THE INTERIMPERIAL AND PANAMERICAN ORIGINS OF THE DOLLAR SYSTEM

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The Federal Reserve is commonly depicted as an institution set up by domestic actors to fulfill domestic functions that only later took on international and geopolitical dimensions. Yet we have long had an abundant literature on the financial projection of US power ("Dollar Diplomacy") in which the main characters overlap conspicuously with the cast of domestic, Progressive Era reformers ("corporate liberalism"). Stitching these two stories together with the threads of intellectual history and the theory of monetary hierarchy woven from a new reading of the archives, I show how central banks were always embedded within the violence of the world-system, and how globalization built the nation-state as much as the reverse. After an intensive study of European monetary history, a cohort of corporate intellectuals decided America needed a central bank to keep up with the evolving financial architecture of the late 19th century. Even as their reform efforts were blocked at home, the Spanish-American war opened up new opportunities in the periphery of America's empire. They spent the following decade and a half experimenting, founding new monetary authorities, and studying the great colonial monetary systems of Eurasia. What they discovered was a world of gold exchange standards: proto-Bretton Woods systems in which the metropole was hub and the colonies were spokes. Further opportunities for learning and experimentation arrived with the Roosevelt corollary, when the US claimed the role of international policeman in Latin America. The Monroe Doctrine would be easier to enforce, Teddy figured, if Latin Americans were financially integrated with New York rather than London, Paris, or Berlin; for US security purposes, the Caribbean had to dollarize. Dollar diplomacy met with only limited success, however, because Latin American elites weren't eager to play along. North American money markets weren't liquid or stable enough to anchor the U.S.'s own system, much less anyone else's. At that point the intellectuals came home, having acquired a wealth of experience in monetary reform and management abroad. They argued that successful hegemony in the Americas required going beyond coercion to building the institutions necessary for eliciting consent from foreign elites. They led the Aldrich commission's domestic political campaigns on behalf of US central banking that, after a few twists and turns and the Democratic takeover of 1912, ultimately culminated in the Fed and the birth of the global dollar system.

FIGURE 1: Edwin Kemmerer (right) continuing the work of building the dollar system with President of the Peruvian Provisional Government Junta Luis Miguel Sánchez Cerro, 1931. Centro de Estudios Histórico Militares del Perú.

I. I DREAM OF *ORO*

As English airplanes began to clear the skies above London of German zeppelins in late 1915, the Princeton economist Edwin Kemmerer addressed the audience of economists and finance ministers who had gathered in Washington D.C. for the Second Pan-American Scientific Congress. He lamented that "the ideal of international monetary unity has come to be looked upon as one of the dreams of our fathers."[1] There were ample reasons for disillusionment, and the self-destruction of European civilization, thundering in the background of the conference, was only the most recent setback. The leading European nations had already tried and failed to unify their currencies in the second half of the nineteenth century. Arguments and evidence from the continent's leading economists – "W. Stanley Jevons, Walter Bagehot, Parieu, Mathieu, Baron de Hock" – went unheeded. European currencies remained largely national. Nevertheless, he urged his audience to "revive this subject of international monetary unity — not, however, for the world, but for the New World." Kemmerer preached that a common currency would reduce transaction costs and uncertainty while promoting tighter integration, greater capital flows, and "the Pan-American ideal."[2]

Even more compelling for Kemmerer were the facts on the ground. Legally, most American nations already defined their currencies in terms of some other nation's, whether the pound (Bolivia, Ecuador, Colombia, Peru, El Salvador), the franc (Venezuela, Argentina, Haiti, and Paraguay), or the dollar (Cuba, Nicaragua, Panama, Santo Domingo, and Canada).[3] Practically, those which did not define the value of their currency in terms of the dollar had a

[1] Box 272, Folder 8, Edwin W. Kemmerer Papers, MC146, Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library (hereafter EWKP). "A Proposal for Pan-American Monetary Unity," *Political Science Quarterly*, 31/1 (1916), 66-80, this quote 72.
[2] Ibid.
[3] Ibid.

history of instability and needed reform. As fortune would have it, in most of those unstable nations the dollar already circulated, either as an underground alternative to official government money (Columbia, Costa Rica, Paraguay, Uruguay, Venezuela) or as officially recognized legal tender (Ecuador, Haiti, El Salvador). Wherever the Pan-American currency union had not already arrived, it was the logical next step. Kemmerer suggested calling the currency which would circulate within the Pan-American Union the "*oro*" (the Spanish word for gold), and speculated that its supply might be controlled by some Pan-American institution. But the picture he had painted was clear: it was the southern half of the dollar bloc. Appended to it in the east was the Philippines, and if U.S. policy makers had their way, eventually China. The U.S. was building a monetary empire, and it was pushing powers both great and minor out of the way to do so.

It was an amazing speech, one which Kemmerer couldn't have given even five years earlier. Indeed, in 1910 he had written the book, still referenced as definitive, on the dollar's flaws.[4] In *Seasonal Variations in the Relative Demand for Money and Capital in the United States*, he detailed how American capital markets seized up every year due to the agrarian cycle and poor financial architecture. For reasons that have now become canonical in the history of American finance – an inelastic note supply; reserve pyramiding that led to speculation; unit banking – the U.S. had an exceptionally unstable monetary system.[5] As a result, foreigners wanted nothing to do with the dollar. Even in London, center of the global financial system, dollars were simply not

[4] Most conspicuously in Barry Eichengreen, Arnaud Mehl, and Livia Chiţu, *How Global Currencies Work* (Princeton, 2018), which still prominently cites Conant as well.
[5] Charles W. Calomiris and Stephen Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, 2014).

listed as something that could be bought on the market as late as 1910. No respectable Englishman wanted them.[6]

But if even the center of global finance was not interested in the dollar in 1910, what made Kemmerer, who knew the dollar's faults better than anyone, so confident in its Pan-American future in 1915? What had changed in the interim?

The major institutional innovation was the Federal Reserve Act of 1913, a piece of legislation Kemmerer was instrumental in passing. It regulated the money supply and made the dollar less financially toxic, with an elastic currency and decentralized, government-supervised reserves. The Fed was allowed to buy and sell a large class of assets, making those assets more liquid. This made foreigners less wary about using the dollar, since it was less prone to meltdown and it was easier to get in and out of capital markets at will.[7] Equally important, it authorized U.S. banks to branch abroad for the first time, shooting the dollar's roots deep into foreign soil. Until 1913 no law governed foreign branching – it simply was not legally recognized. This ambiguity led some of the more adventurous banks to operate in the shadow of the law and gamble on expansion into Latin America (hence all the dollars already floating around by 1915). Some bankers expanded south because they were wild west hucksters looking for the next frontier, and

[6] Marc Flandreau and Clemens Jobst, "The Ties that Divide: A Network Analysis of the International Monetary System, 1890-1910," *The Journal of Economic History* 65/4 (2005), 977-1007.

[7] M. Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917* (Chicago, 1999); Lawrence Broz, *International Origins of the Federal Reserve* (Cornell, 1997). Broz has a similar title to mine, but his book is about the way in which exporters supported central banking because it allowed for cheaper home financing than they could otherwise obtain from London. Nothing beyond the borders of the contiguous United States is relevant for his story except that there are customers there. Robert L. Hetzel, *The Federal Reserve: A New History* (Chicago, 2022) is the latest iteration of the functionalist domestic origins story. See also Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Cornell, 1986) on corporate liberalism and Nadav Orian Peer, "Negotiating the Lender-of-Last-Resort: The 1913 Fed Act as a Debate Over Credit Distribution," Tulane Public Law Research Paper, No. 18-8, 2018 on farmers.

some had gone with the encouragement of the State Department as a bid to extend U.S. influence.[8] Nevertheless, they learned the hard way that building monetary hegemony couldn't be accomplished with coercion alone. The dollar diplomats met with only limited success – and usually only when violence was involved – until the Fed made New York money markets sufficiently liquid and stable that they could *attract*, rather than merely *force*, foreign elites onto the dollar standard.

What were the effective forces elevating finance's interests into a sufficiently hegemonic position within American politics that they were able to actually wield power?[9] The answer

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[8] Peter James Hudson, *Bankers and Empire: How Wall Street Colonized the Caribbean* (Chicago, 2017); Emily Rosenberg, *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930* (Duke, 1999). Rosenberg's book is still the single most important monograph on Dollar Diplomacy. Nevertheless, she largely neglects the question of Latin American agency, and assumes that the financial machinery of the homeland was adequate for the job – the Federal Reserve Act only mentioned twice in passing – which only becomes true in the middle of her story.

[9] What was the social base sustaining these transformations? The traditional view of American imperialism identifies northern Republicans – and behind them, their corporate industrial base – as the source of extroverted impulses after 1896. Whereas the cotton-exporting South had little to gain by opening markets in Latin America and Asia – and much to lose from neo-mercantilist trade wars with their primary customers, industrial Europe – capitalists and workers in the Northeastern core of American capitalism had everything to gain from new federal investments in a blue water navy and a re-outfitted merchant marine constructed and manned and insured by Northeastern seaports. They in turn required coaling stations and safe harbors in which to idle – the military protection of which became the retroactive justification of still further military expansions, opening markets for industrial goods in the underdeveloped periphery, at least that part of it not yet captured by European empires and their tariffs. The question is how any of this relates to dollar diplomacy or domestic monetary reform. Marxist historiography riffing off Hilferding and Lenin tends to too quickly conflate finance with industrial corporations while American Political Development simply ignores finance as a separate constituency altogether. Neither equation nor neglect is tenable. Moreover, the customers for generically referenced "America's exports" – the places imperialists sought to find a "vent" for their goods – is too often left infuriatingly vague. "Asia and Latin America." A more granular anatomy of the political economy of American empire is called for. The goods which needed "vent" in the Northeast were not generic "manufactures" – as if Philadelphia was trying to send well-made clocks to Mexico, or Detroit autoparts to Nicaragua. It was primarily *capital goods:* metals, machines, transport equipment; after cotton and wheat, iron and steel were the US's main exports. Potential customers for these items did indeed live in the "Latin American and Asian periphery." But the overwhelming majority of them were sent to Canada, Argentina, South Africa, China, Japan, Mexico, and Australia – precisely *not* the countries which were dollarized. Nicaraguan peasants did not want Carnegie's steel, and had neither use nor money enough for International Harvester's tractors. Instead, finance was its own constituency, willing and able to operate at the elite rather than the mass level. Contemporary critics tended to emphasize corruption and profit as the motivating forces behind American monetary empire. But corruption can only advance a political project so far. For the traditional social view of imperialism, see Walter LaFeber, *The New Empire: An Interpretation of American Expansion, 1860-1898* (Cornell, 1967); for a sectional reformulation see Peter Trubowitz, *Defining the National Interest: Conflict and Change in American Foreign Policy* (Chicago University Press, 1998), especially p. 33. On the geography and composition of U.S. exports see Emory R. Johnson, T.W. Van Metre, G.G Hubner, and D.S. Hanchett, *History of Domestic and Foreign Commerce of the United States*, Vol 2. (Carnegie Institution, 1915) 74-6. For a

finance's organic intellectuals settled on was *security*. As Charles A. Conant, the ur-dollar diplomat put it, "the United States must interest herself in the maintenance of order and security for life and property, unless she wishes one or more of the leading powers of Europe to intervene."[10] They offered foreign policy hawks worried about Europe and empire a strategy for exercising control without riling up republican moralism over a standing army. The Panama Canal, completed in 1903, was *the* chokepoint for American trade, and had to be protected at all costs. The pitch Conant and Kemmerer *et al* made was that by expanding and consolidating the dollar block in the Caribbean and Pacific, they could make enforcing the Monroe Doctrine realistic and cheap. Every time a Latin American government defaulted on its debt to some European banking house, gunboats began crossing the Atlantic in an indignant huff. But by tethering Latin American financial systems to Wall Street and Washington, the dollar system was a preventative measure designed to deny Europeans any excuse for intervention. First broached as a tactic by Roosevelt in his 1904 "corollary" to the Monroe doctrine ("adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power"), this became the official State Department strategy with Taft's "dollar diplomacy," and institutionalized under Wilson.[11]

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contemporary, corruption-centric view see Scott Nearing & Joseph Freeman, *Dollar Diplomacy: A Study in American Imperialism*, (Viking, 1925).

[10] Charles A. Conant, "Our Mission in Nicaragua," *The North American Review*, Vol. 196, No. 680 (Jul., 1912), pp. 63-71.

[11] Dana G. Munro, *Intervention and Dollar Diplomacy in the Caribbean, 1900-1921* (Princeton, 1964), a retired State Department official from the period, provides exhaustive empirical detail regarding inter-imperial rivalry.

FIGURE 2: Charles Arthur Conant, 1890s. Pach Brothers.

II. THEORY

HISTORY

It was Charles A. Conant's activities, both theoretical and practical, that created the framework within which the rest of the monetary reform process unfolded. He more than anyone else reintroduced Americans to the idea of central banking, arguing that inter-imperial competition required modernizing America's financial system. Revisiting his early intellectual formation will show the extent to which U.S. monetary reform was conceived as the culmination of a long global process. Born in Boston in 1861, little is known about his early life, but from what little can be pieced together – for instance, that he ran for Congress as a Democrat in 1894 in the Harvard University district – it is likely that he was related to the influential brahmin family of the same name.[12] From the time he was nineteen he covered D.C. politics for the New York based publication *Journal of Commerce*, and in the early 1890s he began to collate what by then was over a decade of experience into a coherent worldview. The result was his 1896 magnum opus, *A History of Modern Banks of Issue*, a painstaking documentation of Europe's advanced monetary authorities and America's relative backwardness.

Conant's *History* covered over two thousand years of Europe's monetary history. In it he traced the rise of a particular kind of bank – those with legal privileges to issue currency and a national tax for a fiscal backstop. Beginning with Enlightenment France, he narrated their spread through England, Scotland, Ireland, Germany, Austro-Hungary, Russia, Belgium, Holland, Norway, Sweden, Denmark, Switzerland, Greece, Spain, and Turkey. In the course of these chapters, he showed how state-backed banks of issue had a tendency to become banker's banks – *central* banks. After covering Europe, he then moved to chapters on the failure to establish a stable coalition in support of the state-backed banks of issue in the U.S. in the early nineteenth century. The book concluded with the banking crisis of 1893, emphasizing its particular severity in the U.S. as a result of America's institutional lacuna. The *History* went through four editions (1908, 1909, 1915), each accumulating additional material. By the end, he had added chapters on Canada, Mexico, Latin America, Africa and Oceanica, Japan and Korea, Banking and Exchange in the

[12] John Leonard (Ed.), *Who's who in New York City and State*, Volume 4, 306. Likely relations include James B. Conant, president of Harvard for decades in the early twentieth century.

Orient, the U.S. banking crisis of 1907, and the Federal Reserve Act. He narrated the spread of an idea all across the world, and hoped to contribute to its further diffusion with his writing.

Conant's main aim was to prove to "thinking Americans" that "the currency of a commercial country should be regulated by commercial conditions, and not by the whims of politicians." To prove his point, he began, not with the Bank of England (1694), but with the infamous John Law episode (1716-20), when a Scottish conman promised to modernize French political economy along English lines, and wound up blowing massive financial bubbles instead.[13]

It was not hard to read between the lines here. Conant's French tale was really disputing the other great monetary modernization projects on offer in contemporary America. His prime target was the Populists' subtreasury plan, developed by Texan autodidact Charles Macune in the late 1880s, which aimed to revolutionize farm credit and took direct inspiration from French socialist Pierre-Joseph Proudhon's proposals for a "people's bank."[14] In later editions, this narrative also stood as a warning against the machinations of Lyman J. Gage, Treasury Secretary under McKinley and Roosevelt, who used Treasury funds strategically to prop up banks as a depositor of last resort in the absence of a central bank.[15] In the midst of popular political ferment over Populist money and flailing bureaucrats, Conant became an organic intellectual of the financial capitalist class, mapping out an alternative vision for the Republican party.

England's early success with central banking was unusual, and the early histories of most European nations resembled a less dramatic version of France, a history of failure that weighed

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[13] John Shovlin, "Jealousy of Credit: John Law's "System" and the Geopolitics of Financial Revolution," *The Journal of Modern History* 88/2 (2016), 275-305. Shovlin connects the history of central banking more directly to great power conflict than Conant's *History*. For a longer history of central banking in France, see Vincent Bignon & Marc Flandreau "The Other Way: A Narrative History of the Bank of France," *CEPR Discussion Paper* 13138 (2018).
[14] Charles Postel, *The Populist Vision* (Oxford, 2007), chapter 5. Sklansky, *Sovereign of the Market*, chapter 5.
[15] Lowenstein, *America's Bank*, 28.

heavily on American policy.[16] By the 1830s, as the U.S. wrestled with the question of whether it wanted to keep its own state-backed bank of issue, England was the only success story to look to for inspiration, and even that was only modest in the first half of the century. Having not yet self-consciously articulated modern central banking functions, the Bank of England appeared to Americans at the time more like the relic of a pre-liberal, mercantilist British past, built to fund inter-absolutist warfare.[17] Protected by two oceans with no great power rivals on its continent, republican America had no need of such an institution.[18] Why take the chance of emulating England, when the French downside was clearly so much more common?

When the central banking debate returned to America at the turn of the twentieth century, the international context had changed entirely: America was aspiring to great power status, and state-backed banks of issue were universal. The inflection point in the arc of development for European central banking was the 1850s. As Conant noted, with the exception of England and France, most of the modern banks of issue were products of the last half of the nineteenth century.[19] Innovations in minting technology that made counterfeiting more difficult, together with the new nationalist ideologies after 1848, increasingly meant national monies, enforced by tax authorities that only recognized some coins and not others. The widening gap that nationalized money placed

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[16] P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (Melbourne, 1967); John Brewer, *The Sinews of Power: War, Money and the English State, 1688–1783* (Harvard, 1988); Carl Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620–1720* (Harvard, 2011). Bagehot, *Lombard Street: A Description of the Money Market* (1873).

[17] The aristocratic and neo-classical aesthetics of Nicholas Biddle, the Second Bank's brilliant helmsman, did not help. Jeffrey Sklansky *Sovereign of the Market*, chapter 4.

[18] Paul Post, "Central Banks at War," *International Organization* (Winter 2015): 63-95 shows that while central banks lower sovereign interest rates, before 1914 they did so *only* in times of war. See also Niall Ferguson, Martin Kornejew, Paul Schmelzing, Moritz Schularick, "The Safety Net: Central Bank Balance Sheets and Financial Crises, 1587-2020," Hoover Institution Economics Working Paper 23102, which uses a new and comprehensive dataset to show that prior to World War II, war finance was the overwhelming function of central banks; quantitatively, lender of last resort functions are a postwar phenomenon.

[19] "The Evolution of Modern Banking" *Political Science Quarterly*, 14/4 (1899), 569-93. Eric Helleiner, *The Making of National Money* (Cornell, 2003). Charles Goodhart, *The Evolution of Central Banks* (Penguin, 1988).

between the value of metal and the nominal value of money meant trouble for the international circulation of coins.[20] The most common solution was a currency union, which required central bank management. Beginning in the 1830s and accelerating after 1848, German principalities began to standardize their currencies based on the Prussian thaler; in the 1860s and 1870s, France led a coalition of Belgium, Italy, Switzerland, and Greece into the Latin Monetary Union based on the franc; with Austria-Hungary, Peru, Columbia, Venezuela, Finland, Serbia, and Bulgaria joining the franc-bloc by separate treaty, and Algeria forced into it at rifle point.[21] Russia tried but failed to homogenize its own empire, so a patchwork of local, inconvertible currencies continued to circulate until the end of the century. The move from cosmopolitan commodity money to national currencies and currency blocs meant that monetary management could no longer be left to mints and markets alone, with the relative value of silver and gold flinging coins across borders willy-nilly. Both supply and demand for currencies had to be created to fix their relative values without devaluing the metallic content of either.

States learned to do this through trial-and-error, and Belgium led the way. Managing the supply of money was easy – issue more or less notes as needed. To manage the demand, Belgium had to stand willing to buy Belgian francs – with something other than Belgian francs. Linked to Paris through the Union, Belgium's state-backed bank of issue began to buy and sell securities in French markets. It acquired a horde of non-Belgian franc denominated assets that could be used to manage relative demand for the two currencies. The value of French commercial paper was ultimately backed by the French central bank, making it as good as gold, but often cheaper, and unlike holding real gold, holding these assets paid interest. Increasingly, the gold supply that

[20] See also Marc Flandreau, *The Glitter of Gold: France, Bimetallism, and the Emergence of the International Gold Standard, 1848-1873* (Oxford, 2004).

[21] Henry Parker Willis, *A History of the Latin Monetary Union: A Study in International Monetary Action*, (University of Chicago Press, 1901).

"backed" the Belgian franc issued by the National Bank of Belgium was not held in the form of actual bullion in a Belgian vault. Instead it took the form of paper claims on bullion held in a French vault. Belgium led the way along another dimension as well, pioneering the monetary management model in which the central bank was privately owned but the officers were chosen and overseen by the government.[22]

The practice of backing currency via foreign exchange became more widespread across Europe from the 1850s onward, and by the end of the century it was even being transplanted to Asia. Indeed, for those countries which were not hegemonic – Britain and France – it was normal for gold not to circulate at all within the country's borders. Instead, the gold piled up in London and Paris, and *claims* on that gold were circulated across Eurasia in the form of national notes printed by banks of issue, and regulated according to the needs of foreign exchange markets. The Netherlands, Denmark, Sweden, Norway, Austria-Hungary, and Russia all managed the values of their currency by accumulating foreign exchange in Paris and London instead of acquiring gold directly.[23] Maintaining a proper gold standard was expensive, whereas buying up and maintaining contingent claims on future gold was not, so this practice, which came to be known as the Gold Exchange Standard (GES), became a way for less wealthy nations to simulate the stability offered by a gold standard. Accepting a lower position within the global monetary hierarchy was the price they paid for sound money.[24]

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[22] Conant, *The National Bank of Belgium* (National Monetary Commission, 1910).

[23] Barry Eichengreen, Arnaud Mehl, and Livia Chiţu, *How Global Currencies Work* (Princeton, 2018), which still prominently cites Kemmerer and Conant!

[24] The academic theory of monetary hierarchy often traces its roots back to Keynes' *Treatise on Money*, up through John Gurley and Edward Shaw *Money in a Theory of Finance* (Brookings, 1960), to the international political economy of Susan Strange, "The politics of international currencies," *World Politics* 23(2): 215–231, the hegemonic stability school of Kindleberger, "The Dollar System." *New England Economic Review* (1970) and "Why World Bankers are Worried" *Challenge* (1974), the French Regulation School of Michel Aglietta and Pierre Deusy-Fournier "Internationalisation des monnaies et organisation du système monétaire," *Économie Internationale* (1994) 59/3 and Aglietta *Money: 5,000 Years of Debt and Power* (Verso 2018). The most concise and easy to read summary is Perry

The one exception to the midcentury trend towards GES's was Germany, which chose to forge ahead towards glory with a proper metallic currency. After Bismarck's 1871 victory over France, elites seized the opportunity to move onto a unified gold standard by insisting that the war indemnity be paid in gold, which could be used as backing for a new gold Mark. After speculative attacks from arbitrageurs, the Reichstag learned the hard way why central banks were necessary, and in 1875 the Reichsbank was born as the "Guardian of the Currency" with a Belgian ownership and management structure.[25]

For late comers to the central banking scene – Japan, Austro-Hungary, and by the third edition of the *History*, Russia – this was the model to emulate. Japan was the most impressive student. Like Prussia, it began by demanding a war indemnity in gold after defeating China in 1895, which it then deposited in London and used to finance a GES, overseen by a Belgian-style central bank.[26] This was how modern states built modern monetary empires.

Globally, the only holdouts on state-backed banks of issue were Canada, Scotland, and the U.S. The former were both small and dominated by a handful of mega-banks. Further, Scotland

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Mehrling "The Inherent Hierarchy of Money," *Social Fairness and Economics* (2012; Routledge). One of the contributions of my own paper is the documentation demonstrating that imperial administrators knew very well the concept of monetary hierarchy well before academics got a hold of it – indeed, even Keynes first became acquainted with it during his time at the India office, Keynes, *Indian Currency and Finance*. The key insight of this literature is that "moneyness" is a spectrum, and different assets within the modern economy lie at different points along it. Checks are less money than cash, and – under an international gold standard – cash is less money than gold. Credits and debts at one level are "netted out" at the next, because what counts as money one level is merely credit one rung down. Monetary policy, in this view, is the hard work of maintaining that hierarchy, ensuring that the different links along it remain functional (so that e.g. checks can always be turned into deposits, deposits into cash, and cash into gold, etc.). To each level in the monetary hierarchy thus corresponds not just an asset, but also a set of institutions responsible for managing that link in the chain by acting as market maker (e.g. banks maintaining par on deposits). Liquidity crises at one level of the monetary hierarchy can be resolved by higher levels. The historical tendency of monetary systems has thus been to organize themselves into a hierarchy where one asset is the ultimate means of payment for all debts in the system. Control of the commanding heights of the monetary hierarchy confers power over lower levels, and is the natural object of attention for great power competition.

[25] Harold James, "Monetary and Fiscal Unification in Nineteenth-Century Germany: What Can Kohl Learn from Bismarck?," *Princeton Essays in International Economics* 202 (1997).

[26] Metzler, *Lever of Empire*.

was in official union with England and Canada was a dominion, meaning that those banks could depend on the Bank of England in a crisis. Thus by the end of the nineteenth century, among the capitalist core only the U.S., with its ancient republican constitution, went without a guardian for its currency or a monetary empire.

POLITICS

Conant connected his historical account to an analysis of his own conjuncture and offered a politics he thought capable of dealing with it. Late nineteenth century America was wracked by crisis. The Long Depression, kicked off by the Panic of 1873, had barely ended when the panic of 1893 threw the country into a severe downturn once again. In *The United States in the Orient*, an edited selection of his essays about American competitiveness in the world, Conant argued that the only solution to these cyclical downfalls was a militarist reorganization of U.S. political economy—including the erection of a modern monetary authority and expansion abroad.

Before either Hobson or Lenin, Conant argued in "The Economic Basis of Imperialism" that advanced capitalist nations were doomed to over-accumulate capital, leading to over-competition and declining profits and interest rates, hence to lower rates of investment and lower effective aggregate demand, ultimately causing large and permanent rates of unemployment.[27] Conant could only see one way out of this "congestion"—new investment outlets for American capital. Since the rest of the capitalist core was just as congested, such outlets would have to be found in the periphery. He was conscious that "the narrower policy pursued by France and Russia,

[27] First published in *The North American Review*, 167/502 (Sep., 1898), 326-40. Carl P. Parrini and Martin J. Sklar, "New Thinking about the Market, 1896-1904: Some American Economists on Investment and the Theory of Surplus Capital," *The Journal of Economic History*, 43/3 (1983), 559-78.

of endeavoring to shut up their colonies [exclusively for] their own commerce" would make inter-imperial rivalry, and perhaps warfare, inevitable. Only the unique genius of Anglophone nations for setting up free trade empires, according to Conant, could maintain civilized peace (apparently forgetting about the US's own massive tariffs).[28]

In "Russia as a World Power," Conant marveled at the new dynamism of the militarized Russian economy under the recently installed finance minister, Sergei Witte.[29] In addition to connecting the continental empire via railroads, Witte was rejuvenating Russian finances with a new central bank and subsidies for Russia's manufacturing sector. Conant drew a series of unfavorable contrasts between Russian absolutism and American democracy: while America was fighting a bloody civil war to free its slaves, the czar had unbound Russia's serfs with a single *ukase*; and while the decision to return the U.S. to the gold standard was still ongoing in the late 1890s thanks to the Populists, the *narodniki* were never consulted and the deed was done; finally, while the U.S. had gained energy from the pursuit of its Manifest Destiny, the frontier was now closing, whereas the Siberian hinterlands were still underpopulated, and imperial armies were mustering on the borders of Manchuria. The rest of the book developed the obvious conclusion from these dual theses: America needed more militarism, hierarchy, command and control in its political economy, or it would lose to Russia in the coming struggle for existence in the orient, the inevitable upshot of global over-accumulation. Vertically integrated corporations and central banks were just what the money doctor ordered.

Conant completed *The United States in the Orient* just a month after the Spanish-American War put the U.S. in nominal possession of Puerto Rico and the Philippines. The new colonies

[28] Richard Bensel, *The political economy of American industrialization, 1877-1900* (Cambridge, 2000).
[29] First published in *The North American Review* 168/507 (February 1899).

would need new currencies – keeping them in the silver peso bloc would besmirch the national honor, distort payments made by an American military using gold dollars, and leave money on the table for mainland bankers who wanted to manage the new colonial currencies – so the War Department hired Conant as the only plausible candidate to carry out the necessary reforms.[30]

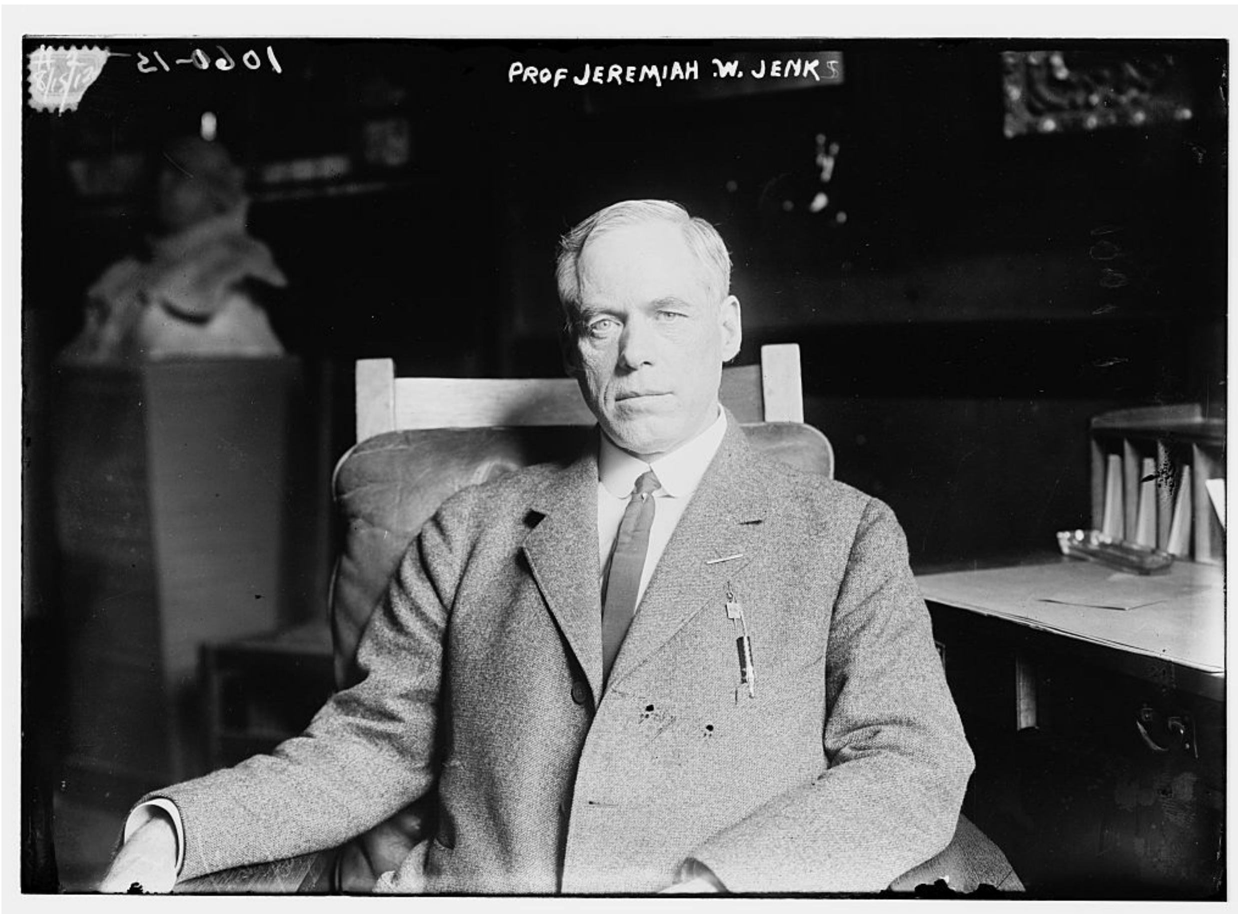

FIGURE 3: Jeremiah Jenks in his study, Library of Congress.

[30] Emily S. Rosenberg, "Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900-1905," *The Business History Review* 59/2 (1985), 169-202, 177ff12.

III. PRACTICE

COLONIAL EXPERIMENTS

In the first two editions of his *History*, Conant covered the central financial institutions of the core capitalist nations but said nothing about the periphery. After America's victory over Spain, the Bureau of Insular Affairs (BIA) specially commissioned Jenks via the American Economic Association to fill this gap in the literature. The result, *Essays in Colonial Finance*, included information on the colonies of France, Germany, Denmark, Holland, and Italy, as well as several chapters on the English dependencies, including the West Indies, South Africa, and "those of the Far East." Kemmerer covered the English system in Egypt.[31] BIA then hired Jenks to write the manual on the economics of colonial administration. The "Report on Certain Economic Questions in the English and Dutch Colonies in the Orient" included more detailed information about India, Burma, Ceylon, Netherlands India, the Straights Settlements and Federated Malay States, on topics that ranged from labor relations to taxation to police. Their studies complete, both Jenks and Kemmerer were hired by BIA and sent to the Philippines to aid in monetary reform, as the only other experts in the country after Conant. Their task was to help modernize America's new colonies, in line with those of other great powers.

As Jenks explained, most poor nations (and every colony) in the last half of the nineteenth century were on either a silver or bimetallic standard, which was a problem. Silver mines from Comstock to Potosí continued to inflate the quantity of silver, while gold production stalled, leaving the periphery saddled with a currency worth less in terms of gold. Inflation and exchange-rate volatility led most core countries to flee to the gold standard. As the number of core countries

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[31] Jenks (ed.), "Report of the Committee on the Colonies," *AER*, 1/3 (1900), 2.

on gold expanded, so too did the benefits of being stable against gold. As the silver club contracted, and nations abandoning silver dumped their reserves onto the market further inflating the quantity of silver available, the costs of staying attached to silver increased. The problem imperial powers faced by the turn of the century was what to do about their colonies. Jenks canvased two options. France pioneered the less sophisticated solution, as its colonies were the least market oriented. With less in the way of pre-existing currencies to worry about, it could directly impose the gold franc. By contrast, England governed more advanced silver-standard colonies, which had long-standing monetary customs and traditions of their own. Given its size and relatively internationalized economy, India was the first to break on the rock of the turbulent and inflationary silver standard. Over the course of the 1890s English administrators moved India onto a GES.[32] India's silver coins still circulated, but their value was no longer determined by their metallic content; their value rose because the Raj stood ready to trade a fixed quantity of sterling for them in London. By the transitive properties of a functional monetary hierarchy, India's silver coins became as good as English gold.

As has been seen, the GES was fairly well-known in Europe. But by the turn of the century the largest GES reserves were held by the other side of Eurasia, first by Japan (in England) and second by Russia (in France).[33] The choice of reserve currency was constrained by the fact that only England, France, and Germany had the economic prerequisites: sufficient economic girth, robust asset markets, and oversight from a central bank. No one considered putting GES funds into the Moldovan stock market. Nor, for that matter, into Wall Street. If the point of the GES was that it simulated gold standard stability on the cheap, and paid interest on reserves, there was no

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[32] In addition to the Jenks volume, another contemporary view is Keynes' first book, *Indian Currency and Finance* (1913).

[33] Metzler, *Lever of Empire* and Eichengreen et al., *Global Currencies*.

question of trusting GES funds to minor or incompetent financial systems. The choice of location for foreign reserve holdings was further overdetermined by geopolitics. What better way for Russia to demonstrate to France that it was committed to containing an expansionist Germany than for it to hold a significant amount of government money in Paris? Similarly, Japanese imperial expansion onto the mainland brought it into direct confrontation with the other colonial powers, first with Russia, then with Germany – hence the logical choice of London for its own GES funds. Productive might, effective monetary authorities, and great power politics were the global monetary system's principle determinants.

Further bolstering London's command over global finance after the Indian GES was an innovation of Japan's: layering GES's. After conquering Taiwan in 1895, the imperial Japanese government imposed the Taiwanese yen on the island, the GES funds for which were held in Tokyo. Attempts at a similar tiering were made in Korea and northern China at the same moment, but Sergei Witte's Russia rallied Germany and France, and pushed Japan out of the Liaodong peninsula.[34] Military rivalry went hand in hand with competition over one's place in the international monetary hierarchy. Hence there were multiple "tiers" to the international payments system, and the same gold in one London vault served as backing multiple times over for currencies all across Eurasia. As GES's multiplied, the result was that even though economies were connected to each other via mutual commitments to gold by the early twentieth century, the world was not a seamless golden sphere. Instead, it was a ramified patchwork of currency blocs, extended by and across empires.

[34] Conant, *U.S. in the Orient*; Metzler, *Lever of Empire*, 41-2.

Americans learned from what was going on around them. In the first decade of the twentieth century, they expanded the boundaries of their nation's monetary sovereignty to encompass more and more of areas they considered strategically important in the Caribbean and Pacific. Whether by means of formal colonialism, dollar diplomacy, or branch banking into underdeveloped financial systems, they brought modern money management techniques seemingly everywhere but the homeland. The under-development of the American external state and the failure to produce a permanent, professional diplomatic or colonial corps meant financers often play that role.[35] Nowhere was this more true than in in the colonies, where Congress refused to finance a proper colonial apparatus - in part out of racist hostility to incorporating non-white territories, in part out of boredom with issues not affecting local constituencies - forcing local administrators to look to Wall Street for financing and state capacity.[36] It was less a plan, formulated and executed, than a series of *ad hoc* experiments that together formed a cumulative learning process. In particular, the international monetary community learned about the conditions that peripheral actors imposed on the U.S. monetary system as a prerequisite for leadership.

The process of imperial monetary expansion in the Caribbean basin began with the Spanish-American War. In Puerto Rico, the proximity tempted U.S. policy makers into believing that taking the French route and imposing the metropolitan currency directly was feasible.[37] Dollarization was supported by local landlords and capitalists, who sought to gain from greater exchange rate stability, and schemed to use the redenomination to trick workers into lower wages and higher prices.[38] Kemmerer noted the irrational attachments to the joys of symbolic domination,

[35] Jay Sexton, De*btor Diplomacy: Finance and American Foreign Relations in the Civil War Era 1837-1873* (Oxford, 2005).
[36] Colin D. Moore, *American Imperialism and the State, 1893-1921* (Cambridge, 2017).
[37] Kemmerer, *Modern Currency Reforms: A History and Discussion* (Macmillan, 1916).
[38] Rosenberg, *Missionaries*, 13-14.

recalling that one Congressmen argued that the dollar would “teach [colonial subjects] the lessons of the flag and impress upon him the power and glory of the Republic.”[39] The materialization of colonialism, in the form of hard coins, provoked a very different reaction than the Congressman expected. Popular protests and strikes led policy makers to reconsider their strategy, and contingency plans were drawn up. But after a few weeks some of the strikes were settled with wage increases, the riots died down, and Puerto Rican dollarization went through.

Although the Puerto Rican masses weren’t able to alter imperial plans for their own island, the experience made the dangers of the French strategy more vivid to colonial reformers and they changed tack in response. At the time, the Philippines group was still in the process of winning a second guerrilla war against insurgents; fear of reprisals as in Puerto Rico convinced the money doctors that from then on, the more covert English GES alternative was a safer route. The next nation dollarized was specifically created for U.S. interests. In 1903, Panama was carved out of Colombia to build the Canal, and promptly put on a GES with funds held in New York.[40]

The monetary modernization process was most straightforward in the Philippines. As Conant held meetings with local bankers, he was keenly aware of England's pioneering transformations taking place around the Indian Ocean and East China Sea. Commenting a decade later, Keynes teased that Conant's reforms in the Philippines "imitated, almost slavishly, India."[41] In 1903, Congress passed the Philippine Coinage Act, charging the colonial government with working out a plan for an official GES. Conant, together with Jenks, produced the text which that year became the Philippine Gold Standard Act. The GES architecture up and running, Conant left

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[39] Kemmerer, *Modern Currency Reforms*, 33.
[40] Commission on International Exchange, *Report on the Introduction of the Gold-Exchange Standard into China, the Philippines, Panama, and Other Silver Standard Countries, etc.* (1904).
[41] Keynes, *Indian Currency*, 27.

the island, and was immediately replaced by Kemmerer, who became Chief of the Division of the Currency. Kemmerer explicitly modeled his activities on foreign examples, describing his task as "the establishment of a gold standard with a theoretical gold peso," very much "like the theoretical gold yen of Japan."[42]

In effect, Kemmerer became America's first central banker, managing reserves while buying and selling gold in New York to maintain the value of its colonial currency. It was difficult to recognize, since unlike the greatest central banks in Eurasia – those of England, Germany, France – it was not much of a banker's bank. The closest thing to a bank in the Philippines were local Chinese pawnshops. Still, his role was functionally equivalent to many of the banks which managed European GES's, such as the National Banks of Belgium, Japan, or Austria-Hungary, which dealt either principally or exclusively with managing foreign exchange markets and not with lender of last resort functions. The success of these experiments in the colonies began a process of expansion for the institutions of monetary management within America's near abroad, which ultimately rippled all the way back to the homeland.

DOLLAR DIPLOMACY BLOCKED

While Kemmerer returned to Princeton to polish his academic credentials (making contact with university president Woodrow Wilson in the process), Jenks and Conant remained active abroad, with mixed results. In 1904, the governments of Mexico and China reached out to the U.S. to inquire about setting up their own GES's on Wall Street. But it was not to be – the dollar's reputation for instability still plagued its ability to project power abroad.

[42] Kemmerer, "The Establishment of the Gold Exchange Standard in the Philippines," *The Quarterly Journal of Economics*, 19/4 (1905),585-609, this quote 586.

The first failure occurred in Mexico, which had been looking to reform its currency. Although Mexico was a serial defaulter, Bleichröder had been willing to offer a £3m rescue loan to the Porfiriato when the price of silver - Mexico's main export *and* a peg for its bimetallic currency - crashed in the early 1890s, pushing the dictatorship to the brink of default. In the late nineteenth century, the principal underwriter for Mexico's sovereign debt was Gerson von Bleichröder, personal banker to Bismarck and the Prussian state as a satellite of the Rothschild network; prestige and security concerns supplemented his profit calculations in favor of leniency for Mexico.[43] Finance minister José Yves Limantour spent the next decade building fiscal capacity, raising taxes, and financing infrastructure development to expand merchandise exports to achieve a budget surplus strong enough to avoid a replay of the early 1890s. As a part of that strategy, Limantour negotiated with several banking houses simultaneously, never adopting a single "patron bank" like other Latin American countries at the time. In 1899 he played Berlin, Paris, and London banks off against his best offer, that of J.P. Morgan, in a bid to refinance Mexican debt. Ultimately the campaign ended in a syndicated loan from all four cities, on terms better than contemporaries and later econometricians thought possible on the open market, but *worse than Morgan's original pitch*. Why? Partly it was geopolitics – the Porfiriato's nationalist ideology was rooted in reaction to the French invasion of the 1860s – and the idea that fostering competition would give Mexico leverage. Partly it was President Díaz's concern about the growing muscle of North American companies, in particular the railroads, from whom he was trying to wrestle control over key infrastructures. But in a letter from Díaz to Limantour, he adds a third dimension: "Your

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[43] Leonardo Weller, "Government versus Bankers: Sovereign Debt Negotiations in Porfirian Mexico, 1888–1910," *The Journal of Economic History* (2015) 75(4), 1030-1057 and "The Bankers' Beloved Dictatorship: Mexico, 1890–1910," in *Sovereign Debt Crises and Negotiations in Brazil and Mexico, 1888-1914* (Palgrave Macmillan, 2018). Steven C. Topik, "Controversia crediticia: los "azulitos" del periodo de Maximiliano," in Leonor Ludlow and Jorge S. Riquer (eds.) *Los negocios y las ganancias de la colonia al México moderno*, 445–70. (Instituto Mora, 1993) and "When Mexico Had the Blues: A Transatlantic Tale of Bonds, Bankers, and Nationalists, 1862–1910." *The American Historical Review* (2000) 105 (3):714–38.

Excellency has done very well in refusing the volatile [New York] banks, taking for granted the real goal of your journey, and inspiring hope among those with the relative power to participate in what your Excellency may realize once in Europe."[44] New York money markets were simply too risky to depend on; better to distribute financial eggs across many baskets.

In 1904, Limantour lured Conant and friends down to Mexico on the premises of setting up a GES fund in New York.[45] After again pressing for syndication with European houses, Limantour was surprised that the leading Parisian bank he was working with, Edward Noetzlin, balked. Noetzlin was perhaps the most decorated international banker in the late nineteenth century not named Rothschild.[46] When asked about American inclusion on the loan to diversify risk, he replied that a "reduction in expenses would perhaps be possible," but not the inclusion of New York, whose market was "not trustworthy" and "full of juvenile spirits."[47] In the end, two loans - one European, the other American - were issued. Rather than set up a GES fund in New York, Mexico's own Exchange and Currency Commission administered the funds, buying and selling claims on gold in London to manage the *peso* in the foreign exchange market.[48]

In light of these failures, perhaps the success of American monetary imperialism in the Philippines, Puerto Rico, and Panama may have been idiosyncratic – the currency reforms

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44 Weller, "The Bankers' Beloved Dictatorship," 135.
45 Rosenberg, *Financial Missionaries*.
46 Born in Switzerland, he joined the management of the *Banque de Paris* before its merger in 1872; became Secretary General of the *Banque Franco-Égyptienne* in 1875; cofounded the National Bank of Mexico in 1881 and served as its managing director; he was also involved as a managing director of the Russo-Chinese Bank. But in the 1904 Mexican debt negotiations, he was acting as a director of the *Banque de Paris et des Pays-Bas* (later Paribas), which he would later become president of from 1911 to 1914. Hubert Bonin, *Le monde des banquiers français au vingtième siècle* (Complex editions, 2000). Thomas Passananti, "Banking on Mexico: Edouard Noetzlin and the Role of Financial Networks in Porfirian Mexico," conference paper for the 126th Annual Meeting of the *American Historical Association*.
47 Weller, "Bankers' Beloved Dictatorship," 138.
48 Romero Sotelo and María Eugenia, "Patrón oro y estabilidad cambiaria en México, 1905–1910," *América Latina en la historia económica: Revista de Investigación* (2009) 32:81–109.

epiphenomena of more fundamental colonizing drives. Roosevelt's reaction to the Venezuelan crisis pushed American monetary imperialism into a new phase. In the 1890s, Venezuela fought a civil war, with forced loans and significant property damage done to European residents. When taken to the Hague, the Venezuelan state refused to pay, provoking an Anglo-German naval blockade, and threats of invasion. This in turn provoked Roosevelt's Corollary to the Monroe doctrine: to prevent European intervention in Latin America, the U.S. would enforce claims it deemed legitimate on the Old World's behalf.[49] As Conant put it, "the United States must interest herself in the maintenance of order and security for life and property, unless she wishes one or more of the leading powers of Europe to intervene."[50] To him that meant only one thing: dollar diplomacy and GES.

The first test case of the Corollary arrived when the Dominican Republic defaulted on German debts in 1904. Roosevelt dispatched the army to take over the fiscal apparatus of the Dominican state. For over a decade thereafter, the State department sent legates south to staff Dominican customs houses, collect revenue, and assure creditors of timely repayment. State hired Conant to organize a private loan from Wall Street – specifically, Kuhn, Loeb – to pay off the German creditors. The new U.S. creditors promised to be more patient, since they were getting more than pecuniary reward out of the deal – they were obtaining *control* over the sovereignty of another nation, and security for the homeland. To facilitate loan repayment and to encourage future borrowing from America instead of Europe, State also pressured the government into a GES, with the new Dominican peso equal to one U.S. dollar. The GES funds held in New York at the Morton

[49] Nancy Mitchell, "The Height of the German Challenge: The Venezuela Blockade, 1902–3," Diplomatic History 20/2 (1996), 185-210, as well as her book, *The Danger of Dreams: German and American Imperialism in Latin America* (North Carolina, 1999).
[50] Charles A. Conant, "Our Mission in Nicaragua," *The North American Review*, Vol. 196, No. 680 (Jul. 1912), pp. 63-71.

Trust Company (which kept Conant on retainer) were to provide collateral for any new borrowing.[51] Ultimately no domestic currency was minted, however, and only the U.S. dollar circulated for the next thirty years.[52]

A similar process took place in Honduras at the end of the decade. The government wanted a formal treaty with the U.S. to establish its GES and a customs receivership. But by 1911, the U.S. Congress was skeptical of the "money trust" and anything that smelt of Wall Street. Delays in U.S. government support for the plan led the Wall Street bankers, whose loans were to finance the GES fund, to fall out. Without a trustworthy GES currency of their own, Hondurans resorted to using dollars, which became the only circulating currency.[53] The same pattern of attempted GES, Wall Street impatience, and Congressional foot dragging let a similar deal with Nicaragua fall through in the same year.[54] Conant's old complaint that, unlike Russia, the U.S. system was

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[51] The GES funds for the Philippines and Panama were also placed at Morton. When Conant negotiated the Nicaraguan deal, discussed below, he was employed by Brown Brothers, another Wall Street firm.

[52] Robert Triffin, "Central Banking and Monetary Management in Latin America," in Seymour Harris (ed.) *Economic Problems of Latin America* (New York, 1944); Triffin, *Monetary and Banking Reform in Paraguay* (1946), available on FRASER, the Fed's digitized archive. Rosenberg, *Financial Missionaries*.

[53] Curiously, it was not financial institutions which injected dollars into Honduras, but U.S. banana companies, whose manorial economies dominated the north. Rosenberg, *Missionaries*, 65-6, 108-9.

[54] Ibid. Nicaraguan politics since the Walker Filibuster of 1858-9 had been organized around a political culture of elite unity, under the premise that state building, encouraging economic growth by emulating North American political economic institutions, and luring North American capital south, was the surest best to prevent it from happening again. Key to this strategy was inducing the U.S. to build a canal, at least partially under the control of the Nicaraguan state. When Panamanian elites diverted Congressional interests at the last minute in the early twentieth century, that elite consensus rapidly broke down, and Conservatives and Liberals recruited different fractions of workers and peasants to contest for political power in increasingly violent ways. The 1910 loan was a last-ditch attempt by the country's most Americanized elites — Conservative ranching oligarchs from Granada - to prevent political breakdown. In the wake of the resulting revolution and civil war, the U.S. sent marines to occupy the country from 1912-1933. As a result, Nicaragua was the best-tutored society in Latin America, from the U.S. perspective: in addition to troops providing "law and order," U.S. officials staffed the Nicaraguan customs house, owned the *Banco Nacional de Nicaragua* with a GES fund in New York, and controlled the Mixed Commission that regulated state spending. Despite this - indeed, because of it - Nicaragua also did not participate in the 1920s "dance of the millions" capital inflow bonanza that graced the rest of the Caribbean basin. Nicaragua was systematically received among the least foreign investment from the U.S., perhaps the most dramatic example of U.S. monetary empire diverging from the interests of private American capital proper. Michel Gobat, "La construcción de un estado neo-colonial: el encuentro nicaragüense con la diplomacia del dólar" *Revista de Ciencias Sociales*, núm. 34, mayo, 2009, pp. 53-65 and *Confronting the American Dream: Nicaragua Under U.S. Imperial Rule* (Duke, 2005).

not streamlined for executive action to extend its monetary sovereignty, seemed more and more biting.

On the spectrum between full colonial apparatus (Philippines, Puerto Rico) and sovereign dollar-denominated GES funds (Panama, Honduras, Nicaragua), Cuba lay somewhere in the middle. The story began with Samuel Jarvis, a wild west huckster who made his fortune in the late nineteenth century unscrupulously operating in the law's shadow on the frontier, who was nearly sued out of existence on several occasions. After the Spanish-American War, Jarvis rushed to Cuba to set up a branch of his North American Trust Company. He found no competitors – local "banks" were mostly local money changers and pawn shops. Americans had made significant direct investments in Cuban sugar plantations, but banks had stayed away because the laws surrounding branching abroad were unclear. Jarvis, comfortable in the legal gray, had the island to himself. When the U.S. took possession of the country from Spain, North American Trust was designated the colonial government's fiscal agent. As the only bank on the island dealing in dollars and hence capable of financing trade with the mainland, Jarvis' profits soared. With the transition to self-rule, Jarvis set up the *Banco Nacional de Cuba* in 1900, which remained the fiscal agent of the neo-colonial regime. Legally, the BNC was no longer the branch of an American company, but a Cuban bank proper, its stocks largely held by Americans and Europeans.[55] The BNC aroused controversy in 1905, when it suddenly attempted to issue one million Cuban pesos worth of notes. Cuba's Congress objected that control of the national money supply was a fundamental aspect of sovereignty, and ought to be regulated by the Cuban people. The issue was unresolved when a controversial election led to re-invasion by the U.S. marines. Within a few years, Jarvis sold the company, and its accounts eventually made it into the hands of National City Bank, under the

[55] Hudson, *Bankers and Empire*, 37.

command of Frank Vanderlip. City continued to function as Cuba's independent, Wall Street-controlled central bank for the next two decades.

Jarvis moved on to the Dominican Republic, where he set up a new bank after again finding no competition. Conant's earlier GES scheme having fallen through, and as the only dollar-dealing bank in the country, Jarvis was once again poised to become a central banker. But after the Cuban fiasco the State department was not willing to let Jarvis cause any more havoc. In 1912, State encouraged City Bank's bid to offer the Dominican government a second loan and to function as its fiscal agent, which succeeded.[56] American hegemony required at least some intra-class discipline, in this case imposed by NYC-DC actors on frontier bankers. Hence by the early 1910s, it was Vanderlip who was rapidly becoming the Caribbean's private central banker. He accomplished this with State's blessing and the tacit agreement that legal grey zones would continue to be interpreted as white only on condition of good behavior. But his activities were not regulated or overseen in any official capacity. Neither State nor City had any assurances that America's monetary empire would remain stable.

IV. HOMECOMING

By the early 1910s, the U.S. had a small but robust community of internationally oriented monetary thinkers, whose policy experiments abroad made them more experienced with monetary management than anyone else in the country. Conant, Jenks, Hannah, Vanderlip, Kemmerer – as they surveyed the landscape they had wrought across the Western Hemisphere and the Pacific, not everything was in perfect order. Half of the Latin Republics were still wandering in the wilderness,

[56] Ibid., 47.

and the biggest prize of all, the China market, was still unconquered. Yet compared to the situation only a decade prior, there was more stability, more centralized use of New York money markets, more institutionalized management, and more expertise on international monetary matters than Conant could have hoped for when he first began to educate Americans on the subject in the 1890s. Indeed, by the second decade of the twentieth century, members of America's international monetary community were beginning to write textbooks on the international monetary reform process.[57]

Yet on returning to edit the third edition of his *History* in 1909, Conant could not help but notice a glaring omission in the international monetary community's work. America's periphery had rather advanced monetary management mechanisms – not quite an England or Germany, but on the order of a Russia or an Austria-Hungary – and the material he added to the third edition reflected his pride in that work. Yet the U.S. itself lacked any such sophistication. The new chapter on the U.S., titled "The Panic of 1907," was an embarrassing narrative of stock market crash, banking panic, and recession. The story only ended when J.P. Morgan took the reins and for a moment became America's lender of last resort, organizing the healthy banking houses into a consortium to bailout their struggling peers. But Morgan would not be around forever. The U.S. was desperately in need of a real central bank. Indeed, it was already in the process of losing client states to cranks like Jarvis. The Nicaraguan and Honduran deals were tanked by Congressional dithering on foreign loans; but even had the loan offers gone through, there were those in the Latin American governments who thought that the U.S. was too risky to hold their funds. The absence of any monetary executive in the U.S. meant instability and delay. None of America's new client

[57] Conant, "The Correct Method of Monetary Reform in Latin America," circulated to Kemmerer as early as 1909; EWKP, box 243, folder 5; published by a New York printing house in 1911.

states had pulled out of the dollar's orbit after 1907 – yet. But obviously something needed to be done.

REFORM

By 1907, American bankers had been trying to reform their system for some time, without much success. In response to the populist challenge from Bryan in 1896, New York bankers led by Hugh H. Hannah, Morgan lackey and editor of the anti-Bryan *Sound Money* magazine, organized a faux-grassroots movement in the form of the Indiana Monetary Convention in 1897.[58] Ignored by Congress, the bankers set up a National Monetary Commission headed by University of Chicago economist and soon-to-be architect of the close-call in Puerto Rico James Laurence Laughlin as a propaganda arm. To get the word out to the public, Hannah hired Conant as an assistant to the Commission to write a series of editorials. The result: 7,500 newspapers across the country published Conant's reports, and nearly 100,000 correspondents inquired for further information, further bolstering Conant's reputation as the foremost voice in favor of American central banking.[59] The second Indianapolis Monetary Convention, held in 1898, was larger than the first, with nearly five hundred delegates sent from across the U.S., including Jerimiah Jenks.

After the 1907 recession, a tentative national consensus emerged for reform. The next year, Congress passed the Aldrich-Vreeland Act as a sop to growing calls for legislation.[60] Authored by arch conservative Nelson Aldrich, it created the National Monetary Commission (NMC), a

[58] Kolko, *Triumph*, 147–8; Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Cornell, 1986), 104–5.
[59] Livingston, *Origins*, 109–10.
[60] Aldrich-Vreeland Act of 1908, May 30, 1908, section 18.

bureaucratic committee designed for stonewalling. Aldrich was firmly of the opinion that nothing much needed to change, and he was seen by many as the main obstacle to reform.[61]

Despite these unpromising beginnings, the NMC quickly progressed to a maximalist interpretation of its mandate. In just under two years, the Commission produced an exhaustive comparative history of the major financial systems of the world. No less than 15,250 pages in 23 volumes, it was an encyclopedic accomplishment which still remains on the cutting edge of central banking historiography.[62] The NMC kept Conant on retainer, officially for performing public relations work in his capacity as a journalist. In a fourteen-part series of front page editorials for *The Wall Street Journal*, Conant beat the drums for monetary reform for months.[63]

If the NMC tended to point to Europe and Japan as exemplars of their preferred institutional architecture, others pointed to America's colonies themselves. Irving Fisher, Yale economist and leading theorist of the quantity theory of money, proposed in his pamphlet *Stabilizing the Dollar*, a global GES, with only one country as the pivot for the whole system.[64] Anticipating objections to his system, Fisher insisted that it was a purely technocratic fix, hardly noticed at all. Pointing to the colonies, "the average Philippino or the average inhabitant of India had no real conception" of the GES. "No discontent has come from [it,]" he said, apparently forgetting about the riots in Puerto Rico.[65]

As reformers barnstormed the country, and more and more of the national conversation came to focus on which foreign central banks were most worth emulating, the NMC took to writing

[61] Lowenstein, *America's Bank.*
[62] Available in full on FRASER.
[63] Conant, “A Central Bank of Issue,” Wall Street Journal, 22 September 1909, 9 October 1909, 16 October 1909, and 23 October 1909, 1. (Each article in the series begins on the front page.), cited in Sklansky, *Sovereign*, 232.
[64] This scheme would later be reincarnated at Bretton Woods.
[65] EWKP, box 12, folder 1. Cf. Stefan Eich, "The Problem of the Rupee" in Anupama Rao and Shailaja Paik (ed.) *The Cambridge Companion to Ambedkar* (forthcoming).

a concrete bill for discussion, which came to be known as the Aldrich Bill. It was infamously drafted on a private island resort by Aldrich and a few private bankers, including City's Vanderlip. The proposed central bank would be modeled on England – a private institution run by bankers, whose investment shares in the proposed bank would determine voting rights on its policy. More importantly for the construction of America's monetary empire, the Aldrich bill also included a clause that allowed big banks – those with over $1 million in capital – to apply to the new central bank for the privilege of branching abroad. This would have formally legalized any American bank operating abroad – or any purchase by an American bank of a bank operating abroad, such as City's purchase of the *BNC*.

The bill provoked fierce opposition, and there were dozens of counter-proposals and counter-counter-proposals, whose ins and outs are infamously labyrinthine, even to specialists.[66] Equally notorious is the proliferation of memoirs after the final 1913 Act was passed, with each retrospective narrative arranged to emphasize the author's contribution to the glorious Federal Reserve Act.[67] Curiously, however, no one seems to know how exactly the foreign branching clause was inserted into the original Aldrich bill, or why each subsequent counter-Aldrich bill included the same clause.

Nor were the Congressional debates much concerned with it. It appears that the questions around domestic centralization – the extent of public vs. private control, and the extent and form of local autonomy within the new system – were so fiercely contested that no one paid much

[66] Arthur S. Link, *Wilson, Volume II: The New Freedom* (Princeton, 1956), 199-240. Several different bills are available on FRASER.
[67] Prominent in this genre are the memoirs of Carter Glass and Paul Warburg, discussed by Lowenstein, *America's Bank*, but see also Kemmerer, *The ABC's of the Federal Reserve*, available on FRASER.

attention to the foreign branching provision. At one point, Aldrich blurted out that perhaps it would be best if the new central bank itself set up branches abroad, to which Conant responded:

I doubt whether it would be advisable for the central bank, if we had one, to go into the South American business except on a limited scale. It could have branches in London, Paris, and Berlin undoubtedly, but in the Latin-American countries I think it would be better to have private banking institutions.[68]

The conversation moves on from there, so while the exact reasoning is unclear, the preference is not: banks operating in Latin America ought to be privately run, and the Federal Reserve Act of 1913 should provide for that. Further, the circumstantial evidence is more than suggestive: the Aldrich bill was written by a team of internationally conscious monetary thinkers, each heavily influenced by Conant, with Vanderlip himself in the room, just as he was about to embark on a campaign to branch into the role of Caribbean central banker in Cuba and the Dominican Republic. Congress, unsuited to making decisions about America's monetary empire – inexperienced to the point where it nearly let multiple client states slip through its fingers – was apparently indifferent about delegating such decisions to the Fed. Although the Aldrich bill did not pass, this section, almost never discussed, was a part of the unspoken consensus, and did ultimately make it into law. As with so much of American state-building in the long nineteenth century, the Federal Reserve Act was as much about borrowing state capacity from private actors and infusing it with public purpose, formalizing and at the same time blurring the lines between public-private partnerships, as it was about constructing the public institutions themselves.[69]

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[68] FRASER, Bank and Currency Hearings.

[69] Nicolas Barreyre & Claire Lemercier, "The Unexceptional State: Rethinking the State in the Nineteenth Century (France, United States),"*The American Historical Review*, Volume 126, Issue 2, June 2021, 481–503; James T. Sparrow, William J. Novak, and Stephen W. Sawyer (eds.) Boundaries of the State in US History (Chicago, 2015);

IV. CONCLUSION

Major opposition to the Aldrich bill came from Democrats representing farmers in the South and West. They feared that a state-backed bank of issue that was privately controlled would serve only the interests of Wall Street, harming debtors. Kemmerer, by 1912 now at Princeton and living only a few minutes' walk from one of the president-elect's houses, launched into action. Wilson himself was not unfamiliar with monetary history and theory – indeed, his ten volume *History of the American People* was explicitly modeled on *The English Constitution* by Bagehot, about whom Wilson had written not one, but two glowing eulogies in *The Atlantic*.[70] Kemmerer pointed out to him that farmers need not fear a central bank. Indeed, "Probably no class of people in the community would benefit more from an adequate and sane banking reform than would our farmers." He included his research on agricultural banks in Egypt, the Philippines, and his proposals for the mainland. Central banks could discount more than just trade acceptances, Kemmerer pointed out. There was a large class of farming-oriented loans that would benefit from the liquidity of a central banking discount facility. Further, the private, English model written into the Aldrich plan was not the only one available. "If we turn to the great central banks of Europe, all of which are to a very large extent bankers' banks, we find that great care is taken to prevent them from falling into the control of the banking class of the community, or of any other special class... Is there any sufficient reason why we in America should depart from the practice of Europe?"[71] To make his point, Kemmerer sent out a questionnaire to economists. The results were

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Lev Menand, *The Fed Unbound: Central Banking in a Time of Crisis* (Columbia, 2022) calls this part of the "American monetary settlement" the "money franchise."

[70] Wilson, "A Literary Politician" (November, 1895) and "A Wit and a Seer" (October, 1898)."

[71] Kemmerer, "Banking Reform in the United States."

unanimous: economists believed the objections were not to the central bank's functions, but control over those functions. J.H. Hollander's response epitomized this consensus: "Concessions should be made to existing rights & prejudices."[72] There was no reason why all Americans could not have their interests represented by the President. Similar arguments were made elsewhere. In the House of Representatives, Henry Parker Willis, an expert on the Latin Monetary Union mentioned above, advised congressman Carter Glass on the same issues, and a bill emerged for debate.[73] The Fed's public-private mix ultimately descended from the Belgian model, which Conant considered the "ideal bank of issue." While it wasn't the banker-dominated, private central bank the NMC preferred, any central bank would do for Conant. As he had written about for decades, there was a whole world of possible architectures for stabilizing the homeland.

The Act officially passed into law on December 23, 1913. Jumping the gun by a month, Vanderlip had already opened up the first branch of City Bank in Buenos Aries in November; seven short years later, there would be 181 foreign branches of U.S. banks, forty-eight belonging to City, which blanketed Latin America with dollars. With monetary reform finally accomplished in the homeland, Kemmerer turned his gaze south, and began to compose his Pan-American sermon. For areas not yet dollarized, the good news would soon arrive.

The dollar bloc was a hegemonic project. Its shape and trajectory had as much to do with Latin American resistance and terms of consent as it did with metropolitan blueprints for world order. To successfully court peripheral elites beyond those the U.S. conquered, and to avoid detonating protests by the masses in those it did, U.S. planners chose not to simply lay down terms

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[72] *Papers of Woodrow Wilson XXVIII* (Princeton, 1978), 204-9.

[73] Sanders, *Roots of Reform.* Willis' later career is also significant in this story. After serving as the first president of the Philippine National Bank, he became a professor at Columbia, where his most important student was Charles Kindleberger. This puts the "empire" back into Perry Mehrling, *Money and Empire: Charles P. Kindleberger and the Dollar System* (Cambridge, 2022).

of subordination. Puerto Rican riots and Nicaraguan parliamentarians are as much a part of this story as Princeton economics professors.[74] These are the inter-imperial and Pan American origins of the Federal Reserve and the global dollar. Because the Fed's opening was almost coincident with the first shots of the Great War, with the consequent enervation of European finance and the extension of American war loans, the story of the global rise of Wall Street typically includes geopolitics solely by reference to that conflict, a profoundly contingent (or at least exogenous) event from the U.S. point of view.[75] The same may be said of the inter-war European origins of global economic governance.[76] But the activities of men like Edwin Kemmerer and the policy debates they were a part of tell a very different story. Embodied in America's "international monetary community," global comparisons, inter-imperial competition, and the transnational flow of ideas were all present at the creation.

[74] Christy Thornton, *Revolution in Development: Mexico and the Governance of the Global Economy* (University of California Press, 2021) makes a powerful argument for the agency of the global south in creating the mechanisms of global economic governance following Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Cornell, 2016). See also Amy Offner, *Sorting Out the Mixed Economy: The Rise and Fall of Welfare and Developmental States in the Americas* (Princeton, 2019) on the importance of holding domestic US history together with a larger hemispheric history of the Americas in a single analytic frame.
[75] Melvyn P. Leffler, *Elusive Quest: America's Pursuit of European Stability and French Security, 1919-1933* (UNC, 2009), 89–90; John A. Thompson, *A Sense of Power: The Roots of America's Global Role* (Cornell, 2015), 122-3.
[76] Jamie Martin, *The Meddlers: Sovereignty, Empire, and the Birth of Global Economic Governance* (Harvard, 2022).