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REPORT  
of  
COMMITTEE ON THESIS

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THE undersigned, acting as a committee of  
the Graduate School, have read the accompanying  
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for the degree of Master of Arts.

They approve it as a thesis meeting the require-  
ments of the Graduate School of the University of  
Minnesota, and recommend that it be accepted in  
partial fulfillment of the requirements for the  
degree of Master of Arts.

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May 29, 1915

THE DEVELOPMENT OF BANKING IN MINNESOTA

A THESIS

Submitted to the Faculty of the Graduate School  
of the  
University of Minnesota

by

Sydney A. Patchin

In partial fulfillment of the require-  
ments for the degree of Master of Arts.

June, 1915.

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## THE DEVELOPMENT OF BANKING IN MINNESOTA.

### I.

#### The Beginnings of Banking in Minnesota.

The development of Banking in Minnesota is a record of economic evolution. Banking has invariably developed because of certain special needs of the industrial and commercial world. A place of deposit is required for the accumulation and safe keeping of money and capital; exchange becomes a necessity for the wider extension of the business operations of mercantile and commercial institutions; and a demand for loans and discounts is created by increasing trade and economic development. In a new country especially, growing commercial enterprises have certain wants which are satisfied only by banking institutions performing the functions of deposit, discount, note issue and exchange.

The development of such fundamental needs for banking institutions in Minnesota requires that the beginnings of bank-

ing be traced from the earliest stages of economic life and the first exchanges of economic goods.

History demonstrates that the first steps taken in the settlement of a new country are generally due to the discovery of some real or potential source of wealth, (i.e., some natural source). The first people venturing into a new land are the explorers. Exploiters, soldiers, and, perhaps, missionaries follow, and in the course of time, if conditions are favorable for settlement, permanent settlers begin to arrive, and industries and commerce develop.

In the territory now comprising Minnesota, as <sup>in</sup> a large portion of North America, the magnetic resource which drew the first white men was the fur bearing animals. A short sketch of the fur trade in this region will be of great value, for it introduced this portion of the country to the civilized world, and provided the first step necessary in the commercial development of the state. It is in the operations of the companies conducting the fur trade that the beginnings of banking in Minnesota are to be found.

The fur trade began in this region at a date which is not definitely known. We do know, however, that in the year 1654 two young Frenchmen connected with the fur business came into

this territory and spent two years in following the Indian hunters. They were probably the first white men to come here. Upon their return to Quebec their enthusiastic accounts aroused explorers and missionaries alike, and in the succeeding years many white men visited this region.<sup>1</sup> For many years the French controlled the fur trade, and in the first years of the eighteenth century trading posts were established within this district.<sup>2</sup>

As a consequence of the treaty of peace made in 1763, the fur trade passed into the hands of the English. Bitter rivalry sprang up between the Hudson Bay Company and numerous private traders; and for self preservation, several of the strongest of the latter entered into an agreement in 1783 which culminated four years later in the formation of the powerful North West Fur Company, with headquarters in Montreal.<sup>3</sup>

For many years the North West Company maintained a monopoly in the vast regions tributary to the Great Lakes, but several years latter another group of British merchants formed

1. Minnesota Historical Collections, Vol. 1, p.20.
2. Ibid, pp. 34, 197.
3. Wisconsin Historical Collections, Vol. II, p.101.

the Mackinaw Company, having its chief depot at Mackinaw, and its field of operations in the Upper Mississippi Valley.<sup>1</sup> In 1809, John Jacob Astor organized the American Fur Company, and two years later, with certain partners in the North West Company, an agreement being made that at the expiration of five years he alone should possess the whole of the Mackinaw Company and confine his attention solely to the Indian country within the United States, while the North West Company should operate only in the British Dominion. This agreement was suspended by the War of 1812,<sup>2</sup> and in 1816 Congress passed a law prohibiting foreign fur traders from operating within the territories of the United States.<sup>3</sup> Thereafter for many years the American Fur Company, under various owners was commercially and politically the greatest single force in the development of Minnesota.<sup>4</sup>

In the transactions of the fur trade no metallic money was used, furs being exchanged by the Indians for guns, ammunition, blankets, calicoes, knives, tobacco, rum, wampum, and the various articles offered by the traders.<sup>5</sup> One of the foremost explorers and students of this region wrote in 1834, that

1. Wisconsin Historical Collections, Vol. II, p. 101.

2. Ibid., p. 101.

3. Statutes at Large of the United States, Vol. IV, Ch. 166, p. 332-333.

4. The Minnesota Pioneer, Aug. 22, 29, 1850; The Chronicle and Register, August 26, 1850.

5. Minnesota Historical Collections, Vol. III, pp. 170-2.

the "standard of value and computation in this trade is an abiminikwa or prime beaver called plus by the French."<sup>1</sup>

Under this system of barter the astute traders were able to reap large profits.<sup>2</sup>

In the early part of the nineteenth century the credit system began to develop in the fur trade in this territory.<sup>3</sup> Indians were permitted to obtain various articles at the trading posts, being given credit according to their hunting and trapping ability, and in payment they were required to turn over their furs to the trader with whom they had an account.<sup>4</sup>

1. A plus, tradition states, was given for so much vermilion as would cover the point of a case knife, and the same price was paid respectively for four charges of powder, or four charges of shot, or fifteen balls, or two branches of wampum. ---Henry A. Schoolcraft, "Narrative of an Expedition Through the Upper Mississippi to Itasca Lake in 1832." p. 89.

According to a manuscript of M. Perrault, an early trader, it was claimed that in 1784, furs were reduced to plus on the following basis: - a bear, an otter, three martins, a lynx and fifteen muskrats were worth respectively one plus; a buffalo robe was worth two plus and the regulation sized keg of rum was worth thirty plus. - Ibid, p. 90.

2. Schoolcraft wrote of one instance in which goods worth \$2000 were given in exchange for furs worth \$24,560, and of another case in which a fine gun worth about \$51 was traded to a chief at one of the northern posts for 120 pounds of beaver, worth about \$480. Ibid, p. 89.

3. Minnesota Historical Collections, Vol. III, pp. 170-2. Ibid, Vol. I, pp. 465-6.

4. Schoolcraft, Op. Cit., p. 90. Letter from Smoky Day to H. H. Sibley from Traverse des Sioux, Dec. 1, 1836, Sibley Letters, Minnesota Historical Library.



A parallel development to the fur trade began in 1819, in which year United States soldiers began the construction of Fort Snelling.<sup>1</sup> In the early summer of 1823 the first steam boat on the Upper Mississippi, the little "Virginia", laden with supplies, picked its way up the river to Fort Snelling.<sup>2</sup> Thereafter steamboats annually made trips up the river<sup>3</sup> but almost a score of years passed after the first timber was cut for the Fort before settlers began to arrive in numbers. In 1832, there were practically no white families in the territory,<sup>4</sup> the population consisting of the soldiers at the Fort and the employe<sup>s</sup> of the Fur Company<sup>5</sup> scattered throughout the region.

The negotiation of the Indian treaties of 1837<sup>6</sup> gave the United States government possession of the land between the Mississippi and St. Croix rivers, north to Crow Wing, and in the following year, when the treaty was ratified, this

1. Minnesota Historical Collections, Vol. VI, p. 496.

2. Ibid, p. 496.

3. Up to May 26, 1826, fifteen steamboats had arrived at Fort Snelling and by 1839 there were nine steamboats running quite regularly to the Fort - Minnesota Historical Collections. Vol. IX, p. 16.

4. Several families of refugees from Selkirk's settlement in Canada "squatted on the Fort Snelling reservation in 1822"- Ibid, p. 88.

5. E. D. Neill - "History of Minnesota, p. 415.

6. Statutes-at-Large of the United States, Vol. VII; p. 536-9

area was opened to settlement. The immigration was light and in the next few years small settlements were made at St. Paul, St. Peters (Mendota), Pembina on the Red River of the North, and at Marine and Dakota (Stillwater) on the St. Croix, along which were also scattered a few farms.<sup>1</sup> In 1849, when Minnesota Territory was organized, the population numbered about 4780, of which 840 were in St. Paul, 637 in Pembina and 609 in Stillwater.<sup>2</sup>

The business of the Fur Company was extended, in the years following 1837, along other lines than that of the fur trade. The Indians no longer considered it necessary to hunt in payment of their credits,<sup>3</sup> but paid the traders in money at the regular government payments.<sup>4</sup> It is needless to say that the traders exercised great care that they should be at the place designated for the payments, bringing stocks of goods with them.<sup>5</sup> Thus it came about that the fur company

1. W. G. LeDuc, *Minnesota Year Book for 1851*, p. 25-32.

2. *Ibid.* p. 21.

3. Letter from H. L. Dousman at St. Peter's to H. H. Sibley at Detroit, dated December 22, 1837, Sibley Letters, Minnesota Historical Library.

4. Letter from H. L. Dousman to David Aitkin, dated Sep. 26, 1838, (*Ibid.*)

5. Letter from H. L. Dousman to H. H. Sibley, Nov. 2, 1838, *Ibid.*

not only dealt in furs, but also sold goods on credit, to be paid for later in cash - a strictly retail business. With the arrival of more settlers, this retail department was enlarged to supply their needs, and the company entered the retail field in competition with other business houses.<sup>1</sup>

A second line of departure from the regular fur trade was brought about by the occasional demands of the people for certain banking services. These demands were too irregular and too small in volume to justify the establishment of banks, and the people naturally turned to the American Fur Company, the strongest moneyed institution in the territory, for the satisfaction of these needs. Thus we find this company extending to explorers, missionaries and others, the privileges, previously accorded only to its own employees, of using it as a fiscal agent. Its activity in this field requires examination, for as we have noted,<sup>2</sup> it is in these transactions that<sup>3</sup> banking really begins in Minnesota.

1. The Minnesota Pioneer, April 24, 1851, June 2, 1851.

2. See page 2.

3. Henry H. Sibley (afterwards governor and United States Senator from Minnesota) arrived in St. Peter's (Mendota) in 1834 as resident partner and manager of the American Fur Company, and it is in his day book, and letter files that the material is found for this particular phase of the subject.

Illustrations of the Fur Company's banking operations are too numerous to be given here, but a few samples will suffice, to corroborate these statements.

The volume of this banking business, necessarily small, was carried on as "side line" for the convenience of the people having this form of business. The company made loans<sup>1</sup> cashed drafts on eastern cities and St. Louis, and sold exchange on its offices in New York and other places.<sup>2</sup> It carried some of these loans on its books as credits (checking accounts) and honored drafts drawn against them whenever presented.<sup>3</sup> It col-

1. In a letter dated August 11, 1849, to H.L. Moss at Stillwater, H.H. Sibley wrote, "I enclose you my own acceptance at three days for one hundred dollars, being the amount you wish to borrow from me and which I advance you with much pleasure. The draft may be cashed by any of the banks or by R.H. Campbell, Esq., in Galena."

In another letter dated September 27, 1849, to R. H. Campbell at Galena, Sibley said "I have advanced Doctor Norewood of the Geological Corps the sum of \$390, which he expects to get from Mr. Carter at your place, in which case I have requested him to turn the amount over to you, taking your receipt therefore."

2. An entry was made in Sibley's daybook on August 23, 1838, showing that F. Ayers, a missionary among the Indians of the Snake River district, credited the Pokegame Mission with a draft drawn on New York, at ten days, in favor of G.M. Tracy.

A letter from Ramsey Crooks, president of the American Fur Company from headquarters in New York, to Wm. Aitkin, dated April 7, 1840, said, "We duly honored the 3 drafts you drew on us at Prairie du Chien last fall, say.....\$908.08 which we charged as directed on the face of the bills."

3. On July 9, 1838, the expedition of J.N. Nicollet was charged in Sibley's day book with "paid order, Moyese Arcand \$25.00" and on September 17, of the same year, a draft drawn to the account of this expedition upon P. Chateau & Company of St. Louis in favor of H.H. Sibley was charged to Western Outfit, indicating that a "checking account" was kept with the fur company by the expedition.

Continued on next page in footnotes:----

lected customers' notes falling due in other sections of the country,<sup>1</sup> and it also acted as the agent of eastern people in collection of notes from local inhabitants.<sup>2</sup> Its local operations were greatly facilitated by the "Outfits" - trading posts -<sup>3</sup> established at various points throughout the Indian country;

Continued from preceeding page:--

3. Con:-- On October 25, 1838, J. Renville Sr. wrote to Sibley from Lac qui Parle asking that the latter give Dr. Williamson, a missionary, \$100 and charge to his (Renville's) account, and on November 25, 1838, Dr. Williamson writing from the same place said, "I send you above a draft on Mr. Tracy of New York for \$112.14" concluding with the statement that this sum plus the \$25.00 which Mr. Sibley had promised to contribute to the Missionary Board would cover all the orders he (Dr. Williamson) had drawn on him.

1. G. A. Belcourt, missionary at Pembina, wrote to Sibley in a letter dated January 14, 1849, that he wished "to draw money from a savings bank at Quebec and I know of no surer way of getting it than by asking you."

2. A letter dated October 18, 1836 from Crooks at Mackinac to Sibley, at St. Peter's said "Understanding that the maker of the enclosed note is in your country, I take the liberty of handing to you his .....note, dated Sault Ste. Marie 11 August 1831, payable 1 July 1832 .....Whatever you may collect have passed to the credit of the office in New York for account of St. Mary's Outfit."

3. H. L. Donsman wrote Sibley on November 5, 1838 from Prairie du Chien "Mr. Brown starts in the morning by Land for your place -- I have advanced him \$85.90 and charged Sioux Outfit". And again on May 6, 1838, "I enclose with this an account against Movers for \$25.75 which he will pay you, also Farribault's account which charge to him, and his note which can be given up to him."

Kittson wrote Sibley from Pembina August 30, 1848 "I have this day drawn on you in favor of Mr. Charles Grant for the sum of one hundred and seventy two 17/100 dollars which I will thank you to accept and charge to account of my outfit."

and its various "foreign" operations by the main office in New York. While the company realized a profit on these banking operations, nevertheless it was subject to some losses, which were inevitable at the time because of the lack of rapid communication, and the uncertainties of the monetary situation. Protested checks drawn on people in the East were one source of loss, and the notes of insolvent State banks in other parts of the country were another source. The fact that the company continued its operations in this field is sufficient proof that it realized a net profit from these transactions.

1. Crooks wrote Sibley from New York on July 7, 1842, "We have credited Western Outfit 1841 for the Rev. Dr. Gavin's draft on Lentilhou & Co. paid 6 July 1842, \$916.67 and Wm. Leith's draft on Wm. Smith." On September 10th 1837 he wrote to Gabriel Franchere at Sault Ste Marie, "George Emat-enger's draft for 80 Doll<sup>s</sup> is sold for \$74 due 11th Sept. 1837 and Mr. Bean on Keith was collected 26th ultimo. Say \$10 both at credit of the Mary's Outfit."

2. Crooks wrote J. Rolette at Prairie du Chien May 26, 1837, "Order H. L. Dousman on Mr. De Rham for \$1000 was refused; and Mr. Chauteau took it upon 21 Jany. 1837 for the honor of the endorser--So this \$1000 will also go back to the Prairie and Messrs. Pratte, Chauteau & Co. be paid the amount." "Be cautious whose drafts you take. But few are good."

3. H. L. Dousman on November 6, 1838 wrote Sibley from Prairie du Chien that of \$645.50 in Bank Bills sent him by the latter, \$71.50 were counterfeit and the greater portion of the latter were Wisconsin Bank Notes, then uncurrent and not received any where. "Take no more of them - Illinois, Indiana, Missouri and Detroit City Banks are the only ones current and take none others--all Michigan notes are entirely rejected." Continued on next page:

With the creation by Congress in 1849 of the Territory of Minnesota, a transition took place in the industrial and commercial, as well as the political, life of the people. New fields of activity were opened, and, to meet the new and growing needs of industries and commerce, banking entered upon a new era of development, the second distinct period in Minnesota banking. The American Fur Company had rendered and continued, for a year or two longer,<sup>1</sup> to render great assistance to the people of this region, but the incoming merchants and businessmen began to look to other institutions for assistance in financial transactions while the prestige formerly enjoyed by the American Fur Company gradually waned.

Continued from preceeding page:

3. Con:- B. W. Brisbois of the Western Outfit at Prairie du Chien wrote Wm. Forbes at Mendota on February 14, 1842, "The Illinois Banks are going down fast. We have stopped taking it"(Illinois note issues).

1. See pp. 22, 23.

## II.

### The Period of the Private Banks, 1849 - 1855.

The organization of Minnesota as a Territory served as a device for drawing the attention of the people of the country to a consideration of opportunities in Minnesota. As yet this region was mainly Indian country with but a few small and scattered settlements in that part of the territory which had been ceded by the Indians. St. Paul was a small village and in the words of one who arrived in the summer of 1849, was "just emerging from a collection of Indian whiskey shops and birch roofed cabins of half breed voyageurs."<sup>1</sup>

Because of its advantageous location at the head of navigation on the Mississippi and just below the confluence of that river with the Minnesota, as well as the fact that it was the capital of the Territory, St. Paul became the Mecca of the immigrants coming into this region and the gateway for all traffic in the

1. E. D. Neill - History of Minnesota p. 444. Reverend E. D. Neill, according to the Weekly Minnesotian of April 9, 1853, came to Minnesota in April 1849 and for some years was prominent in the religious work in St. Paul. He was a careful student of the history of Minnesota and his books are considered as authoritative.



Minnesota and upper Mississippi valleys.<sup>1</sup> It was natural therefore that St. Paul should become the business center in the early development of Minnesota.

The United States census of 1850 showed that the white population had increased to 6,077, distributed according to counties as follows:- Ramsey, 2,277; Kittson (and Roseau), 1,134; Washington, 1,056; Dakota, 584; Benton, 418; Wabasha, 243; Wauwata, 160; Mankato, 158; and Itasca 97.<sup>2</sup> Immigration continued during the next two years,<sup>3</sup> but the negotiation and ratification of the Sioux treaties in 1851-2<sup>4</sup> resulted in a heavy increase in 1853. In the early summer of that year, five steamboats engaged in the Minnesota river trade were worked to the limit of their capacity carrying heavy cargoes and numerous passengers.<sup>5</sup> Villages began to be

1. As an efficient barometer of prosperity in those days we have the number of steamboat arrivals per year:- 1848, 47; 1849, 73; 1850, 104; 1851, 119; 1852, 171; Weekly Minnesotian, April 9, 1853.

2. Twelfth United States Census, 1900.

3. St. Anthony Express, July 16, 1852.

4. Traverse des Sioux and Mendota, Statutes at Large of the United States, Vol. IQ Chap. 121, pp. 403-409.

5. The Minnesota Democrat, May 11, 1853.

built in the valley of the Minnesota and farms to be opened in all directions.<sup>1</sup> This was merely the forerunner of the unprecedented waves of immigration that rolled into Minnesota in the four succeeding years.

The people migrating hither were of the hardy frontier type with slender financial resources, that has always been in the vanguard of the settlement of any new region.<sup>2</sup> As a class they were far superior in morality, education and intelligence to the pioneers of many of the older territories.<sup>3</sup>

A large part were farmers who had heard the urgent call sent out by the people already here,<sup>4</sup> and came west with wagons and stock.<sup>5</sup> There were practically no established industries and in consequence the quantity of ready money (insufficient even in the better settled and more industrially advanced communities) was far too meagre for the establishment or ef-

1. The Minnesota Democrat, May 11, 1853.
2. The Minnesota Pioneer, June 23, 1853.
3. Minnesota Historical Collections, Vol. III, pt. 2, p. 244.
4. The St. Anthony Express, July 12, 1851 and June 21, 1851.
5. The Minnesota Democrat, August 4, 1852.
6. The lumber and logging industry had come into prominence in the time lapsing since the first mill was built in 1838 on the St. Croix River.

fective promotion of industries in such a virgin territory.

In order to supply the finances necessary for industrial and commercial advancement money was brought in from outside the state in payment for which high rates of interest were exacted. Rates varying from two to five per cent per month<sup>1</sup> were prevalent, even for loans based on good security.<sup>2</sup> However, a large part of this money went, not into industries, but into real estate in answer to the popular cry of "Land! more Land!"<sup>3</sup> The consequences of this mania will be seen later.

This scarcity of capital, with high rates of interest, the increasing population, and the growing industries and commerce provided rich opportunities for a bank of issue, as a means of increasing the supply of money. But all attempts<sup>4</sup> in this direction met with such strenuous opposition that no institution of this kind having legal or public sanction was established during the Territorial period of Minnesota.

1. The Minnesota Democrat, November 17, 1852.

2. The St. Anthony Express, March 23, 1852.

3. Ibid.

4. The Minnesota Pioneer, July 14, 1853.

This hostile attitude of the people arose from the fact that many had had unpleasant experiences with "wild cat" banks and "cheap currency" in other states and had no desire to repeat such an experience in their new home. There were, however, several attempts to establish banks of issue, the first of which was, so far as careful investigation shows, that of the "Bank of St. Croix" in 1849.<sup>1</sup>

In September of that year, a stranger by the name of Isaac Young, induced a Mr. Sawyer, then a resident of St. Paul, to sign a considerable number "of handsomely engraved pieces of paper; on which were engraved the words ' Bank of Saint Croix, St. Paul, Minnesota,' or something of that purport,"<sup>2</sup> the signer understanding that they "would be promptly redeemed when issued".<sup>3</sup> These "bank notes" were quoted, at the time, "in the Eastern bank note lists at one per cent discount; the quotation being doubtless furnished by some accomplice in the fraud living in Wall street, New York city."<sup>4</sup> Young dis-

1. The editor of the Chronicle in the issue of Jan. 12, 1850, wrote in this connection "We are no especial sticklers for Banks of any kind, or in any community, and most certainly no apologists for irredeemable Bank issues. Our pockets have suffered considerably in bygone days from this cause."

2. The Minnesota Pioneer, November 15, 1849.

3. Ibid.

4. Ibid.

appeared from St. Paul and when next heard of was in St. Louis buying goods with this money,<sup>1</sup> which had been given value by the favorable quotation in the current Bank note lists.

The extent to which these notes were placed in circulation in Minnesota was not known<sup>2</sup> but Sawyer stated that he had signed only a small amount, between \$500 and \$700.<sup>3</sup>

The public at large was notified that no such bank existed in Minnesota and that if people ever heard of an institution of this character as existing in the Territory, they should consider it "a fraudulent unlicensed concern."<sup>4</sup>

That the ostensible purpose of the promoters of this enterprise was to flood the territory south of Minnesota, at the close of navigation,<sup>5</sup> is not known, but that the situation appeared serious is indicated by the articles published in the papers of Galena and St. Louis,<sup>6</sup> and also by the following apologetic article in the January number (1850) of Presbury & Company's Counterfeit Detector:---

1. Ibid.

2. Ibid.

3. <sup>The</sup> Minnesota Chronicle, January 12, 1850.

4. The Minnesota Pioneer, December 12, 1849.

5. Ibid., January 9, 1850.

6. Ibid.

"Bank of St. Croix - We have stricken this Bank from our "Detector", with this explanation. A few days previous to the issuing of our October number, Mr. Daniels of this city introduced us to a gentleman by the name of Young, who informed us that he, with some other capitalists, were about to establish a bank at St. Paul, and showed us two notes - one of the denomination of 'one dollar' and the other for 'two dollars'. He also stated that but few had been signed, and that no more would be issued until the charter had been sanctioned by the authority of law. He left those notes with us, and money sufficient to redeem all that were issued.

"Upon this representation we mentioned the money in the Detector, giving holders of the notes information when they redeemed.

"Since the mention of the paper above alluded to, we have been advised that it is improbable that the Legislature of the Territory would grant any such charter."<sup>1</sup>

This notoriety was sufficient not only to prevent the circulation of many notes of this bank, concerning which discussion soon ceased, but also to dampen the ardor of other "wild-catters", and it was not until the year 1853 that the

1. Quoted in the Minnesota Pioneer, January 9, 1850, from the Missouri Republican of St. Louis.

attempt was renewed to establish institutions of this type.

It should be noted at this time that in the Territory of Minnesota as in the other parts of the United States the term "banking" appears to have been used only in connection with the function of note issue, overlooking the less prominent functions of loan, discount, and deposit, which at that time had not yet become a prominent part of the banking business. This concentration of attention was due to the prevalence of "wild cat" currency, and to the fact that the function of note issue was the main object that founders of banks had in mind when establishing such institutions. In an issue of one of the leading Territorial papers an article appeared which asserted that there was not one bank in the Territory, yet in this same issue was listed the offices of discount and deposit in operation in St. Paul.<sup>1</sup> A similar view of banking was taken by the early Territorial governors.<sup>2</sup>

In contrast to the attitude assumed towards banks of issue was that regarding offices of discount. As early as 1850 the question arose regarding the advisability of estab-

1. The Minnesota Pioneer, November 17, 1853.

2. Governor Ramsey in 1852 and Governor Gorman in 1854 in their messages to the Legislature advised against the establishment of banks.

lishing an office of discount in order to alleviate the financial distress to which business was subject whenever government payments were delayed.<sup>1</sup> These payments were largely annuities to the Indians for lands and formed the main source of ready money to the traders, for whom the Indians were easy prey.<sup>2</sup>

To render the situation more acute, the money derived from the Indian payments could not be retained for local circulation but was drained from the Territory in payment for provisions and freight thereon,<sup>3</sup> for Minnesota as yet, with the exception of lumber and cranberries, purchased in other states, everything worn or consumed by its inhabitants.<sup>4</sup>

1. "Building, purchases of property, purchases of provisions, all business transactions turn now upon the hinge of the United States Treasury; all contracts almost, and most expenditures are made in anticipation of some payment which is to be made, of public money, made annual, semi annual or quarterly". The Minnesota Pioneer, Nov. 7, 1850.

2. Ibid.

3. Ibid. Also: "over \$200,000 of the Sioux money went below in drafts and bank notes, by the last mail". Minnesota Democrat, December 22, 1852.

4. The Minnesota Pioneer, October 17, 1850.



With characteristic American optimism, however, the local inhabitants felt that only capital was needed to make Minnesota a great agricultural region and a better manufacturing country than any of the Eastern and Middle States.<sup>1</sup> For supplying this capital, a loan office was considered desirable, inasmuch as it was "free from the dangers of a bank" which was described as relying upon its charter for its credit, whereas a loan office would "rely upon its capital to sustain its credit."<sup>2</sup>

Nothing was done, however, in this direction, and in November of 1851, an editorial in one of the St. Paul papers again suggested a loan office in that city. The editorial based its argument on the ground that such an office "at St. Paul from which to borrow, not paper, but money might facilitate the business of lumbering or Indian payments by anticipating sales or payment, and thus equalizing the amount of currency more between periods of payment and preventing extreme pressure and tension." The reply to this suggestion was not long in forthcoming and in January 1852, Charles H. Oakes, of the Fur Company opened a Loan office in St. Paul.<sup>4</sup> The field of

1. Ibid. November 21, 1850.
2. Ibid.
3. The Minnesota Pioneer, November 20, 1851.
4. The Weekly Minnesotian, January 24, 1852.

operations was so large, however, that in the following years,  
<sup>1</sup>  
 other loan offices were opened.

In the meantime, other events of great importance to the banking business of the territory had taken place. As early as May 1, 1851, Charles W. Borup of the Fur Company began the business of dealing in bills of exchange and drafts on all parts of the United States with his office in the building of the Minnesota Outfit, St. Paul.<sup>2</sup> In June of the next year, Messrs. Borup and Oakes formed a co-partnership for transacting an exchange and banking business in all its various branches, with their office in the building of the Minnesota Outfit. The establishment of this office met with no opposition, but on the contrary with warm approbation even from those most bitterly opposed to banking institutions of any  
<sup>3</sup>  
 description.

This banking firm did not long enjoy a monopoly of the banking business in Minnesota for before the end of 1853,

1. Ibid. November 7, 1852. Minnesota Pioneer, July 8, 1852, Ibid, October 18, 1852.

2. The Minnesota Pioneer, May 1, 1851.

3. The Minnesota Pioneer, the spokesman of the anti-banking element in giving notice of this event on July 1, 1852 said "That is what we want - men of capital, cash men, and not paper banking institutions."

Smith, Newell & Company,<sup>1</sup> Wm. Brewster & Company,<sup>2</sup> and C. H. Parker<sup>3</sup> had established similar offices, and by the first of November 1854 five other banking houses were in operation in St. Paul.<sup>4</sup> In the same year (1854) settlement and business needs had increased so rapidly in other communities in Minnesota that R. Martin,<sup>5</sup> Tracy & Farnham,<sup>6</sup> and C. L. Chase<sup>7</sup> in St. Anthony, and S. J. R. McMillan<sup>8</sup> in Stillwater, opened banking houses. Within the next three years similar institutions were established in other localities in Minnesota to meet the financial needs of the rapidly increasing population.

All of these institutions were private banks, having no fixed capital, and under no regulation save that of commercial honor. In general they transacted the same kind of business

1. The Minnesota Pioneer, November 27, 1853.

2. Ibid, January 1, 1853.

3. Ibid.

4. The Minnesota Democrat of November 1, 1854, listed the banking houses as follows: -Brewer & Oakes, C. H. Parker, A. Vance Brown, Wm. Brewster, Mackubin & Edgerton, Truman M. Smith, Brown & Fletcher, Rice, Hollishead & Becker, and George K. Smith.

5. St. Anthony Express.

6. Ibid, August 9, 1854.

7. Ibid, September 23, 1854.

8. The Weekly Minnesotian August 16, 1854.

as that of "Borup & Oakes" - a commercial banking business, making loans and discounts, dealing in exchange, making collections, and later receiving deposits, on which the rate of interest, because of the competition among the banks, rose to 7 and 12 per cent. per annum.<sup>1</sup> In addition the majority of these institutions conducted a real estate business.<sup>2</sup>

Banking operations were conducted under difficulties. The isolation of the Territory of Minnesota and the lack of currency placed the bankers at a decided disadvantage in the conduct of their business. The rate of exchange on Eastern cities varied from one to five per cent,<sup>3</sup> and, since as yet the products of the Territory were insufficient to satisfy the needs of the rapidly increasing population, none could be exported, and exchange had to be created by shipping gold and currency. The nearest railroad system terminated at the Mississippi at La Crosse and at Prairie du Chien, and as a result, shipments were made in the summer by steamboat and in the winter by stage.<sup>4</sup>

1. Minnesota Pioneer, December 22, 1853.
2. Minnesota Democrat, December 22, 1853.
3. Ibid. November 1, 1854.
4. Atwater - History of Minneapolis, p.486. Judge Atwater was secretary of the Board of Regents of the Territorial University in early '50s, a practicing attorney in St. Anthony, for a time editor of the St. Anthony Express, and during 1859-61 a Justice of the Supreme Court of Minnesota.

The quality of the currency furnished another problem for the bankers in the transaction of their business. For a short time after the organization of the Territory the limited amount of currency consisted almost entirely of specie but soon counterfeit and irredeemable bank notes made their appearance necessitating close scrutiny<sup>2</sup> and the use of bank note detectors.<sup>3</sup> In this connection the bankers and newspapers rendered a great service by publishing from time to time, lists of counterfeit notes or those rendered worthless by the failure of the issuing banks.<sup>4</sup> Cognizant of the splendid opportunities offered by Minnesota for the circulation of their notes, individuals and banks sent agents hither with large quantities of their small bills for "purposes of speculation and imposition".<sup>5</sup>

The merchants, and the public as well, suffered no inconsiderable losses from these spurious issues and in the winter of 1852-3 the situation became so serious that the business

1. The St. Anthony Express, November 19, 1853.
2. Ibid, December 13, 1851.
3. The Minnesota Pioneer, February 22, 1855.
4. St. Anthony Express December 31, 1851; Minnesota Democrat November 1, 1854.
5. Ibid, January 26, 1853.

men of St. Paul petitioned the Territorial Legislature for relief by the passage of a law forbidding "the circulation of all bills of whatever kind designed as currency, under the denomination of ten dollars with heavy penalties for the violation of the law." Nothing was done, however, and in the following summer large amounts of Ohio, Michigan, Indiana, Illinois and Wisconsin notes were placed in circulation, adding to the aggravated currency condition already existing.

Among these "shinplasters" was found a few notes of a local "bank". It soon developed that "a shinplaster financier by the name of Israel Smith" had left New York shortly before with a large amount of Merchants and Mechanics' Bank Notes, enroute to St. Paul or St. Anthony where he intended to establish a "bank". Upon his arrival at the latter place he prevailed upon one of the citizens (reputable but poor) of that village to sign notes of the "Merchants and Mechanics' Bank of St.

1. Appendix, Minnesota Council & House Journals, 1854, pp. 177-78

2. The St. Anthony Express, June 17, 1853.

3. Quoted in the Minnesota Democrat of July 6, 1853 from Thompson's Bank Note Reporter. The latter prefaced the statement with the words "Extra Caution".

4. Ibid.

Anthony.<sup>1</sup> Attempts were then made in St. Paul to pass bills of from one dollars to ten dollars in denomination but not much success attended these efforts, only four of five hundred dollars passing into circulation.<sup>2</sup> Smith then left for Galena where he falsely reported, for the purpose of giving his notes value, that he had received the permission of Governor Gorman of Minnesota Territory to establish his St. Anthony Bank.<sup>3</sup> Not long afterwards, his efforts having proved futile, he left for New York "to make arrangements for the redemption of the bills".<sup>4</sup> The prevailing sentiment stirred up by this episode was expressed in this sentence: "We want no wild eating or buzzard roosting here in Minnesota" and the advice given was "Be careful in counting your money --- touch not --- handle not,"<sup>5</sup>

About the same time Richards, Clarke and Company opened a Banking house in St. Paul under the name of the "Central American Bank".<sup>6</sup> Their business consisted of dealing in ex-

1. The Weekly Minnesotian July 2, 1853.

2. Ibid. 3. No communication of any kind had passed between himself and Governor Gorman. The Minnesota Pioneer, July, 14, 1853.

4. The Weekly Minnesotian, July 2, 1853. 5. Ibid.

6. Minnesota Pioneer, July 21, 1853.

change and making collections throughout the Territory.<sup>1</sup> In addition they attempted to issue notes, and although, unlike the two former attempts at establishing "banks", an office was actually opened,<sup>2</sup> their effort aroused resentment to a high pitch. The organ of the Democratic party, the "Pioneer," of July 21, 1853, published its views in opposition to "wild-cat" money, and advocated the election of "sound money" men to the next legislature. In addition it stated its conviction that "the currency paid by the Government to the Territory and disbursed to its citizens by the proper officers, is the only currency recognized by the Constitution". This editorial was productive of immediate results and two days after its publication a large meeting of indignant and determined St. Paul business men was held. At this meeting an organization was effected to carry on the warfare against the "Central American Bank", and institutions similar in character<sup>3</sup> and the following resolutions were unanimously adopted:-

"Whereas, A recent attempt has been made to circulate as money an issue of a so-called Central American Bank, of this city, and

1. The Minnesota Pioneer, July 21, 1853.

2. *Ibid.*

3. The Minnesota Democrat, July 27, 1853.



"Whereas, such an attempt is antagonistical (sic) to the best interests of this Territory, and particularly to the interests of the business men of this city. Therefore be it

"Resolved, That we will oppose under all circumstances, now and hereafter, this and all similar attempts to impose on us an illegitimate and irresponsible currency,

"Resolved, That the course pursued by the city press in denouncing these "wild-cat" issues meet with our warm approbation."

"Resolved, That the proceedings of this meeting be published in all the papers in this Territory".

In the face of such opposition the "Bank" could not long exist and in January, 1854 it gave notice that it would redeem<sup>1</sup> its out-standing notes until February first of that year. On February 8, 1854, its advertisement appeared for the last<sup>2</sup> time in a Territorial paper.

A more successful attempt to establish a bank of issue was immediately commenced for in the first week in February of 1854, Borup & Oakes began to issue for circulation a "certificate of deposit" payable in current bank notes or in coin,

1. The Minnesota Pioneer, January 5, 1854.
2. The Minnesota Democrat, February 8, 1854.

or "exchange on the East at current rates.<sup>1</sup> Action was immediately taken by the Legislature and<sup>2</sup> a law, approved March 4, 1854,<sup>2</sup> forbade the issue by unauthorized persons of bills or promissory notes, or checks, certificates of deposit or other evidences of debt for the purpose of loaning them or putting them in circulation as money, unless thereto especially authorized by law." Such an offense was made punishable by a fine of one hundred dollars. Any person aiding in the circulation of such evidences of debt was liable to a fine of twenty-five dollars. This law was practically a dead letter from the day of its passage<sup>3</sup> and that Borup and Oakes continued their note issue without interference is evidenced by the sequel.<sup>4</sup>

In this session of the Legislature another measure of interest was introduced --- a bill to incorporate the Bank of Minnesota.<sup>5</sup> This was to be capitalized at \$100,000 with the privilege of increasing its capital to \$500,000. Moreover,

1. Ibid, February 8, 1854.

2. Laws of Minnesota 1854, Chap. 26, Sec. 13 and 14.

3. Repealed February 7, 1855, Laws of Minnesota 1855, Chap. 67.

4. See pages 35, \_\_\_\_\_.

5. Council Journals, 1854, p. 69.

its notes were to be secured by a deposit of securities of the United States or of the individual states,<sup>1</sup> or real estate mortgages making it a free banking institution. Governor Gorman however, in his message to the Legislature at ~~that~~ session had declared that "no law, creating a bank within this Territory, for circulating a paper currency can receive my official sanction".<sup>2</sup> However, the Democratic sentiment in the Legislature was sufficiently strong to prevent the passage of the bill, and it never came to the governor's hands.

The currency in circulation in 1854 again presented a grave problem. In this year the paper issues in the Territory amounted to millions of dollars; and with a single exception,<sup>3</sup> it came from unknown banks in Maine, Georgia, Indiana, and other places distant from Minnesota.<sup>4</sup> The sole reliance of those who received these notes was on the genuineness of the engraving and the reports of Counterfeit Detectors. In several instances the fact that a local banking house received or issued a certain foreign bank note gave the public confidence in that note, but the banker might at any moment refuse to accept the notes that he himself had introduced into circu-

1. The St. Anthony Express, February 11, 1854.
2. Council and House Journals, 1854, Appendix p. 7.
3. Borup & Oakes, see p. 51.
4. The Minnesota Democrat, November 8, 1854.

lation.<sup>1</sup> Much loss was occasioned by the notes of "broken banks", in the fall of this year, and by the fluctuation in note values arising from the rumors of bank failures circulated by speculators in bank notes.<sup>2</sup>

The Whig newspapers had long advocated the establishment of a State regulated banking system similar to those in operation in Illinois and Wisconsin.<sup>3</sup> In these States the banks were subject to State regulation, and the notes were secured by the deposit of United States or State bonds, providing a system which was considered the best yet devised. The Democratic press, however, had been unalterably opposed to "banking" in any form,<sup>4</sup> but the existing conditions presented a problem to which there appeared to be but one solution. Therefore it united with the press of the opposite party in advocating the establishment of banks of issue under the strictest regulations possible in order that their note issue might drive from circulation the spurious issues then current, and place<sup>5</sup> the Territorial circulating medium on a firm foundation. Governor Gorman again issued a warning, in his message of January

1. Ibid.

2. Minnesota Democrat, November 8, 1854.

3. St. Anthony Express, July 30, 1853, Weekly Minnesotian, July 23, 1853. Minnesota Democrat December 24, 1850, October 21, 1853.

4. Minnesota Pioneer, November 20, 1851.

5. Minnesota Democrat, November 8, 1854.

18, 1855 against the establishment of note issuing banks,<sup>1</sup> and nothing was done in this direction.

The business men of St. Paul held a meeting on November 29, 1854 to effect an organization of a Board of Trade, and to discuss the currency problem. Resolutions were adopted condemning the circulation of the foreign paper money, in the Territory,<sup>2</sup> but apparently nothing was done to relieve the situation.

Immigration in the year we have been considering was very large,<sup>3</sup> and fairly indicative of the numbers that were to come in the period preceeding the panic of 1857. The panic of 1857, the conditions leading up to it and the conditions resulting from it constitute a distinct period, therefore a separate chapter will be necessary to study these events.

1. Council and House Journal, 1855, p. 32 and 30.

2. The Weekly Minnesotian December 1, 1854.

3. The Minnesota Democrat, November 1, 1854, estimated 45,000 people to have come to St. Paul in 1854. Not all of these remained in the Territory.

According to the St. Anthony Express of November 15, 1856, the steamboat arrivals in the years from 1850 to 1855 were:

1851 - 119.	1853 - 200
1852 - 171	1854 - 245

See footnote 1, page 14.

### III.

#### The Period of the Private Banks (Continued)

1855-1858.

The period from 1855 to 1858 is one of the most interesting in the history of Minnesota, especially from a business point of view. It was the "boom" period of Minnesota history, when optimism and prosperity reared an enormous speculative structure which was brought crashing to the ground by the financial disasters of 1857, plunging the people of Minnesota into such depths of adversity that they were years in recovering therefrom.

The year 1855 developed but little of particular interest. The first event in chronological order, was the issue by Borup and Oakes of a new shiplaster<sup>1</sup>, which was redeemable in gold at a discount of one per cent.<sup>2</sup> These notes circulated throughout the Territory and passed freely from hand to hand because of the integrity and high standing of the issuing firm.

Opposition to this issue developed from two sources, the

1. The Minnesota Democrat, March 7, 1855.

2. Ibid, March 14, 1855.

jealousy of the other bankers, who refused to accept them,<sup>1</sup>  
 and the public. The opposition of the latter was due to the  
 difficulty of redemption in localities other than St. Paul,  
 to the fear that possible temporary embarrassment might  
 cause the notes to depreciate but especially to the fear lest  
 less responsible firms should begin the issue of similar  
 notes.<sup>2</sup> For these reasons the Legislature of 1856 passed a  
 law similar to that passed in 1854<sup>3</sup> and Borup & Oakes there-  
 upon ceased issuing their notes and began their redemption.<sup>4</sup>

In this year also immigration surpassed that of any  
 preceeding year. In this respect Southern Minnesota<sup>5</sup> out-  
 stripped every other section of the Territory, the gateway  
 being Winona.<sup>6</sup> The rush to Fillmore, Houston, Winona, Olmsted,  
 and other counties of Southern Minnesota in 1855 was extraor-  
 dinary. Villages sprang up by magic, hamlets became thriving

1. Pioneer & Democrat, January 31, 1856.
2. Minnesota Democrat, March 7, 1855.
3. Laws of Minnesota 1856, Chapter IV.
4. Report of the Committee on Shin Plasters - Journal of the House of Representatives (Minnesota) 1857-8, p.398.
5. Pioneer and Democrat, May 22, 1856.
6. Weekly Winona Express, August 29, 1855. The population of Winona increased from practically nothing in 1852 to 800 in 1855 and 2000 in 1856 - Winona Republican, December 25, 1856.

villages and town, and farms were opened in localities which no one dreamed would be settled for years to come.<sup>1</sup>

What was true of the southern section in 1855 was applicable to the entire Territory the following year. Every portion, notwithstanding the spirited competition prevailing, appeared to be receiving a share of the inflow.<sup>2</sup> The boats engaged on the Mississippi were unable to keep pace with the tremendous influx of trade and travel and by May 10, 1856, huge piles of freight had accumulated and were daily increasing, at Dubuque and Dunlieth.<sup>3</sup> In the first two months of navigation in 1856 April and May, two hundred steamboats arrived at the wharf in St. Paul, a record estimated as nearly equal to that of the preceeding year, and exceeding that of any previous year.<sup>4</sup>

Immigration literally poured into the Minnesota Valley. Sometimes two boats a day left St. Paul, but even these, loaded to their utmost capacity with passengers and freight, were unable to handle the rush.<sup>5</sup> On the Upper Mississippi between St. Anthony and Sauk Rapids, the efforts of two steamboats

1. The Pioneer and Democrat, May 22, 1856.  
The Census of the Territory in 1855 showed a population of about 55,000. Weekly Minnesotian, November 10, 1855.
2. The Pioneer and Democrat, May 22, 1856.
3. The St. Anthony Express, May 10, 1856.
4. The Pioneer and Democrat, May 22, 1856.
5. The Weekly Minnesotian May 13, 1856.  
The St. Anthony Express May 10, 1856.



were scarcely equal to the demands of the trade. In the St. Croix valley the unusual success which had attended the lumberman had its effect on every branch of trade, and the towns and villages in that region increased rapidly in population and wealth.<sup>1</sup>

It was confidently expected that there would be an even larger volume of immigration and commerce in 1857 and steam boat men made great preparations for accomodating an enormous transportation business. The basis for their belief was the record of the preceeding year and a calculation of the favorable results<sup>2</sup> of the Land Grant made by Congress for the building of railroads.<sup>3</sup> In the spring the boats were crowded with passengers,<sup>4</sup> and settlers with prairie schooners and cattle were constantly passing through towns in the eastern part of the Territory bound for the unsettled portions of the West.<sup>5</sup> However, the warnings of the Eastern papers regarding western lands and the unsettled monetary conditions of that year culminating in the panic undoubtedly had a dampening effect on

1. Pioneer and Democrat, May 22, 1856.

2. Ibid. April 2, 1857.

3. Statutes-at-Large of the United States, Vol. 11, Chap. 99.

4. The Winona Republican, April 21, 1857.

5. Quoted from the Cannon Falls Gazette by the Pioneer and Democrat June 25, 1857.

many eastern people,<sup>1</sup> who would have come west had conditions been as propitious as in 1856.

As a natural sequence to this extraordinary increase in population was the increase in the volume of business. Encouraged by the rapid rate at which the population was growing and the increasing area over which trade was being established, the merchants considered it advisable to enlarge the scope of<sup>2</sup> their enterprises to the limit of their capital and credit. To do this, they were forced to borrow at the prevailing rates of interest, which, as subsequent experience showed were justified by neither actual nor prospective profits.<sup>3</sup>

The most considerable and important class of borrowers, however, were the operators in real estate, who had been attracted by the cheapness of the land, and the strong tide of immigration, and had come westward in large numbers, especially in the boom years of 1855 and 1856, to reap a harvest. Their transactions caused the price of real estate to advance rapidly and in consequence, all classes of people in the Territory became obsessed by the mania for real estate speculation. In 1856 this speculation had assumed alarming proportions and the

1. The weekly Minnesotian, July 4, 1857.

2. The St. Paul Advertiser, June 20, 1857, quotation from the New York Independent of June 11, 1857.

3. See pages 37 and 38.

price of real estate had reached heights out of all proportion  
 to real value.<sup>1</sup>

A spirit of optimism pervaded the Territory. One editor in the summer of 1856, after mentioning that it was a common thing to buy lots in St. Anthony and Minneapolis one day, and sell them the next at an advance of 50 or 75 per cent, declared that it was impossible for any lands at the prices at which they were then selling, to deteriorate, and that lands had not yet reached an average price in either St. Anthony, Minneapolis or the surrounding country.<sup>2</sup> Apparently everything was at the high tide of prosperity; most of the people were living beyond their means, in an atmosphere of feverish excitement, basing all their hopes on the outcome of the most fantastic projects, a condition of affairs certain to prove disastrous to all concerned.<sup>3</sup>

1. Pioneer and Democrat, December 18, 1856, announced the sale of 140 acres at the mouth of Basset's creek Minneapolis which, preempted the year before for \$1.25 per acre, had just been sold for \$35,000 or \$240 an acre. The same paper, in the issue of July 16, 1857, quoted a notice from the Hastings Journal to the effect that 40 acres adjoining Hastings which had sold in September 1856 for \$14,500 had recent been resold for \$32,280. These were typical transactions.

2. The St. Anthony Express, July 5, 1856.

3. The Weekly Minnesotian, October 3, 1857.

Coincident with the expansion in the various lines of activity, there was an expansion of the banking field. Numerous banking houses were established in the various towns of the Territory <sup>1</sup> six being established in Winona alone by the end of 1856. <sup>2</sup> In the early part of 1857 there were ten banking houses in St. Paul. Taking as a basis for calculation the advertisements of banking institutions in the various Territorial papers a very conservative estimate would place the minimum number in existence in Minnesota in the summer of 1857 at not less than thirty.

At the commencement of 1857 the bankers of St. Paul perfected an organization known as the "Board of Brokers". Its announced intention was "to obtain the most valuable information as to the condition of such banks as are circulating their paper in our community, and also to receive the earliest possible news by telegraph or otherwise, of anticipated or actual failure of such banks." <sup>3</sup> In this connection it rendered valuable service to the public, but some of their <sup>4</sup> actions were not quite so commendable.

1. The St. Paul Advertiser, August 22, 1857.
2. The Winona Republican, February 10, 1857.
3. The Pioneer and Democrat, January 15, 1857.
4. See pages 73, 76, et seq.

Currency troubles throughout the Territorial period had gradually convinced a majority of the people that some kind of a regulated banking system was a necessity. In January 1857, the opinion was expressed that a general banking system would, in all probability, soon be established.<sup>1</sup> Moreover, in the "Spring of the year" the "Address of the Territorial Central Committee to the Democratic Voters of Minnesota" concerning the important measures which were to be considered at the coming Constitutional Convention, advised that the fundamental law should contain no provisions for banking institutions unless they should be so guarded and restricted as to secure the community against irresponsible and excessive note issues.<sup>2</sup> The Constitutional Convention was in session from July 13, 1857 to August 29, 1857, and after much discussion adopted, among other provisions, the general provisions under which the state banking system later developed. The constitution was not adopted until April 15, 1858, and a discussion of its banking provisions is postponed to a later chapter in order to combine it with a discussion of the banking laws of 1858.

1. St. Paul Advertiser, January 24, 1857.  
 2. Pioneer and Democrat, May 21, 1857.

Money in the years preceeding 1857 had been fairly steady. To be sure, there were changes in rates under varying conditions of supply and demand, but there had been no sudden or violent fluctuations. In 1856 the following rates were charged: loans from six months to a year on real estate security 3 per cent per month; loans on call  $2\frac{1}{2}$  per cent per month, and on good paper from three to six months  $3\frac{1}{2}$  to 4 per cent per month.<sup>1</sup> These rates prevailed into 1857. For a short time in the spring, however, rates rose to 5, 10, and in one case, 15 per cent per month, the highest known figures in Minnesota, for money to be used for the speculative purposes.<sup>2</sup> A week later, with the beginning of immigration and the importation of money, the rate dropped to  $2\frac{1}{2}$  and 3 per cent per month,<sup>3</sup> near which it remained until September.

As the year advanced the Territorial financiers began to feel the effects of the uncertain conditions in the East.<sup>4</sup>

Stringency in the Money market became the rule and business became dull.<sup>5</sup> Farms had been opened and industries

1. St. Anthony Express, August 23, 1856.

2. St. Paul Advertiser, April 4, 1857.

3. Ibid, April 11, 1857.

4. The St. Paul Advertiser, July 4, 1857.

5. Ibid. July 11, 1857.

established on borrowed capital brought here through the high interest rates,<sup>1</sup> but the uncertain monetary conditions in the east arising from excessive speculation had stopped the supply. The local bankers themselves had invested heavily in real estate and real estate mortgages and had but little money for business loans. The uncertain conditions in the east compelled them to loan almost entirely on short time.<sup>2</sup> In August the banking business was light; money, "tight"; and maturing paper was not paid with the usual promptness.<sup>3</sup> The supply of money was small and as a general rule the banks did not discount except to their regular customers, whom they charged the regular rate of three per cent.<sup>4</sup> Eastern exchange was scarce with most of the banks and was worth  $\frac{1}{2}$  per cent. premium, while transactions in real estate were "growing smaller and beautifully less."<sup>5</sup> It was the bull before the storm.

1. Ibid. August 22, 1857.

2. Ibid, July 25, 1857.

3. Ibid, August 15, 1857.

4. Ibid, August 22, 1857

5. The St. Paul Advertiser, August 22, 1857.

On August 28, 1857, a telegram reached St. Paul announcing the suspension of several eastern banking institutions including the Ohio Life Insurance and Trust Company, which had closed its doors on the 24th<sup>1</sup>. The next day Brewster & Co. bankers in St. Paul closed their doors, the cause of their failure being announced as the failure of the Ellis brothers.<sup>2</sup> Within a week the effects of the panic were felt in the Territory. The banking business was very light, real estate transactions ceased, payments on paper were slow and past due paper began to accumulate. Eastern exchange was scarce but light, and bankers were willing to buy it at a premium of  $\frac{3}{4}$  per cent, selling at  $1\frac{1}{4}$  per cent. Gold commanded 1 and  $1\frac{1}{2}$  per cent.<sup>3</sup> Confidence was shaken and there was much anxiety as to the future.

As the effects of the panic began to be more powerfully felt, the outlook steadily darkened. Gold disappeared from circulation, money of any kind was scarce, and Bankers refused to discount.<sup>4</sup> Gold in the middle of September sold for 2 and 3 per cent premium, with but little for sale.<sup>5</sup> Specie was hoarded by every one who could obtain it.<sup>6</sup>

1. Ibid, August 29, 1857. 2. The Weekly Minnesotian, Aug. 29, 1857.  
 3. The St. Paul Advertiser, Sept. 5, 1857. 4. Ibid, Sep. 19, 1857.  
 5. Ibid, Sept. 19, 1857. 6. Ibid. Sept. 29, 1857.



In the early part of October St. Paul suspended specie payment and the problem arose as to how the merchants were to pay their Eastern creditors for the latter refused western currency except at almost prohibitive discounts, and it was impossible to get Eastern exchange at even 5 per cent. <sup>1</sup> Stores and warehouses were full of goods but there were no buyers. Many merchants notified their eastern creditors that there was no specie in Minnesota but that they could and were willing to pay their debts with western currency and that it was on deposit in St. Paul subject to creditors' drafts. <sup>2</sup> At a meeting of merchants, held October 5, it was resolved to ask eastern creditors to pay one half of the exchange rates; <sup>3</sup> to ask depositors to leave their money with bankers in St. Paul until needed as it was safer than the notes of distant eastern banks; and that, as it was impossible to collect notes receivable, to <sup>4</sup> make sales only for cash, in order to meet accruing liabilities.

1. Ibid. October 3, 1857. According to the issue of October 24, the St. Paul merchants alone owed eastern creditors \$1,500,000 and local debts amounted to \$1,000,000 secured by real estate mortgages drawing 2 to 5 per cent per month. This included only the banks' transactions and not those of private persons.

2. The St. Paul Advertiser, October 3, 1857.

3. Eastern Exchange was quoted at 5 and 10 per cent. \*Ibid, November 21, 1857. and currency was frequently discounted at 10 per cent in the East.\*

4. Ibid. October 10, 1857.

In the meantime, on October 2, Marshall and Company of St. Paul closed their doors, due to the failure of correspondents in St. Louis.<sup>1</sup> Considerable anxiety developed lest this failure would affect other banking houses in the city, but this proved groundless. The following day, however, Truman M. Smith was compelled to close his doors.<sup>2</sup> The greatest shock, came on October 21, 1857, when Borup and Oakes, suffering from severe losses through the failure of the Ohio Life Insurance and Trust Company, and other eastern correspondents were compelled to suspend.<sup>3</sup>

The prospects for the coming winter filled people with forboding. Trade was at a standstill; immigration had ceased, and in its place an exodus began. House rents dropped and over 200 houses were left vacant in St. Paul.<sup>4</sup> Large numbers of people were out of employment but had no money with which to leave the Territory.<sup>5</sup> To meet these conditons a meeting

1. Ibid. October 3, 1857, A published statement in the Pioneer and Democrat of October 8 showed that Marshall & Company had in assets: Bills receivable \$168,666.61, cash and cash items 24,569.44, and in real estate \$250,000 as against \$83,277.48 due depositors and \$60,000 in bills payable in eastern exchange.
2. Pioneer and Democrat, October 8, 1857. According to the statement published in this issue, this house held real estate to the value of \$100,000, real estate mortgages for \$300,000 and bills receivable for \$80,000, with a few minor items, to offset \$19,026.40 in deposits and \$147,000 in bills payable.
3. Weekly Minnesotian, October 24, 1857, Since September 1, Borup and Oakes had paid out \$185,000, and nothing had come in.
4. Weekly Minnesotian October 24, 1857. St. Paul Advertiser, Oct. 24, 1857.
5. on next page.

was held in St. Paul October 20, at which suggestions were made that a "stay law" be enacted, to be in force two years, and also that banks of issue be established with limited charters notes to be based on real estate securities and such others as could be<sup>1</sup> obtained in the market.

It appears that it was almost impossible for people to grasp the fact that real estate was practically worthless. According to John H. Stevens, a pioneer of Minneapolis, corner lots in that town, which in May, 1857 sold for \$3,000 could not be sold in October for \$300.<sup>2</sup> In the latter part of 1857, the newspapers contained numerous notices of sheriff sales,<sup>3</sup> mortgage sales, and private advertisements of land sales, yet so strong was the peoples' confidence in land values that they were willing to base their note issue on real estate securities!

In response to the petition framed at this meeting, Lieutenant Governor Chase and later, Governor Medary refused to call an extra session of the Legislature to institute a general<sup>4</sup> banking system, and other means of alleviating the financial troubles had to be devised. Therefore the city council of St.

Continued from preceeding page:

4. The census of 1857 showed a population of 153,332. Pioneer and Democrat, May 6, 1858.
1. St. Paul Advertiser, April 5, 1858.
4. Pioneer and Democrat, Oct. 29, 1857. The Legislature met in regular session in the winter.
2. John H. Stevens - Personal Recollections of Minnesota, page 302. He came to Minnesota in 1849 and settled in what is now Minneapolis.
3. The Weekly Minnesotian, Nov. 28, 1857. St. Paul Advertiser, same date.

Paul authorized the issue of City Order Bills.<sup>1</sup> This example was followed shortly by Ramsey County, which authorized, on November 3rd, an issue of County Scrip.<sup>2</sup> Both issues were for sums not less than one dollar or more than twenty dollars. Other counties soon followed Ramsey County in its attempt to supply a circulating medium.<sup>3</sup>

The Board of Brokers, as such, refused to take city scrip,<sup>4</sup> but three of their members, J. Jay Knox & Co., Caldwell & Co., and Bostwick, Pease & Co., advertised their willingness to take it on deposit.<sup>5</sup> However, the banks provided a currency of their own by endorsing the notes of defunct Eastern banks, agreeing to take them on deposit and to make them pass current.<sup>6</sup> Operating on this plan, MacKubin & Edger-ton, W. L. Banning, J. Jay Knox & Co., Caldwell & Co., and Ennis & Plant of Hastings obtained a quantity of the defunct "Central Bank of Grey, Maine" notes, and placed them in circulation with the endorsement of the local issuing bank across the face.<sup>7</sup> Bostwick, Pease & Co., in the same way issued the

1. The Pioneer and Democrat, October 29, 1857.
2. The St. Paul Advertiser, November 7, 1857.
3. Ibid., November 28, 1857.
4. The Pioneer and Democrat, November 12, 1857.
5. The St. Paul Advertiser, November 7, 1857.
6. Ibid., November 21, 1857.
7. The Weekly Minnesotian, January 23, 1858.

notes of the "Farmers' and Merchants' Bank of Memphis" said<sup>1</sup>  
to have failed August 16, 1854.

The prevailing rate of interest on loans was "3 per cent<sup>2</sup>  
a month until due, and 5 per cent per month after due". The  
fact that the bankers were willing to place these notes in  
circulation and receive them at par, loan them out at the  
aforementioned rate, while refusing to accept city scrip save  
at a discount, is sufficient evidence to prove that they  
were willing to capitalize the misfortunes of the public, to  
their own selfish ends. For all practical purposes a piece  
of plain paper with the same endorsement would have answered  
as well in as much as their stated purpose was to provide a  
currency for local use,<sup>3</sup> and the people were not in a position  
to object to the type or method of issue.<sup>4</sup> The Minneapolis  
merchants, in the Fall, issued scrip for ten, fifteen, twenty-  
five and fifty cents, to meet the demand for small change.  
These notes had a large circulation,<sup>5</sup> although there was a  
heated discussion over their issue.

1. Ibid.

2. Ibid.

3. St. Paul Advertiser, November 28, 1857.

4. Weekly Minnesotian, October 25, 1857.

5. H. Hudson, A Half Century of Minneapolis, p. 236.

Many merchants failed in the fall and winter and those who survived were hard pressed at all times.<sup>1</sup> With the convening of the Legislature, discussion turned to the subject of a new banking law which was now imperatively demanded by the people of Minnesota as a panacea for the ills from which they were suffering. Among the first acts, however, was that authorizing the issue of 12 per cent interest bearing State warrants as a medium of exchange.<sup>2</sup>

Numerous bills providing for banking systems were introduced into the Legislature and provoked considerable discussion<sup>3</sup> indicating the deep interest in this phase of Territorial life. Some opposition was apparent, but it was against all paper money, described as the "bane of our country",<sup>4</sup> and the direct cause of the troubles which had befallen the country. The measure, however, as finally passed, March 5, 1858, was a combination of the various laws and was modeled on the Wisconsin and Illinois systems. The result was a bill described as a little more stringent than some of the bankers desired, and possibly a little less liberal than was necessary for the

1. St. Paul Advertiser, April 3, 1858. A St. Paul merchant summed up one week's business as "\$5 in city scrip and \$5 worth of credit." - Weekly Minnesotian, December 19, 1857.

2. General Laws, 1858, Chap. 4.

3. The St. Paul Advertiser, January 16, 1858, Pioneer and Democrat, January 21, 1858.

4. The Pioneer and Democrat, January 8, 1858.

entire security of note holders.<sup>1</sup> Before this law could be put into operation Minnesota was admitted into the Union as a State, and the first State Legislature passed a new code of banking laws.

The provision exciting the most interest aside from those concerning note issue, was undoubtedly that fixing the maximum rate of interest on loans. The opinion of the leading class had long been that no usury law should be enacted in as much as such a law would drive capital from the Territory to other places where it would be the most profitably invested.<sup>2</sup> It was predicted that if a usury law be passed and enforced, it would produce universal bankruptcy in Minnesota within two months.<sup>3</sup> Notwithstanding this, the rate of interest on loans by bankers was fixed by the new law at not more than 12 per cent per annum. The suggestion was immediately made that men of capital would prefer private banking, with unregulated rates of interest to the new system.<sup>4</sup> Be that as it may, this law was not placed in practical operation, and it is impossible to determine what results would have followed.

1. The St. Paul Advertiser, March 6, 1858.
2. Ibid, August 22, 1857. Winona Republican, December 30, 1857.
3. The St. Paul Advertiser, August 22, 1857.
4. Winona Republican, April 7, 1858.

The currency situation in 1858 presented as great if not greater problem than in the preceeding fall, and it was more acute in St. Paul and St. Anthony than in other places. <sup>1</sup> City, County and State currency supplied a far more difficult one. Shinplasters from Michigan and Georgia, the wild cats from Pennsylvania, "the wildest of all red dogs" from Nebraska and Indiana, worthless notes from N. Carolina, Kentucky, Maryland, and Tennessee were in circulation. <sup>2</sup> Practically every State in the Union, taking advantage of Minnesota's misfortune, contributed to the supply of worthless trash in circulation in that Territory, making it, as the Chicago Tribune said, the "Paradise of the Feline Tribe." <sup>3</sup>

Bankers at first refused to take the State scrip - bearing 12 per cent interest - at par because it could not be used to liquidate the eastern indebtedness of the merchants and business men. <sup>4</sup> Others refused to touch it. <sup>5</sup> For a short time, however, in the spring, it was taken at par, affording a substantial relief to all classes. <sup>6</sup> Business began to revive, merchants sold goods readily and the laboring classes received

1. The Winona Republican, January 27, 1858.
2. The Weekly Minnesotian, June 5, 1858.
3. The Winona Republican, February 24, 1858.
4. The Weekly Minnesotian, February 20, 1858.
5. The Winona Republican, February 24, 1858.
6. The Pioneer and Democrat April 8, 1858.



prompt compensation for their labor. This ceased when the Board of Brokers refused to accept State scrip save at a discount of 20 or 25 per cent, embarrassing every class of people in St. Paul.<sup>1</sup> In the summer of 1858 State scrip had risen to 90 and 95 per cent; city scrip bought at 65 per cent and county at 62½ per cent.<sup>2</sup>

Business was dull, there was little demand for money, and its use was confined to safe and legitimate purposes, chiefly to the payment of debts.<sup>3</sup> As the season advanced it became apparent that it was best to prepare for a continuance of hard times until another spring at least.<sup>4</sup> The large immigration anticipated did not materialize for it had changed its course and was flowing into the territories of Kansas, Missouri and Nebraska.<sup>5</sup> This was largely due to the fact that the population had increased too rapidly for the opportunities offered,<sup>6</sup> and also to the fact that thousands had been compelled to leave the Territory in the fall of 1857, and

1. Ibid.

2. Ibid. July 15, 1858.

3. The Times (Winona), Feb. 6, 1858.

4. The St. Paul Advertiser, June 5, 1858. Considerable immigration flowed into Southern Minnesota.

5. Ibid. April 3, 1858.

6. Ibid.

people were cautious about coming to a place which had fallen so rapidly from a stage of greatest apparent prosperity to the depths of hardship.

Hope as to the future was revived to a considerable extent by the passage of the Loan bill providing for a \$5,000,000 loan to the companies for the building of railroads in Minnesota.<sup>1</sup> For years the people of the Territory had been awaiting the coming of a railroad. Numerous railroads had been chartered but none had been built or even started.<sup>2</sup> There was bitter opposition to the Loan, which later proved futile for the carrying out of the project.<sup>3</sup>

Such was the condition of affairs in Minnesota at the time of its admission into the Union, which the new Banking Act passed by the first State Legislature was expected to change. But no law passed by any state at that period in the history of the United States could have eradicated the deep seated, basic evils with which the commercial world of Minnesota was beset.

1. The Pioneer and Democrat, April 22, 1858.
2. Statutes of Minnesota, 1851 to 1858.
3. The Weekly Minnesotian, April 10, 1858, et seq.

#### IV.

### Constitutional Convention and the Banking Laws of 1858.

As has been noted, the Constitutional Convention was held in the summer of 1857. Of the provisions incorporated into the fundamental law of the proposed State, few, if any, received more careful consideration than did those relating to the subject of banking. There were two conventions in session at the same time, each claiming to be the legally constituted one. Since the Constitutional provisions adopted were those promulgated by the Democratic convention, we shall exclude the other convention from consideration.

Many of the men who assisted in framing the banking provisions stated repeatedly that for themselves they were not in favor of a banking system,<sup>1</sup> but that as the people demanded one,<sup>2</sup> it was their duty to suggest general provisions which would provide the public with the best system obtainable, and it was in this spirit that the Constitutional

1. Constitutional Debates, pp. 401, 406, 407, 411, 413.

2. Ibid, p. 411, 412.

<sup>1</sup>  
basis for the State banking system was established. The  
<sup>2</sup>  
provisions finally adopted in brief, were as follows:

The legislature was denied the power to pass any law sanctioning directly or indirectly the suspension of specie payments by any person, association or corporation issuing bank notes of any description. It was empowered to pass by a two-thirds vote a general banking law. Certain restrictions were enumerated which were required to be incorporated in such a law, and these requirements furnish further illustration of the great stress laid at that time upon the functions of note issues.

These regulations required the registration of all bills issued, and ample security in United States or State stocks "for the redemption of the same in specie". If any of the deposited stocks should depreciate 10 per cent or more on the dollar, the banks depositing them were to be required to make up the depreciation by the deposit of additional stocks.

1. In his inaugural address delivered January 3, 1958, Governor Sibley referred to the state banking system in these words: "The Constitution of Minnesota has provided for a judicious banking system which will protect the citizens effectively against loss from depreciation of bank notes."

2. Article 9, Sec. 13. Constitution of the State of Minnesota.

The stock holders of all corporations or associations issuing bank notes should be made subject to double liability for all debts of that corporation or association, such liability to continue for one year after the transfer or sale of the stock by its holders. The bill holders should be made preferred creditors of any insolvent bank. The notes and property of every bank should be taxed; and, finally, the names of all the stock holders in such a corporation, the amount of capital stock held by each, the time of transfer and the person to whom transferred were to be recorded.

These provisions were agreed upon only after many proposed amendments had been rejected. A few of them are of interest in showing the prevailing ideas with regard to banking. An amendment was offered which would have rendered the note issuing power of a bank of no value whatever by declaring that no debts should be considered liquidated by the payment of the paper money of any Banking Corporation.<sup>1</sup> Another amendment,<sup>2</sup> designed to protect the public from fraud, was adopted but later stricken out, which provided that the stock holders in every corporation issuing bank notes should be held liable individually for all the debts of such corpo-

1. Minnesota Constitutional Debates, p. 397.

2. Ibid, p. 421.

ration.<sup>1</sup> The convention refused to make depositors preferred creditors over note holders,<sup>2</sup> but, after much discussion, it also refused to make the State liable for the redemption of all notes of the banks, on the ground that note holders would be sufficiently protected by the deposit of United States and State bonds.<sup>3</sup> Other amendments which were rejected endeavored to make the deposit of stocks and specie the basis of note issue,<sup>4</sup> and to substitute real estate in place of the United States and State stocks.<sup>5</sup>

Fear lest a split in the Democratic party would occur, as had happened in Ohio and Indiana, if the question of banks be submitted to the people for decision<sup>6</sup> lead the convention to decide that the Legislature might pass a General Banking Law by a two-thirds vote.<sup>7</sup>

1. Ibid, p. 401. Governor Sibley in his message of December 11, 1857, recommended that depositors as well as note holders should have legislative protection.

2. Ibid, p. 399.

3. Ibid, p. 402.

4. Ibid, p. 399.

5. Ibid, p. 402.

6. Minnesota Constitutional Debates, p.412.

7. Ibid, p. 421.

Acting under this authority, the first State Legislature in the summer of 1858 enacted Chapter 32 of the Laws of 1858, entitled "An Act to Authorize and Regulate the Business of Banking."<sup>1</sup> This Act as amended at the same session,<sup>2</sup> became the basis for all later banking legislation of the State. The supervision of banking was placed under the State Auditor. Elaborate provisions were made for the incorporation of banks to issue notes and regarding the rights and powers of the stock holders and note holders. The principal features of this Banking Act are as follows:

**Incorporation:-** All persons desiring to incorporate under this Act were required to select a place of not less than 200 inhabitants in which to locate their banks.<sup>3</sup> The incorporators were also required to certify as to the name of the bank, the names of the stock holders, and the dates of commencing and terminating business.

**Capital:-** The minimum capital was \$25,000.

**Note Issue:-** The Auditor was authorized to issue notes

1. Approved July 26, 1858.

2. General Laws of Minnesota for 1858, Chap. 32.

3. The Territorial Act (see p. 51) placed the minimum at 300 and the limit set forth in the discussion of the State Act varied from 100 to 1000 inhabitants. This provision was made to protect note holders against the pernicious practice carried on by bankers in other states, of locating banks of issue in some inaccessible place; the banks would then redeem their notes at convenient places at a dis-

continued on next page---

upon the application of persons organizing under this Act, the notes to be printed from plates, dies and materials furnished by the Auditor, or from the plates, etc., furnished by the banks but in the Auditor's possession.<sup>1</sup> All expenses in preparing the notes were to be borne by the bankers to whom they were issued. The denomination of the notes ranged from \$1 to \$500<sup>2</sup> and all notes were to be countersigned by the Auditor and numbered and registered by him or his appointed agent.

These bank notes were to be secured by a deposit with the Auditor of public stocks of the United States, or of Minnesota or any other state to an amount equal to that of the notes issued. It was also required that the stocks should have sold in New York at not less than par in the six months immediately preceding the date of deposit, and should be equal to stock producing 6 per cent per annum. Should such stock depreciate,

Continued from preceding page:

3. Con:- count just less than the expense of going to the bank and redeeming them there. We shall see later how this worked in practice.

1. It soon became apparent to the public that this system would lead to an endless variety of notes, and therefore greatly facilitate their counterfeiting. Pioneer and Democrat July 29, 1858. Before the bill became a law, this provision was repealed, and a uniform set of plates were adopted.

2. None to be issued between \$5-\$10; \$10-\$20; \$20-\$25; \$25-\$50; \$50-\$100; \$100-\$500.



the owner was required to make up the deficit, at the call of the Auditor, either by additional stock or the surrender of notes. In addition to the original deposit, stock holders were required either to give bonds to the Auditor to an amount equal to one fourth of the note issue, or to deposit in lieu thereof, 10 per cent additional stock.<sup>1</sup>

If the notes were not redeemed when presented, a due protest by a notary, together with the numbers, denominations and amount of the bills presented were to be sent to the Auditor, who thereupon was to give the bank forty days notice. This notice was to be published for thirty days in the newspaper of the county in which the bank was located, in another at the state capital, and in another in New York. Then after the forth days had expired, the Auditor was authorized to sell the securities at auction at the Merchants' Exchange in New York, and to redeem all outstanding notes pro rata. Notes were normally redeemable at the bank only and were payable on demand and without interest.

1. This provision therefore really amounted to an issue of notes equal to 90 per cent of the par value of the stocks deposited.

Bankers were authorized to return the notes to the Auditor in sums of not less than \$1000. and to receive in return a corresponding amount of securities deposited with him. If the entire circulation of any bank was to be retired, the officers were required to give notice for two years thereafter, in the newspaper of the county and a paper at the capital that notes would be redeemed. All notes were to be cancelled by the Auditor in the presence of the Governor and an official of the bank, and record dept of such cancellation.

Bank notes were made receivable in payment of all debts due the issuing bank.

Counterfeiting of notes was to be punished by a fine of not less than \$100 or imprisonment of not less than three months or more than twelve months.

Reports and Supervision:- The presidents and cashiers of the banks were required to make out a report containing the names of the share holders, the amount of stock held by each, the time of transfer, and to whom transferred, and to file it in the office of the County Register of Deeds and in the office of the Auditor on the first Monday in January and July.

They were also required, five times a year, to make out a

report, under oath, of the condition of the bank, using a prescribed form. This was sent to the Auditor who published each report in a paper in the place where the bank was located and also in one in the capital of the State. A fine of \$100 was placed on late reports, and a punishment of not less than one year nor more than ten years at hard labor, as a penalty for false reports.

Powers:-- All banks organized under this Act were given the right to discount "bills, notes, and other evidences of debt" to receive deposits, to buy and sell gold and silver bullion, foreign coin and foreign and inland bills of exchange, to loan money on real and personal securities, and to exercise "such incidental powers as may be necessary to carry on such business."

A bank could buy and sell real estate:--

1. For its immediate accomodation.
2. As a mortgagor.
3. By conveyance for debts previously contracted.
4. By an execution in its favor.

Interest;-- The maximum rate of interest was fixed at 15 per cent (which was low for that period).

The Territorial Act (March 19, 1858) was repealed.

Even a casual reading of the Act of July 26, 1858, will disclose the emphasis placed upon the safe guarding and regulation of note issue. Twenty seven of the forty-five sections of the Act discussed had to do with the notes or the securities deposited for the notes. Actual experience had bred in the people a fear of irresponsible note issue and they set up every known safeguard for their protection under the new system.

Other features of this Act, rendered conspicuous by their absence, were the lack of any requirement for a reserve to be held against deposits, and of regulations concerning limitations upon loans and discounts. Moreover, no mention was made of the length of time charters should run, their life apparently being perpetual. Although the minimum capitalisation was fixed at \$25,000, no provision was made for ascertaining whether or not that amount was actually paid in, and for most of the banks this was merely nominal, there being in fact but little real capital.

The clause exciting the most comment was that in regard to interest. Disapproval was expressed on the ground that it was a "restriction on the free competition of capital."<sup>1</sup> The

1. Pioneer and Democrat, August 5, 1858.

opinion was expressed that the law should either be repealed or broadened to include everyone, as bankers would establish private banks collecting high rates, rather than State banks<sup>1</sup> restricted to comparatively low rates of interest. The effort to remedy the situation failed, however, for the Governor<sup>2</sup> vetoed the usury bill introduced at the first session of the Legislature, the one presented for signature not being the one passed by the two houses.

On August 14, 1858,<sup>3</sup> an amendment was made in regard to the security required for note issues, which caused considerable change in the meaning and significance of these provisions. With the idea of providing a market for the State railroad bonds, banks were to be permitted to deposit stocks of the United States, and stocks of Minnesota at their current value, the provision in regard to securities of other States remaining unchanged. As it afterwards proved, this change sealed the fate of the early State banks in Minnesota.

1. Weekly Minnesotian.

2. Journal of the House of Representatives (Minn.) First Sess. 1858, p. 1103.

3. General Laws of Minnesota 1858, Chap. 33.

V.

The Period of Free Banking, 1858-1863.

The years in which Free Banking or the State system held sway were <sup>trying</sup> ones for the youthful state of Minnesota. Struggling desperately to overcome the effects of the panic of 1857, and to gain that prosperity which a few years before had appeared to be her natural heritage, Minnesota was compelled not only to contribute her full quota of men for the preservation of the Union, but also to fight for her own existence against one of the worst Indian uprisings that America has ever witnessed. The resulting conditions were of a nature decidedly not conducive to the highest economic development and prosperity, and the effects may be seen in the banking development during that period. In view of the inherent weaknesses of the existing system of banking, it is doubtful whether the final results of that system would have been different even under prosperous conditions. If radical changes had been made in the banking laws the results would have been different. This becomes evident when one studies the operations of the banks organized under the banking laws of 1858.

By the 20th of August 1858, of the twelve applications made for bank charters, three had been accepted by the Auditor, for banks to be located at Austin, Faribault, and Owatonna, all of which were to be owned and controlled by B. W. Clarke, formerly of Milwaukee.<sup>1</sup> By September 12th, 1858, six more applications had been accepted.<sup>2</sup> In the whole period, ending October 8, 1858, eighteen applications were filed with the Auditor.<sup>3</sup> In November the first banks went into operation, the Bank of the State of Minnesota, at St. Paul, and the Exchange Bank at Glencoe,<sup>4</sup> but the year closed without further accessions to the banking system.<sup>5</sup>

The time for the inauguration of the new system was not an auspicious one. Trade was still in a depressed condition.

Taxes were unpaid;<sup>6</sup> mortgage sales and foreclosures were numerous;<sup>7</sup> and City, County and State scrip was much depreciated.<sup>8</sup> But one bright ray shone through the gloom. An

1. Pioneer and Democrat, August 20, 1858.

2. Ibid, September 12, 1858.

3. Ibid, October 8, 1858.

4. Winona Republican, November 30, 1858.

5. State Auditor's Report, see p. 8.

6. Pioneer and Democrat October 7, 1858; March 10, 1859.

7. Ibid, Nov. 25, 1858. Winona Republican, Aug. 11, 1858.

8. Ramsey County scrip, St. Paul city scrip and State warrants sold at 68.73 and 75 respectively. Weekly Minnesotian, August 21, 1858.

abundant harvest enabled Minnesota to take her place as a grain exporting State.<sup>1</sup>

An event<sup>2</sup> occurred in the Fall of the year that was vital in determining the status of the Minnesota State banks, not only in Minnesota but through out the United States was well. The Minnesota and Pacific Railroad Company with a few others having complied with the conditions of the Constitution to entitle them to the issue of a certain amount of State bonds, applied to Governor Sibley for them, and tendered in return a corresponding amount of their first mortgage bonds, amounting to about \$21,000,000. According to his interpretation of the constitution the first mortgage bonds of a railroad company should be an exclusive first lien on the road, lands and franchises of the company, and he therefore refused to accept the bonds, unless a deed of trust be executed giving the State first lien. The Minnesota and Pacific Railroad company immediately applied to the Supreme Court for a writ of mandamus to compel Sibley to issue the bonds to them, contrary to his interpretation. In granting the writ the Court (Flendrau dissenting) stated that the constitutional provision did not require that the railroads give the State a prior lien.

1. A local shipment of grain to St. Louis had been made from Point Douglas in May, 1854, according to the Minnesota Pioneer of June 22, 1858. But Minnesota was not self supporting even as late as 1857.



This decision naturally caused the State railroad bonds to depreciate greatly in value. The amendment of August 14, 1858 to the Banking Act had opened the door for the issue of these bonds as security for the note issue of Banks. Certain papers in Minnesota had bitterly opposed from the beginning the Railroad Loan,<sup>3</sup> and the warfare was continued after the people had voted it after this decision it was proclaimed that the Railroad bonds were unfit for currency. The Exchange Bank of Glencoe, the second State Bank to be organized, deposited Railroad bonds as security for its note issue which was promptly declared unsafe.<sup>4</sup>

In the winter of 1858-9, The railroad bonds, commonly known as "Minnesota 7s" were placed on sale in New York, but the adverse decision of the Supreme Court of Minnesota, the fact that the notes issued on their security were looked upon with askance even in Minnesota, and the thinly veiled hints of repudiation by the hostile newspapers of Minnesota combined to give the bonds such a character that eastern financiers refused to

Continued from preceding page:

2. Minnesota and Pacific Railroad Company vs. H. H. Sibley, Governor, 2 Minnesota 1.

3. The Weekly Minnesotian from March 7, 1858<sup>at seq.</sup> stopped at nothing in its attacks on the Loan Bill.

4. Weekly Minnesotian November 20, 1858.

5. Pioneer and Democrat, November 11, 1858.

touch them.<sup>1</sup> Governor Sibley's visit to New York<sup>2</sup> was not sufficient to prevent them remembering the railroad swindles in Wisconsin. The delay in determining the financial status of these bonds prevented several institutions organized under the Banking Act,<sup>3</sup> from going into immediate operation.

People in the East were under the impression that the currency of Minnesota was based on the much maligned bonds and were afraid of it.<sup>4</sup> Willard and Morris of Chicago in their Bank Note Reporter, after congratulating the people of St. Paul upon having as their first Bank one of such excellent character - the Bank of the State of Minnesota - stated that a little discretion in choosing securities would give Minnesota a currency as good as Illinois and Wisconsin. However, they warned the people that notes secured by railroad bonds would<sup>5</sup> provide only a depreciated and dangerous currency.

1. Pioneer and Democrat, January 20, 1859.

2. Quoted from New York Tribune, Dec. 17, 1858, by Pioneer and Democrat December 30, 1858.

3. Pioneer and Democrat, December 9, 1858.

4. Ibid.

5. Ibid.

Notwithstanding this warning and recognized public opinion, to the contrary, the Auditor and Governor, possibly with the idea of creating confidence in the bonds in the months that followed accepted them at 95 and permitted several banks to organize and issue notes upon them as a deposit.<sup>1</sup> These banks were generally organized by people interested in the railroads,<sup>2</sup> who had bonds on their hands that were practically worthless. The state officials also accepted State University Bonds as security for note issue, an action that raised a storm of protest throughout the State,<sup>3</sup> upon the ground that they were not state bonds. The Nicollet County Bank, whose issue was secured, by University bonds, was promptly classed as "wild-cat".<sup>4</sup>

In a short time the engraved notes of the new banks began to appear, and soon, to flood the State. Within a few months the names "La Crosse and La Crescent", "Owatonna", "Glencoe", and the names of other "Railroad" banks became familiar to everyone, but from the outset these new issues were viewed with

1. Weekly Minnesotian March 19, 1859.
2. Pioneer and Democrat, March 10, 1859.
3. Winona Republican, March 2, 1859.
4. Stillwater Messenger, February 15, 1859.

distrust. Private bankers in St. Paul, who were issuing endorsed "Bank of Grey" notes, and certificates of deposit, tried<sup>1</sup> for reasons of their own to depreciate Minnesota money. In other states it scarcely circulated at all. Chicago brokers warned note holders against it, even against that of the well secured banks, because of their fear lest doubtful securities be substituted for present good ones;<sup>2</sup> and St. Louis banks threw out all Minnesota currency with the single exception of the rates of the "Farmers" Bank of Garden City which they received on deposit.<sup>3</sup>

Not all the banks, however, based their note issue on the Railroad Bonds, as is shown by the history of the Bank of the State of Minnesota.<sup>4</sup> The circulation of this bank was based at first, on Minnesota 8 per cent bonds which never fell below par on the New York Exchange. After the University 10

1. Pioneer and Democrat, March 24, 1859.

2. Ibid. April 8, 1859.

3. Weekly Minnesotian, April 23, 1859.

4. The facts concerning this bank may be obtained from J. Jay Knox' History of Banking in the United States, p.754-6. Mr. Knox was a member of the private banking house of J. J. Knox & Company, prominent in the banking business of the time, and was later the United States Comptroller of Currency.

per cent bonds had been declared State bonds for note issue purposes, this bank purchased the entire issue of \$40,000 and replaced \$10,000 of its 8 per cent bonds with a corresponding amount of University bonds.<sup>1</sup> A further sketch of this bank will prove interesting as it was practically the only State bank, at that time carrying on a legitimate banking business.

The Bank of the State of Minnesota was organized in St. Paul, October 1, 1858 and was the first in the State to go into operation under the new law. It had a capital of \$25,000 which was fully paid, and was owned by Sewell, Ferris & Company of New York, who were also its correspondents in that city. Its officers were experienced bankers and its local business profitable, but the expenses sustained by it in note redemption in New York made it impossible to maintain a legitimate business with a circulation in such a proportion to its capital as to be profitable. Gold coin and New York drafts were selling at a premium of from 2 to 3 per cent. With a circulation of but \$25,000 it had to redeem about \$300 of its notes

1. When placed on sale for the redemption of notes these bonds fell to 22 cents on the dollar but were later redeemed by the University. Knox. op. cit.

daily in New York. This was a problem faced by all the early banks in Minnesota, and was a powerful factor in determining their location and operations.

Few, if any of the banks at that time had substantial capital, aside from a small sum required for the redemption of any circulating notes that might be present. They purchased their bonds on credit and paid for them with the notes which they received from the Auditor,<sup>1</sup> a practice which rarely left anything for the conduct of the business of the bank. The corporators expected to receive their profits from the interest on the bonds, and therefore the banks were located in remote or practically inaccessible towns and villages. Each bank maintained an agency in New York and Chicago at which its notes were redeemed at from 3 to 5 per cent discount,<sup>2</sup> which was not altogether displeasing to the public since this was less than the expense involved in a journey to the bank in order to present the notes for redemption.

Many of the banks also had "agencies"<sup>3</sup> in St. Paul from which they issued notes. It was the intent of the law undoubtedly that banks should be located at the place where, according to the

1. This privilege was granted under the provisions of Chap. 25, General Laws of Minnesota, 1860.

2. Knox, op. cit. p. 756.

3. Weekly Minnesotian, April 23, 1859. Pioneer and Democrat August, 12, 1859. Stillwater Democrat October 1, 1859.

face <sup>of</sup> the notes <sup>they</sup> were dated and issued but as express provisions were lacking on this point, the law was easily evaded, and the agencies allowed to exist. Again, according to the law, the bills of the bank were redeemable in coin at the place where they were ( or apparently were) issued, but it became the general practice to issue the notes from the "agency" and to redeem them at the "bank".<sup>1</sup> In-convenient as it was to the people of the State, the system was decidedly advantageous to the banks, since a bill holder desirous of the redemption of the bill in coin, upon presentation at the "agency," could be directed to repair to the bank,<sup>2</sup> located in a frontier village perhaps one hundred miles away.

In the early summer of 1859, the St. Paul brokers began a bold warfare against the banks whose issues were based on Railroad bonds in order to test redemption and force them to be protested.<sup>3</sup> The brokers accumulated notes that were redeemable in gold, and when a sufficient quantity had been secured would send them to the issuing bank for redemption in

1. Weekly Minnesotian, April 23, 1859.

2. Ibid.

3. Stillwater, Messenger, June 4, 1857.

gold. Exchange was high and with the gold thus obtained the private bankers could make a profit of from 2 to 5 per cent.<sup>1</sup> The private bankers endeavored in various ways to create a feeling of distrust among the people.<sup>2</sup> By June 23, 1859,<sup>3</sup> one bank had collapsed and three others were tottering.

The opposition to this form of money became so strong that on July 9, 1859,<sup>4</sup> business men and others held a meeting at the capitol. Resolutions were adopted denouncing Railroad currency and protesting against the issue of more notes of this type. A committee was appointed to wait on the governor and present the protest. Notes issued upon other securities were expressly approved.<sup>5</sup> No results from this or other meetings can be discovered.

Another blow was struck at Railroad currency when the Minnesota Supreme Court issued a writ of Mandamus to compel the Attorney General to bring action against the "Bank of La

1. Pioneer and Democrat June 8, 1859.

2. Winona Republican June 22, 1859.

3. The Bank of Glencoe had closed its doors, and the notes of the Bank of Owatonna, the Bank of Rochester, and the Chicago County Bank were no longer current. Nine banks remained in operation. Pioneer and Democrat, June 23, 1859.

4. Pioneer and Democrat, July 14, 1859.

5. Weekly Minnesotian, July 16, 1859.



Crosse and La Crescent" to annul its charter for alleged violations of the law.<sup>1</sup> It violated the law by issuing notes secured by Railroad Bonds in accordance with an amendment to the banking law, which was alleged to be unconstitutional since it had been passed by less than the required two thirds vote.<sup>2</sup> Whether the case was brought to trial is not known but the "La Crosse and La Crescent Bank" continued its issues based upon Railroad Bonds until the State system collapsed in 1865.

One morning in the Fall of 1859, news was received in St. Paul that Sewell, Ferris and Company had become involved in a disastrous speculation in New York and had failed. Upon the receipt of the news the Bank of the State of Minnesota closed its doors. It was generally recognized that the Nicollet County Bank of St. Peter, of which Sewell, Ferris and Company were also the owners must soon close its doors and for a few hours there was great excitement in St. Paul.<sup>3</sup> Runs began on the "agencies" all of which, with one exception, referred their bill holders to their respective banks. About the same time, several "railroad banks" closed their doors.<sup>4</sup> and rail-

1. State of Minnesota ex rel. William L. Banning vs. Charles H. Berry, 3 Minnesota 190.

2. The Pioneer and Democrat July 28, 1859.

3. The Weekly Minnesotian, October 15, 1859.

4. Ibid. October 15, 1859. Twelve of the banks which had been organized used Minnesota 7's (railroad bonds) as security for note issue. On May 23, 1860 Minnesota 7's sold for 16-17 cents on the dollar and University bonds brought 30 cents. Winona Republican, May 23, 1860.

road bonds, when thrown on the market in order to provide funds for the redemption of notes, were quoted at 13 to 30 $\frac{1}{2}$  cent on the dollar,<sup>1</sup> causing much loss to the note holders.

In the latter part of October 1859, the general confidence which the people had in those banks whose notes were secured by other than "railroad bonds" was practically destroyed. On October 21, 1859 it was learned that one of the banks, standing highest in public confidence,--the St. Paul Bank,--had substituted in August "railroad bonds" for Ohio 6's as security for its note issue. Its action met with the severest condemnation<sup>2</sup> and started a run upon the bank, which lasted all day. The fact that even the best of the local currency might be rendered worthless by the substitution of poor for good securities called forth the opinion that all home currency should be treated<sup>3</sup> as worthless and driven from circulation.

The immigration during 1859 was very small and it was thought that the large crops of that fall would enable the people of Minnesota, in spite of currency troubles, to enter upon a new<sup>4</sup> period of prosperity with the beginning of the next year. The prices offered, however, were so low that the producers

1. *Weekly Messenger*, Oct. 15, 1859. 2. *The Pioneer and Democrat*,\*  
 \*October 21, 1859. 3. *Ibid.* 4. *Ibid.*, July 21, 1859.

could scarcely pay expenses. Many people left the State temporarily. Property holders were burdened with heavy taxes, and it was said that "money lenders frequently found more land mortgages as collaterals upon their hands, than they are able to pay taxes upon, and at the same time are paying Eastern capitalists from 7 to 10 per cent for money loaned on the same security."<sup>1</sup> As a consequence the advertising columns<sup>2</sup> of the papers of the Territory were filled with notices of mortgage sales.

In the winter of 1859-60 the Legislature passed an Interest Law which fixed the maximum rate at 12 per cent per annum.<sup>3</sup>

More than a year had now elapsed since the passage of the banking act, and in that time it had been proved a failure. Of the sixteen banks that had been organized, on December 1, 1859, but seven remained, and some of these had announced their intention of closing up their business.<sup>4</sup>

1. The Stillwater Democrat, October 15, 1859.

2. On February 25, 1860, the Stillwater Democrat advertised twenty seven mortgage sales.

3. General Laws of Minnesota, 1860, Chap. 56. In commenting on this Law, the Stillwater Messenger of February 28, 1860 said, "The days of 3 and 5 per cent per month will hereafter only have a history in the past. That history, however, is a terrible one."

4. Auditor's Report, 1859 - 60.

The public and the merchants of the State had exhibited considerable distrust and a decided disinclination toward using the currency; the private bankers received it at a discount; people of other states looked upon it with disfavor and the banks had shown their inability to stand under pressure.

It was these facts that lead the Auditor in his report to the Legislature, and Governor Sibley in his message to that body in 1859, to recommend the repeal of the general banking law. Furthermore, Governor Ramsey in his inaugural address of January 2, 1860, also recommended the repeal of the existing law and the substitution of that of one of the neighboring state, "which after years of severest trial has been found to furnish a currency safe and desirable."

In spite of the recommendations of the State officials who were most intimately acquainted with the banking system, no important changes were made, and for many years the laws known to be inefficient and to all purposes practically useless, remained as the only banking legislation of the State.

1. By chapter 25, of the General Laws of 1860, the note issue was raised to 95 per cent of the par value of the stocks deposited.

greater depreciation<sup>1</sup> due to the fact that they were secured in large part by the deposit of bonds of the Southern States. The financial affairs of Minnesota, in common with the whole Northwest were seriously disturbed. Exchange on New York rose to 10 per cent premium.<sup>2</sup> Abundant crops in 1859 and 1860 had stocked the granaries, and it was hoped that sales in the East would bring in Eastern currency or coin.<sup>3</sup> This hope was not fulfilled and during the years of the War, Minnesota had but a comparatively small amount of currency.

At the beginning of the year 1862 the number of banks in operation in Minnesota was six, but in June, two failed and the currency was further curtailed by the retirement of their notes.<sup>4</sup> Of the remaining banks, two,<sup>5</sup> although organized under the Minnesota laws, maintained no office of discount, deposit, and circulation in Minnesota, and their circulation, secured by a deposit of Minnesota railroad bonds, was confined entirely to Wisconsin.

1. Ibid. May 8, 1861. There were estimated to be at least \$2,000,000 in these notes in Minnesota. Ibid., April 10, 1861. On January 1, 1861, according to the Auditor's Report there were \$137,679 of Minnesota bank notes outstanding.

2. Winona Republican, May 22, 1861.

3. Stillwater Messenger, May 28, 1861.

4. The circulation of the four banks was \$81,236. Auditor's Report, December 1, 1862.

5. LaCrosse and La Crescent Bank, and Bank of Chatfield, Ibid.

The general character of the notes issued prior to January 1, 1868 may be better understood by a review of the bank failures and the rates at which the notes were redeemed during this period. The failed banks and their rates of note redemption follows:--

Bank of Rochester,	16 $\frac{1}{2}$ cents on the dollar.
Chicago County Bank,	19 $\frac{1}{2}$ cents on the dollar.
Fillmore County Bank,	20 cents on the dollar.
Bank of Owatonna,	20 $\frac{3}{4}$ cents on the dollar.
Exchange Bank of Glencoe,	21 $\frac{1}{2}$ cents on the dollar.
Central Bank,	30 cents on the dollar.
Nicollet County Bank,	35 cents on the dollar.
Bank of the State of Minnesota, sota,	70 cents on the dollar.
Bank of St. Paul,	98 cents on the dollar.
Bank of Red Wing,	7's Railroad bonds.

Of these banks it will be noticed that seven paid 55 cents of less on the dollar on the notes in circulation at the time they closed. Their outstanding circulations ranged in size from \$26 to \$4024. The rates of redemption show clearly the heavy losses which the bill holders of these banks were compelled to accept.

Commenting on the situation, the Auditor said:<sup>1</sup> "The only Minnesota banks circulating in the State are the Winona County Bank, and the People's Bank with a circulation of \$21,865. The taxable valuation of the State being nearly \$40,000,000 a ready circulation would be found for at least \$1,000,000 currency. In ordinary times it would be the policy of the State to encourage a circulation to that amount, giving preference to her own stocks.<sup>2</sup> From present appearances no further issue of notes on State securities will be profitable, consequently the State must wait for the General Government to mature a policy for a National circulating medium."

Governor Ramsey,<sup>3</sup> after expressing his opinion that in many instances the currency of neighboring states introduced into Minnesota "had proved itself less entitled to public confidence than our own", declared that the bank failures of Wisconsin and Illinois had "proved the whole system of Western banking upon state stocks to be false in principle and ruinous in operations". He looked with favor upon the proposed currency

1. Auditor's Report, December 1, 1862.

2. Chapter 47 of the General Laws of 1861 authorized the Auditor to accept securities of the United States bearing 5 per cent interest. The previous rate was 6 per cent.

3. Message to the Legislature January 9, 1862.

to be issued by the National government and after enumerating some of its advantages declared that it would provide " a final relief from the recurrence of the enormous losses which are now suffered by our people with the periodical explosion of banks."

About this time a steady increase in the price of goods, labor, cost of living, etc., commenced, and continued for the ensuing two or three years. In spite of the drain of the war upon the male population, an increased acreage of land was sown, and with the beginning of Scandinavian immigration<sup>1</sup> the outlook for the future appeared brighter than for several years previously. State banking reflected the industrial activity of the State and on the first day of January 1863, seven banks<sup>2</sup> were in operation with an aggregate capital of \$400,000 and an outstanding circulation of \$198,107, secured for the most part by United States bonds, the State 8s and the war bonds.

1. Stillwater Messenger, July 2, 16, 1861.

2. Auditor's Report, January 1, 1863.



## VI.

### The Establishment of the National Banking System and the Rise of the National Banks. 1863-1874.

From a purely historical point of view the years of 1862 and 1863 in Minnesota were made memorable by the uprising of the Sioux Indians who ravaged the frontier settlements and massacred the settlers. From the banking point of view, solely, the year 1863 is notable for another reason --- it was the year in which the National Banking Act was passed, and the first National bank organized within the State.

The State officials who were best acquainted with the weaknesses of the State system had looked with favor upon the proposed National Banking system, and their view was shared generally, by the people of Minnesota.<sup>1</sup> The Democratic party, however, from principle was bitterly opposed to such a system, particularly to badly secured notes such as the weak State system had theretofore had. Bitter attacks were made upon the plan and the financial scheme of

1. The Winona Republican, July 2, 1862.

the government while the most direful predictions were made as to the results certain to be obtained should such a system be inaugurated.<sup>1</sup> In the insuing two years the national banking system and plan of note issue was considered by the opponents as the cause of all the financial troubles which the United States experienced.

1. In event of the issue by the government of \$300,000,000 it was predicted that the inevitable result would be "one of most stupendous eras of speculation ever known in this or any other country." Values would be "largely increased," stocks would advance, and the "price of realestate would be enormously enhanced" with an inevitable collapse, bringing ruin to all.---St.Paul Pioneer, January 17, 1857.

Again it was declared that should the National Government monopolize all bank note issues of the country, State banks, State bonds, bankers, financiers and the business community would go down together, "displaying such a financial wreck as the world never yet witnessed or conceived.....and greenbacks will become as cheap and plentiful in Wallstreet as Wall paper." "Such a plan, as applied to our present situation would involve People, States and Federal Government in universal confusion, tumult and bankruptcy, the climax of which would be a Reign of Terror, in which the lowest class of citizens would enjoy a carnival of fierce indulgence" etc., Ibid, January 24, 1863.

In February, the Honorable John H. Brisbin of St. Paul introduced in the lower chamber of the legislature a set of resolutions declaring that the legislature of Minnesota was unalterably opposed to and protested against the National Banking bill or any similar bill, for eleven enumerated reasons. The House refused to print these resolutions and by a "party vote" laid them on the table.<sup>1</sup>

That this opposition was not entirely barren of results is shown by the fact that one of the four Minnesota members of Congress voted against the bill, the other three voting for it.<sup>2</sup>

Banks with charters under the new act<sup>3</sup> were but slowly opened for operation in Minnesota, the financiers apparently preferring to wait and observe the experience of banks operating in other states before embarking in the new enterprise. Thus in the first nine months following the passage of the act,

1. The St. Paul Pioneer, February 18, 1863.
2. Congressional Globe, 3rd Sess. 37th Cong. Senator Rice voted against the bill and Senator Wilkinson for it, p. 896. Representatives Windom and Aldrich voted for the bill, p. 1148.
3. Approved February 25, 1863, United States Statutes at Large, Vol. 12, Chap. 58, Amended 1864, Ibid, Vol. 13, Chap. 106.

although several banks were organized in each of the neighboring states,<sup>1</sup> none were organized in Minnesota, although several new State banks were placed in operation.

There were several reasons for this attitude. In the first place, Minnesota was still a frontier state and had advanced less commercially and industrially than had the other states. Again, the regulations under which State banks could be organized were less stringent than those of the National system. Finally, at that time the large capital necessary for the organization of banks under the National system was lacking, while in the State system a nominal capital was all that most of the banks needed to remain in operation.

On December 8, 1863, however, the new system obtained its first foothold in Minnesota for on that date, the First National Bank of St. Paul was organized with a paid-in capital of \$250,000 which was increased in September of the following year to \$500,000. It is interesting to note that this bank was but the reorganized and converted Bank of Minnesota, es-

1. Up to the date of the Comptroller of the Currency's Report, November 28, 1863, 20 banks had been organized in Indiana; 7 in Illinois; 6 in Iowa; 4 in Wisconsin; the same in Michigan; 38 in Ohio; and 2 in Missouri.

established under the State banking law in 1862.

Despite the criticism, the State had prospered during these years - 1862 and 1863. Although the summer of 1863 had been characterized by intense drouth and almost no rainfall a good harvest had been gathered. Railroad building had commenced,<sup>1</sup> the industrial prosperity begun in 1862 increased, and from an economic point of view, the people enjoyed the best year, in spite of the Indian troubles, that they had experienced since the summer of 1857. This accounts for the organization of the First National bank in the State, and also of six new banks under the State laws, in the year ending November 30, 1863, making the total number of state banks in operation at that date, thirteen.<sup>2</sup>

1. Annual Report of the Railroad Commissioner, Minn. Exec. Docs. 1872, Vol. 1, pp. 133-180.

2. The aggregate capital of the new banks was \$262,500, and the circulation, \$154,580, bringing the aggregate total of State bank capital to \$662,500 and of circulation to \$412,398. One bank, the Bank of Winona issued no notes; those of the banks La Crosse and La Crescent and the Bank of Chatfield were still secured by the State railroad bonds, but the circulation of the other ten banks, amounting to \$366,525, was well secured, the average market value of the securities during the previous six months being \$411,382. Auditor's Report, 1863.

The Auditor reported that "these banks are all located in the chief commercial towns<sup>1</sup> of the State and owned and controlled by reliable business men of acknowledged integrity."

With the beginning of 1864, the State entered upon another year of industrial development. The inflation of the currency which had been in progress during the past year produced an unprecedented rise in the cost of living, as measured in greenbacks. Under a similar standard of measurement, gold, which on June 1st was quoted at 150, on July 11th<sup>2</sup> reached 285, the highest point reached during the war. The greenbacks made exchanges easier, and more numerous, giving a filip to trade, and inducing activity which resulted in price stimulation for both goods and real estate. Several railroads were in process of construction and there was a great demand for labor.<sup>3</sup>

During the spring of the year, the currency again gave cause for concern, but on this occasion it was not the notes

1. Stillwater, St. Paul, Redwing, Hastings 2, Winona. Ibid.
2. The St. Paul Pioneer, June 1, and July 11, 1864.
3. Governor Miller's Message, January 4, 1865, Minnesota Executive Document, 1864.

of the banks of Minnesota or the neighboring states which were the source of apprehension. On April 17th the First National Bank, the Marine Bank and several brokers in St. Paul gave notice that they would neither receive nor pay out the notes of banks of Pennsylvania, New Jersey and Michigan "except such as are being redeemed at par in Philadelphia<sup>1</sup> or New York."

On May 12th the Northwestern and the LaCrosse and St. Paul Packet Companies gave notice that on ~~and~~ after May 15th they "would receive nothing but National currency for tickets".<sup>2</sup> Two days after this announcement, the bankers of the State held a meeting in St. Paul and adopted the following resolutions:-

"Resolved that the Banks of the State of Minnesota represented in this convention, regarding it for the interest alike of the public and the Banks, that all money in circulation shall be made equivalent in value with the lawful money of the United States agree that on and after July 1, 1864 they will receive and pay out as bankable funds only Treasury

1. The St. Paul Pioneer, April 17, 1864.

2. Ibid, May 12, 1864.

notes, National currency and the issues of Minnesota Banks which are reddeable in lawful money of the United States within the State."<sup>1</sup>

This course was a necessary consequence of similar action taken in Chicago and other commercial centers to prevent the flooding of the West with currency discarded in other places, and was effective in saving the people from financial loss.<sup>2</sup>

During the summer months two new banks were organized, each system receiving an institution,<sup>3</sup> but as the months passed, it became evident that a significant change was to be made by the banks of the State. In spite of the splendid condition of the fourteen State banks then in existence, several decidēd to reorganize under the National Banking law during the following year.<sup>4</sup> This decision brought forth a satirical comment on the State Banks by a writer in the Pioneer, that fairly illustrates the prevailing sentiment concerning these institutions:

1. St. Paul Pioneer, May 20, 1864.

2. Ibid.

3. The First National Bank of Rochester was organized Sept. 7, 1864.

4. Auditor's Report 1864.



"To have a safe and sound currency it has been well settled since the days of the old United States Bank that no actual cash capital is required. Indeed any amount of real money is a detriment as tending to show the wide distinction between an aristocratic currency consisting of money and a democratic currency consisting of lamp black and rags. It will be noticed that our banks unfortunately exhibit very little money."<sup>1</sup>

Following the precedent established in other states, the legislature at its session in the winter of 1864-5 passed "An Act to Facilitate the Reorganization of Banks in-corporated Under the Laws of this State into National Banks."<sup>2</sup> The effect was undoubtedly surprising to every one, for encouraged by the prosperity which came in at the close of the war, the abundant supply of money, the brisk immigration and an increased industrial activity, many of the State banks decided to re-organize under the National System.

The other banks, fearful lest the ten per cent tax to be imposed on State banks curculation in 1866 by the Feder-

1. The St. Paul Pioneer , January 7, 1865.  
2. General Laws of Minnesota for 1865, Chapter 32,.

# MINNESOTA.



*Map I.  
Showing the Dis-  
tribution of  
Banks in 1864.  
• - State Banks.  
• - National Banks.*

al Government<sup>1</sup> should render their none too profitable business even less profitable, determined to retire their circulation and close up their business.<sup>2</sup> Thus on the first day of January 1866 there were twelve National banks in operation with an aggregate capital of \$1,345,000<sup>3</sup> while in the State system there were no banks. Several years elapsed before any serious attempt was made to operate banks under the State laws which had proved so inefficient in the years from 1858 to 1865.

The years following the close of the war were years of great financial ease. The large expenditures of the government in the payment of war claims, and the pay of discharged soldiers, war bounties, and other debts made money very plentiful locally.<sup>4</sup> The inevitable result was greatly increased activity in all lines of industrial and commercial life. Railroad building progressed rapidly, agriculture was given a great impetus by the steadily increasing population<sup>5</sup> and interstate trade developed.

1. U. S. Statutes at Large 1865 - Chap. 78, Sec. 6, Approved March 3, 1865, to go into effect July 1, 1866.

2. Auditor's Report, December 31, 1866, Exec. Docs. p. 22.

3. Report of the Comptroller of Currency, U. S. Exec. Docs. 1865-66 vol. 6, p. 120.

The effect of this industrial activity at once manifested itself in the banking business of the State, which was carried on efficiently and effectively, in happy contrast to those methods employed by the State banks a few years before. These institutions were of great assistance to the growing industries and in return profited by the latter's prosperity.

During this period the National Banking system enjoyed an almost complete monopoly of the banking business, the first State bank organized since the collapse of the State system in 1865 being established in 1869, only to go out of existence a few years later.<sup>1</sup> By the next year practically every town of importance in the south eastern section of Minnesota had at least one National bank, and in 1871 seven new National banks were established in the same district.

The early seventies comprised one of the most notable boom periods in the economic history of Minnesota. Inflation and speculation were rife<sup>2</sup> and both the State and the railroads

Continued from preceding page:

4. Willians in Niell's History of Dakota County, p.157.
5. Governor Austin's Inaugural Address, January 7, 1870, Exec. Docs. pp. 1-9. The United States census gave 439,706 as the population in 1870.

1. City Bank of St. Paul, April 29, 1869, nationalized 1873-Third Annual Report of the Department of Banking, 1912, page 10.  
on next page.

enjoyed an unusual period of material progress and development.<sup>1</sup>  
 As a consequence of these "good times" the number of banks and the amount of business transacted showed a substantial increase.

The first serious effort after 1865 to operate banks under the State banking laws was made in the years of 1872 and 1873. Several banks were organized, and although in some cases their lights flickered out in a short time, they showed the way to others, and soon a steadily increasing number of State banks were contesting in the business field with the National institutions.<sup>2</sup>

This renewal of State banking was undoubtedly due to the increasing use of deposits as a circulatory medium.

In 1874, when the first complete records are available, the banks of the two systems were located, as shown on Map II, for the most part in southeastern Minnesota.

On the 18th of September, 1873, the failure of the Banking House of Jay Cooke precipitated a panic which spread throughout the United States. In Minnesota, after the first few days<sup>3</sup>

Continued from preceding page:

2. J. Fletcher Williams in Nell's History of Dakota County, p.158.
1. Governor Austin's Message, January 9, 1873, Exec. Docs. 1872, Vol. 1.
2. Third Annual Report of the Department of Banking, 1912, pp. 8-10.
3. Atwater, History of Minneapolis, P.517.

# MINNESOTA.



*Map II  
Showing the  
Distribution of  
Banks in 1874.*

- - State Banks.
- - National Banks.

its effects were scarcely noticeable beyond a slight stringency in the money market, a cessation of railroad building and a dullness in real estate for several years. But few mercantile institutions failed and not one bank closed its doors, which was a striking commentary on the economic and financial progress of the state since 1857, when similar circumstances threw it into convulsions

With the steady industrial development of the State since 1874, there came a gradual increase in the number and size of the banking institutions. Only the crisis of 1893 has broken the chain of prosperous years that have passed since 1874.

The History of Banking in Minnesota to the year 1874 constitutes a distinct period of homogeneous fact and experience. The historical data demonstrates clearly two important conclusions. First, that note issue was indispensable to bank existence and profit, and evidences the fact that deposits were but little used; and Second, that Greenbacks (standardized nationally) were a great improvement over State issues, and the experience of the State justifies, to a great extent, the praise given such issues by contemporary students of monetary problems in the period ending 1874.

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