



FACSIMILE OF AN UNSIGNED TEN DOLLAR BILL OF STATE BANK OF IOWA, 1855 - 1865

Historical value only characterizes this bank note. The map shows the State of Iowa before the county of Hamilton was separated from Webster county, at the last session of the legislature held in Iowa City (1856), and before the name of Bumcombe county in the northwest corner was changed to Lyon. In the background an ancient "sidewheeler" steamboat is plowing the waters of the Mississippi. The first capitol in Des Moines is shown at the lower margin. A train and old-time locomotive appear, as does also an excellent likeness of Gov. Ralph P. Lowe.

A CENTURY OF BANKING IN IOWA

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A century ago the principal economic problem in Iowa was the reverse of that which faces our nation today. The early settlers suffered for lack of money to carry on business. Not only was the quantity short but the quality was poor. It was both scarce and inferior. Their problem was too little money. Our problem today is too much money.

In 1836 the Federal government had no national debt. Today it is around two hundred and seventy-five billion, although that figure is an understatement if all contingent liabilities are taken into account. Since our potential inflation is measured by the amount of our national debt, the problem—too much money—is a genuinely serious problem in economics, just as a hundred years ago the opposite extreme—too little money—was a genuinely serious problem in economics.

Pres. Andrew Jackson was elected to office as a vigorous foe of the Second United States bank. The re-chartering of that institution was supported by Henry Clay and the Whigs; it was opposed by Jackson and the Democrats. Jackson won, and although the old charter did not expire before 1836 his attitude and the inferior management of the bank near the close of its life left the institution impotent to carry on as a positive force in the national banking field even before the charter expired. The result was chaotic and especially so following the panic of 1837. The farmers had invested their money in land and many of them were "land poor". They needed working capital, the kind of capital commercial banks are designed to furnish. Lacking this service, the farm-

ers were hard put to it, and it was but natural that substitutes for organized banks came into the picture. The services which should have been rendered by trained men of good character were left to adventurers who were lacking in both training and character.

It was a customary practice in the 1830's and 1840's for schemers to set up banks in out-of-the-way places. Some of them were located in the deep forest and with a purpose. There in some rude shack a printing press was put to work to grind out pieces of paper which were never intended to be redeemed, which had no metal backing and which bore no signature or stamp of a government official. There was a time when more than 7,000 different varieties of such currency were afloat in our country and no one could be certain of its value nor whether it had any value at all. Because these money-printing shops were so securely hid away and sometimes vanished during the night, they were called "wildcat" banks. Obviously, the pioneer came to have little or no faith in these strips of paper, but even bad currency is somewhat better than none at all and the metal money in circulation at the time was largely foreign coins. These became worn and were deliberately clipped, so that evaluation according to weight was necessary. Furthermore, since the coins, even though foreign, were better than the paper currency which circulated in so many varieties, Gresham's law—bad money drives out good—came into operation with the result that the metal money was hoarded. Sometimes the so-called banker of that day would lend his printing press money and require the borrower to repay in metal, usually gold. Such a banker could establish himself in business for less than \$100 and acquire for himself through his printing and lending operations hard money whose value was sure. These practices gave the banker a bad name, so bad in fact, that the dictionary was exhausted in the process when men assembled to talk their troubles over at the crossroads' general store.

The general store at the cross roads was a remarkable place of business in the early days of our country, as indeed it was much later and still is in lesser degree. In addition to being a merchandise mart, it was a social center. I can recall when such a store carried stock that ranged all the way from calico, babies' shoes, and strawberry pop to neck-yokes, whiffletrees, binder twine, and buggy whips in addition to the groceries sold over the counter. The farmer would bring his eggs to this store where they were candled—that is, they were held up to the light of a candle hid inside a wooden box in which two holes the size of an egg had been cut to determine whether they were fresh. The grocer would trade his wares for them and give "due bills" for the difference between the value of the eggs and the value of the goods given in exchange. These "due bills" were used for later purchases. The farmer often found, too, that merchants in the nearby cities were willing to take these substitutes for money in payment of shoes, suits of clothes, and other merchandise. These city merchants would have them redeemed by the shipper who bought eggs from the operator of the general store and the latter in turn would accept them in payment for the next lot of eggs he delivered. Thus the cycle was complete, and no legal money was used by the country storekeeper or the farmer in the process.

This general store often proved to be a profitable enterprise, and the operator lent his surplus cash to trustworthy customers. Not infrequently this lending business, which at the start was wholly incidental to the general merchandise business, became so profitable that the operator either sold the store and engaged altogether in informal banking or he let members of his family or a partner run the store while he spent his time at finance. Many a legitimate bank grew out of this kind of expansion, and the same is true of other businesses like the land offices that were common institutions in the era when

public lands were being sold at the great westward movement pushed the frontier line across the prairie.

ST. LOUIS AS IOWA'S TRADE CENTER

Iowa became a Territory in 1838. The population was then 22,859, and those who had settled upon the rich virgin land were located near the great highway of that day, the Mississippi river. The principal market center for surplus Iowa products was St. Louis, Missouri, a city in which Daniel Boone sold his beaver skins and which, because it has enjoyed the momentum of an early start in the fur, skin, and leather business, is still a mighty factor in the leather industry. The direction of commerce at that time was north and south. New Orleans, with a population of 102,193, was the leading seaport outlet in 1840. St. Louis, with a population of 16,469, was the great center of commerce in the interior west of the Mississippi. Other centers east of the river were Chicago, 4,479; Cincinnati, 46,338; Pittsburgh, 31,201; Cleveland, 6,071; and Detroit, 9,102. In 1840, when Iowa had been a territory two years, and only six years before statehood was acquired, Chicago was a small town, indeed, for counting the soldiers who were quartered there and the Indians who still stalked about, as well as the horse thieves who are alleged to have operated in that city in those days—the records show that the total population in 1840 was less than that of my home town, Decorah, as of 1940. To repeat, St. Louis was the great market center in the interior west of the Mississippi and as far east as Cincinnati when Iowa became a state.

But a great transformation came when the direction of commerce shifted from its north and south direction to east and west as railroad building progressed following the Civil war. Our first transcontinental railroad was completed in 1869, and the population census of 1870 shows that by that time Chicago, with a population of 298,977, was about 12,000 short of equaling the population of St. Louis with 310,864. In other words, St. Louis

was ahead of Chicago by the same margin as in 1840—that is 12,000—although each city had grown very much. But by the end of the next decade Chicago had outstripped St. Louis by about 150,000, and Chicago has held first place as the great inland metropolis ever since. This shift in the direction of commerce made Chicago, and not St. Louis, the great market center for surplus Iowa products. There is a measure of regret in that change, too, for life on the Mississippi was romantic to many people in addition to Mark Twain. The era of the Mississippi river steamboat around 1860 is marked for literature as well as commerce, and, although tugboats and barges ply their way over the watery highway at the present time, the romance of Mark Twain's steamboat lore cannot be generated by a tugboat or a barge. But the "iron horse" won in the race with the steamboat, and Iowa has ever since been closely tied to Chicago in commerce, including the business of banking.

There was nothing unusual about the fact that the first constitution of Iowa—1845—forbade incorporation for the purpose of banking. As late as 1852, the year the silver-tongued Daniel Webster died, banking was illegal in nine states of the union and in the District of Columbia. Human behavior is basically pretty much the same the world over, and the early history of money and banking in Iowa had its counterpart elsewhere; indeed it is not too much to say that Iowa's story is the story of other states that were a part of the union prior to the enactment of the national bank act in 1863.

It should be remembered that banking in that early day was closely associated with the privilege of issuing paper money. That was the prior function. To accept deposits and to discount promissory notes were other functions, but the function of note issue was more important to the bank management at a time when money was scarce and the practice of maintaining checking accounts had not come into common use. The borrower wanted his loan in the form of money in his pocket; not

in the form of a deposit account in a bank on which he could draw at will. Obviously, since the paper money issued and lent by the banks cost them little, the profit reaped was great because interest rates were very high in those days. The temptation to issue more than could be redeemed was strong, and proper provision for redemption was not made. An attempt to correct this evil was made by the Suffolk bank—1818—in Boston, but the system established by that institution was restricted to the New England area.

When the first constitution of Iowa was being formed and banking was made illegal, there were those who warned that to forbid anyone to issue notes in Iowa would not prevent paper money from coming in from other states. That argument proved to be true with a vengeance for by 1856 more than 300 varieties were in circulation and two-thirds of them were below par. Much of this paper came from the state of Michigan, although several states in the Iowa region contributed their share of the wild cat currency which circulated in lieu of that which would have been manufactured within the state had the law not made it illegal.

ALL SORTS OF CURRENCY USED

Colorful names were given to this out-of-state currency such as "stump-tail," "bobtail," "brindle-pup," "red-horse," "rag-tag," "wild cat," and so forth. The cash till of those days contained assets of questionable value and no one knew that fact more surely than the owner of the till.

The English say in jest: "Where there is a will there is a way to break it," and it should be pointed out that there were ways of evading the law against note issue. Scrip was issued by corporations organized for other than banking purposes; it was also issued by cities, counties, and other local subdivisions of government. The so-called Nebraska-Iowa bank notes came from just across the

border. Money is of such great importance to organized society that enterprising people in an area blessed with rich resources cannot be restrained from finding devices that will, for want of anything better, perform the functions of good money in some degree, however imperfect the devices may be.

The constitution of Iowa was redrafted in 1857, and the demand of the people for revision was based largely on the recognized need for liberalizing the law pertaining to incorporation with special reference to removing the restrictions on the formation of banks. Two specific objectives were sought: First, the enactment of a general banking law and, second, the enactment of a law permitting the establishment of the State Bank of Iowa. The state of New York passed a general banking law in 1838, prior to which banks could not be chartered there except by special acts of the legislature. That practice left wide room for favoritism and the general banking, or "free banking," law as it was called in those days was intended to correct the evil. The Iowa general assembly enacted such a law but no banks were established under it, a fact which would suggest that the terms were not easy to meet. It was repealed in 1870. As evidence of the people's feelings toward banks in those days, it might be mentioned that fourteen members of the house of representatives in the general assembly voted to strike out the enacting clause and substitute "swindling" for "banking" when the charter of the State Bank of Iowa was being considered.

The State Bank of Iowa was, however, established promptly after having been approved by the people in a special election in 1858. Other states like Illinois, Indiana, and Ohio had established similar institutions. This bank was modeled in large degree on the Bank of Ohio. It is noteworthy that, while such banks were often owned in whole or in part by the state government in other states, the State Bank of Iowa was altogether a privately

owned institution. Time and space do not permit a detailed account of the provisions of this bank, but it should be noted that it was not a unit institution but a group of nine branches, and the branches were mutually responsible for all of the paper money issued. The State Bank of Iowa required these notes to be redeemed in specie, and if a branch failed to redeem its notes during regular banking hours it was considered to be insolvent. Each branch had its "safety fund" for redemption purposes, and this provision calls to mind the safety-fund system established in New York in 1829, a sort of early fore-runner of the Federal Deposit Insurance Corporation today. In the event of liquidation the State Bank of Iowa was required to pay note holders in advance of depositors on the theory that the latter were creditors by choice and the former were not. The board was made up of one director from each branch and three representatives of the state. No more than thirty branches were allowed by the law. Fifteen were actually established, and collectively they were the State Bank of Iowa. They were located at Muscatine, Iowa City, Des Moines, Dubuque, Oskaloosa, Mount Pleasant, Keokuk, Davenport, Lyons, Burlington, Washington, Fort Madison, McGregor, Council Bluffs, Maquoketa. All were in cities located on the banks of the Mississippi river or at points on tributaries close to this great stream with the exception of the branches at Des Moines and Council Bluffs. Applications from Waterloo and Cedar Falls were denied on the ground that to locate a branch in Black Hawk county was of "doubtful expediency," indicating that this county was thought to be too far inland to warrant membership in the bank federation.

The bank was established chiefly for the purpose of providing a sound currency in Iowa. The purpose of the national bank act of 1863 was to provide a "uniform and sound" currency for the nation. When this act was amended in 1865 so as to tax State bank notes out of existence, there was no further need for the State Bank

of Iowa. It was discontinued on November 22, 1865, and the branches availed themselves of the opportunity to become national banks under provisions of the act of 1863.

Thus the relatively brief but eminently successful career of the State Bank of Iowa came to a close. That it was so successful is a tribute to the men who were responsible for its management. They performed a remarkable service not only in their capacity as officers of an unusually important and necessary institution, but they helped to lift the banking fraternity to a high and honorable place in society. It came into being in an atmosphere charged with doubt, suspicion, and active antagonism. That this murky atmosphere was cleared away by good management will forever be a monument to the men who bore the responsibilities that attach to true stewardship in finance.

IOWA HAD FIRST NATIONAL BANK

The First National Bank of Davenport, Iowa, was the first institution in the United States to begin operations under the act of 1863. This act continued as our basic national banking law for 50 years. In 1913 the Federal Reserve System was established, and all national banks that desired to retain their Federal charters were required by law to become members of this system.

The fact that the national bank act of 1863 did not permit banks organized under it to lend money on real estate left this field open to state banking institutions. In a state that is blessed by nature with twenty-five percent of the grade-A land of the nation, that has practically no waste land, and that can claim for its people the highest rate of literacy in the nation, farm mortgage lending is an unusually important enterprise. For this reason the growth of banks organized under state laws was very rapid, and by 1920 Iowa had more banks than any other state in the union. Another distinctive feature

in Iowa banking history is the large number of savings banks. Iowa law has permitted organization with relatively low capital investment and has permitted savings banks to conduct their business in large measure as if they were commercial banks. In the early twenties the state and national banks were about equal in number but nearly one-half of the total number of banks were savings banks.

Since the early twenties the total number has decreased. The sharpest drop occurred during the depression following the economic collapse that began in 1929 as a result of World War I. As of June, 1945, the Federal Deposit Insurance Corporation reports a total of 651 banks in Iowa of which ninety-seven were national banks; ten private banks, and the remainder state and savings banks. Although there were nearly twice as many banks in Iowa in 1929 as in 1945, the total deposits in 1945 were more than twice as great. These deposits—a total approaching \$2,000,000,000—increased rapidly after 1941 and represent in the state of Iowa the effect of gigantic borrowing by the Federal government.

The early settlers in Iowa suffered from too little money. Our principal economic problem today is too much money. The pioneers solved their problem by hard work, good management, unfailing loyalty to our form of government, and deep-seated reverence for God. Is there, perchance, a better recipe for curing our ills today?

The last pensioner of the War of 1812 was an Iowa born woman, Mrs. Esther Ann Morgan, who died at Dallas, Oregon, March 12, 1946. Her father, John Hill, was 70 years old at the time of her birth in Des Moines county, Iowa, March 9, 1857. He and three of Mrs. Morgan's uncles fought in the New York militia. She went to Oregon in 1902 and was granted a pension in 1937.

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