ Plate No. 2 shows one of these change tickets that substituted for coins.

Paper money used in early Huntsville was based on a system entirely different from that in use today. There was no Federal Reserve system producing paper bills used uniformly all over the country. Instead, each bank issued its own paper money or "bank notes" in denominations of \$1, \$5, \$10, \$20, etc., and each looked different from any other bank's notes.⁹ On the face of these paper bills was the bank's promise to give the bearer, upon demand, the value of the note in gold or silver coins, i.e. "specie." The banks issuing this paper money were chartered by individual states or territories. In Huntsville the Planters and Mechanics Bank (the name later changed to Planters and Merchants Bank) was chartered in 1816 by the General Assembly of the Mississippi Territory.¹⁰ Its founders included LeRoy Pope, president, David Moore, Clement Comer Clay, and John W. Walker, plus several other prominent early Huntsvillians.¹¹ The

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bank started operations on October 17, 1817, near the location of the present First Alabama Bank building on the west side of the square in downtown Huntsville.¹² Plate No. 3 shows a picture of the only known surviving bank note from this bank and a picture of one of the bank's "proof notes" (an unsigned sample of what the note would look like, sent by the company manufacturing the notes to LeRoy Pope for his approval).

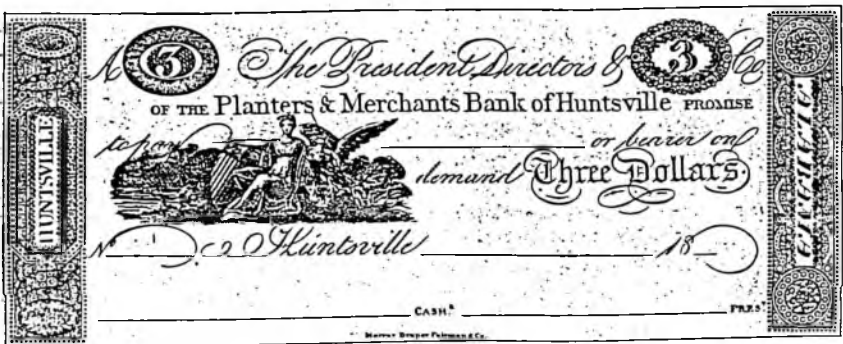


Plate No. 3. Photocopy of the only Planters & Merchants Bank Note in existence (1824). Copy provided by Alabama Archives, Montgomery, Alabama
One of the Planters & Merchants Bank's proof notes, a photocopy sent by Mr. Bob Cochran of St. Louis, MO, Secretary of the Society of Paper Money Collectors.

Money or "notes" produced by many other banks also would have been used in Huntsville in the early 1800s. As people moved into Alabama, they would bring with them money issued by banks in the east. As mentioned earlier, these bank notes were essentially promises by the issuing banks to pay the face amount in gold or silver, called "specie."¹³ It would be highly inconvenient for someone in Huntsville to have to go to Charleston, for example, to receive the full face value of the note. Therefore, the farther away the money got from its issuing bank, the less its value. Many scholars refer to this as the Wildcat Period of banking, because so many of these state-chartered banks were not regulated sufficiently.¹⁴ As a result, a high percentage of them had insufficient capital and made risky loans, leading to a high rate of bank failures.¹⁵ This was another reason why a person in Huntsville would prefer to use money (or notes) of a bank convenient to Alabama. To illustrate, one Mr. Veitch advertised in a Huntsville newspaper in 1820 offering Georgia, North and South Carolina, and Virginia bank notes in exchange for current notes of the Bank of Tennessee.¹⁶ In Huntsville, the bulk of currency consisted of notes of the new banks of Tennessee, Kentucky, and LeRoy Pope's bank,¹⁷ although there is also evidence of widespread use of the notes of New Orleans¹⁸ and Georgia¹⁹ banks. Probably the soundest paper money was issued by the Second Bank of the United States, chartered by the U.S. government from 1816 to 1836.²⁰ But these U.S. bank notes were very hard to come by in the new Southwest of which Alabama was a part. Plate No. 4 shows examples of bank notes from other states that could very well have been used in early Huntsville.

LeRoy Pope's Planters & Merchants Bank was permitted by its charter to issue paper money up to three times its paid in capital, and the bank actually exceeded even this liberal limit.²¹ Although the bank appeared to prosper from the time of its opening in 1817 until 1819, evidenced by its declaring dividends to stockholders,²² 1819 actually started a time of financial panic in the country.²³ After the Napoleonic Wars had ended in Europe, there was a strong European demand for southern staples, but this "flurry of postwar buying" had ended by 1819,²⁴ and the prices of southern crops fell. Many planters had borrowed large sums to buy land and labor in the first place, when times were good;²⁵ and now they were unable to weather the storm of falling prices for their crops. In addition, the Bank of the United States in 1819 began to call on its branches and banks in which it had made deposits for repayment of loans that would normally have been carried longer.²⁶ Many of the state banks, having limited specie to begin with, were unable to meet the demands of the Bank of the United States and to redeem their own notes that were presented.²⁷ Thus, they had to suspend specie payments, meaning they would no longer pay gold and silver on demand when someone tried to redeem the bank's notes. Instead they would give out only paper. When this happened, the bank's notes began to circulate "below par," or for less than their face value, and would often be referred to as "paper rags."²⁸

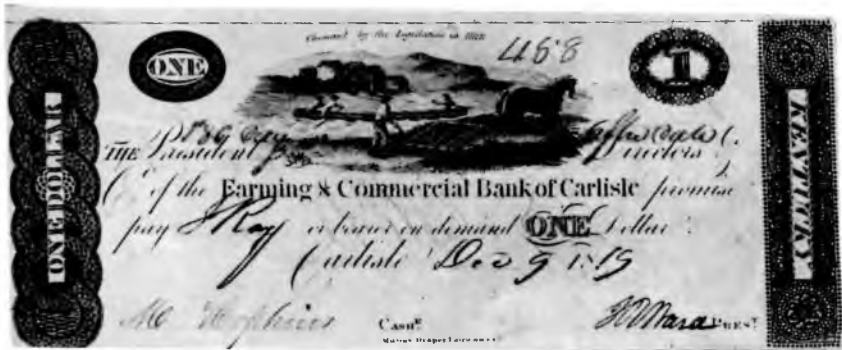


Plate No. 4. Photocopies of Kentucky bank notes, dated 1818 and 1819, owned by Emily and Jack Burrwell.

In early 1819, all the banks in Kentucky had suspended specie payments, and their notes were circulating at a discount from 20 to 30 percent.²⁹ By July 1819, no bank in Tennessee was paying specie.³⁰ This resulted in a run on Huntsville's Planters and Merchants Bank for specie, because it had not yet suspended payment. At the same time, the Bank of the United States had been demanding that Pope's bank pay the amount it held for the U.S. Bank (for land purchased at the public land sales) in specie.³¹ On June 16, 1820, Huntsville's Planters and Merchants Bank also found it necessary to suspend specie payments.³² The bank's notes steadily declined in value after this suspension,³³ and were said to be circulating at 25 percent below par in June of 1821.³⁴ Finally, in February of 1825 the Governor of Alabama voided the charter of the first bank in Huntsville for failing to pay specie.³⁵ The bank was allowed several more years to liquidate.³⁶ The building that had housed the bank was destroyed by fire in 1829.³⁷

Huntsville's second bank was the Huntsville Branch of the Bank of the State of Alabama. The 1819 Alabama Constitution had authorized a state bank,³⁸ and the bank was chartered in December of 1823.³⁹ This bank was entirely owned by the state, with no individual stockholders,⁴⁰ thus giving rise to the hope that it would be a bank for all the people instead of giving preference to a group of insiders. But the bank had a basic flaw in that its directors were to be elected annually by the State Assembly (or legislature), thus opening the door for undue political influence in its management.⁴¹ The Bank of the State of Alabama was to be located in the "Seat of Government," according to law.⁴² The bank opened in March of 1825 at the then "seat of government," Cahawba.⁴³ When the state capital was changed from Cahawba to Tuscaloosa, the bank was moved to that town.⁴⁴ The first branch of the Bank of the State of Alabama was chartered by the Assembly in 1832 to be located in Montgomery,⁴⁵ and the second branch was chartered in the same year to be located in Decatur.⁴⁶ The third branch was also chartered in 1832 to be located in Mobile.⁴⁷ In 1835 the Huntsville branch of the Bank of the State of Alabama was chartered.⁴⁸ The Assembly voted to make Bartlett M. Lowe president of the bank,⁴⁹ and the bank opened for business in July of 1835.⁵⁰ Shortly thereafter, the Greek revival building that was to be the bank's first home was erected. The same building survives today on the square in downtown Huntsville as the main Huntsville office of the First Alabama Bank. Plate No. 5 shows examples of bank notes from the Huntsville branch of the Bank of the State of Alabama.

The Bank of the State of Alabama and its branches were liquidated beginning in the mid-1840s due to "mismanagement and fraud."⁵¹ But to the Huntsville Branch's credit, a prominent Alabama banking historian referred to it as the "best bank in the system."⁵²

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A study of early mediums of exchange and of banking in Huntsville prior to 1845 reveal the difficulties and risks faced by all segments of the economic spectrum because of the lack of a stable currency. It is little wonder that people with money invested it in land and other items the value of which were not as subject to the vagaries of economic cycles.



Plate No. 5. Proof notes of the Branch of the Bank of the State of Alabama at Huntsville, from the collection of Mr. Bob Cochran of St. Louis, MO.

ENDNOTES

¹*The World Book Encyclopedia*, (1990 edition) Vol. 13, "Money," pp. 708-709

²Moore, Albert Burton, *History of Alabama and Her People*, (1927) Vol. I, p. 282.

³*The World Book Encyclopedia*, Vol. 13, p. 709.

⁴*Ibid.*

⁵Moore, p. 282.

⁶Brantley, William H., *Banking in Alabama 1816-1860*, (1961) Vol. I,
p. 6.

⁷Moore, p. 282.

⁸*Ibid.*

⁹*Ibid.*

¹⁰Brantley, p. 3.

¹¹*Ibid.*, p. 426,

¹²*Ibid.*, p. 7.

¹³*The World Book Encyclopedia*, (1990 edition) Vol. 2, "Bank", p. 93.

¹⁴*Ibid.*

¹⁵*Ibid.*

¹⁶Haagen, Victor B., *The Pictorial History of Huntsville, 1805-1865*.
(1963) p. 38, showing a page of the *Alabama Republican* newspaper, April 29,
1820.

¹⁷Moore, p. 283.

¹⁸*Ibid.*

¹⁹Brantley, p. 22

²⁰*The World Book Encyclopedia*, Vol. 13, p. 709.

²¹Brantley, p. 15.

²²*Ibid.*, pp. 13 and 15.

²³Sydnor, Charles S., *The Development of Southern Sectionalism, 1819-1848*. (1948), p. 104.

²⁴*Ibid.*, p. 105.

²⁵*Ibid.*

²⁶*Ibid.*, p. 110.

²⁷*Ibid.*, p. 111.

²⁸Brantley, p. 19. He quotes an Alabama senator speaking of the "evils of paper rags."

²⁹Sydnor, p. 111.

³⁰Brantley, p. 17.

³¹*Ibid.*, pp. 16-18.

³²*Ibid.*, p. 22.

³³*Ibid.*, pp. 25, 27.

³⁴*Ibid.*, p. 29.

³⁵*Ibid.*, p. 145.

³⁶*Ibid.*, p. 446.

³⁷*Ibid.*, p. 219.

³⁸*Ibid.*, p. 18.

³⁹*Ibid.*, p. 96.

⁴⁰*Ibid.*

⁴¹*Ibid.*, p. 313.

⁴²*Ibid.*, p. 98.

⁴³*Ibid.*, p. 147.

⁴⁴Ibid., p. 167.

⁴⁵Ibid., p. 242.

⁴⁶Ibid., p. 256.

⁴⁷Ibid., p. 257.

⁴⁸Ibid., pp. 301, 469.

⁴⁹Ibid., p. 304.

⁵⁰Ibid., p. 305.

⁵¹Rosene, Walter Jr., *Alabama Obsolete Paper Money and Scrip*. (1984), p. 5.

⁵²Brantley, Vol. II, (1967) p. 196