Philanthropic Endeavors, Saving Behavior, and Bourgeois Virtues

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ABSTRACT:

I discuss the origins of "saving" in the United States. Saving in the modern sense of the word – setting aside a portion of current income to finance future consumption – not the parsimony identified with the moral virtue of "frugality." I tell the story of the establishment of the Philadelphia Savings Fund Society in 1816, America's first savings bank, and of its founder, Condy Raguet. Raguet can be thought of as a representative agent of the McCloskey bourgeoisie - American branch. He was well off and, judging from his standard of living, he considered material possessions and physical comfort as important. He was a successful businessman (president of a pioneering insurance company) and politician, but he was also motivated by a strong humanist impulse. His Savings Fund Society was not conceived of as a bank or a business. It was organized to make no profit and Raguet served as a Director/Trustee without compensation. The bank was a philanthropic endeavor intended "to promote economy and the practice of saving amongst the poor and laboring classes of the community – to assist them in the accumulation of property that they may possess the means of support during sickness or old age – and to render them in a great degree independent of the bounty of others." In Raguet we meet a materialist whose humanist beliefs stressed the goodness of human beings, emphasized the commonality of human needs, and sought rational ways of solving human problems. His philosophy and aretology (catalog of virtues) match the standard definition of humanism perfectly. Raguet and his Philadelphia compatriots on the bank's board of directors sought a balance between humanism and materialism.

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Economic change in all periods depends, more than most economists think, on what people believe.
Joel Mokyr[1]

In 1816 near the end of November, Condy Raguet, the President of a fledgling insurance company and a newly-elected Pennsylvania State Representative, encountered his friend, Richard Peters, at the southeast corner of Fourth and Chestnut near Philadelphia's Carpenters' Hall. Raguet had recently received reports from England on the operation of several savings banks. These newly-created Scottish and English banks provided a philanthropic service to the laboring class.[2] With the subject fresh on his mind he "immediately," by his own account, asked his friend to join with him in a plan to establish a similar institution in Philadelphia.

It was probably unseasonably cold. Philadelphia is always cold in late November. But that particular November was "indeed a cold blustering month, and there was rain storms and snow storms; cold north-west and north-east winds, … froze very hard several nights, and some days were cold enough to sit by a good fire" [Peirce 1847: 220-221].[3] In person, Raguet was tall, slender, and according to an acquaintance, "remarkably straight, with much of a military air … and was always dignified in his deportment" [quoted in Camurça 1988: 181].

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[1] *The Enlightened Economy* [2010], and quoted with approval by Deirdre McCloskey [*Bourgeois Dignity*, 2010: xiii: and "Review," 2010: 56].

[2] Savings banks as a vehicle for the provident poor to protect themselves against age and want were advocated by Jeremy Bentham (1797) and Thomas Malthus (1803). The Edinburgh Saving Bank was instituted in 1814 [Keyes 1876: 18]. Raguet undoubtedly knew of the Scottish and English banks because Philadelphia's leading newspaper, *Paulson's Advertiser,* had quite recently published an extensive seven-part article on the subject drawing extracts from the *Edinburg Review* [*Paulson's Advertiser* November 8-16, 1816]. The year 1816 saw an outpouring of publications and pamphlets in Great Britain advocating savings banks, see the review of this literature in Griffiths [1816]. According to James Wilcox [1916: 28], Raguet probably also had access to George Rose's *Observations on Banks for Savings* [1816]. Another prominent treatment was the book by John Beaumont [1816]. It is also possible that Raguet read of the schemes in his own copy of the *Edinburg Review* [letter from Clement Biddle to Condy Raguet (1829) reproduced in Wilcox 1916: 19] and he may even have had a hand in placing the article in *Paulson's Advertiser*. The crescendo of interest in England culminated the following year when Parliament created (and subsidized) a national system of Trustee Savings Banks [Fishlow 1961].

[3] The date was "on or about" Wednesday November 20, 1816 [letter from Clement Biddle to Condy Raguet (1829) reproduced in Wilcox 1916: 19].

Peters and Raguet walked together eagerly discussing the idea when they met Clement Biddle and Thomas Hale in the financial district. They too joined in support of the proposal. Mr. Raguet was a man of local repute and it was not difficult for him to recruit eight additional men of prominence as trustees. He was also a man of resolve. Only a few days later an organizational meeting was held and soon after, on December 2 – less than two weeks since his chance encounter with Peters – the Philadelphia Savings Fund Society opened its doors for business. It was the first savings bank established in the United States.

A local newspaper published the society's objectives:

> To promote economy and the practice of saving amongst the poor and laboring classes of the community – to assist them in the accumulation of property that they may possess the means of support during sickness or old age – and to render them in a great degree independent of the bounty of others – is a duty incumbent upon all, who by their services or advice have it in their power to effect so desirable an end. … [Our] design is to afford a secure and profitable mode of investment *for small sums* (returnable at the will of the depositor on a short notice) to mechanics, tradesmen, laborers, servants *and others* who have no friends competent or sufficiently interested in their welfare, to advise and assist them, in the care and employment of their earnings, …[4]

The reason for saving presumed by Raguet and his compatriots was to provide "support during sickness or old age." That same motive has remained the primary objective for saving and wealth accumulation for at least the next two hundred years. From today's perspective, we might add a few other provisions for the future – saving for the children's education, saving for a down payment on a home, saving to leave an inheritance – but why we save is straightforward. We save today, consuming less than we might, so that we can consume more than we earn at some point in the future.

It might seem then that there is nothing very remarkable about the aims of the Philadelphia Saving Fund Society. Yet, what is curious about this story of America's first saving

[4] The story of Raguet's founding of the Savings Fund Society is related by James Wilcox [1916: 17-27]. The newspaper "address" to the public is reproduced in Roy Foulke [1941: facing page 140, italics as in the original]. A detailed biography by Zelia SáViana Camurça covers Raguet's political, diplomatic, and editorial careers [1988]. In the diplomatic service he first held the position of U.S. Consul in Rio de Janeiro (1822-1825) and then represented the U.S. government as the first *Chargé d'Affaires* to the newly-independent government of Brazil (1825-1827).

bank might not be obvious to modern readers. Saving – the putting aside some portion of current income for protection against whatever the future might bring – was a novel concept at the time. Saving is not commonly mentioned in letters and diaries originating from the newly independent states of America. That is, “saving” in the sense of saving money; there were plenty of references to saving lives, saving souls, and saving seed.[5]

“Thrift” would be a word more frequently encountered, but its sense at that time did not suggest the act of saving money. Thrift was a moral virtue: the virtue of frugality. Frugality, moreover, was part of an ethical package, bundled with other bourgeois virtues: honesty, hard work, charity, sobriety, stewardship, and the like. Saving money was not the object of frugality. The frugal person would avoid extravagance, minimize waste, and improve efficiency. The fruit of this parsimony need not be the accumulation of wealth; the practice of thrift was advocated to increase the individual’s capacity for charitable deeds. The English cleric John Wesley,whose ministry was the founding inspiration for the Methodist movement, gave a sermon in 1744 on stewardship entitled “On the Use of Money” which contained the catch phrase "Gain all you can, save all you can, give all you can." With "save all you can," Wesley challenged his listeners to live frugally. Avoid “elegant epicurism. … Despise delicacy and variety …” Do not waste money on “superfluous or expensive apparel, or by needless ornaments. Waste no part of it in curiously adorning your houses; in superfluous or expensive furniture; in costly pictures, painting, gilding, books; in elegant rather than useful gardens.” Do not “throw away money upon your children. … Do not leave it to them to throw away.” If there is a surplus, “give to the poor.” Do “good to them that are of the household of faith.”[6] The goal of frugality was to demonstrate the ability to discipline oneself by the use of reason.

When he set out to promote “the practice of saving” Condy Raguet used the word “saving” in a different, modern, sense: the setting aside of some portion of earnings for future

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[5] A search of references in American books published before 1816 and digitized by Google and the Archive of Early American Newspapers confirms the very infrequent use of the word saving in its modern sense.

[6] Accessed from http://wesley.nnu.edu/john-wesley/the-sermons-of-john-wesley-1872-edition/sermon-50-the-use-of-money/.

use. In 1816 that was a rather novel definition. Noah Webster's *Compendious Dictionary* of 1806, with "the definitions of many words amended and improved," recorded these definitions:

> **Saving**, a[djective]. frugal, careful, near, excepting.
>
> **Save**, v[erb]. to preserve from danger or ruin, rescue, lay up, keep frugally, spare, except.
>
> and
>
> **Frugal**, a[djective]. thrifty, sparing careful, saving of expense without meanness.

Webster's 1828 edition was more expansive and explicitly a compendium of *American* English. It recorded five definitions, but not Mr. Raguet's:

> 1. Preserving from evil or destruction; hindering from waste or loss; sparing; taking or using in time.
>
> 2. Excepting.
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> 3. Frugal; not lavish; avoiding unnecessary expenses; economical; parsimonious. But it implies less rigorous economy than parsimonious; as a saving husbandman or housekeeper.
>
> 4. That saves in returns or receipts the principal or sum employed or expended; that incurs no loss, though not gainful; as a saving bargain. The ship has made a saving voyage.
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> 5. That secures everlasting salvation; as saving grace.

Saving was not often mentioned outside of the few cities of the time because it was not a primary concern for early American farmers. Most Americans were not "mechanics, tradesmen, laborers, or servants" – the clients that the Philadelphia Saving Fund Society reached out to assist. Around that time approximately 82 percent of the white (non-slave) population lived in rural areas and were directly engaged in agriculture. More to the point, the great bulk of the farms they resided on were self-sufficient, owner-occupied, family enterprises. Aside from the tobacco plantations operated with slave labor in Virginia and further south most agricultural production was still small-scale and intended to meet the needs of local consumers and not for export to distant markets. The farmer's income consisted of the physical product of the family's labor and very little if any was sold for coin. Barter was the usual means of exchange and the goods received in return were more often than not intended for immediate consumption. Apart from saving seed and storing grain, saving for the future was not common among American farmers. Their future was taken care of in another way. Family members, particularly grown children, were obligated by custom and law to provide support in sickness and also to give relief from the infirmities of old age. If that protection failed, neighbors might step forward to help. “Give to the poor,” John Wesley advised the community.

Saving seed and storing grain are examples of prudence that require careful frugality. Such activities sustain the agricultural enterprise and preserve the farm from danger or ruin in the following year. Deirdre McCloskey properly describes this behavior as “necessary thrift” [McCloskey 1984 and 2011: 64-65]. But this “desperate saving,” as she describes it, is not saving as an economist would have it. Saving is technically defined as *disposable* income minus consumption [Sutch 2006: 287]. But if saving and storing seed is compelled by the command of nature, the value of the grain saved must be subtracted from gross income (just like taxes paid are subtracted) to arrive at disposable income. Disposable income is what the income earner has left over (after taxes, fines, and other obligatory dues – including saved seed) to consume or accumulate as he or she wishes.

But the fact of the matter is that most Americans did not accumulate. Most didn’t need to save. The few who might have, had no easy means beyond hording to do so. And hording cash, say, in a sock or a hole in the ground was considered sinful. In the Gospel of Mathew, Jesus relates the *Parable of the Talents* (Matthew 25: 14-30). A master berates his servant who had hidden his master’s talent (a unit of money) given to him for safe keeping in a hole, “You wicked and slothful servant. … You ought … to have deposited my money with the bankers, and at my coming I should have received back my own *with interest*. … Throw out the *unprofitable* servant into the outer darkness, where there will be weeping and gnashing of teeth" [*World English Bible*, Mathew 25: 24-30, emphasis supplied].[7]

[7] Of course, we will never know how many saved and buried gold and silver coins nor how much. One of the virtues of coin is its durability in such environments. However, the residents of the British colonies complained constantly about the shortage of specie. They had yet to mine gold or silver and the British Crown did not allow them to mint coins [Grubb 2012]. During the War of 1812 circulating specie disappeared and was replaced by paper money issued by the Treasury [Raguet 1815].

Those of European descent in America before the nineteenth century invested in their economy, but rarely invested at a distance or earned interest. Land was cleared, homes and outbuildings were erected, walls and fences and wagon roads were engineered and built with the exercise of a great amount of hard labor. As a consequence the land was made more productive. To gain that advantage some consumption was sacrificed as the labor devoted to farm building was diverted from the production of crops, hunting and fishing, and other activity required to provision the farm family. Yet the growth in output that can be attributed to these kinds of intimate investments would be approximately matched by the growth in the population. Virgin land would not need to be cleared; new farms would not need to be built, except to provide for a growing population. If output grows only as fast as population, per capita output remains unchanged.

Just because saving money was rare in this world does not mean that there was no wealth. In agrarian America most wealth was land and the permanent improvements on the land. And some landowners were wealthier than others. Indeed, if you owned enough land, you could join the landed gentry, rent to others, and live off the rents without the trouble of engaging in hard labor yourself, like the eighteenth century English aristocrats portrayed in BBC costume dramas. But whether you were a small farmer or an aristocrat, your objective would be to preserve what wealth you owned and ultimately to pass it on to your heirs. In this world most wealth was inherited. (Or appropriated from the aboriginal population with or without the color of law). If asked to explain your wealth, your probable answer would be that you were born into a wealthy family.

Raguet was wealthy by the standards of both his time and ours.[8] He had inherited from his French-born father, Claudius, who had amassed a fortune first as a privateer during the Revolution and then as a ship owner involved in the lucrative carrying trade across the Atlantic. Condy Raguet established himself as an independent merchant at age 22. Six years later he built

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[8] Apparently, a few years later he encountered a serious setback during the economic downturn of 1819 with a "wave of monetary disasters" and misfortunate speculations in coal lands [Camurça 1998: 131]. But in 1816 he was rich.

a “mansion” on Chestnut Street. He owned land in rural Pennsylvania and Virginia. He was a successful merchant and private banker [Camurça 1998: 47-56, 308-313].

Even before his inspiration to establish a savings bank, Raguet had become interested in the problem of the insecurity of old age and the power of compound interest. With some experience in underwriting marine insurance, he interested himself in working out the principles of life annuities. It is probable that he was one of the private underwriters who organized the Pennsylvania Company for the Insurances on Lives and Granting Annuities, the first life insurance company in North America [Murphy 2010: 1-2]. In any case, he was an early Director. The company was granted a charter in March of 1812 just as the tensions that preceded the declaration of war against the United Kingdom made ocean travelers and wealthy Americans reluctant to purchase insurance from English underwriters.

The insurance business got underway in 1814 after a public address was published [Yorke 1814]. As a Director of the Company, Raguet was a signer of the advertisement. He became the company’s President in May of 1816 [Morris 1896: 24-27]. During his tenure the primary business was in insuring lives at sea (typically for a single voyage) and selling life annuities, a novel concept at the time [Buley 1953 I: 33]. According to an advertisement in *Paxton’s Philadelphia Directory* signed by Raguet and the company’s actuary, Jacob Shoemaker, “a person aged 60 years would receive 11 ¾ per cent. per annum” for the rest of his or her life [Paxton 1818: np at xxviii]. If the Pennsylvania Company invested the monies received at 7 percent (the current rate on U.S. Treasury bonds), this advertised annuity implies an expected 13 years and one month of life remaining at age 60. Shoemaker had calculated a life table based on the records of the Philadelphia Episcopal Church and the Philadelphia Board of Health and concluded that a 60-year old would have between 13.71 and 13.75 years of additional life [Morris 1896: Table 1, 117-121].

According to the *Address*,

> The object for which annuities were instituted was to enable persons not having a sufficient income to maintain themselves, or not being able to pursue their usual occupations for support, to provide against the infirmities of old age, inability to labor, or some other mischance which might reduce them to want [Yorke et al. 1814: 102-103].

Raguet's advertisement went on to point out that by saving $2.98 per year from age 18 to age 60, enough would be accumulated to produce an annuity of $100 per year for life (about $40,000 in today's living standards [Williamson 2015]). Clearly, Raguet had thought deeply about the advantages of saving before he learned of the Scottish savings banks.

The economist who studies economic development is interested in the provision of funding for investment – funding *at a distance*. That would have macroeconomic consequences for economic growth quite apart from the advantages to the individual saver. Economists have known ever since they were shocked by the magnitude of "Solow's Residual" that the most important ingredients in the formula for per capita growth are the optimistic ideas, the novel innovations, and the dreams that are the stuff of technological advance.[9] The phenomenal rise in per capita income that occurred in the U.S. between 1816 and 2008 was generated by adopting new technologies – steam and steel and hybrid corn – and creating new institutions – banks, corporations, and public high schools. Contrary to some thinking, the expanding abundance was not (primarily) the consequence of providing each worker with more capital. It was advancing technology – not accumulating wealth – that mattered most. For reviews of the evidence see Oded Galor [2005] and Joel Mokyr [2005, 2010]. For a passionate defense of the role of new ideas and some straight thinking that puts the role of capital accumulation in its place see Deirdre McCloskey [2010, 2011].

But an absence of new ideas proved to be a problem before the nineteenth century. To be an innovator you have to believe that progress is possible, believe that there is a potentially better way to power a river boat, or to remove the seeds from the cotton boll, or to manufacture a comb from a tortoise shell.[10] To be a financial innovator you need to believe in the creative power of a

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[9] Robert Solow, employing a "crude application of American data" for 1909-1949, calculated that the fraction of the change in productivity *unexplained* by capital deepening was 87.5 percent – this fraction is Solow's Residual. "About one-eighth of the total increase [in productivity per worker] is traceable to increased capital per man hour, and the remaining seven-eighths to technical change." [Solow 1957: 316]. Solow later suggested that even he was "startled" by the small size of the contribution by capital [Solow 1987: xx]. Also see Solow [1956]; Edward Denison [1962]; and Solow [1987: xx-xxii].

[10] The stories of Robert Fulton's steamboat (1807) and Eli Whitney's cotton 'gin (1794 patent validated in 1807) are well known and documented in Wikipedia and elsewhere. The story of comb making and the invention of a machine to saw the comb's teeth (1817) by David E. Noyes is less so. It is told by Bernard Doyle [1925: 52].

bank. Americans before Condy Raguet's time had little reason to believe in progress. Sustained economic growth was beyond their experience. To be sure, they thought the standard of living they enjoyed was higher than in Europe but that good fortune could be explained by the abundance of land, the absence of landlords, and – they dared to think – the favor of Providence. But even this privileged standard seemed fixed and frozen. Americans at the start of the nineteenth century lived no better than the previous generation.[11] The long view of European history seemed to indicate that there would be good years and bad years and that a few would be rich and many poor, but the *average* welfare of the population would remain constant over the generations [Persons 1954]. Measured by the standards of today, it was low.

Thomas Malthus had a simple explanation for this stagnation which he articulated in his influential book: *Essay on the Principle of Population as It Affects the Future Improvement of Society*. Published anonymously at the close of the eighteenth century (1798) the book interpreted abundance as pernicious. When the standard of living rose (because, perhaps, of an advance in technology), men and women would marry early and have many children. The population would grow more rapidly than output expanded and this pace would soon push output per capita back down. Any economic gains would be temporary. It retrospect, Malthus had the facts on his side. The provocative economic historian, Gregory Clark, in his brief summary of the *Economic History of the World*, could assert with the confidence that comes with hard evidence "the average person in the world of 1800 was no better off than … his or her ancestors of the Paleolithic or Neolithic" [2007: 1 and 5].

If growth is not to be, then one individual can improve his or her lot only at the expense of others. An economy without progress is like a zero-sum game, like a round of poker where the winnings of the winners are derived from the exactly-equal losses of the losers. The chief economic preoccupation in such a world is not improving one's position, but rather defending what one has from the encroachment of others. The rules that maintain the distribution of wealth

[11] The best conjecture of economic historians is that there was little difference between the American per capita income of 1774 and 1816. If anything this index may have fallen [Lindert and Williamson 2014: Figure 4.2]. Although in retrospect the wars in Europe (Napoleon and the consequent disruption of trade) and North America (the American Revolution and the War of 1812) had a lot of influence on the economic trends experienced by Condy Raguet's generation.

are thus of uppermost importance. If this situation is not to generate class war and become unstable, society must settle into an uneasy stasis. In that context, new ideas are threatening. The status quo is maintained by an allegiance to tradition. A new design for a plow, or a new scheme for fertilizing the soil, or a proposal to experiment with planting rutabagas would, not only fly in the face of the traditional ways of doing things, but would seem morally suspect. To gain from such activities would, it was feared, be at the expense of one's neighbors. Better to fall into line.

The Philadelphia Savings Fund Society was a new – even threatening – idea. The founders anticipated opposition and sought to justify their intent "to promote the happiness of a large portion of the community." The depositors would be winners. There would be no losers. This bank would be a positive-sum venture. The opening paragraph of the pamphlet announcing their plan directly addressed the obstacle.

> With many, the novelty of any scheme is a sufficient objection to it; and with more, jealousy of the interference of others in concerns not their own, and of efforts to interpose between them and established habits, furnish strong grounds for objection to purposes such as the Society is desirous to achieve. But while it is admitted that opposition to new projects is often well founded, and that the distrust which is felt towards those, who unsought offer counsel, is frequently justifiable, the motives which have dictated the following [plan for a savings bank] … have their origin in sincere wishes to promote the happiness of a large portion of the community. [Quoted in Wilcox 1916: 31-32]

The economic paralysis of Raguet's day was the consequence of a self-fulfilling prophesy. The long history without growth had produced a culture of tradition and a near-universal fear of change. Innovation was stifled and growth refused to happen. The economy wasn't growing because it hadn't been growing. What would be needed to break out of this trap of circular thinking, as Joel Mokyr has argued (echoing McCloskey), is the popular inculcation of a "culture of growth" [Mokyr 2014]. A culture of growth: hold that thought, it will be useful in what follows.

If an ideology based on the zero-sum logic of economic stasis was an obstacle to technical change, so too was the lack of saving. Both saving *and* investment are needed to bring new ideas to fruition. Savings were required to fund the innovation. As Robert Solow observed "much, perhaps nearly all, innovation must be embodied in new plant and equipment to be realized at all" [1957: 316]. So the lack of voluntary saving in 1816 and, indeed, its absence in British North America before the Revolution and during the early years of the new nation help to explain the absence of economic growth in the decades before 1820.

The presence of saving to fund investment, however, is not enough to guarantee rapid economic growth. It must be investment at arm's length – investment at a distance. The thinker or inventor who has a new and potentially productive idea is someone who, generally speaking, has insufficient savings stored up to turn his or her plans into machines, factories, and going concerns. And, most savers are not themselves inventors, engineers, or entrepreneurs. So, to connect saving to technological progress an intermediary is required to collect the savings from the savers and put the capital in the hands of the builders. Intermediaries of this sort were absent or rare before 1816. Without them little progress would be made. That observation gives significance to Raguet and Peters' impulse to create a financial intermediary to collect the savings of the poor. The funds accepted would be comingled and invested on behalf of the savers. At first, the Philadelphia Savings Fund Society invested only in "safe" assets. "All sums received, are by the immutable rules of the Institution, to be invested in the public funds of the nation, and of the safety of such investments none can doubt" [quoting a pamphlet advertising the Savings Fund Society published in 1817, Wilcox 1916: 32]. The savings of the poor were channeled to the infrastructures of government. As the savings bank movement took on momentum their investments funded canals, water works, and private entrepreneurs [Olmstead 1976: Chapter 4; Payne and Davis 1956: Chapter 6; Welfling 1968: 27-29].

Fifteen days after the Society opened for business it made its first investment purchasing $450 of U.S. government bonds yielding 7 percent per annum.[12] When the yields on the U.S.

[12]Wilcox describes the purchase as "$450 United States 6% loan at a premium of 1%" thus effectively earning 7 percent [1916: 157]. This bond was undoubtedly an issue of the 6-percent "stock of 1813" [Hessler 1988: catalog number X71]. During the just-concluded war with Great Britain, Congress, desperate to raise money to conduct military operations, authorized the President to sell $16 million worth of "stock certificates" [that is, Treasury bonds] bearing interest of 6 percent at a price "not limited to par" [Act of February 8, 1813; 2 U.S. Statutes at Large, 798]. The price was set at $88 per $100 of face value (for an annual yield of 6.82 percent). However, by selling below par the government would not raise the full $16 million that Congress deemed was necessary. So an attractive alternative was offered, the investor would pay the full face value and receive an additional premium as an "annuity" of 1.5 percent for thirteen years generating a yield of 7.5 percent [Bayley 1882: 50]. Bonds yielding 7 percent were later authorized by the Act of February 24, 1815 [3 U.S. Statutes at Large, 213; Hessler 1988: catalog

bonds retreated somewhat, the Society invested in Philadelphia City bonds at "approximately" 7 percent [Wilcox 1916: 157, Carter et al. 2006: Series Cj1192]. Soon mutual savings banks were making personal loans. The Philadelphia Society guaranteed its depositors a return "fixed at *near five per cent*." and in case profits exceeded expenditures the surplus would be divided among the depositors proportionately [Wilcox 1916: 27]. Such returns were unavailable to the workingmen, domestic servants, and others. As the Society put it,

> the usual situations in which many individuals are placed do not furnish the opportunities to preserve … [their] frugal savings. The continual occupations of the industrious mechanic frequently exclude him from a knowledge of the methods by which his earnings, beyond what is required for his support, can be protected and advantageously invested. A profitable employment of these fruits of his labour and economy is generally beyond his attainment; and all persons who like him could gather the means of future fortune from small earnings carefully managed suffer the same inconveniences. The honest and faithful domestic, whose weekly or monthly wages exceed by a few shillings or dollars the sums required by his necessities – the apprentice, whose early skill in his business enables him to gain by "over work," in each month a few dollars – the day labourer, who in the busy and profitable months of spring, summer and autumn, finds himself possessed of more than his support and that of his family demands; all of these it is presumed would most willingly deposit these gains in some place of profit and safety, and they have heretofore sought in vain for such advantages [quoted in Wilcox 1916: 33].

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number X84]. In December of 1816 the going rate on Treasury securities remained at 7 percent, thus the Philadelphia Society received a thirteen-year 1-percent annuity as the premium for paying par for the 6-percent bond. Images of the bond and the certificate of annuity are provided by Gene Hessler [1988: 89-90]. Treasury notes were also issued under the 1815 act in denominations ranging from $3 to $50 which the government used in payment for supplies, to pay soldier's salaries, and interest (dividends) on the public debt. These notes would be received by the Treasury at any time at face value for payment of taxes, duties, and public lands. But they could also be exchanged (with a minimum of $100) for the 7-percent bonds. The privilege of paying duties and taxes with the low denomination notes meant that those instruments circulated as currency [Kagin 1984: 82-86]. It is probable that some of the deposits into the Savings Fund were made with these notes, since gold and silver specie was scarce and state bank notes were still heavily discounted [Raguet 1815]. For a discussion of Treasury obligations during this period see Rafael Bayley [1882: 48-60], for images of the notes see Hessler [1988: catalog number X83, pp. 102-106].

Raguet's zeal to enable the poor to accumulate "ample resources for the evening of existence" – as the Society quaintly phrased it – might seem today to be a benevolent eccentricity [Wilcox 1916: 37, quoting an 1817 pamphlet published by the Society]. But he was not alone with this humanitarian impulse. By the end of 1816 the Society's Board had swollen to 21 members; all were drawn from the elite of Philadelphia's bourgeois society.[13] And the bank they organized was not for profit; it was a philanthropic endeavor. Raguet and the managers of the Society served without pay and covered the expenses of the bank out of their own pockets. They claimed their only object was "not their own but the benefit of others" [p. 32]. Their professed disinterest in financial gain, they hoped, would inspire confidence in the novel institution. But we should look for a deeper motive.

The first depositor was Curtis Roberts, a black domestic servant in Raguet's own household [Wilcox 1916: 141-142]. Perhaps Raguet reasoned that if his man servant – a freeman, not a slave – could become financially independent then he would not regard Raguet as his patron and look to him for maintenance in old age. Of course, the founders had issued an invitation to a much wider segment of Philadelphia's population than the servants of the Trustees. The call was directed at laborers, mechanics, apprentices, and all who were "industrious and frugal" [advertisement in *Paxton's Philadelphia Directory* for 1818: np at xii]. Applicants were screened and the well-to-do refused.

The Society was designed not just to serve the poor but to improve them morally. An 1817 pamphlet published by the bank and aimed at the elite of Philadelphia society explained that its intention was "to promote industry, temperance and morality" [Wilcox 1916: 32]. The bourgeoisie patronized the poor to improve them, to wean them from aversion to hard work and from imprudence. The well-to-do of Philadelphia supported a long list of civic and charitable

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[13] Twelve of 21 were identified as "merchants" in Philadelphia's city directories, including Raguet [Robinson 1816 and 1817; Paxton 1818]. Three were "gentlemen," the others included an attorney at law, a broker, the director of an insurance company, a shipbuilder, a sugar refiner, and Philadelphia's Postmaster. They were all young, in their thirties or early forties. Raguet and Biddle were 32; Peters 36, Hale 43 [Ancestry.com]. They were joined by one older man, Andrew Bayard, 55, whom they invited to serve as the Society's President [Wilcox 1916: 24]. Bayard was President of the Commercial Bank of Pennsylvania, prominent in the social and business life of the community, distinguished, and respected. He still wore a white wig, a fashion that by then was rapidly dying out [p. 103 and portrait following page 100]. I suspect he was selected to give standing to the Society at the outset. He served until his death in 1832, but acted more as a figurehead than a supervisor or executive officer [p. 101].

institutions designed to bourgeoisify the lower classes. These included the Philadelphia Hospital for the Poor, the Philadelphia Orphan Society, Charles Willson Peale's famous museum, the American Philosophical Society, the Philadelphia Asylum for the Mentally Ill, the Washington Benevolent Society of Pennsylvania, the Female Hospitable Society for the Relief and Employment of the Poor, and the Philadelphia Association for the Instruction of Poor Children [Kashatus 1994]. The historian Thomas Haskell attributes this patronizing impulse, this "humanitarian sensibility," not to a "random outburst of altruism" or a heightened sense of morality, but to new ways of thinking associated with the recent ascendency of an entrepreneurial class located in a handful of late colonial cities [Haskell 1985: Part I, pp. 339 and 341]. The important point for the present argument is that the new thinking included an emphasis on habits of economy, self-reliance, and "utilitarian individualism" [Bellah et al. 1985: 27]. These attitudes were nascent in 1816 and largely confined to the city merchants, but they would soon spread and prove essential preconditions for mass saving.

McCloskey would surely appreciate the fact that Raguet was an affluent member of the gentlemen-elite: a merchant, an entrepreneur, and what was then regarded as a "practical man of affairs." In a portrait painted when Condy Raguet was 52 (that would be 1836), he wore a dark coat and a broad high collar that clasped under a silk neckerchief that marked him as a man of wealth and distinction.[14] He was a founding member of the Swedenborgian New Jerusalem Church in Philadelphia whose doctrine stressed free will and exposed a simple theology of love and beneficence [Gouge 1842, Hunt 1842: 543, Scharf and Westcott 1884: 1432-1433]. He was also a political economist, an admirer of Adam Smith, a correspondent of David Ricardo, and an ardent proponent of free trade [Dorfman 1946: 602-603 *et passim*; Martin 1987].[15]

[14] The oil painting is reproduced in Willcox [1916: facing page16] and an engraving based on the painting appears in the book by Harrison Morris [1896: following page 26].

[15] He had at the time of the founding of the Philadelphia Savings Fund Society already taken up the role of a political economist having published the year before *An Inquiry into the Causes of the Present State of the Circulating Medium of the United States* [Camurça 1998: 308-313].

What is significant about Raguet's story is not that he was somehow unique or essential, I feature him simply as an exemplar of McCloskey's bourgeois merchant, an autodidact: genteel, alert, entrepreneurial, and philanthropic. As McCloskey herself might say, Raguet's story is an example of creative arbitrage, buying an idea low (from the Scottish) and selling it high (to his Philadelphia peers) [McCloskey 2010: 23]. But Raguet's kind was ubiquitous in the port cities of the Northeast in 1816. If Raguet hadn't the idea others would have surely have proposed it. In Philadelphia one of his friends, perhaps Peters or Biddle, might have taken on his role. After all, the idea of a savings bank philanthropy was up for grabs. Just a few days after the Philadelphia Fund for Savings opened its doors (on December 2, 1816), the "Provident Institution for Savings in the Town of Boston" set up a nearly identical business on the thirteenth of December. Baltimore, Maryland, and Salem, Massachusetts were not far behind accepting deposits beginning in March and April of 1818 [Payne and Davis 1956; Keyes 1876 I: 43, 91, and II: 377]. The "Bank for Savings in the City of New York," planned in 1816, was delayed for three years while the state legislature debated a law to govern mutual savings banks, but it opened in 1819 [Olmstead 1976: 16; Keyes 1876 I: Chapter 28]. By 1820 there were ten such banks in the United States, 15 in 1825, and 52 in 1835 [U.S. Comptroller of the Currency 1916: volume 1: 85].

In 1840 there were 61 savings banks in the United States. Writing in 1840 Richard Henry Dana in his great narrative, *Two Years Before the Mast*, could claim that Americans were distinguished as a "money saving people" [Dana 1840: 155]. By 1876 there were 781 savings banks (including stock-share-owned and mutual banks). At that point the idea of saving as a precaution against times of want and for securing one's comfort in old age was no longer novel. It had gone viral. And this virtuosity no longer required the prompting and assistance of do-gooders like Raguet. It had become – almost overnight – the identifying characteristic of the American individualist. The responsible man conducted his affairs so as not to become a burden on his children or a mendicant for public support. By 1914 over half of all American households had a savings account in a savings bank. The average account was 444 dollars. That was roughly equal to one-year of full-time income for production workers in manufacturing.[16]

While the early savings banks pioneered and popularized the industry, they were not the only institutions to arise that accepted deposits of savings. It was not long before commercial banks, insurance companies, and building and loan societies eagerly competed to collect the savings of the working class. Commercial banks, which first appeared in 1782 and which were organized to facilitate large mercantile transactions, particularly transatlantic deals, did not accept small deposits at the outset [Wright 2001, 2011]. However, they began to broaden their business after 1819. They soon introduced personal banking accounts that paid interest and took small deposits from individuals. The spread of these commercial banks was phenomenal. By 1840 there were 735 in the US located in 414 distinct towns and cities [online database to accompany Warren Weber's 2006 study updated on July 27, 2011].

Saving rates rose over the course of the nineteenth century until they stood at over 25 percent of gross product at the century's end, see Figure 1 [Sutch 2006 volume 3: Figure Ce-E, p. 292]. And saving was widespread even among the working class [Sutch 2011, 2015]. What had happened? What had happened, as I said, "almost overnight"? Three things.

First, before American industrialization began, there was a stable, family-based set of institutions that governed economic transfers from producers to dependents. These included patriarchy, dynastic inheritance, high fertility, and grown-children's responsibility for the support of their aging parents. Beginning in the early nineteenth century, the old-age support mechanism began to break down, and when it did it prompted a realignment of all the elements of that institutional cluster. One response was a shift away from the extended family to the nuclear family as the economic unit. Subsequent generations had fewer children, saved to

[16] Annual data on the number of depositors in savings banks (mutual plus stock) and the average size of an account for 1846-1915 is reported by the U.S. Comptroller of the Currency [1916: 86]. The figure for 1914 is 11.1 million. The number of households in 1914 (21.7 million) is interpolated between the estimates for the census years 1910 and 1920 as reported by Steven Ruggles [2006: Table Ae.A, p. 654]. The typical wage of manufacturing workers is reported by Albert Rees [961:41] and Lawrence Officer [2009; Table 7.1].

accumulate assets, and then drew upon that wealth to finance their consumption in old age [Sutch 1991]. Thus "life-cycle saving" replaced the pre-modern system. Saving money was an invention of early modernity and, I argue, was a critical component in the emergence of a market economy [Hunter and Yates 2011: 9]. The "Life-Cycle Transition" picked up steam in the mid-1840s. It was well underway by 1870 and was nearly complete by 1920. Planned self-financed retirement came to be a common phenomenon [Carter and Sutch 1996].

These transformations in family strategies "mattered," – families mattered.

> Where children directly provide for their parents' old age, fertility will be high – perhaps too high to allow for economic development. Where physical and financial assets – perhaps together with credible government pledges – secure parents' old age, fertility will be low and parents will invest in their children's education and other nurturing that enhances their adult productivity. [Carter, Ransom, and Sutch 2004: 274]

The savings bank movement may have hastened the life-cycle transition. The pioneer students of the mutual saving bank movement, Lance Davis and Peter Payne, concluded as much.

> The semi-benevolent philosophy that gave rise to the mutuals did much to remove the small savers' fear of banks and bankers, and, by providing a safe and profitable depository for savings, the mutuals probably increased the propensity to save among the working classes. [Davis and Payne 1958: 405-406][17]

Second, life-cycle savers found a rewarding place in the banks – both commercial banks and savings banks – to deposit their savings. And the banks proved to be transforming. Davis and Payne continue.

> Moreover, the mutuals certainly made small savings available for productive investment, especially after the founders had given way to a business-oriented management in the conduct of the operations of the banks. Although it appears that almost all of the banks' direct investment in industry and trade took the form of private loans, their willingness to absorb public issues must

[17] George Alter, Claudia Goldin, and Elyce Rotella have a similar conclusion: "savings banks, by making it easier and safer for individuals to save, encouraged the increase of savings that generated growth at the macrolevel" [1994: 736].

> also have freed funds for investment in manufacturing concerns. [Davis and Payne 1958: 406]

The savings banks invested the savings of the working class and many of those investments financed new innovations which were the motive force behind the economic growth that began sometime between 1816 and 1830 [Rhode and Sutch 2006: 16-19]. James S. Gibbons writing in 1858 described the transforming role of banking:

> Any one who has travelled among our country villages, out of the immediate influence of cities, has occasionally been struck by the neglect of natural advantages, the lack of energy, the rudeness of life and character, and the almost savage features of the common people. But on visiting the same place after an interval of a few years, he has seen a total change: a larger population, a better class of buildings, an air of thrifty growth, and a manifest increase of comfort. The old lethargy has disappeared; a new life has been infused into everything; even the countenances of the people are softened; a less brutal and more intelligent spirit beams from their eyes. A *bank* has been the starting point of this new career; the mill-dam has been built across the little streams of capital, and the social machinery is brought into play. [Gibbons 1858: 12-13][18]

To modern ears this passage sounds like it might have been seasoned with a touch of hyperbole. Gibbons was apparently aware of this problematic reading. He writes in preface, "Some of the scenes … would perhaps be accepted as caricature, if not vouched for as literally true" [p. v]. And other observers have made much the same observation. Howard Bodenhorn reviewed the evidence and concluded this view of the impact of banks "was largely correct" [2000: 213].

Third, once economic growth became visible, widespread, and widely shared, Mokyr's promised "culture of growth" began to replace the self-defeating, self-fulfilling prophesies of the zero-sum world. That culture imagined that growth was not only possible, but thought it socially desirable as well. New ideas became to be seen as a positive-sum proposition. The system of financial intermediaries which in time included building and loan associations, insurance companies, and pension plans developed rapidly and proved eager to invest in innovation [Ransom and Sutch 1987, Ransom, Sutch, and Williamson 1993]. Technical change was then

[18] Also quoted by John James [1978: 3]. I have restored Gibbons' original spelling and punctuation.

propelled along by the regular appearance of new ideas offered up by hopeful and optimistic would-be entrepreneurs who could (at least in normal times) find investors to bet on their success.

Raguet did not start this process. I have made him stand in for all those in 1816 who were beginning to see the economic potential of their new country and were bold enough to become part of the creative process [Skeen 2003]. Yet we still might ask: what was it about that cold day in November of 1816 that prompted him to a simultaneous act of benevolence and innovation? It is pure speculation on my part, but perhaps it was the cold weather. The year 1816 is still remembered as the "year without a summer." Throughout the Middle Atlantic States, New England, the Maritime Provinces of Canada, and most of western Europe temperatures, particularly in the summer months, were historically low, abysmally cold. The abnormal weather that year was almost certainly the consequence of the cataclysmic eruption of Mt. Tambora in the Dutch East Indies (at the time under British occupation and now Indonesia) in April 1815. This explosion was the largest known historic volcanic eruption, ejecting approximately 140 gigatonnes of magma (equivalent to 50 cubic *kilometers* of dense rock!). An estimated 60 megatonnes of sulfur entered the stratosphere forming a sulfate aerosol veil that circled the earth and filtered out sunlight for months [Oppenheimer 2003].[19] The result was abnormally low temperatures in North America throughout 1816 [Skeen 2003: Chapter 1; Munger 2012].

Philadelphia was not spared. Charles Peirce religiously chronicled the weather in Philadelphia for 34 years from 1813 to January 1847.[20] Here is what he reported and thought about the summer of 1816:

> April -- … Jack Frost came along mounted upon a cold, boisterous northwester, and made every thing tremble and shiver before him. …

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[19] The magnitude of the sulfur ejection has been estimated from Antarctic ice core samples [Cole-Dai, Mosley-Thompson; and Thompson 1997].

[20] This diarist was not the famous American philosopher, Charles Sanders Peirce (1839-1914), but an earlier Peirce who was a vernacular scientist and bookseller in Philadelphia.

ice formed on several nights, half an inch thick, which destroyed all the buds, and almost every green thing. [Peirce 1847: 75]

> May -- … this month … was really a frosty jade. Her frowns were many, and her smiles few. … every green thing was either killed or withered. A melancholy hue appeared to seal the fate of all vegetable life. … Corn was replanted two or three times, and very little ever came to perfection. … [pp. 94-95]

> June – The medium temperature of this month was only 64,[21] and it was the coldest month of June we ever remember; there were not only severe frosts on several mornings, but on one morning there was said to be ice. Every green herb was killed, and vegetables of every description very much injured. … [p. 116].[22]

> July – The medium or average temperature of this month was only 68,[23] and it was a month of melancholy foreboding, as during every previous month since the year commenced, there were not only heavy frosts, but ice, so that very few vegetables came to perfection. It seemed as if the sun had lost its warm and cheering influences. One frosty night was succeeded by another, and thin ice formed in many exposed situations in the country. … Indian corn was chilled and withered, and the grass was so much killed by repeated frosts, that the grazing cattle would scarcely eat it. … Very little rain fell during the month. [pp. 134-135].

> August – … such a cheerless, desponding, melancholy summer month … This poor month entered upon its duties so perfectly chilled, as to be unable to raise one warm, foggy morning, or cheerful sunny day. … ice in many places half an inch thick. It froze Indian corn, which was in the milk, so hard, that it rotted up on the stock, and farmers mowed it down and dried it for cattle-fodder. … Indian corn, raised in Pennsylvania in 1815, sold (for seed to plant in the spring of 1817,) for four dollars per bushel … [p. 157].

For Peirce, and probably for Raguet, the year was "melancholy," "foreboding," and "cheerless." Vegetables and crops were ruined. Prices of food rose as the year progressed. In Philadelphia

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[21] Peirce calculated the "medium" (mean) as the average of three readings taken at sunrise, at 2pm and at 10pm [Peirce 1847: vi]. For comparison, in 1815 the mean June temperature was 73, in 1817 it was 74.

[22] June 6 through 10 saw five consecutive nights with "*severe frosts*" [Hazard 1828: 385, emphasis in original].

[23] The medium July temperature for 1814 was 73, for 1815 and again in 1817 it was 74, for 1818 75.

the wholesale prices of Indian corn [maize] around this time typically varied between 58 and 82 cents per bushel and the average between the highest and lowest monthly prices quoted was 70 cents. But in 1816 and 1817 prices skyrocketed. In July 1816, when Peirce reported that the corn was "chilled and withered," corn grown in the county was selling for $1.22 (exceeding even the war-time high in recorded in 1815). By December, when Raguet open the doors of the Savings Fund Society, it had reached $1.70. The high prices naturally lingered through the winter and reached a peak of $1.73 in May of 1817.[24]

We can only guess at Raguet's specific concerns about the weather's impact on the laboring class as he braced for winter. A New Jersey newspaper expressed serious concern that November; a concern which was probably shared by many.

> From every appearance, at present, we have reason to believe the poor will have a distressing winter; that there will be many thousands in every part of our country, who must, before the spring, feel the finger of poverty forcibly pressing upon them; that there will be many actual sufferers among those who now live tolerably comfortable. The prospect is dreary, it is disheartening. … What many of the poor are to do God only knows! … The times certainly call for the indulgence of creditors, and the liberality of the rich … [*New-Jersey Journal*, November 26, 1816: 4].

It would not be surprising if Raguet was both distressed and moved to action. [25]

At the time no one had a scientific explanation for the surpassingly abnormal weather. Various bizarre theories were floated. Some thought that sunspots were blotting out the sun's rays [Munger 2012: 28-35]. Yet 1816 was on the declining phase of one of the normal eleven-year sunspot cycles and fell into a longer period of decreased sunspot activity, called the "Dalton Minimum" [Wagner and Zorita 2005]. Some thought the bad weather was related to earthquakes. The New Madrid [Missouri] earthquakes of 1811 and 1812 were another scientific

[24] Monthly wholesale prices were collected from local newspapers by Anne Bezanson and are reported in Arthur Cole [1934: 151-191]. The "typical" prices I have reported are based on the data for 1809-1814 and 1818-1820.

[25] On November 15, less than a week before Raguet and Peters met in the street, a meeting of Philadelphia Quakers received an appeal for aid to Native Americans in western New York who were said to be starving because their crops had been wiped out by the frosts [Munger 2012: 26]. Since many of his friends were Quakers it is quite possible that this sad news reached Raguet [Baltzell 1958: 238-239].

mystery still fresh in memory in 1816 [Valencius 2013]. To those with strong religious convictions, the weather might be seen as a divine message. Some saw it as a sign of the apocalypse, others as a call to more virtuous habits [Munger 2012: 64-68]. As a Swedenborgian, Raguet might have been particularly inclined to benevolence. The severe weather, the failed crops, the high price of food he knew would be particularly hard on the urban working class who had made no "provision for the casualties of life." Yet as an exemplar of the bourgeoisie, Raguet would be disinclined to gratuitous charity. He believed that alms would encourage idleness. "He is the most effective benefactor to the poor, who encourages them in habits of industry, sobriety and *frugality*."[26]

The Philadelphia Savings Fund Society was, as its centennial historian, James Wilcox, put it "the child of benevolence and political economy" [1916: 11]. If that marriage was not a respectable bourgeois blend of materialism and humanism, what is?

[26] This quotation is from a communication of the Philadelphia Society reported to the periodical *The Christian Disciple* [Boston] and printed in the December 1816 issue [quoted by Emmerson Keyes 1876: I, p. 38-39. Emphasis in the original]. The historian of Philadelphia's aristocracy, Nathaniel Burt, gave this bourgeois view a slightly disdainful reading. "At once to do good and to condescend – what sweeter avocation for an Old Philadelphian?" [1963: 167].

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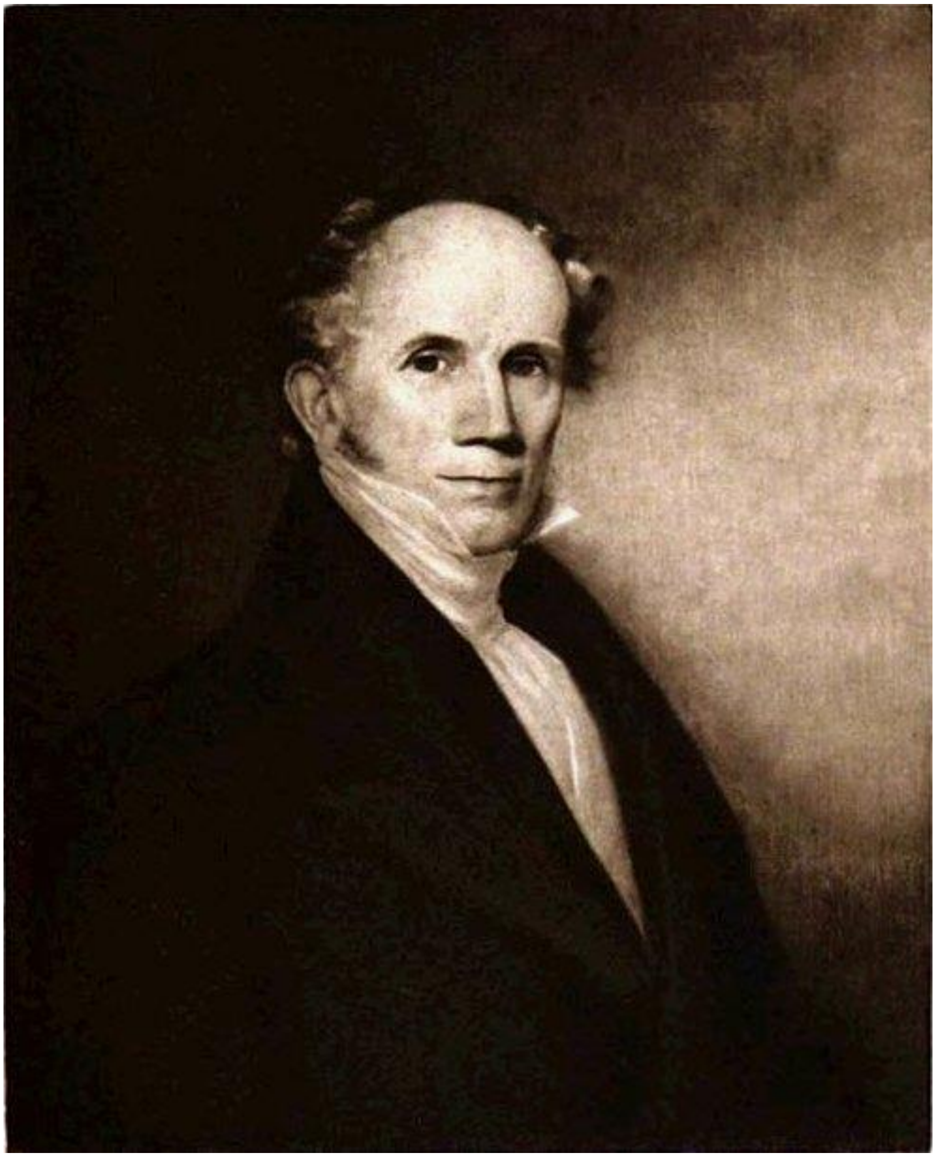


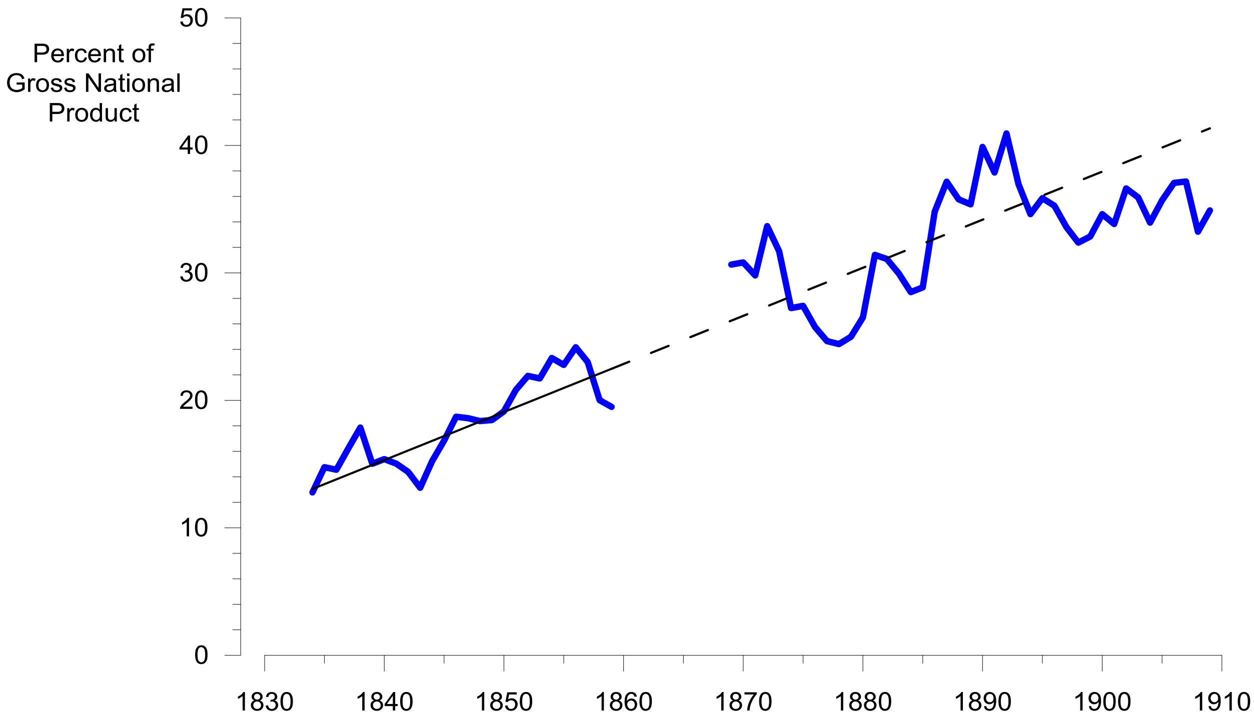
Condy Raguet, Founder of the Philadelphia Savings Fund Society

It is likely that Raguet pronounced his name: rah-gay, as the French would say it. However, his cousin, Henry Raguet, a friend of Sam Houston, moved to Texas and the Raguet Elementary School in Nacogdoches, Texas, which is named for Henry, has adopted: ray-GAY [voice on the school's answering machine accessed February 15, 2015].

Source: Willcox [1916: facing page 16].

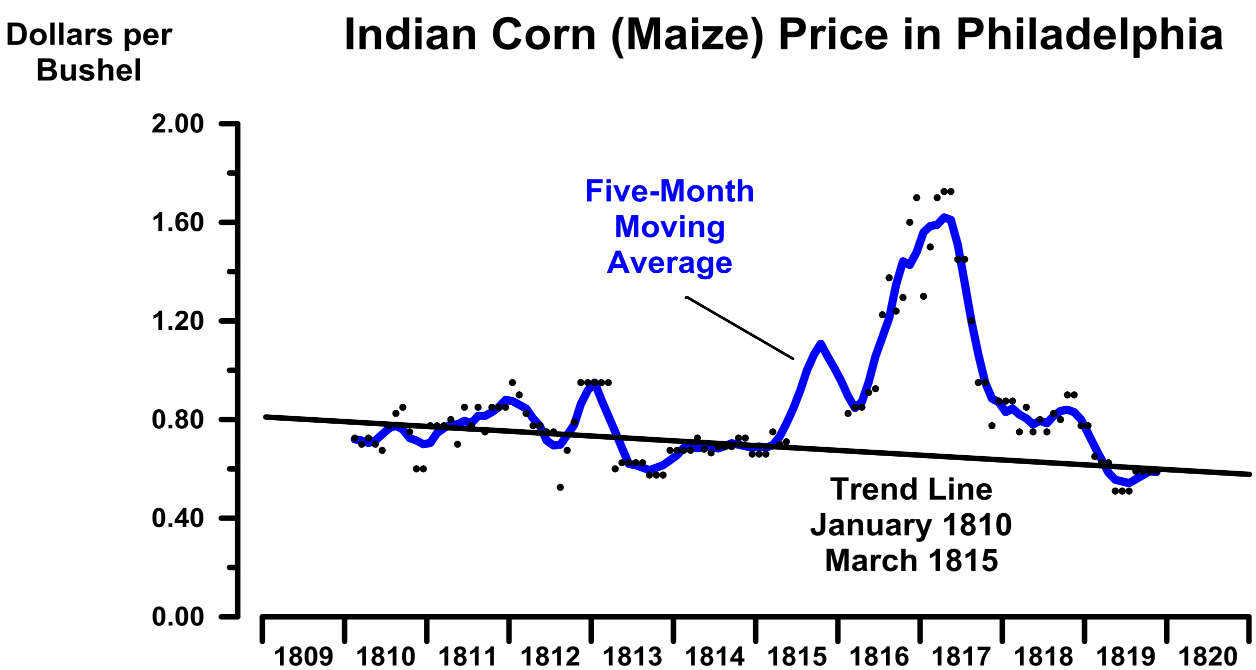
Figure 1

Gross Private Savings Rate



Source: Sutch [2006 volume 3: Figure Ce-E, p. 292].

Figure 2



Source: Cole [1934: 151-191].