



# Book The Exchange Artist

## A Tale of High-Flying Speculation and America's First Banking Collapse

Jane Kamensky  
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### Recommendation

Andrew Dexter Jr. is the villain of historian Jane Kamensky’s book on America’s first bank failure, which occurred in the early 1800s. He used worthless banknotes to finance construction of Boston’s Exchange Coffee House, at seven stories the U.S.’s tallest building at the time. In the process, he financially ruined hundreds of laborers who worked on the project. By the time they learned that his banknotes were bogus, Dexter was long gone. Kamensky deftly tells his tale with fascinating detail and little-known facts. In brilliant writing, she traces the rise of “speculative capitalism.” She offers the bittersweet saga of a man with little conscience and big dreams he never fulfilled. *BooksInShort* finds that her book compellingly depicts America’s early financial history – and, perhaps, one facet of its emerging fiscal personality – through the tale of this colorful charlatan.

### Take-Aways

- Andrew Dexter Jr. was a “paper man” par excellence – an entrepreneur, speculator and risk taker.
- He was as entrepreneurial and risk-taking as America’s revered founders, George Washington, Thomas Jefferson and Benjamin Franklin. Only, he was a criminal.
- Dexter believed deeply in the American dream. He searched for it, but never achieved it.
- He learned about enterprise and bold vision from his uncle, Samuel Dexter, a U.S. Treasury Secretary.
- Andrew Dexter built Boston’s Exchange Coffee House, then America’s tallest building, a brick-and-mortar metaphor for the U.S. as the land of opportunity.
- Fire destroyed the building in 1818 and put an end to an ill-fated, unprofitable, illegally funded endeavor.
- Dexter paid for the construction of the magnificent building with bogus money.
- Government authorities caught on to his scheme and shut his Rhode Island bank, which issued unfunded banknotes. It was America’s first such bank closure.
- Dexter fled from Boston in disgrace to Nova Scotia, then later to Alabama.
- In 1837, he died alone, a bitter, broken man and a pauper.

### Summary

#### The Speculator’s Dream

In Boston, in the early 19th century, the Exchange Coffee House was a perfect metaphor for the nascent American Republic and its “gospel of ascent” and open opportunity. Andrew Dexter Jr., who conceptualized, created and , some might say, conjured the building, was a bold speculator, just like George Washington, Benjamin Franklin, Thomas Jefferson and many other early U.S. founders; only unlike them, he was a con artist. In Dexter’s America, popular myth said you could become anything you wanted. Born shortly after the Revolution, he bought this noble vision wholeheartedly. It was true for many and it almost came true for the daring Dexter, dreamer and fraudster. For a time he achieved wealth and prominence by painstaking chicanery, but he died an angry pauper. His personal tale and the story behind his remarkable building were hugely improbable.

#### Young Man on the Make

Dexter was born in 1779 in rural Massachusetts, grew up in Providence, Rhode Island, and completed Rhode Island College in 1798. In his graduation address, he

proudly embraced the American “gospel of aspiration,” proclaiming that the “hatchet of industry, wielded by the strong arm of freedom, shall resound from the shores of the Atlantic to the banks of the Mississippi.” Dexter then moved to Boston to study law and began wielding his own hatchet in an inglorious yet unforgettable swath by working for his uncle, famous local lawyer Samuel Dexter. Some Bostonians said Samuel was a “tongue-for-hire” with no principles. They called him “Ambi-Dexter.” But he must have had some credibility, because the state legislature appointed him to the U.S. Senate and President John Adams named him Secretary of the Treasury. Dexter learned much from his uncle. Primarily, he discovered how to become a financial speculator and risk taker, skills at which the wily Samuel excelled.

## Banknotes and “Specie”

In the early 1800s, America had no national paper currency. The federal mint used precious metals to make coins called “specie.” Banks produced the paper money, which was called “banknotes.” Supposedly, consumers could redeem banknotes for specie any time at the issuing bank. However, such paper currency often was tied loosely to what Adam Smith, author of *The Wealth of Nations*, described as “the solid ground of gold and silver.” If all banknote holders claimed their specie at the same time, most banks could not have met their demands. Each note included the signatures – real autographs, not printed facsimiles – of the bank’s president and cashier. These signatures sent an unambiguous signal to banknote holders: You can redeem these notes for coins of the realm.

“Rags make paper/ Paper makes money/ Money makes banks/ Banks make loans/ Loans make poverty/ Poverty makes rags.” [ – Anonymous]

Banknotes facilitated trade and commerce, but they were not legal tender. No government entity endorsed them. Previously, the American government had been in the paper money business. The Continental Congress issued more than \$226 million in paper notes called “Continentials.” Individual states issued their own notes, worth another \$100 million. However, such paper money became grossly inflated and nearly worthless. By 1779, a Continental “traded against specie at a rate of 42-to-1.” One knowledgeable observer called the notes, “no better than the *wampum* of the savages.” When the U.S. government stopped printing money, banks quickly took over this potentially lucrative business. After all, what could be more profitable than printing money?

“Dexter’s downfall astonished not because it was monstrously singular, but rather because it laid bare the rules of the game.”

The problem was that no one had to accept banks’ notes. Their often fluctuating value depended on numerous factors: the issuing bank’s reputation, the standing of its directors, the bank’s supposed holdings of specie and so on. With hundreds of banks in operation across America and with all their different banknotes floating around, no one could know precisely from day to day what a particular banknote might be worth. Speculators – “paper men” – loved the banknote business. Thriving on chaos and confusion, they focused on buying paper low and selling it high. Such individuals were bold betters, ready to pay pennies on the dollar for “clever” investments.

## The Yazoo Men

Andrew Dexter’s Uncle Samuel was a noted paper man. Always alert for the “main chance” to make money, he and his cohorts preferred “fickle fortune to steady competence.” Samuel and his investment group purchased 11 million acres of the “Yazoo tract” in Georgia’s western reserves, now Mississippi and Alabama, buying a “land mass half again as large as...Rhode Island.” Was this bold move an honorable, above-board purchase? Perez Morton, one of Samuel’s partners, believed so: “Whatever is not forbidden by law is permitted,” he testified to Congress, “and whatever is permitted is lawful.”

“The early American banknote was a frozen gesture: a handshake caught mid-grip, a speech act committed to paper and stretched over time and space.”

Young Andrew absorbed this happy creed, understood the magic of paper money and rapidly put it to work. In Boston, he became a trustee of the Exchange Office, called the “Changery,” a new banking and investment firm. It agreed to deal in any paper currency, even from the most remote, highly suspect banks. This was the opposite of other banks’ standard practice. Most Boston banks discounted banknotes from “country” banks, as they were derogatorily known. The farther away the bank that issued the note, the more the receiving bank took off the note’s value.

“Its funds scarce, its notes abundant, its credit doubtful, the Farmers’ Exchange Bank was rotten fruit. Dexter plucked it not to save the bank, but to save himself.”

How could the Changery invert this financial formula? Simple: Its managers decided to not even try to remit banknotes to banks in the hinterlands – or anywhere else, for that matter. For Dexter and his associates, “money had no home.” They believed any banknote was valuable if it stayed in “free circulation,” or motion. The only danger was that if the bill ever came to rest, its value would “regress to paper.”

“Many country banks were poorly run, but the Farmers’ Exchange Bank was degenerate.”

Of course, by freeing paper money from its uneasy link to specie, the Changery could blithely invest in all sorts of new ventures: buildings (including the hugely expensive Exchange Coffee House), bridges, turnpikes and other costly projects. The result was a new “commercial Eden,” with Dexter, a Changery trustee, as its munificent creator. Boston merchants and businessmen disliked country banks’ banknotes because determining their value was difficult. Plus, because of these banks’ remoteness from Boston, presenting their notes for remittance in specie was difficult. Dexter liked country banknotes for these exact reasons. For him, an impossibly remote bank was the ideal supplier of notes – as long as he was involved in issuing them.

“The burning of the Exchange held a portent, an object lesson: the end of an Icarus tale written first in paper, then in bricks and now in ash.”

In the first decade of the 1800s, Detroit – home of the newly chartered “Bank at Detroit,” or Detroit Bank – was about as far from Boston as you could get by regularly available means of travel. Detroit Bank was capitalized at “\$80,000 and no more than \$400,000.” Such figures were hugely suspect: “\$80,000 was more than double the value of what Michigan produced in a year.” Indeed, precious little economic activity took place in the state’s backwoods and cash was scarce. What was the bank’s true purpose? Ask its founders, who were all paper men from Boston. Indeed, the indefatigable Andrew Dexter Jr. was a major shareholder.

“The bank bills...had ‘less value...than the rubbish now lying in the cellar of the building’.”

The new bank soon churned out vast reams of paper money. Its notes quickly flooded into Boston. At the same time, the Changery asked the Detroit Bank for a loan.

In effect, Dexter and his cohorts applied to themselves for a loan. Not surprisingly, they approved their own loan request. Clearly, they had created the perfect money machine. Dexter used the same ingenuous formula with banks he bought or in which he held financial interests, all in remote New England locations: Pittsfield, Massachusetts; Augusta, Wiscasset and Bucksport, all in Maine, and in Keene, New Hampshire. Many knew Dexter was responsible for showering Detroit banknotes (and other notes, as well) on Boston, but they did not know Dexter's game. It was real estate.

## The Exchange Coffee House

Flush with money that he, in effect, printed or loaned himself, Dexter decided to construct a grand "temple of finance" called the Exchange Coffee House, a place where businessmen and financiers could meet, buy and sell goods and services, enter partnerships and close deals. He planned to fund his new building with mountains of his beloved paper money, using the same "speculative capitalism" that fueled America's early development. At first, Dexter had a legitimate scheme for the building. By the end, it degenerated to pure scam.

## The Farmers' Exchange Bank

Despite his newfound wealth, Dexter needed other investors to fund his expensive project. At the time, Boston merchants had begun a whispering campaign against the Detroit banknotes. Of course, all of Dexter's banknotes were light as feathers. The worst ones emanated from another one of his banks, the Farmers' Exchange Bank in Gloucester, Rhode Island. This thoroughly wretched institution rented ground floor space from the local Masonic Hall, which fronted a dirt street. The bank did not store its meager holdings in a proper safe. Instead, bank officers shoved what little money it had into a dry well – literally, a hole in the floor.

"In 1837, Dexter's bubble burst for the last time, imploding along with the speculative economies of the city, the region, the nation and beyond."

Farmers' Exchange Bank had a particularly bad reputation for not redeeming its notes for specie. For Dexter, that was one of its most salutary features. Indeed, he finagled hard to take it over because of that meretricious reputation. Once in control, he quickly started printing Farmers' Exchange banknotes. He made the bank's pitiable cashier, William Colwell, work around the clock signing the notes. The newly printed money went to only one place: Dexter's coffers in Boston. As soon as new bills arrived, Dexter quickly dispensed them to workers, suppliers and other creditors to keep construction moving ahead on the Exchange Coffee House. It emerged as a grand hotel, business exchange, meeting place and social hall – an unlikely dream made strikingly real – with millions of bricks, tons of mortar, lavish furnishings and stretches of marble at the then-luxury price of \$1 per linear foot. At seven stories, it was the nation's tallest building. A majestic rooftop dome made of tin topped the building like architectural punctuation gleaming in the sun.

"What would Andrew Dexter make of this latter-day market in the paper he made and unmade, and which made and unmade him in turn? He would cackle at the prices, certainly."

In all, Farmers' Exchange issued more than \$600,000 in banknotes that Dexter used to build the Coffee House. Yet the bank's dry well safe held a mere \$86.48 in coins. Nothing backed Dexter's banknotes. As the Rhode Island notes flooded Boston, local merchants became suspicious. One of them, Nathan Appleton, instituted a hard-hitting public-relations campaign against Dexter's suspect currency. When Appleton and a cartel of businessmen refused to take the Rhode Island bills, their trading value plummeted. Soon, they were worth "sixty cents on the dollar, or less." A cry for bank reform went up in Boston and elsewhere, including Washington, D.C. Rhode Island's state government shut down Farmers' Exchange Bank, the first such bank closure in American history.

"The money game had long made ordinary people feel like pawns in some cosmic game."

Dexter crashed and burned and so, literally, did his spectacular building. On November 3, 1818, the great structure caught fire and burned to the ground. People in Connecticut, Maine and New Hampshire could see the shimmer of the fire's mighty glow. One night, the Exchange Coffee House, splendid and regal, towered over Boston's otherwise low-flung environs. The next day, only a decade after it was completed, the building was a smoldering ruin. Like a magician's trick, which the building was in terms of financial legerdemain, in the end, it was only smoke.

"'Awful as was the catastrophe,' one Boston editor recalled in 1872, 'there were many others amongst us who richly enjoyed it'."

Wiped out and disgraced, Dexter absconded to Nova Scotia. Staying "a step ahead of his creditors," he then moved to his uncle's Yazoo tract in Alabama, where he became a failed land promoter, hustling for "Alabama Town," later named Montgomery. Embittered, Dexter lamented his "inferior position." His "big gambles yielded but fleeting gains." His debts mounted. Paper man Dexter ended up tumbling "through the borderlands" between the U.S. and Mexico, now Texas. Eventually, he returned to Alabama. One journalist said he was locked up as a debtor. Could be. No doubt exists that by 1837, the year he died of yellow fever in Mobile, he was penniless.

## Fast Forward Two Centuries

Today, Dexter's Farmers' Exchange Bank banknotes are collector's items. Many people own them, and a great number remain in existence since Dexter printed so many. You can buy one of his "Dexter Dollars" on the Internet. A \$2 bill costs about \$64. If he were still around, Dexter surely would be pleased at how much his peripatetic paper money has appreciated in value.

## About the Author

**Jane Kamensky** chairs Brandeis University's history department. She has won numerous, prestigious academic awards and fellowships. The author of *Governing the Tongue*, she is an expert on North American history before 1830.