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Northern Entrepreneur's Counterfeiting of Confederate Currency and The Impact It Had On Inflation

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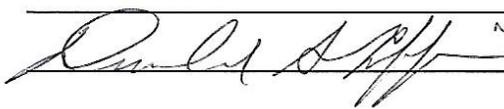
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NORTHERN ENTREPRENEUR'S COUNTERFEITING OF CONFEDERATE CURRENCY
AND THE IMPACT IT HAD ON INFLATION

A Thesis

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Raymond Rector

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Introduction

When the Confederate States of America succeeded from the Union in 1861, they quickly began to issue their own currency to fund their war efforts. Due to the poor quality of these bills, counterfeiting quickly ran rampant within the Confederacy. By the end of the Civil War in 1865, the Confederate economy had completely collapsed due mainly the defeat of the Confederate army along with hyperinflation. The purpose of this paper is to analyze the effect of counterfeiting in the Confederate economy by using a more accurate estimation of the total amount of counterfeit bills in circulation. I will also investigate some of the important but overlooked sources of Confederate counterfeits such as Havana, Cuba, as well as a new source from New York City named “Haney.” Finally, I will examine the interesting dilemma that the United States government faced: officials were effectively unable (or at least unwilling) to prosecute counterfeiters because to do so would give de facto recognition of the Confederacy as a legitimate country.

My hypotheses for this study are as follows. Hypothesis 1: The Union government could not prosecute Confederate counterfeiters because doing so would recognize the Confederacy as a legitimate country. Hypothesis 2: Previous estimations for the total amount of Confederate counterfeit bills in the economy are too low. Hypothesis 3: Many sources of Confederate counterfeit bills are often overlooked or under represented, such as Havana, Cuba, which is the likely cause of the discrepancy in Hypothesis 2.

Background

Sam Upham was one of the main counterfeiters of Confederate currency. Although he would hold many different jobs throughout his life he began his career as a store clerk in Philadelphia, Pennsylvania. He married Anne Bancroft in December 1846, and the couple did not stay in Philadelphia for long. The Uphams embarked on a ship, which sailed to California in January 1849. Within the first three weeks, Upham found over \$400 worth of gold nuggets. Despite this initial success he decided to find a more reliable career, a job at a local newspaper for \$100 a day. This newspaper job would provide him with the printing experience he needed to make his counterfeits. Upham would move back to Philadelphia in 1850 where he would continue working for local newspapers before opening his own drugstore.

Sam Upham got the idea for his counterfeiting scheme on February 24, 1862 when he noticed that his drugstore had sold an unusually large volume of his newspaper, *the Philadelphia Inquirer*. (Weidenmier 1999) Upham attributed the sales to the printing of a Confederate five dollar bill on the front page. He saw this interest in Confederate currency as a business opportunity, and he obtained the electrotype plates that were used to produce the exemplar in the newspaper. (Tremmel 2003) Upham expanded his operations by advertising that he would pay for new exemplars of Confederate currency and helped produce 28 different types of currency over the course of his operation.

Upton began to sell these copies in his drugstore; five dollars would buy you twenty thousand dollars of confederate money. Upham promoted his business by printing “Fac-simile Confederate Note- Sold Wholesale and Retail by S.C. Upham, 403 Chestnut St. Philadelphia” on the bottom of each note. (Tremmel 2003) This inscription also served to protect him from

accusation of being a counterfeiter because the inscriptions meant that the notes could be easily recognized as fake. Thus, Sam Upham claimed throughout the war that his notes were intended to be souvenirs and not counterfeits. (Weidenmier 1999) This inscription could be easily trimmed, however, making them identical to Rebel bills. Later in his operations he dropped the inscription altogether. (Tremmel 2003) By his own accounts in a 1875 letter to Dr. William Lee: “I printed from the 12th of March, 1862, to the 1st of August, 1863, one million five hundred and sixty four thousand fac-simile Rebel notes, of denominations ranging from five cents to one hundred dollars, and presume the Aggregate issue, in dollars and cents, would amount to the round number of fifteen millions of dollars” (Lee 1875).

It was recognized by the Confederate government that Sam Upham posed a serious threat to the Confederate economy. In response to this threat Jefferson Davis, the President of the Confederacy, put a \$10,000 bounty on his head that was redeemable, whether he was brought in dead or alive. (Weidenmier 1999) In addition to death threats he received from the Confederacy, Sam Upham’s operations were also investigated by the United States Government. Federal agents investigated Upham after receiving a tip that he was also counterfeiting Union paper money. Upham’s statement claimed that he was only counterfeiting Confederate currency for the war effort to weaken the Southern economy, a statement which contradicted his previous claims that his notes were not meant as counterfeits. His case was investigated and turned over to the United States Secretary of War, Edwin Stanton. Stanton dismissed Upham’s case, and some historians suspect that he provided aid to Upham’s operation, particularly in the form of Confederate banknote papers that had been captured on a blockade runner. (Mihm 2007)

Sam Upham's operation lasted a total of twelve months. (Weidenmier 1999) He ended his counterfeiting operations in August 1863, due to a fall in demand for his product. (Weidenmier 1999) The drop in demand is likely due to the military defeats of the South at the important battles of Gettysburg and Vicksburg that summer. These had cast a doubt on the ability for the Confederacy to survive and as a result their economy weakened. According to some historians, this supports the theory that a significant portion of Sam Upham's orders came from cotton smugglers who purchased cotton in the south and smuggled it across enemy lines into the north. (Weidenmier 1999) However, there is evidence, some of which comes from Upham himself, that at least a portion of smugglers cheated the southern cotton suppliers by purchasing counterfeit notes at deeply discounted rates and passing them off to their suppliers who were none the wiser. There is support for this because around the same time that Sam Upham quit producing counterfeit Confederate bills these bills stopped being an acceptable medium of exchange for cotton smuggling. Had Sam Upham been supplying these notes as wartime curiosity as he had claimed then it is likely that the production of these notes would have continued in some capacity for the duration of the war. The fact that production ends at roughly the same time that the demand for counterfeit bills dries up suggests that smugglers and other people who were looking to pass off the bills as legitimate were the real target market.

Winthrop E. Hilton is the second source of Confederate counterfeits about which historians know a significant amount. Before the war, Hilton ran a printing shop located at 11 Spruce Street in New York City. He printed a number of legitimate items such as business cards, circulars, posters, etc. (Tremmel 2003) It is unclear what prompted Hilton to begin

making counterfeits; however, there is some evidence suggesting that he was inspired by Upham's booming business venture. Upham himself was aware of Hilton's competition and felt that he was copying his business, an opinion he expressed in a letter to Dr. William Lee. (Glaser 1967) Regardless of Hilton's motivation, by the fall of 1862, he began selling high quality counterfeits of Confederate paper money. Unlike Sam Upham, Hilton did not hide the purpose of his counterfeits. In a newspaper ad for his business, he described his bills as "so exactly like the genuine that where one will pass current the other will go equally well."(Tremmel 2003)

Hilton's counterfeiting operation was put out of business on December 31, 1863 when he was arrested by U.S. Martial Robert Murry. The arresting officer also found \$6,000,000 worth of Confederate bonds, \$1,000,000 worth of Confederate bills, and the equipment required to produce these items. The tip was revealed to be an encoded message sent to a Confederate spy in Canada, which claimed that Hilton was actually producing real bills for the Confederacy and that he was planning to flee the country soon to Canada, and from there the Confederacy.

It is now believed that the Canadian spy was actually a set up by the Confederates in order to remove the counterfeiter who was doing damage to their economy. There is considerable evidence suggesting that this was actually the case. First, the letters which were used to incriminate Hilton were not coded properly by the Confederacy, which allowed them to be cracked more quickly by the Union codebreakers. Additionally, there was an article published in *Richmond's Daily Dispatch* on May 10, 1864 that claimed that Confederate agents had set Hilton up and went into detail about how they had done so. Finally, there is a letter from Confederate Secretary of the Treasury Christopher Memminger to Major General William

Whiting discussing an article that told of Hilton's arrest in New York. The Confederate Secretary of the Treasury stated that Hilton had no connection to the Treasury Department but that it was best to let the Union believe this because it was likely that Union officials had uncovered a counterfeiting operation. (Thian 1879)

Another source of counterfeit Confederate bills that is often overlooked, and I believe under reported, are operations working outside of the United States, in locations such as Havana Cuba. These bills likely made their way into the South in a number of ways. In the case of counterfeits produced in Havana, the bills were reported to have been shipped through the Union blockade to either New Orleans or Mobile, as well as being shipped to Mexico where they would have been smuggled into the Confederacy by land. There are examples of fifty, one-hundred, and five-hundred dollar bills that have been identified by the numismatic community as originating in Havana, Cuba. Havana is not the only location outside the United States where counterfeit bills were likely produced. It has been documented that the Confederate Treasury Department believed that printing specialists that they had recruited from Europe to help jumpstart the South's money printing capabilities were returning to their home countries with completed plates used to print Confederate bills and producing their own fakes from those. (Tremmel 2003)

Another source was a counterfeiter from New York, simply identified as "Haney," about whom not much seems to be known (Lee 1875). He is only mentioned in a letter by Sam Upham to Dr. Lee for his book on Confederate counterfeiting. In that letter, Upham mentions that he knew that his counterfeiting efforts were copied by a Haney and Hilton in New York. The name Hilton clearly refers to Winthrop Hilton, who operated his counterfeiting business out of New

York; however this Haney has never been identified. However, it is conceivable that if Haney was named as competition alongside Hilton, he likely ran a similar operation, particularly if it was sizable enough to be known by Upham. (Glaser 1967)

Calculations

It is possible to use estimations of the production of bills from unknown and known sources in order to calculate an approximation of the total value of the Confederate counterfeit money supply. A previous paper published by Marc D. Weidenmier, called *Bogus Money Matters: Sam Upham and His Confederate Counterfeiting Business*, (1999) tried to calculate the significance of Union counterfeiting on the Confederate economy. However, the results that were calculated by Weidenmier were incomplete at best, because they only take into account the fifteen million dollars printed by Sam Upham. One important thing that that Weidenmier's study did do was assume that not all of Upham's counterfeits made their way into the southern economy. Since these bills were produced in the North and were often sold as curiosities or souvenirs of the war, it can be assumed that not all of these bills made their way into the South's economy. Weidenmier calculated for counterfeiting as a percentage of the Confederate money supply based on 100, 66.6, 50, and 33.3 percent of Upham's counterfeits reaching the money supply.

A second study was conducted by George Tremmel, who published it in the book *Counterfeit Currency of the Confederate States of America* (2003). This study included many more sources for counterfeits including Winthrop Hilton, and under "other" category bills made in Havana, Cuba by an unknown producer; the Pyane Gang, which operated around northern

Kentucky; and finally, bills stolen from the Confederate government before they could be finished and properly released. Since there are no exact figures for how many bills Hilton produced, but it is known that he was Sam Upham's main competition and that he operated a similar sized operation, Tremmel estimates that Hilton produced around fifteen million dollars' worth of bills also. Since there are no known figures or records for the "other" category, Tremmel assumed once again that this source could account for another fifteen million dollars in confederate money. This is most likely a significant underestimation of the total value of bills produced by other sources. While it is definitely true that Upham and Hilton were the two largest producers of counterfeit bills, there is no evidence that they produced two thirds of the total value of confederate bills entering the market. It seems implausible, even without having a clear estimate on production numbers, to assume that the many other known and unknown counterfeiters would have only equaled numbers of a single operation. Additionally, Tremmel does not seem to account for the fact that not all of Upham and Hilton's bills would have made it into the South's economy, and he should have accounted for that.

For my calculations, I will calculate an approximate maximum and minimum based on reasonable assumptions on how many bills entered the South. For Sam Upham, it is known that by his own estimation after the war he produced approximately fifteen million dollars' worth of bills. It is safe to assume that some bills were legitimately purchased as curiosities or for some other reason did not enter the Confederacy. A reasonable estimation for the number of bills to enter the Confederate economy would be sixty to eighty percent. This conclusion was drawn because it is likely that anyone who purchased the bills to pass of as genuine would have

purchased them in bulk while souvenir collectors or anyone else who purchased a bill would have made much smaller purchases. It is reasonable to conclude then that a large amount, as much as eighty percent could have made it to the south, while the lower range of sixty percent provides a more conservative estimate that hopefully captures the true value between them. This accounts for between twelve and nine million dollars' worth of counterfeit bills entering the economy. Similarly, it can be assumed that Hilton produced fifteen million dollars, having a similar time line and size of operation, but this study will subtract the million dollars' worth of bills that the Secret Service seized when they arrested him for counterfeiting in 1863, since these bills would have not entered circulation. That leaves an estimated fourteen million dollars' worth of bills to enter the Confederate economy. If a similar proportion of Hilton's bills entered the Confederacy as Upham's, between eleven point two and eight point four million dollars' worth of Hilton's bills entered the southern economy.

All remaining sources of counterfeit bills fall under the "other" category. As mentioned before, Haney is another counterfeiter, who operated in New York. This is a counterfeiter not included by others in the consideration of total production, yet should be included in the category "other," even though not much is known about him. Yet, it is conceivable that Haney produced an operation comparable to Hilton, particularly since it appears to have been sizable enough to be known by Upham and mentioned years later in the letter to an author researching the subject. (Glaser 1967) However, lacking more concrete information concerning Haney's operations he will continue to be grouped under "other". With this new source and adding additional leeway for the countless counterfeiters that may never be discovered or have enough information existing to allow for a more accurate accounting of their contribution, twenty-five

million dollars is a better estimate for the total value of bills produced by other counterfeits. Since many of these sources originated in the South, and there is no clear figure to begin with, I do not see a need to take that figure as a percentage. In total, between approximately forty- eight point two and forty- two point four million dollars' worth of counterfeit money entered the Confederate economy.

The Treasury Department of the Confederate States of America had entered \$748.5 million dollars into circulation by August 1863. Even though the Confederate's printed \$860 million dollars by the end of the war many counterfeiters halted their operations in August 1863 because inflation was becoming so severe that it was no longer worth their efforts. Therefore, to get the best results for the effect on the economy we should use the Confederate Treasury's production number as of 1863, which is \$748.5 million dollars.

	Counterfeit value	Amount of genuine money in the economy	Total value of money in the economy	Percent of total money supply made up of counterfeit bills
High estimate	\$48.2 million	\$748.5 million	\$796.7 million	6.04%
Low estimate	\$42.4 million	\$748.5 million	\$790.9 million	5.36%

This means that between approximately 5.36% and 6.04% of all bills in circulation when the Confederate economy began to collapse were counterfeit bills. This is a significant amount

and can explain one reason why inflation rates rose so high by the end of the war. Additionally, this estimate is roughly 1.1 to 1.8 percent higher than the next highest estimate for percentage of counterfeit bill value compared to total money supply which was 4.2% from Tremmel. (Tremmel 2003)

It has proven hard to isolate the effects that counterfeiting had on the Confederate economy from other factors that could also partially explain the collapse of the Confederate economy. One major variable that likely had a big impact on the Confederate economy around the same time is the Confederate losses at Gettysburg and Vicksburg, which made the war unwinnable in the eyes of many southerners and reduced their confidence in the future security of the Confederate money supply.

Additionally, 5.36%- 6.04% inflation may only be the tip of the iceberg. The actual inflation felt due to the counterfeit bills entering the economy was likely much higher. According to the equation $\% \Delta M - (-\% \Delta Y) = \% \Delta P$ since the Confederate economy would have been shrinking it would have had an amplifying effect resulting in a greater felt inflation due to the counterfeiting.

Counterfeiting had a negative effect on consumer confidence in the Confederate economy. The circumstances of Confederate currency issues, with multiple runs of the same genuine bill varying from one another slightly and over two hundred and fifty clerks signing the bills meant that it was extremely problematic for the government to even identify counterfeit bills. Nonetheless, the Confederate government issued flyers to banks and major businesses in order to help them identify counterfeit bills, however, with the difficulty of identifying the well-made counterfeits these flyers may have had the opposite effect desired. Instead of increasing

the consumers' confidence about whether a bill was genuine or not it caused entire series of genuine bills to be refused by businesses. These series were then recalled by the Confederate government in order to be replaced by a design that they hoped would be harder to counterfeit. (Glaser 1967) Ultimately, by fall 1863, the Confederate economy collapsed as its currency was so inflated that it was worthless. While this cannot be attributed solely to counterfeiting, the Confederate losses at the battles of Gettysburg and Vicksburg certainly played a large part; however, counterfeiting definitely played a role in bringing the Confederate economy to its knees.

Legal Issues

The final issue was the legality of the counterfeiting of Confederate currency that was occurring on United States' soil. It was a complicated situation because normally a country will prosecute all cases of counterfeiting that occur on its soil, regardless of the country whose currency is being counterfeited. This idea is found in Article 1 section 8 of the United States Constitution, which is known as the Counterfeiting Clause. Although originally worded to only protect current United States currency from counterfeiting, it was later used as the basis for the United States government's authority to prosecute all counterfeiting occurring within its borders. The new interpretation to this clause was notably upheld in the case of *United States v. Arjona* (1887), only roughly twenty years after the end of the Civil War. In this court case, Ramon Arjona was charged with counterfeiting in the United States with the intent to defraud the securities of a foreign government, in this case Colombia by counterfeiting bills. However, in the case of the counterfeiters of Confederate currency during the Civil War there is only evidence of one individual being arrested for activities related to counterfeiting, and that was only because it was believed that he was actually producing genuine currency for the

Confederate government. (Tremmel 2003) In another case, that of the famous Sam Upham, he was investigated by federal agents and eventually his case was turned over to the Secretary of War only to be dismissed. (Mihm 2007) I believe that the Union became the safe haven for counterfeiters during the Civil War not because the United States government necessarily supported their efforts or encouraged them. Rather I believe that counterfeiting Confederate currency thrived in the North, because the United States government could not take action to prevent it without recognizing the Confederacy as an actual government.

The United States government's policy regarding the Confederacy was that it did not exist as an independent country, but rather was a collection of states in open rebellion against the United States. The U. S. government never recognized the South's right to secede from the Union and form a new country. Additionally, neither the United States government nor the government of any major country ever officially recognized the Confederate States of America as a country. This relates to the Confederacy's currency because if they were never an official country then they lacked the authority to print and issue their own money. It was effectively impossible to prosecute someone for counterfeiting Confederate currency because by the United States own policy the Confederacy was not a country and therefore did not have the authority to issue a currency. This excluded the currency from the protection offered by the Counterfeit Clause. Conversely, this argument would also mean that if the United States government had prosecuted a case of Confederate counterfeiting it would have to recognize the Confederacy as a country, in order to do so. This was something the United States would never do, and in effect protected counterfeiters from being charged.

Conclusion

In conclusion, the previous estimates made by historians regarding the amount of counterfeit Confederate bills in the money supply have been too low. This can be accounted for largely from the under estimation of other sources of counterfeit bills for which there are no production figures, but for which estimates are possible. The effects of counterfeiting cannot be accounted for with total accuracy in regards to economic factors such as inflation rates due to confounding variables such as recent Union victories, however, consumer confidence was clearly affected by the presence of counterfeits. Additionally, the relative increase in price level due to counterfeiting was by my estimate between 6.44% and 5.66% which would have likely been a significant amount had the South not been losing the war and suffering from hyperinflation. But in combination with the other sources of inflation previously mentioned such as lack of faith in the war's outcome, it would be a serious problem. And finally, the United States could not prosecute counterfeiters of Confederate currency because doing so would recognize the Confederacy as a legitimist government, and so counterfeiting could continue as long as counterfeiters could turn a profit.

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