The Erlanger Cotton Loan

One of the key events which made blockade running a viable business in the latter half of the war was the so-called Erlanger Loan (or "Cotton Loan"), an issue of bonds made by Emile Erlanger and Company of Paris. Because Confederate currency was worthless in Europe, Erlanger cotton bonds became the de facto currency used by the South when purchasing ships, supplies and other war materiel abroad. In a very real sense, the Erlanger Loan gave the Confederacy at least a modicum of financial solvency even as its generals suffered defeat after defeat.

The Erlanger Loan was issued in five European cities -- London, Liverpool, Paris, Amsterdam and Frankfurt -- on March 19, 1863 and raised £1,759,894 ($8,535,486). The bonds sold at 90% of face value, and were redeemable for Confederate government-owned cotton in the Confederacy itself. This last clause was a critical catalyst in stimulating blockade-running, because the holders of Erlanger bonds had to risk the Federal blockade to convert them into a tangible commodity.

Since the face value of the Erlanger bonds was fixed, the actual cash value of the bonds varied with the fortunes of the Confederacy itself – usually downward. Within two weeks of the original issue, the cash value of the bonds had sagged to 87% of face value, and Erlanger and Co. began secretly buying up bonds to sustain the price. Given the increasingly grim outlook for the Confederacy after mid-1863, however, the value of the bonds remained surprisingly high, due in part to some very bold campaigning on the part of Confederate agents in Europe. Remarkably, agents like James Mason encouraged rumors that the Erlanger bonds would be honored no matter how the war ended. Thomas Dudley, the U.S. consul at Liverpool who reported on Denbigh's conversion to a blockade runner, was appalled at both the brazenness of the Confederate agents there and the naivete of local merchants: "as strange as it may seem," Dudley reported to Secretary of State Seward, "these people here who are aiding the Rebels and [have] taken or purchased these bonds think if worse comes, and the Union is restored that the United States Government will assume the payment of their bonds."

Obviously this was not the case. The Union never had any intention of honoring any Confederate bond or currency, and acted quickly after the war to codify that policy into law. One of the provisions of the 14th Amendment to the U.S. Constitution, ratified in 1868, was that "neither the United States nor any State shall assume or pay any debt or obligation incurred in aid of insurrection or rebellion against the United States. . . . All such debts, obligations and claims shall be held illegal and void." But although those left holding cotton bonds at the end of the war lost their investment, the Erlanger Loan enabled the Confederacy to raise millions of dollars' credit in Europe, money that was used to build warships, purchase munitions and obtain supplies, all of which were brought into Southern ports by blockade runners like Denbigh.