

MONEY IN PIONEER IOWA 1838-1865

A casual survey of the money in circulation today reveals only a few varieties, all authorized by the laws of the United States. In addition to the gold, silver, nickel, and copper coins of the United States there are gold and silver certificates, national bank notes, including Federal Reserve Bank notes, United States notes (greenbacks), Federal Reserve notes, and Treasury notes of 1890.¹ With the exception of an occasional counterfeit bill, the person who is offered money in payment of some obligation assumes that the money presented has the value indicated by the particular denomination and pays little attention to the source.

It was not always so. In the days before the Civil War coins of the United States lay in the bank vault and in the merchant's till side by side with coins of England, France, Spain, Portugal, Mexico, and the Spanish-American countries. There were even private coins. Paper money was of many kinds, issued by the Bank of the United States, State banks, free banks, private banks, and ordinary business houses — good, bad, and doubtful as to value. There was scrip issued by cities, towns, townships, and counties. There were county orders and private checks.

It was an age of clever characterizations and money came in for its full share. There were "Benton's mint drops", "bits", and "picayunes"; "red dog", "brindle-pup", "wild cat", and "stump-tailed" currency; "store-pay"; "shinplasters"; and "greenbacks". The ordinary citizen looked upon money — except gold and silver coins,

¹ Gold coins and gold certificates were withdrawn from circulation by the emergency legislation of 1933.

which were scarce — as a highly speculative commodity, which operated somewhat on the principle of a lottery.

In spite of its doubtful status, money was a necessity in Iowa as in all frontier communities. The Iowa pioneers were men of vision, seeing farms and homes, cities and towns, schools and churches, stores and factories where they found only open prairie and river's edge. Some of these things could be supplied by individual effort; others required money for services, materials, and supplies.

Many of the settlers also needed to borrow money to buy their claims and to pay their taxes. Others brought money with them from the East or South in the form of drafts which had to be exchanged for money. Some had bank notes or other forms of paper which must be exchanged for specie.

Before long the pioneers began exchanging farms, commodities, and services. Barter, the primitive method of such exchange, was inadequate from the beginning. As the government began to function, money was needed for the salaries of officials and for taxes. Books and newspapers were published. Money became more and more important in the development of pioneer Iowa, as a medium of exchange, a standard of value, and a form of savings.

The use of money requires first of all an agency for its creation — and later a center for its deposit and exchange. Who furnished the money used by the pioneers of Iowa and what was it like? By what agencies was it issued and circulated? The story is long and complicated.

COINS IN USE IN IOWA

Gold and silver coins of various kinds formed the standard money in early Iowa, as in other places. "Hard money" was known as specie and, with minor exceptions, the metal used in these gold and silver coins was approxi-

mately equal in value to the coin, although the rates of bullion to coin varied from time to time.

The coins in use in Iowa were, of course, the same as those in surrounding States and Territories, since coinage and laws relating to coinage were assigned by the Constitution to the Congress of the United States and denied to the States.

According to the coinage acts of 1792 and 1793, the United States coins included cents and half cents in copper; dollars, half dollars, quarters, "dismes", and "half dismes" in silver; and eagles (\$10.00), half eagles, and quarter eagles in gold. The dollar was the unit of value and there was free gold and silver coinage at the ratio of fifteen to one.²

Since the United States could not coin money fast enough to supply the needs of business or could not, for various reasons, keep sufficient coins in circulation, the United States recognized as legal tender certain foreign coins. According to a law of 1793 British and Portuguese gold pieces were accepted at the rate of 27 grains weight for a dollar; French and Spanish gold coins at 27 $\frac{2}{5}$ grains for a dollar; while Spanish silver dollars (common coins) were accepted on the same basis as American dollars. French crowns circulated at a dollar and ten cents. In 1816 five-franc pieces were listed at ninety-three cents and three mills. The original law provided that after three years all foreign coins except the Spanish silver dollars should cease to be legal tender, but because of the scarcity of American coins, the act providing for the use of foreign coins was extended several times.³ By an act adopted on

² *United States Statutes at Large*, Vol. I, pp. 248, 249, 299, 300. See also Vol. V, pp. 136-142.

³ *United States Statutes at Large*, Vol. I, pp. 300, 301, Vol. III, pp. 322, 525, 645, 777, 778; Hepburn's *History of Coinage and Currency in the United States*, p. 26.

March 3, 1823, foreign gold coins were made receivable for public lands.⁴

The coinage of twenty-dollar gold pieces and gold dollars was authorized by Congress in 1849. In 1851 the United States began the coinage of three-cent pieces of silver and copper, to facilitate the payment of postage, then three cents. This was made legal tender up to thirty cents.⁵

The use of the Spanish, Mexican, and Spanish-American silver dollars developed a peculiar situation which tended to deprive frontier sections of small coins. The American silver dollars were slightly lighter in weight than the Spanish dollars, but they were accepted in the West Indies on the same terms. Before long enterprising speculators discovered that they could recoin the heavier Spanish dollars into American dollars and export them to the West Indies. As a result both Spanish and American silver dollars tended to disappear from circulation, leaving only worn and abraded Spanish, or Mexican, dollars and fractional pieces of them. To counteract this drain of American dollars from the country, the United States Mint largely suspended the coinage of silver dollars between 1806 and 1834.⁶

In 1803 France had established a ratio of 15½ to 1 and in 1816 England had made the ratio 16 to 1 for subsidiary silver coins. As a result gold coins were frequently exported to Europe, and the gold coins also tended to disappear from circulation so that much of the currency consisted of French crowns and five-franc pieces and silver coins less than a dollar.⁷

⁴ *United States Statutes at Large*, Vol. III, p. 779.

⁵ *United States Statutes at Large*, Vol. IX, pp. 397, 398, 591.

⁶ Hepburn's *History of Coinage and Currency in the United States*, p. 27.

⁷ Hepburn's *History of Coinage and Currency in the United States*, pp. 27, 31. A report submitted to the House of Representatives in 1823 stated that the United States had issued gold and silver coins to the amount of more than

Many reports were made on the problem, but it was not until 1834 that the coinage law was revised. The ratio of gold and silver was fixed at approximately 16 to 1. Foreign gold coins were to be received at exchange values depending on weight and fineness. Spanish-American dollars were made legal tender on the same terms as the Spanish dollars, which soon almost disappeared.

In 1837, another attempt was made to equalize the relative values of gold and silver.⁸ The coinage of American silver dollars was resumed. Under the ratio adopted at this time the silver dollar was worth approximately \$1.03 in gold and for this reason silver coins continued to be taken out of circulation.

An act of February 21, 1853, attempted to remedy the loss of minor coins by reducing the weights of half dollars and smaller silver coins. Such minor silver coins were made legal tender for sums not over five dollars. This law also authorized the coinage of three-dollar gold pieces. Silver dollars were left at their former weight and were legal tender for all amounts. The increase in the amount of gold mined after 1849 raised the relative value of the silver dollars four or five per cent and these coins continued to be scarce. Comparatively few were coined—a total of \$2,800,000 from 1834 to 1861.⁹

The final act in the coinage of the United States previous to the Civil War was the act adopted on February 21, 1857, which repealed all laws making foreign coins legal tender

\$20,000,000, but at that time there was estimated to be in the United States, including foreign coins which were legal tender, about \$16,000,000—\$1,500,000 less than there had been in 1804.—*Abridgment of the Debates of Congress*, Vol. VII, pp. 425, 427.

⁸ *United States Statutes at Large*, Vol. IV, pp. 681, 699, 700, Vol. V, pp. 136-142; Hepburn's *History of Coinage and Currency in the United States*, pp. 40, 41.

⁹ *United States Statutes at Large*, Vol. X, pp. 160, 161; Hepburn's *History of Coinage and Currency in the United States*, pp. 47, 48.

except that Spanish-American fractional silver pieces were to be received at government offices at a reduced rate and then recoined. The coinage of the half-cent was discontinued and the weight of the cent was reduced by half.¹⁰

In 1864 the material in the one-cent piece was changed and a two-cent piece was provided. One-cent pieces were legal tender up to ten cents and two-cent pieces up to twenty cents. A year later a three-cent piece of copper and nickel was authorized and made legal tender up to sixty cents, while the one-cent and two-cent pieces were made legal tender only up to four cents. It was at this time that the motto "In God we trust" was authorized. The nickel was substituted for the half dime or five-cent piece by a law of 1866. Such coins were legal tender up to one dollar.¹¹

One of the peculiarities of fractional currency during the period before the Civil War was the division of silver dollars — usually the Spanish coins — into parts to serve in place of small coins. Since a Spanish dollar was worth eight reals (hence the name "pieces of eight"), it appears that the dollar was usually cut into eight parts, or "bits", each being worth $12\frac{1}{2}$ cents. "Two bits" made twenty-five cents, "four bits" meant fifty cents, and "six bits" meant seventy-five cents. The dollar could be divided into two, four, or eight pieces. A "bit" happened also to have almost the same value as the American "shilling", so that in many places "two shillings" and "two bits" meant the same thing. These terms are still in use in some localities, although the fractional pieces of the dollars have long since disappeared.¹² A "picayune" was a half real.

¹⁰ *United States Statutes at Large*, Vol. XI, pp. 163, 164.

¹¹ *United States Statutes at Large*, Vol. XIII, pp. 54, 55, 517, 518, Vol. XIV, p. 47.

¹² Mott's *An Additional Word List from Pioneer Iowa* in the *Philological Quarterly*, Vol. I, pp. 306, 307.

Previous to 1864, the private coinage of gold was not unusual. The bullion in these coins was worth approximately the amount designated. They were not considered counterfeits at that time, but rather a convenient form for the exchange of gold bullion or gold dust, their actual value depending upon weight and fineness. A law approved on June 8, 1864, made this practice counterfeiting.¹³

In this brief resumé of the coins authorized by the United States, no attempt has been made to discuss the laws regulating the various materials and weights used except as these affected the supply or scarcity of coins.

Most accounts stress the scarcity of money in pioneer Iowa, especially specie money. A story of 1844, for example, tells of the search of a pioneer family for a "shilling" or "bit" to pay the postage on a letter. The neighborhood was canvassed, no one had any coins. One woman was sure she could get the money, for she was even then serving a traveler his dinner. She hoped he would pay her "two bits", but the man, a member of the Iowa legislature, on his way to Iowa City, explained that he did not have any money, either, but would pay it on his way home. The solution of the problem was typical of the tendency to revert to barter, when money is lacking. The mother of the family bethought herself of some bottles of wintergreen essence which stood unused on her closet shelf. The postmaster was also a storekeeper and could sell the wintergreen, so the letter was finally secured.¹⁴

A surprisingly large proportion of the coins in circulation in Iowa appear to have been of foreign origin. Hoyt Sherman, a banker, commenting on this condition, recounted that English sovereigns, French twenty-franc

¹³ White's *Money and Banking*, pp. 22, 23; *United States Statutes at Large*, Vol. XIII, pp. 120, 121.

¹⁴ Letts's *The Search for a Shilling* in the *Annals of Iowa* (Third Series), Vol. I, pp. 38-46.

pieces, and Spanish doubloons were foreign gold pieces seen occasionally. In addition to Spanish — and later Mexican — silver dollars, the French five-franc pieces helped to furnish minor currency. The five-franc piece passed for ninety-five cents.¹⁵

Hiram Price in describing the money in Iowa previous to the establishment of the State Bank said: "About the only silver money in circulation in Iowa in those days that could be depended upon as to value were the five-franc pieces [French] and the 12½ and 6¼ cent pieces. The larger of this silver fractional currency was called 'eleven-penny bit' and sometimes 'bits' or 'levies', and the smaller pieces went by the Spanish name of 'picayune.' These francs and bits and picayunes were all foreigners, merely abiding on American soil, and but few of them ever became naturalized citizens, and if ever naturalized were never afterwards known by the same name. These foreigners were not only tolerated on American soil, but actually sought after and courted by all citizens 'to the manner born.'"¹⁶

On the other hand, an editor at Bloomington (now Muscatine) wrote in 1842: "Specie, in proportion to the amount of money in circulation, was never more plenty in our little community than at present. We have heard repeated inquiries for good paper in exchange for specie, and understand it is hard to obtain."¹⁷ This, however, was the exception. Specie was usually in demand.

There were several reasons for the general scarcity of coins in the Territorial and early State period of Iowa.

¹⁵ Sherman's *Early Banking in Iowa* in the *Annals of Iowa* (Third Series), Vol. V, p. 3.

¹⁶ Price's *The State Bank of Iowa* in the *Annals of Iowa* (Third Series), Vol. I, p. 268.

¹⁷ *Bloomington Herald*, January 20, 1842, quoted in the *Annals of Iowa* (Third Series), Vol. V, p. 125.

There was, until 1849, a scarcity of gold and silver in the United States and because of changes in values, there was, at times, a tendency to export gold and silver coins. As a result, there was no large supply in the United States. Moreover, many Iowa pioneers were poor or in very moderate circumstances, so that they probably had less than their per capita share of gold and silver coins.

There were also certain special conditions which tended to deprive Iowa of specie money. On July 11, 1836, a circular addressed to receivers of public lands forbade, with minor exceptions, the receipt of any money except gold or silver in payment of public lands after August 15th of that year. The effect of this ruling was to drain specie from the territory where public lands were for sale and at this time Iowa was especially interested in land sales. Two years later Congress adopted a resolution which forbade the Secretary of the Treasury to make or continue in force any order "which shall create any difference between the different branches of revenue, as to the money or medium of payment, in which debts or dues, accruing to the United States, may be paid."¹⁸

There was much dispute as to whether this resolution rendered void the "Specie Circular", but it appears that the regulations of the land office continued to restrict the kinds of money received at land sales. A guide book published in 1841, reported that payments at the land sales in Iowa must be: Missouri bank notes of twenty dollars or more; silver and gold coins; United States Treasury notes; and, under certain conditions, Virginia military land scrip.¹⁹

The demand for money — specie or Treasury warrants

¹⁸ Lathrop's *Some Iowa Bank History* in the *Iowa Historical Record*, Vol. XIII, p. 54; MacDonald's *Jacksonian Democracy* (American Nation Series, Vol. XV), pp. 286-291; *United States Statutes at Large*, Vol. V, p. 310.

¹⁹ Newhall's *Sketches of Iowa*, p. 50.

— to buy land was not limited to the actual need for farms. Investment in land was the pioneer equivalent of the stock market. One speculator wrote from Boonesboro, the county seat of Boone County, in July, 1855:

Everybody seems wild with the excitement of entering government lands. "Benton's mint drops" fly freely and fortunes are made, sure and no mistake. Forty per cent interest is the lowest sale this week. I got a quarter section. As soon as lands are secured they are valued at \$3.50 per acre for prairie and \$5.00 for timber a \$300 profit by securing a quarter section is as good for me as for anyone.²⁰

But specie money constituted only a small part of the circulating medium in Iowa before the Civil War. The most common medium of exchange were the bank notes. Up to the organization of the national banks, only two banks in Iowa had been authorized by law to issue paper currency. These were the Miners' Bank of Dubuque and the State Bank of Iowa. Bank notes from other States, however, circulated freely in Iowa. The story of the money issued by these banks is complicated; the financial result in many cases was disastrous.

Bank notes and the privilege of issuing bank notes were, it should be noted, relatively more important in pioneer days than at present, because bank credit was then furnished by bank notes instead of by deposits and checks, as at present. For example, a man today may deposit one hundred dollars in a bank, the banker loans it to another man who draws a check to pay a bill. The man who receives the check may in turn write a check and the hundred dollars deposited remains in the bank although many payments are made. Before the Civil War, the bank issued bank notes, which circulated from hand to hand and performed much the same functions as the checks.

²⁰ Brainard's *Opening an Iowa County in the Annals of Iowa* (Third Series), Vol. II, p. 261. Benton's mint drops were gold coins.

NOTES OF THE MINERS' BANK

The only bank incorporated in Iowa from the earliest settlement down to 1858 was the Miners' Bank of Dubuque which received its charter from the Wisconsin Territorial legislature on November 30, 1836. This act was amended and approved by Congress on March 3, 1837. Under the terms of incorporation the maximum capital was to be \$200,000, a large amount for a bank in a frontier town.

The charter permitted the Miners' Bank²¹ to issue bank notes as soon as one-half of the capital stock had been paid in, and of the first \$100,000, at least \$40,000 must be in legal coin. Except for deposits the bank was forbidden to incur indebtedness for more than twice the paid in capital stock. The maximum note issue would thus have been slightly less than \$400,000. No bills could be issued for less than five dollars and after four years the legislature might raise this to ten dollars and after ten years to twenty dollars.

Small notes, indeed, were in disfavor during this period. It was said that small denominations circulated among ordinary people rather than in financial circles and were likely to be kept in circulation longer and thus increased the danger of inflation. It was also claimed that small denominations were more easily counterfeited. At any rate the authorities frowned upon extensive issues of bank notes of small denominations. A Treasury circular of April 6, 1835, ordered all officers receiving public money not to accept bank notes for less than five dollars.²²

There was no special protection in the charter of the Miners' Bank for note holders, no required deposit of cash,

²¹ For a history of the Miners' Bank see *Laws of the Territory of Wisconsin, 1836-1838*, pp. 27-34; *United States Statutes at Large*, Vol. V, p. 198; Preston's *History of Banking in Iowa*, pp. 10-34; Merritt's *The Early History of Banking in Iowa*, pp. 1-30.

²² Dewey's *Financial History of the United States*, p. 228.

bonds, or other securities, and no double liability of stockholders. There was not even a requirement that the capital which was paid in must be retained by the bank. In other words, if the \$200,000 capital had been all paid in and notes had been issued for twice that amount, the \$200,000 might then have been loaned out, leaving nothing for the redemption of the notes. Indeed the cashier testified at one hearing that the stockholders paid in forty per cent of their stock, put in their personal notes, and drew out the cash.

The Miners' Bank opened its doors for business on October 31, 1837. Its history was made up of one investigation after another, charges, counter charges, and repeated attempts to repeal the bank's charter. The second legislative investigation, by a joint committee of the Wisconsin Territorial legislature, revealed that of the \$100,000 reported paid in capital, \$40,000 was in the form of certificates for specie deposited in Detroit, \$50,000 in notes of the Jackson County Bank and the Bank of Manchester (both in Michigan), and \$10,000 in specie and other bank notes. The value of these notes is indicated by the report of the bank commissioners of Michigan, submitted in April, 1838, in which they listed both the Jackson County Bank and the Bank of Manchester as unworthy of public confidence, both being, it was said, excellent examples of the genus "wild cat", applied to banks.

The notes²³ of the Miners' Bank were the usual large bank note size, embellished with various pictures. Five dollar bills bore the picture of a railroad train — possibly based on John Plumbe's idea of a railroad to the Pacific. The signatures of the officials were written in by hand and in the case of post notes the denomination and the date might also be left blank until the note was issued.

²³ A collection of some of the notes of the Miners' Bank has been preserved in the Library of the State Historical Society of Iowa.

The notes were of two kinds — demand notes, payable on presentation and, ordinarily, in specie; and post notes, payable at a future date. These were, of course, similar to a present day post dated check. The purpose of these post notes was, apparently, to prevent sudden demands for specie. One five-dollar bill was payable at a bank in Cincinnati, Ohio, apparently to facilitate exchange.

On February 5, 1838, the notes in circulation totalled \$14,030, of which \$1350 were demand notes and \$12,680 was in the form of post notes, payable twelve months after date. Such post notes, the officers asserted, were paid out for discount notes or drafts and were received by the bank on the same terms as demand notes. The rate of discount was seven per cent. Three years later a report gave the total of \$97,005 for the notes in circulation and \$9649 in deposits. To cover these liabilities the bank reported \$58,486.99 in cash, \$40,051.99 of which was in gold or silver.

On March 29, 1841, the directors of the Miners' Bank announced the suspension of specie payments, except at their discretion. Their explanation was that a large St. Louis firm was discrediting the bank's notes, then buying them at a discount, and presenting them for specie at par. The suspension of specie payments caused the Iowa Council to ask for a report on the condition of the Miners' Bank. This was submitted on February 1, 1842.²⁴ The liabilities of the bank at that time were listed as follows:

Capital stock	\$100,000.00
Discounts received.....	880.27
Due depositors.....	5,094.25
Special deposits.....	3,069.65
Notes on special deposite [sic] with other banking institutions	46,000.00
Bank notes in circulation.....	167,030.00
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	\$322,074.17

²⁴ *Journal of the Council*, 1841-1842, p. 137.

The assets listed were as follows:

Real estate	\$ 14,973.14
Personal property.....	5,682.03
Stocks	8,000.00
Loans and discounts.....	151,976.94
Bills of exchange.....	11,588.75
Due from other banking institutions.....	53,763.65
Notes of other banks (chiefly Illinois)...	32,812.00
Gold, silver, and notes of the State Bank of Missouri	43,277.66
	\$322,074.17

The following June the controlling interest in the Miners' Bank was purchased by men connected with the St. Louis Gas Light Company, although prominent business men of Dubuque were retained as directors. Since the charter required that the directors be stockholders these men, it developed later, were given certificates for fifty dollars in bank stock to enable them to qualify.

Under the circumstances it is not, perhaps, surprising that the remaining career of the Miners' Bank was inglorious. Its notes went down to thirty-seven or forty cents on the dollar. There were repeated attempts in the legislature to repeal the charter and charges of bribery were added to the complaints of bad banking practices. In the Sixth Legislative Assembly, petitions were received asking that the bank be required to resume specie payments or lose its charter. One of these was signed by 1172 residents of Des Moines County, possibly note holders. The two houses could not agree on measures to regulate the bank or repeal the charter, but the Miners' Bank did, on April 19, 1844, resume specie payments. At the same time the management of the bank changed hands and the *Iowa Capital Reporter* charged that the new owners had first bought up the notes at a "discount of 75 or 80 per cent", thus securing a con-

siderable profit, while the original note holders lost most of their money.

Whatever the truth was as to these charges, it appears that the resumption of specie payments did not save the bank's charter, for on May 21, 1845, an act repealing the charter was adopted by the Iowa Legislative Assembly, unanimously in the House and eleven to one in the Senate. According to the provisions of the repeal act, the bank's notes must be accepted at par in payments of debts due the bank. Thus it appears that note holders and borrowers might have been able to make arrangements favorable to both.

For the next three years the Miners' Bank dragged out a shadowy existence, while appeals were presented to the courts, but it finally succumbed to a combination of bad banking and popular hostility to all kinds of banks. The last meeting of the board of directors was held on February 25, 1849.

Although the notes of the Miners' Bank circulated at a discount — sometimes for as much as 75 or 80 per cent — it does not appear that the bank actually defaulted in paying its notes, although between March 29, 1841, and April 19, 1844, it was unable to pay them in specie, and other paper, of course, was no better than the bank's notes, in some cases not as good.

Even this brief survey of the history of the Miners' Bank indicates some of the weaknesses of banking at that time, especially the indiscriminate and unprotected issue of bank notes in large amounts. Deposits were negligible. The banks collected a small amount of capital, often in doubtful paper money, in doubtful bonds, or in the form of personal notes of stockholders, issued perhaps twice as much in bank notes and then loaned the notes and often the capital at high rates of interest.

BANKING IN IOWA BETWEEN 1838 AND 1858

The Miners' Bank had been incorporated by the legislature of Wisconsin Territory. Requests for the incorporation of other banks were consistently refused by the Iowa Territorial legislature. Citizens of Jackson County who wished to incorporate a bank at Charleston presented a petition to the legislature in December, 1838.²⁵ It was referred to the Committee on Incorporations and no report was made concerning it. Again in 1842²⁶ a group of men from Davenport asked the incorporation of a bank, but the measure was defeated in the House by a vote of twenty-one to two. Three years later a similar request from Iowa City²⁷ was referred to a special committee and never considered.

By an act of the Iowa legislature, approved on January 24, 1839, a fine of \$1000 was imposed on any person convicted of subscribing to or becoming a member of any association, institution, or company organized for the purpose of issuing notes or bank bills unless such association, institution, or company had been incorporated and specifically granted authority to issue such notes or bank bills. One-half the fine was to go to the informer, the other half to the county.²⁸

Constitutional Prohibition of Banking. — When the first constitutional convention met at Iowa City in October, 1844, to formulate a constitution for the proposed State of Iowa, one of the points of contention was this question of banks. The discussion related chiefly to banks of issue, for deposits were small and note holders rather than depositors had the

²⁵ *Journal of the House of Representatives, 1838-1839*, p. 140; Preston's *History of Banking in Iowa*, p. 35.

²⁶ *Journal of the House of Representatives, 1841-1842*, pp. 210, 211.

²⁷ *Journal of the House of Representatives, 1845*, pp. 81, 94, 95; Merritt's *The Early History of Banking in Iowa*, pp. 101-103.

²⁸ *Laws of the Territory of Iowa, 1838-1839*, p. 64.

greatest interest in the solvency of banks. The Committee on Incorporations submitted a majority report which would have authorized the incorporation of one bank in Iowa with branches not to exceed one for every six counties. The regulations prescribed were stringent. The act of the legislature establishing such a bank must also be submitted to the voters for adoption or rejection. One-half of the capital stock must be paid in gold or silver money before the bank could commence business. No note or bill could be issued for less than ten dollars. Stockholders were to be personally liable for the obligations of the bank and the bank must pay its notes and promises on demand or forfeit its charter. The legislature was to have power to repeal the charter at any time.

These restrictions did not satisfy some of the committee. Stephen Hempstead and Michael O'Brien submitted a minority report which read as follows: "No bank or banking corporation of discount, or circulation shall ever be established in this State." On the floor of the Convention, Hempstead moved that this minority report be substituted for the majority report. There were, he said, three kinds of banks — banks of deposit, discount, and circulation. It was the banks of circulation to which he objected, for under the usual plan of note issue, these banks loaned two or three times their capital. He was supported by some even more radical objectors. Richard Quinton of Keokuk County declared that all banks were a "set of swindling machines".

After much debate it was finally agreed that the legislature should be permitted to incorporate banks and banking institutions, but the charter of each corporation must be submitted to the electors at a general election for State officers and approved by them before it became effective. Such a charter might, however, be repealed by the legislature alone. The property of stockholders in all corpora-

tions was made liable for the debts of the corporation. The State was prohibited from holding stock in any bank or other corporation.²⁹

Since the Constitution of 1844 failed of adoption by the people, these provisions, of course, did not go into effect. The question, however, came up again in 1846. This time the Committee on Incorporations included in its report a definite prohibition of corporations "with banking or discounting privileges". An attempt to leave the incorporation of banks to future legislatures with the additional requirement of approval by the voters failed to win support, and the Constitution of 1846 was adopted with the following provision:

1. No corporate body shall hereafter be created, renewed, or extended, with the privilege of making, issuing, or putting in circulation, any bill, check, ticket, certificate, promissory note, or other paper, or the paper of any bank, to circulate as money. The General Assembly of this State shall prohibit, by law, any person or persons, association, company or corporation, from exercising the privileges of banking, or creating paper to circulate as money.

2. Corporations shall not be created in this State by special laws, except for political or municipal purposes, but the General Assembly shall provide, by general laws, for the organization of all other corporations, except corporations with banking privileges, the creation of which is prohibited. The stockholders shall be subject to such liabilities and restrictions as shall be provided by law. The State shall not directly or indirectly, become a stockholder in any corporation.³⁰

Statutory Prohibition of Banking.—The Constitution of 1846 also gave to the General Assembly the duty of prohibiting unincorporated banking institutions. The only law of this kind adopted between 1846 and 1857, however, was

²⁹ Preston's *History of Banking in Iowa*, pp. 36-41; Shambaugh's *Documentary Material Relating to the History of Iowa*, Vol. I, pp. 134, 165, 166.

³⁰ Shambaugh's *Documentary Material Relating to the History of Iowa*, Vol. I, p. 205.

contained in the *Code of 1851*, which, under "OFFENSES AGAINST PUBLIC POLICY", contained several provisions relating to banks and banking activities. Any person who subscribed to or became a member of any association or company formed for the purpose "of issuing or putting in circulation any bill, check, ticket, certificate, promissory note, or other paper, or the paper of any bank to circulate as money in this state" was to be punished by imprisonment in the county jail for not to exceed one year or by a fine of not more than one thousand dollars.

Any officer, director, or agent of an incorporated company which took part in the issue of notes or other evidences of debt to be loaned or put in circulation as money was subject to a similar penalty. Notes and securities given to associations, institutions, or companies formed for the purpose of issuing notes or to furnish paper to circulate as money were declared void. "No person, association, or corporation shall issue any bills, drafts, or other evidences of debt to be loaned or put in circulation as money or to pass or be used as a currency or circulating medium; and every person, association, or corporation, and every member thereof who violates the provisions of this section shall be punished by fine not exceeding one thousand dollars."³¹

Banking Activities in Iowa Under the Constitution of 1846.—In spite of the Constitution and this law of 1851, it appears that the new State of Iowa was not entirely without banking facilities. Indeed it appears that there was a difference of opinion as to whether *all* banking was prohibited, or only banks of *issue*.

Much actual banking business was done during this period in connection with buying and selling produce, land, and other things. Individuals, partnerships, and corporations accepted deposits, discounted notes and drafts, and loaned

³¹ *Code of 1851*, Secs. 2731, 2734.

money. It was not yet an age of specialization. About 1842, for example, "Francis J. C. Peasley, Forwarding and Commission Merchant" of Burlington took on certain banking functions.³²

One of the best known of these banking firms was Cook (Ebenezer Cook) and Sargent (George B. Sargent) of Davenport who began business as land agents. Associated with this partnership, Cook and Sargent being members of the firms, were Cook, Sargent, and Downey of Iowa City, and Cook, Sargent, and Cook (John P. Cook) of Fort Des Moines. These firms loaned money to buy land, furnishing \$1.25 per acre and receiving \$1.75 per acre in a year's time, yielding forty per cent interest on the loan.

In 1856 they established connections with the Bank of Florence in Nebraska Territory by which they circulated bank notes. An Iowa City paper in 1856 contains an advertisement of Cook, Sargent & Downey, as "Bankers and Dealers in Exchange", who bought and sold "Bills of Exchange on all the principal cities of the U. States and Europe" and had land warrants for cash and on terms to suit purchasers.³³ Cook and Sargent—later designated as the "Pierpont Morgans of the day"—failed to survive the Panic of 1857 and on December 16, 1859, the firm closed its doors.³⁴

Other men prominent in banking activities during this period were John Weare, Jr., and George Greene of Cedar

³² Preston's *History of Banking in Iowa*, p. 49. For a list of some forty-five firms doing some banking business in Iowa, see pp. 49-54. Such firms did not, however, have authority to issue bank notes.

³³ *Daily Evening Reporter* (Iowa City), June 30, 1856; Preston's *History of Banking in Iowa*, p. 50. There were two other advertisements of banks and two of the Missouri State Lottery in this issue. Land warrants were issued to men who had performed military service and entitled the holder to a specified number of acres of public land.—See *Letters of J. W. Denison* in THE IOWA JOURNAL OF HISTORY AND POLITICS, Vol. XXXI, pp. 89, 90.

³⁴ Preston's *History of Banking in Iowa*, pp. 50, 68.

Rapids.³⁵ As members of various firms these men carried on an extensive real estate and banking business — beginning at Cedar Rapids in 1850 or 1851 as Weare, Finch and Company. In the early days the firm offered S. D. Carpenter a fourth interest for \$500. Success brought expansion and branches or affiliated firms soon developed — Greene, Weare, and Rice at Des Moines, Greene, Weare, and Benton at Council Bluffs, and Greene and Weare (George Weare) at Sioux City.

Like Cook and Sargent, Greene and Weare did a large business in connection with the sale of land, exchange, loans, and the purchase and sale of land warrants. These land warrants, selling in the East for approximately a dollar an acre, could be sold in Iowa for as high as a dollar and a quarter an acre. Green and Weare were pioneers in securing control of a Nebraska corporation through which they issued money — the Western Exchange, Fire and Marine Insurance Company. Later Greene and Weare sponsored the Fontenelle Bank, another of the Nebraska banks incorporated for the purpose of issuing money which circulated largely in Iowa.³⁶

BANK NOTES FROM OTHER STATES

Since money in the United States is no respecter of State boundaries, the prohibition of banking in Iowa did not prevent the circulation here of bank notes from other States and Territories.

State Banks.— The State banks were corporations chartered by a State legislature as banks of issue, much as the Bank of the United States had been chartered by the United States. In some cases a number of banks received charters

³⁵ Brewer and Wick's *History of Linn County Iowa*, pp. 435-440; Preston's *History of Banking in Iowa*, pp. 52, 53.

³⁶ See below, pp. 26-29.

from a State legislature, but the tendency was for these State banks to be, in a sense, monopolies — at least as far as specific State charters were concerned.

The Ohio legislature, for example, gave charters to a number of banking institutions and in 1845 incorporated the State Bank of Ohio, with branches. Indiana adopted a State Bank in 1817 and when this bank closed chartered another State bank in 1834. After refusing to recharter this bank, the legislature incorporated the Bank of the State of Indiana in 1855. The State Bank of Illinois (1821), a second State Bank of Illinois (1835), the Michigan State Bank (1835), the Bank of the State of Missouri (1837), and the State Bank of Minnesota (1858) were other examples of so-called State banks.

The State of Ohio owned none of the stock of the State Bank of Ohio, and the stock of the Bank of the State of Indiana (1855) was privately owned also. The State of Indiana owned half the stock of the State Bank of Indiana (1834) and Missouri owned a half interest in the State Bank of Missouri. One-third of the stock of the Bank of Illinois was subscribed by the government, but only \$100,000 of the \$1,500,000 capital of the State Bank of Illinois (1835) could be subscribed by the State. The liability of the stockholders, the amount of reserve required, the number of branches, and the management also varied. These State Banks were, however, fairly stable and reliable.³⁷

Some banks incorporated by special acts of the various

³⁷ Knox's *A History of Banking in the United States*, pp. 668-793; Preston's *History of Banking in Iowa*, p. 83; Bradford's *Banking*, p. 72; Helder's *National and State Banks*, pp. 41-67, 105. Wisconsin had no State Bank. The Wisconsin Marine and Fire Insurance Company of Milwaukee, incorporated by George Smith in 1839, dominated the bank business in Wisconsin until after the establishment of a general bank law in 1853. At that time there was said to be in circulation nearly a million and a half dollars of the certificates of deposit known as "George Smith's money". These notes were unusually stable.

State and Territorial legislatures lacked the close association with the State government provided by the State banks, but each had a specific charter. A good example of such banks were the Nebraska banks which are described below, pages 26 to 29.

Free Banks.—In addition to the specially chartered banks of the various States, the so-called “free banks” of some States circulated their money in Iowa. These free banks were incorporated under general laws which laid down certain specific requirements. In some cases these restrictions were so stringent, the reserve required so large, and the personal liability of the stockholders so unlimited that no banks were ever organized under them. On the other hand, some of these general laws were so lax that almost any group of individuals could incorporate and issue bank notes. Michigan, for example, passed an act in 1837 which permitted twelve or more freeholders to organize a bank and issue bank notes. A reserve to cover these notes was required, but this might be almost any kind of securities. Some specie was required, but it was found that this money often travelled from bank to bank just ahead of the bank examiners, while the bank officials cheerfully swore that it belonged to the bank being examined. Indiana also had a “free bank” law.³⁸

Some of these “free banks” gave a bank address as far from business centers as possible, sometimes in the depths of forests. The stockholders obtained articles of incorporation, issued several thousand dollars worth of bank notes, and borrowed back the capital, if any had been actually deposited. If any ambitious note holder finally found the geographical spot supposed to be the bank, he had his trip for nothing. Such notes started out bravely, and then

³⁸ White's *Money and Banking*, pp. 319, 326; Knox's *A History of Banking in the United States*, pp. 702, 734, 747.

passed from hand to hand, each time sinking lower in value until they were actually worth nothing. These were the typical "wild cat" banks. The term "wild cat" is said to have been derived from the use of the picture of a panther or wild cat as a vignette on the notes of a Michigan bank which proved to be worthless.³⁹

An illustration of the difficulties met in handling such notes is found in this account by J. M. D. Burrows, speaking of the spring of 1854. "About the 1st of March, Mr. Prettyman found that he had on hand some six thousand dollars of the paper of the free banks of Indiana, which was quoted at only eighty cents on the dollar. He sorted it over, putting each bank's paper by itself, and, grip-sack in hand, went from bank to bank, all over Indiana, and presented it for redemption, taking in payment exchange on Cincinnati, Chicago, and St. Louis, or other current funds. By this means it netted him about ninety-five per cent."⁴⁰

BANK NOTES SPONSORED BY IOWA FIRMS

Bank notes issued by banks from other States and Territories filtered into Iowa in the course of business transactions. There were, however, some banks whose notes were circulated here as part of the financial transactions of Iowa business men who either directly or indirectly owned the stock of the bank issuing the notes. Some advertised that they were responsible for the redemption of the notes they gave out.

The Nebraska Banks.—Among the banks incorporated outside of Iowa, whose notes circulated largely in this State, were the Nebraska banks chartered by the legislature of the Territory of Nebraska between 1855 and 1857. The chief purpose of these banks seems to have been the

³⁹ Bartlett's *Dictionary of Americanism* (Fourth Edition), pp. 758, 759.

⁴⁰ Burrows's *Fifty Years in Iowa*, p. 102.

issue of money to circulate in Iowa, where banks themselves were prohibited.

The first of the Nebraska banks in point of time was not incorporated as a bank, but as the Western Exchange, Fire and Marine Insurance Company, given a charter by an act passed on March 16, 1855. It was apparently incorporated at the instance of the Iowa firm of Greene, Weare, and Benton, for one of the incorporators and the president was Thomas H. Benton, Jr., a member of this firm. Like the Wisconsin Marine and Fire Insurance Company, this corporation was authorized "to receive deposits and under such rules and regulations as may be prescribed by the by-laws of said company, to issue certificates therefor."⁴¹

It appears that Greene and Weare or their affiliated partnerships became the owners of a controlling interest in this corporation and that it had been incorporated to be used merely as a bank of issue. Its charter was construed to permit the issue of bank notes which were circulated in Iowa along with those of other Nebraska banks. A report submitted on September 1, 1856, listed among the assets:

\$60,000.00 stock certificates
97,276.01 bills receivable
48,122.12 due from bankers
40,148.09 specie

Its liabilities included the following:

\$100,000.00 stock account
51,599.00 bank notes in circulation
97,495.00 due depositors.⁴²

⁴¹ *Laws of the Territory of Nebraska, 1855, Pt. VI, pp. 347, 348; Morton's Illustrated History of Nebraska, Vol. II, pp. 305, 306.* At the same session a law was adopted which made it a penal offense for any person to subscribe to or become a member of any association or company formed to issue or circulate paper money of any kind in the Territory of Nebraska.—*Laws of the Territory of Nebraska, 1855, Pt. III, Ch. 11.*

⁴² Data furnished by Mrs. Clara S. Paine of Lincoln, Nebraska.

In September, 1857, a paper in Cedar Rapids published the following item:

We see some indications in certain quarters of a disposition to get up a little panic on Nebraska money. We wish to say to our friends and the public, don't be alarmed by any reports that may be put in circulation in regard to this matter. All four of the banks in this city are taking Western Exchange, Fontenelle, and Florence money, just as they always have, and say they shall continue to do so

We will take all the above money we can get, on subscription for the *Valley Times*, and will give 5 per cent for it to delinquents, if they will only pay up.⁴³

The optimism of the editor was ill-founded, however, for the Western Exchange Company failed that same month. One report at the time listed the loss at \$150,000, which was approximately the amount of deposits and note issue listed in 1856. The specie on hand was given as \$191.30 and the bills of solvent banks amounted to \$121.00.⁴⁴

It appears that Greene and Weare, with their affiliates, also secured a controlling interest in another Nebraska corporation, the Fontenelle Bank at Bellevue,⁴⁵ whose charter they are said to have purchased for \$3000. This bank also existed largely to issue paper money and it, too, failed during the Panic of 1857.

The Bank of Florence, incorporated by the Nebraska Territorial legislature on January 18, 1856, had as two of its incorporators Ebenezer Cook of Davenport and Hugh D. Downey of Iowa City. The capital stock was \$100,000 and stockholders were liable for the notes issued, but there

⁴³ *The Cedar Valley Times* (Cedar Rapids), September 10, 1857.

⁴⁴ Morton's *Illustrated History of Nebraska*, Vol. II, p. 31; Sorensen's *The Story of Omaha*, p. 494; Lathrop's *Some Iowa Bank History in the Iowa Historical Record*, Vol. XIII, p. 59.

⁴⁵ Morton's *Illustrated History of Nebraska*, Vol. II, pp. 26, 27, 31; Brewer and Wick's *History of Linn County Iowa*, p. 439.

was no limit to the amount of notes issued and no reserve requirement. The stock of this bank or at least a controlling interest was owned by Cook and Sargent and their related firms, and the notes were put in circulation by them, with a statement that they would be responsible for their redemption. These notes were used, it is said, to build new bank buildings in Iowa City and Davenport. The building at Davenport, occupied in May, 1857, cost \$75,000 and was said to have been the finest bank building west of New York.

By January, 1858 (just after the prohibition of banking had been removed by the new Constitution of Iowa), the notes of the Bank of Florence were circulating at a discount, and on August 10, 1858, a mob, carrying banners with the legends, "Down With Shinplasters" and "We Want Good Money", threatened the bank of Cook and Sargent at Davenport and the home of Ebenezer Cook. The Florence notes were, however, gradually redeemed at par and on September 6, 1858, the Cook and Sargent bank burned \$200,000 of the redeemed Bank of Florence notes.⁴⁶

In addition to these three banks, the Nebraska legislature chartered at least five other banks. One of these, the Bank of Nebraska, was controlled by men from Des Moines, including Benj. F. Allen and Hoyt Sherman. When this bank closed, its assets were negligible, but it appears that the note holders for the most part were recompensed by Allen, one of the wealthiest men in Des Moines.⁴⁷

A. J. Stevens Money.—Another example of bank notes issued outside Iowa, but guaranteed by their Iowa distribu-

⁴⁶ Preston's *History of Banking in Iowa*, pp. 50, 62, 63, 69; Lathrop's *Some Iowa Bank History in the Iowa Historical Record*, Vol. XIII, p. 59; *Laws of the Territory of Nebraska, 1855-1856*, pp. 177, 178.

⁴⁷ Preston's *History of Banking in Iowa*, pp. 62, 63, 64; *Laws of the Territory of Nebraska, 1855-1856*, pp. 202, 205, 208, 209, 224, 225, 230.

tors, were the notes issued by the Agricultural Bank of Tennessee. Andrew J. Stevens of Des Moines organized a firm which purchased the charter of this bank — apparently one of the free banks — and circulated its notes as loans to land buyers, at a high rate of interest. The firm placed its name on the notes and offered to redeem them if the bank did not. When the bank failed, however, it appears that the A. J. Stevens Company was reluctant to pay out good — or possibly good — money for bad notes, but a decision of the Iowa Supreme Court rendered in 1858 established the rule that those who circulated bank notes with the representation that they would be paid by the firm endorsing them were thereby made legally liable for the redemption of the notes so circulated.⁴⁸

Since most of the banks which had issued notes to be circulated in Iowa by Iowa firms were already insolvent and many of the firms were likewise bankrupt, this decision failed to save many note holders from losses.

SCRIP AND COUNTY ORDERS

Most governmental agencies pay their bills by orders or warrants, issued by the chief administrative officer or board and paid by the treasurer. These orders or warrants if unpaid for lack of funds usually draw interest.

County Orders.— County orders were, in the early history of Iowa, rather commonly used as a form of exchange in the community. They were assignable and drew interest at six per cent, and were receivable for three-fourths of the amount due for State tax and for all ordinary county and poor relief taxes, although “money only” was receivable for school taxes.⁴⁹

⁴⁸ Preston's *History of Banking in Iowa*, pp. 64, 65; *Tarbell v. A. J. Stevens & Co.*, 7 Iowa 163; Andrew's *Pioneers of Polk County, Iowa*, Vol. I, p. 254.

⁴⁹ *Code of 1851*, Secs. 153, 489.

If the county did not have the money to pay these orders they were sometimes consolidated, with interest due, for larger orders, which were used as bonds rather than as currency. So general was the use of county orders as currency or collateral, that counties began to make them out to _____ or Bearer so that such orders required no endorsement.⁵⁰

Under some agreements, it appears that county orders might be accepted in lieu of cash but for an amount somewhat larger than the bill, a form of discount. In 1849, for example, the county commissioners of Johnson County issued a county order for forty dollars to a lumber dealer for thirty dollars' worth of lumber.⁵¹

Scrip.— Cities and towns also issued warrants or orders, similar to the county orders. Because of the scarcity of currency and the low state of municipal finances, some Iowa cities and towns went a step further and issued small notes usually called "scrip". The authority for such notes was doubtful, but during the decade of the fifties no one scrutinized such issues closely. At first these notes or bills were paid out only for services or materials, but there was a temptation also to issue them in order to secure specie. In any case the notes were a form of borrowing money. Scrip was sometimes payable "on demand" and sometimes at a future date.

The first ordinance authorizing scrip in Iowa City was apparently one adopted on October 21, 1857. This provided for the issue of bills, "in the style of bank notes" in denominations of one, two, three, and five dollars. The plates for this scrip were not to be taken outside Iowa City, except by permission of the Council. The amount printed at one

⁵⁰ *Commissioner's Record of Johnson County*, p. 1; county order of Johnson County filed in the Library of the State Historical Society.

⁵¹ *Records of Proceedings in Commissioners Court of Johnson County*, p. 399.

time was not to exceed \$5000, but a total of \$20,000 was authorized.⁵²

Approximately one month later this ordinance was amended to provide for \$10,000 in five-dollar scrip, \$6000 in three-dollar scrip, and \$4000 in one-dollar denominations. In January, 1858, the council ordered that city scrip could be paid out by the treasurer only in payment for city dues. Circulation of the scrip for other purposes was made punishable by a fine of one hundred dollars for each offence. Possibly people did not like to accept scrip. At any rate in March, 1858, the council provided that scrip should bear interest at the rate of ten per cent per annum, commencing on April 1, 1858. Scrip to the amount of one hundred dollars might be exchanged for bonds, which also bore ten per cent interest. A later ordinance authorized the exchange of reissued scrip for 25, 50, 75, or 100 dollar bonds.⁵³

An opposition newspaper complained of the extravagance of the city administration, asserting that people had waited for the scrip to pay their taxes and that because of the delay the five thousand dollars due as interest on the railroad bonds had not been paid and the city was "dishonored in Wall street". The engraver's bill for the plate or plates for the scrip was \$547.25, with \$78.00, finally compromised for \$52.00, additional for a rejected plate and \$110.00 traveling expenses for the man who went east to see about the plates. At that time there was outstanding \$11,000 in scrip.⁵⁴

The interest provision did not, apparently, make scrip

⁵² *Charter and Laws of Iowa City, 1853-1859*, pp. 82, 83. Bentonsport, Wapello, Cedar Falls, and other cities also issued scrip. Some of the Cedar Falls scrip was payable in two years.—Lathrop's *Some Iowa Bank History in the Iowa Historical Record*, Vol. XIII, p. 60; currency collection of W. M. Rosen.

⁵³ *Charter and Laws of Iowa City, 1853-1859*, pp. 83, 88, 89, 91, 105.

⁵⁴ *Iowa Weekly Republican* (Iowa City), March 31, 1858; *Journal of the Council* (Iowa City), Book II, p. 87.

acceptable, for a printed letter in an Iowa City paper of April 7, 1858, had this comment: "This issue of a city shin-plaster by our common council served a temporary purpose of relief, so long as taxes were paying; but it is thrown out by our banks at present, and hawked about the streets at twenty to fifty per cent. discount; again giving place to Florence, which bids fair to outride the storm."⁵⁵

On the first of May, 1858, an ordinance was adopted authorizing the reissue of scrip returned to the treasurer's office, but this reissued scrip did not bear interest and was not receivable for taxes except those levied for ordinary city purposes or for delinquent taxes. In July the council adopted the provision "that the City Treasurer and all other City Officers are hereby authorized and required to receive said scrip herein provided for, in payment of all taxes, fines and dues of said city, unless otherwise provided for by State law, except for payment of the interest on the M. and M. Rail Road Bonds, and the Treasurer is hereby authorized to receive such funds for said tax as are current at the different banking houses of Iowa City."⁵⁶

Samples of the Iowa City scrip are similar to the bank notes of the time. The pictures were, for the most part, fanciful scenes. The two-dollar "bill" bore the picture of two railroad trains, significant of the recent coming of the railroad to Iowa City. All four denominations had the words (in various orders) "Treasurer of Iowa City Pay to the Bearer on demand one [two, three, or five] Dollar [or Dollars]", and had blanks for the date, and for the signatures of the mayor and recorder.⁵⁷

The issue of scrip seems to have been unsuccessful as a

⁵⁵ *Iowa Weekly Republican* (Iowa City), April 7, 1858.

⁵⁶ *Charter and Laws of Iowa City, 1853-1859*, pp. 95, 96, 107.

⁵⁷ Iowa City scrip preserved in the Library of the State Historical Society of Iowa.

method of financing the city, and on August 6, 1859, an ordinance ordered a committee of the mayor and three aldermen to burn all the scrip then on hand, except for samples which were to be donated to the State Historical Society of Iowa. The mayor was instructed to secure the plates used and destroy them. On September 19th, the committee reported that it had burned \$14,788 in scrip, the amount then on hand, but the mayor reported that he had been unable to get the plates back from the company which had printed the scrip. This was not all the scrip issued, however, for scrip bonds continued to be given out for scrip notes. In 1861, \$6441 was reported due on these bonds and as late as July 4, 1862, a bond for \$71.90 was issued in return for scrip notes turned in.⁵⁸

Most of the scrip issued by Iowa cities, towns, townships, and counties appears to have been redeemed at par, often with interest at ten per cent. In 1866, however, a case involving scrip issued by Cedar Falls came before the Supreme Court of Iowa. In this decision the Court ruled that the issue of all such scrip intended to circulate as money was illegal under the Constitution of 1846 and that even "innocent purchasers" could not collect for it.⁵⁹

Burlington adopted a somewhat different plan. The city borrowed \$25,000 in gold which it distributed among the banks of the city, which paid six per cent on the gold while in their possession. The city then issued orders on this gold which the citizens used as money.⁶⁰

PRIVATE NOTES AND CHECKS USED AS MONEY

The notes or bills issued by the banks regularly incor-

⁵⁸ *Journal of the Council* (Iowa City), Book II, pp. 46, 47, 49, 55, 62, 70, 156, 218.

⁵⁹ *Dively v. The City of Cedar Falls*, 21 Iowa 565.

⁶⁰ *The Debates of the Constitutional Convention*, 1857, Vol. I, pp. 355-358; *Second Annual Report of the Board of Trade of Burlington*, 1877, p. 70.

porated by the legislatures of the various States and Territories and by the free banks had some legal standing, although their value depended largely on the wording of the charters and the ability and integrity of the men in charge. The scrip or orders of the various governmental subdivisions also had official prestige to promote its circulation. But money was so scarce and the value of the scrip and bank notes on the whole so doubtful, that it is not surprising that Iowans frequently accepted the checks, bills, and coupons issued by business men and business firms on much the same terms as bank notes. This private "money" was, of course, purely a personal matter and except in a few unusual cases never circulated far from home. Its value as a medium of circulation depended almost entirely upon the confidence of the people in the man or firm issuing it.

This private paper was of two kinds — fractional currency, to assist in making change, and bills or checks of larger denominations, similar to bank notes. These larger bills were a form of deferred payment as well as a medium of exchange.

The use of paper for parts of a dollar seems to have been rather common with business men. Some of these "shinplasters" resembled bank notes in form, although the paper was inferior. An example of this scrip shows three pictures similar to those on bank notes — a hunting scene, a drove of cattle, and an anvil — with the words "M. Frank & Bro. Will pay FIFTY CENTS on demand, IN CURRENT BANK BILLS, When a DOLLAR'S WORTH of these Checks are presented at their Wholesale and Retail Clothing House, WASHINGTON STREET, IOWA CITY."

A small green card in a collection of paper currency bears the picture of an angular bob-tailed horse on which are printed the words "STUMPTAIL CURRENCY". Above the horse are the words "10 Cts." and across one end the

words "Redeemable at Tousley's Saloon, In Currency, in amounts of even dollars" — also, no doubt, in a more liquid commodity.

Personal checks and notes also developed into paper money. How this money came about is explained in J. M. D. Burrows's *Fifty Years in Iowa*.⁶¹

In the winter of 1853-1854, Burrows and Prettyman were buying hogs and shipping them east. The drafts received from the eastern merchants were sold to or deposited with banks in Illinois or with Iowa firms doing an exchange business. Burrows and Prettyman deposited drafts as they came in with Cook and Sargent, and gave checks on Cook and Sargent to the farmers. At rush times they checked out money faster than Cook and Sargent could collect or exchange their drafts. At one time, Burrows reports, he had overchecked his account \$120,000. Ebenezer Cook finally declared that they could not pay checks ahead of actual deposits, and Burrows then paid for the hogs he bought in checks payable the following spring at various dates, so that each holder had to wait the same length of time. If they preferred to wait until June, the farmers were told they could have gold and Burrows added "I brought sixty thousand dollars from St. Louis, on the 1st of June, and deposited it in Cook and Sargent's bank, to pay those gold checks, some of which were not presented for payment until the following winter." In the meantime the checks were receivable in trade at the store run by Burrows and Prettyman.

About this time, according to Burrows, business became depressed because of the uncertainty of the currency. "People had lost confidence in the State banks of Illinois and the free banks of Indiana. Small change had about disappeared, and, instead, many persons gave their own

⁶¹ Burrows's *Fifty Years in Iowa*, pp. 99-101, 105, 106, 107, 115.

individual tickets, printed on pasteboard or fine paper, as the case might be, payable when presented in amounts equal to one dollar."

Soon after 1856 Cook and Sargent began circulating the notes of the Bank of Florence, chartered by the legislature of Nebraska, and controlled by members of the Cook and Sargent firms. Burrows and Prettyman deposited their drafts with Cook and Sargent and paid out the notes of the Bank of Florence. They soon decided that they might as well circulate their own money and sent to a New York firm for \$100,000 in bills. They were informed that such bills were not usually engraved or printed except for banks, but upon the recommendation of a New York commission house, the bills were printed. Burrows says of the transaction "They threw in ten thousand dollars, sending us one hundred and ten thousand, for which they charged us eight hundred dollars, the price agreed upon for one hundred thousand. They were beautifully engraved, printed on the nicest kind of bank-note paper, and looked as well as any bank bills in circulation."

It was agreed that Burrows and Prettyman would pay out either their own money or the notes of the Bank of Florence as the farmers preferred, and the eastern exchange would be carried on through Cook and Sargent as before. In return the notes of Burrows and Prettyman were to be protected and treated on an equality with those of the Bank of Florence. "In a short time", says Burrows, "we began to pay out our checks. They went just as well as Florence. Cook & Sargent took them the same as Florence. The railroad took them, also the steamboats, and we had no trouble to circulate them. We calculated the profit on the circulation at ten thousand dollars a year".

The money issued by the Nebraska banks and that issued at home, by such firms as Burrows and Prettyman soon

tended to drive out eastern money. If a man brought in one of Burrows and Prettyman's checks and asked for money he could use in the East, they gave him notes of the Bank of Florence and when he presented these at the office of Cook and Sargent, they gave him Burrows and Prettyman checks. This, Burrows says, was called "swapping cats".

Everyone wanted good money and no one had it. Before long, Cook and Sargent refused to accept deposits of Burrows and Prettyman notes, except for a special account. The result was a flood of demands for the redemption of Burrows and Prettyman checks or notes. Burrows met this run with the explanation that while the notes could not be redeemed in currency, they would be accepted at the store at par. This "money" was, it appears, largely redeemed in goods.

It was perhaps of this firm that Hiram Price wrote: "I have a very distinct recollection of seeing the chief member of the firm carrying in his hat (a large bell-crown, such as our Uncle Samuel is represented as wearing) whole printed sheets, resembling bank bills, of what was called the money of the firm, and in his vest pocket a pair of scissors, so that whenever and wherever he was met on the street or other place he was prepared to pay in this currency for wheat or pork, or any other legal claim, by simply extracting from his capacious hat a sheet of what he called, and what for the time being passed for, 'money,' and with his scissors cutting off the necessary sum to liquidate the claim!"⁶²

Some of the better known private companies also issued notes which were similar to the scrip issued by the cities. The Western Stage Company, a public utility with headquarters at Des Moines and Iowa City, issued scrip in payment for labor, horses, and feed. This scrip was receivable

⁶² Price's *The State Bank of Iowa in the Annals of Iowa* (Third Series), Vol. I, p. 270.

for stage fares and was also redeemable in current money at a Chicago bank. Toward the end of this period the issue of this private "money" became more general. Banks, railroads, and insurance companies issued notes or certificates of deposit, some payable on demand, some at a future date with interest. Some were made payable to "bearer", others to a specified person "or bearer".⁶³

The advantage of this private "money" depended partly on how long it was before the notes were presented for specie and some firms made definite efforts to get their notes in circulation as far from home as possible. In 1855, for example, J. W. Denison offered to bring five or ten thousand dollars of bills of the Providence Western Land Company from Rhode Island to Iowa and exchange it here or in Rock Island for other money with which he would purchase a draft on New York for 1½ per cent.⁶⁴

Such "money", left stranded far from home, soon depreciated and in some cases could be bought up at a reduced value by agents and returned to the issuer, who thus sold his notes at or near par and perhaps bought them for fifty or sixty per cent or less, in addition to having the use of the specie while the notes were out. Bills lost or destroyed of course accrued to the profit of the issuer.

In 1861 a case involving some of these private notes came before the Iowa Supreme Court. The paper involved consisted of post notes issued in November, 1857, by the Dubuque Harbor Company, a corporation organized under the general incorporation laws of Iowa. The Court held that these notes were obviously intended to be used as money, that under the Constitution of 1846 this was unconstitutional, and that the adoption of the new Constitution permitting

⁶³ Lathrop's *Some Iowa Bank History* in the *Iowa Historical Record*, Vol. XIII, p. 60; collection of W. M. Rosen.

⁶⁴ *Letters of J. W. Denison* in *THE IOWA JOURNAL OF HISTORY AND POLITICS*, Vol. XXXI, p. 91.

the authorization of banks did not of itself repeal the statutory prohibition of the *Code of 1851*. Such notes, the Court declared, were void even in the hands of innocent holders.⁶⁵

"CANDLING" BANK NOTES

The problems of the pioneer bankers or business men were complicated by the necessity of judging the value of the paper money which came into their hands. There was, of course, the danger of accepting counterfeit coins, but this paled into insignificance beside the problem of deciding which bank notes were to be discounted and how much, to say nothing of the possibility that they might be entirely counterfeit or might represent a purely mythical bank.

That this problem involved no small amount of financial knowledge is evident from the story that two men of an inquiring turn of mind listed the notes which went through the exchanges during a short period in 1856 and found notes of more than three hundred banks and six different kinds of local scrip or orders. Two-thirds of these bills were then below par.⁶⁶

Bills were classified as they came in, depending upon the status of the banks issuing them. Hoyt Sherman tells of the five labels used in one old currency tray. "Eastern Penn., N. Y. and New England" were choice funds, rating next to gold. "Ohio, Indiana and Missouri" and "Va., Md. and Ky." were not so good, but were considered safe and were bankable. "Illinois and Wisconsin" represented the free bank notes, issued chiefly at Chicago and Milwaukee. The fifth group was designated as "Western Mixed" and caused most of the grief of the banker so far as currency was concerned. This was the "wild cat" money. "The vigi-

⁶⁵ Reynolds v. Nichols & Co., 12 Iowa 398.

⁶⁶ Aurner's *History of Johnson County, Iowa*, Vol. I, pp. 445, 447.

lant banker watched that pile of currency closer than the others", said Mr. Sherman. "Its increase in quantity caused much anxious concern — and its decrease corresponding elation. As the close of the business day approached, if the supply was large, he prayed inwardly for checks to come in for payment; and if he could close up with that part of his tray empty, his sleep that night would be calm and peaceful. That kind of money reversed the usual order of things in the mind of a banker — a large balance, instead of being a source of satisfaction, was a very disagreeable menace."⁶⁷

A man who accepted a bank note and then found that it was at a discount had, as a rule, no recourse. In this respect a bank note was less safe than a check for which the person who passed it with his endorsement might be held responsible, if the giver had no money in the bank or the bank failed.

Hiram Price, himself a banker and business man, wrote concerning this problem:

In those days in Iowa the two most important books that every business man needed were a Bible and a counterfeit detector. And of these two the detector seemed to be the most important for at least six days out of the seven, and most men in business seemed to act as though it had been written "six days shalt thou diligently study thy counterfeit detector, but the seventh which is the Sabbath, thou mayest give heed to thy Bible" but business men were not even then secure against imposition and loss from depreciated and counterfeit bank paper, because a bank might be in good condition when the detector was published, but the next week afterward, and before he could procure a new edition, showing the standing of the banks, paper which he had taken as good would have depreciated from five to twenty per cent, and sometimes even more.⁶⁸

⁶⁷ Sherman's *Early Banking in Iowa* in the *Annals of Iowa* (Third Series), Vol. V, pp. 7, 8.

⁶⁸ Price's *The State Bank of Iowa* in the *Annals of Iowa* (Third Series), Vol. I, p. 267.

One of the best known of these bank note guides was *Thompson's Bank-Note Reporter*, established by John Thompson in 1836. At one time its circulation was 100,000 copies per week. This paper is still published as the *American Bank Reporter*.⁶⁹

COUNTERFEITING

The ease with which paper money could be issued during the pioneer period made counterfeiting extremely easy. Almost any printer could print bank notes and often printers did so without investigation. Not infrequently bank notes bearing the name of a mythical bank appeared. So numerous were the banks of issue, and so varied the form of bank notes, that forgeries were often undetected for a long time.⁷⁰

The circulation of these counterfeit bank notes seems to have been one of the "rackets" of pioneer gangsters. Edward Bonney tells in his book of going about in search of the murderers of Colonel George Davenport. As an introduction into the circles of the underworld of that day, he obtained from Judge Wilson some blank sheets of the notes of the Miners' Bank. These he carried with him. When he met men whom he suspected might be the murderers or know of them, he displayed the notes, giving the men to understand that he was passing counterfeit bills. One man was enthusiastic about the supposed counterfeit, which he pronounced almost as good as the original. He offered to pay twenty-five dollars per hundred which he asserted was the usual price for counterfeit paper until, as he said, it

⁶⁹ Footnote to *Letters of J. W. Denison* in THE IOWA JOURNAL OF HISTORY AND POLITICS, Vol. XXXI, p. 92. Thompson was one of the organizers of the First National Bank of New York and the Chase National Bank, also of New York.

⁷⁰ Merritt's *The Early History of Banking in Iowa*, p. 34.

was "*blown* in the newspapers" after which it was worth less.⁷¹

The first session of the Territorial legislature of Iowa made the forging or counterfeiting of any "bank bill or note, post note, check, draft, bill of exchange, contract, promissory note, due bill for the payment of money or property, power of attorney, county order, or any accountable receipt, or any order or request for the payment of money" or the passing of such forged or counterfeited papers a crime punishable by a fine up to \$1000 and imprisonment up to ten years.

Any person who knowingly had in his possession counterfeit notes or bills with the intent of passing or assisting in passing such counterfeit paper or any person who had in his possession any blank or unfinished note of any incorporated bank in the Territory or elsewhere with intention to complete the notes or bills so that they would circulate as money might be fined up to \$1000 and imprisoned up to five years. Any person making or passing a fictitious bill or note purporting to represent a bank, corporation, or individual, not in existence was subject to a fine of \$500 and imprisonment up to five years.

The counterfeiting of "any of the species of gold or silver coin now current, or that hereafter may be current in this Territory" or the passing or attempting to pass such counterfeit coins was made punishable by a fine of not more than \$2000 and imprisonment not less than three nor more than ten years.⁷²

The *Revised Statutes of the Territory of Iowa*, for 1842-1843, raised the penalty for forging paper instruments of all kinds, to imprisonment at hard labor for not less than three years and not more than twenty years. The fine was

⁷¹ Bonney's *The Banditti of the Prairies*, pp. 65-72.

⁷² *Laws of the Territory of Iowa*, 1838-1839, pp. 153, 154.

dropped. Passing or disposing of such counterfeit paper money was punishable by imprisonment from one to fifteen years. The penalty for counterfeiting gold, silver, or copper coins was imprisonment at hard labor from one to fifteen years.⁷³

The *Code of 1851* contained an elaborate section on forging and counterfeiting.⁷⁴ Altering or counterfeiting the notes of banks, corporations, or companies authorized by the law of any State or country to issue such notes might be punished by imprisonment in the penitentiary for not more than ten years, or by a fine of not more than \$300 and imprisonment in the county jail for not more than a year. Having counterfeit bills in one's possession with intent to pass such bills subjected one to imprisonment in the penitentiary for not more than five years, or to a fine of not more than \$200 and a jail sentence of not more than one year. Counterfeiting coin was punishable by imprisonment in the penitentiary from one to ten years.

Similar provisions were contained in the *Revision of 1860*.⁷⁵ These are State laws. The United States government made counterfeiting coins, stamps, and Treasury notes a criminal offense,⁷⁶ but Federal laws did not operate to prevent counterfeiting of State bank notes of any kind or any of the substitutes for money.

How much counterfeiting went on in Iowa before the Civil War it is, of course, impossible to say. Money was so uncertain and taken at one's own risk that counterfeit bills and coins were little worse than some of the legal "wild cat" money. Moreover the law enforcing officers of a pio-

⁷³ *Revised Statutes of Iowa*, 1842-1843, pp. 175-178.

⁷⁴ *Code of 1851*, Secs. 2629-2635.

⁷⁵ *Revision of 1860*, Secs. 4253-4270.

⁷⁶ *United States Statutes at Large*, Vol. I, p. 115, Vol. II, p. 404, Vol. III, pp. 275, 276, 771, 772, Vol. IV, pp. 119, 121, Vol. V, p. 749.

neer community were, on the whole, unskilled in the detection of counterfeiting.

Frontier reminiscences and histories, however, make frequent references to counterfeiting. About 1843, for example, there was a suspicion that some one was making counterfeit coins in Davis County. On January 19, 1845, a man named John B. Cole filed charges that counterfeit money was concealed about the persons of "Greenbury Willis and James Pussel". Under authority of a warrant, the men were searched and Willis was discharged on the ground that no counterfeit money was found "concealed" about his person. Pussel on whom some counterfeit coins were found was later discharged for lack of the complaining witness. The justice taxed the costs, \$8.42½ to Cole. Later molds and apparatus for coining Mexican dollars were found at the root of a tree in the vicinity.⁷⁷

RESUMPTION OF BANKING IN 1858

It was evident that in spite of the Constitution of 1846, banking institutions had developed in Iowa and that by the importation of bank notes from other States and Territories, the prohibition of the incorporation of banks of issue was rendered of no practical protection to the people of Iowa. Prohibitive measures having failed, people demanded either government banks or State regulation. This required a change in the Constitution. Since other changes were being considered, a new Constitution was drafted and adopted in 1857. The provisions concerning banks read in part as follows:

Section 1. No corporation shall be created by special laws; but the General Assembly shall provide, by general laws, for the organization of all corporations hereafter to be created, except as hereinafter provided. . . .

⁷⁷ Horn's *History of Davis County, Iowa*, in the *Annals of Iowa* (First Series), Vol. II, pp. 350, 351.

Sec. 3. The State shall not become a stockholder in any corporation, nor shall it assume or pay the debt or liability of any corporation, unless incurred in time of war for the benefit of the State.

Sec. 4. No political or municipal corporation shall become a stockholder in any banking corporation, directly or indirectly.

Sec. 5. No act of the General Assembly, authorizing or creating corporations or associations with banking powers, nor amendments thereto shall take effect, or in any manner be in force, until the same shall have been submitted, separately, to the people, at a general or special election, as provided by law, to be held not less than three months after the passage of the act, and shall have been approved by a majority of all the electors voting for and against it at such election.

Sec. 6. Subject to the provisions of the foregoing section, the General Assembly may also provide for the establishment of a State Bank with branches.

Sec. 7. If a State Bank be established, it shall be founded on an actual specie basis, and the branches shall be mutually responsible for each other's liabilities upon all notes, bills, and other issues intended for circulation as money.

Sec. 8. If a general Banking law shall be enacted, it shall provide for the registry and countersigning, by an officer of State, of all bills, or paper credit designed to circulate as money, and require security to the full amount thereof, to be deposited with the State Treasurer, in United States stocks, or in interest paying stocks of States in good credit and standing, to be rated at ten per cent. below their average value in the City of New York, for the thirty days next preceding their deposit; and in case of a depreciation of any portion of said stocks, to the amount of ten per cent. on the dollar, the bank or banks owning such stock shall be required to make up said deficiency by depositing additional stocks: and said law shall also provide for the recording of the names of all stockholders in such corporations, the amount of stock held by each, the time of any transfer, and to whom.

Sec. 9. Every stockholder in a banking corporation or institution shall be individually responsible and liable to its creditors, over and above the amount of stock by him or her held, to an amount equal to his or her respective shares so held for all of its liabilities, accruing while he or she remains such stockholder.

Sec. 10. In case of the insolvency of any banking institution, the bill-holders shall have a preference over its other creditors.

Sec. 11. The suspension of specie payment by banking institutions shall never be permitted or sanctioned.⁷⁸

The legislature which met in the spring of 1858 passed two important laws relative to banking. One of these created the State Bank of Iowa, which will be discussed under a separate heading.⁷⁹ It also enacted, by a law approved on March 22, 1858, the so-called "free bank" law of Iowa. In compliance with the new Constitution, this law was submitted to a popular referendum on June 28, 1858 — the date also of the referendum on the State Bank — and was approved by a majority of almost three to one.

Although no banks were incorporated under this law and no bank notes issued, a brief account of its provisions may be valuable as illustrating the safeguards the General Assembly at that time felt to be necessary for banks of issue, and all banks were still expected to issue notes.

The act established a minimum capital for banks incorporated under this law of \$50,000 which must be paid in cash. No bank could be located in a town of less than 500 inhabitants. Stockholders were subjected to double liability and a reserve of twenty-five per cent was required to cover deposits and the banks were prohibited from holding real estate except for actual banking purposes and that bought at a sale to satisfy a judgment. These banks were authorized to issue bank notes, but only in accordance with stringent regulations and under the supervision of the State Auditor. Such notes were to be secured by deposits of public stocks — United States or State. No notes were to be issued for less than \$1.00. Not more than ten per cent of the amount could be in notes of \$2.00, not more

⁷⁸ Constitution of Iowa, 1857, Article VIII.

⁷⁹ See below, pages 48-51.

than twenty-five per cent in notes under \$5.00, and fifty per cent must be in notes of \$10.00 or more.⁸⁰

This does not, of course, mean that there were no banks in Iowa during this period except the fifteen branches of the State Bank. Private banks continued to do business, although they could not issue notes. A few banks incorporated under the general incorporation law of the State.⁸¹ Such incorporation protected the stockholders from unlimited liability, but furnished no special protection to creditors and gave to the corporation no authority for the issue of bank notes.

NOTES OF THE STATE BANK OF IOWA

The idea of a State Bank was an old one, carried over from the Bank of the United States and many of the States. At the time Iowa adopted the Constitution of 1857 which permitted banking, almost all the surrounding States except Wisconsin had State banks of some kind. The Iowa Constitution fixed some definite restrictions on the legislature so far as banks were concerned. The State was prohibited from owning stock in any corporation, which, of course, applied to the State Bank. Furthermore any State Bank must be on an actual specie basis and the branches must be mutually responsible for all notes issued. The act creating such a bank must be submitted to the voters and be approved by them.

The General Assembly adopted an act incorporating a State Bank of Iowa on March 20, 1858, and on June 28th the act was approved by an overwhelming vote — 41,568 for the bank and 3697 against it.⁸²

⁸⁰ *Laws of Iowa*, 1858, Ch. 114, pp. 215-234. This law was repealed in 1870.—*Laws of Iowa*, 1870, Ch. 25.

⁸¹ Preston's *History of Banking in Iowa*, pp. 135, 136.

⁸² *Laws of Iowa*, 1858, Ch. 87; Preston's *History of Banking in Iowa*, p. 84.

The act named ten commissioners to organize the State Bank.⁸³ Each branch was to choose one director and three were named by the act to represent the State. The three representing the State — after the first appointments — were to be elected biennially by the General Assembly. Thirty was the maximum number of branches permitted. A safety fund of 12½ per cent of the amount of notes issued by each branch was to be held by the State Bank for the redemption of notes issued by that branch. The branches were made mutually responsible for notes issued, but not for other debts and obligations. Thus the State Bank proper was merely the sum of its parts, a board supervising the branches with special control over note issues. Only fifteen branches were established, located at Muscatine, Iowa City, Des Moines, Dubuque, Oskaloosa, Mt. Pleasant, Keokuk, Davenport, Lyons, Burlington, Washington, Fort Madison, McGregor, Council Bluffs, and Maquoketa.

The first meeting of the Board of Directors of the State Bank was held at Iowa City — the location fixed by the law as the central office — on October 27, 1858. Chester Weed of Muscatine was elected president. He was later succeeded by Hiram Price of Iowa City who served from 1860 until 1865 when the State Bank closed. The most important activity of the central Board of Directors was, of course, the issue of bank notes, which were furnished to the branches in any amounts up to two hundred per cent of the capital stock. The board, however, kept a vigilant eye on the activities of the branches and promptly frowned upon rash procedure, since the insolvency of one branch would have taxed the others to redeem the notes of the defaulting member.

⁸³ For accounts of the State Bank see Preston's *History of Banking in Iowa*, pp. 83-125; Lathrop's *Some Iowa Bank History in the Iowa Historical Record*, Vol. XIII, p. 62.

The notes issued by the State Bank varied somewhat in form. Some were printed especially for a designated branch and bore the name of the branch in large printed letters. Some notes, on the contrary, appear to have been ordered for all the branches with a blank for writing in the name of the branch. All notes, however, had to be approved by the central board and registered.

The bank notes were well printed and were issued in denominations of one, two, three, five, and ten dollars and in some larger denominations. Among the notes preserved, the one-dollar bills bore the picture of two pastoral scenes, the portrait of Governor Lucas, and the words "The ——— Branch of the State Bank of Iowa At ——— Will pay to the bearer on demand ONE DOLLAR". The two-dollar bill bore a farm scene evidently representing a stock buyer at work and the portrait of a young boy with long curls. The three-dollar bills had the representation of a corn-husking scene and the picture of a young woman. A covered wagon with the ox teams and a portrait of Antoine Le Claire ornamented the five-dollar notes. Ten-dollar bills bore an allegorical picture of Iowa, with a train in the left hand lower corner, and a picture of Governor Ralph P. Lowe on the right. This is the only picture named on the bills. The reverse side of these bills bore the denomination and the name of the State Bank. Some of the notes issued by the Keokuk branch bore pictures of George Washington, Henry Clay, Andrew Jackson, and Daniel Webster.

The amount of these notes outstanding varied, of course, from time to time. On February 3, 1862, the State Bank reported \$754,412.23 in specie on hand and \$1,111,908 in outstanding bank notes, \$140,000 of the notes being in the banks. In November, 1864, the notes of the State Bank totalled some \$1,428,432, based on a joint capital of \$1,031,925.

The Civil War and the State Bank.— The State Bank met the usual demands of the State in war time without difficulty. Its difficulty with its notes was due entirely to Federal action and not to any mismanagement of the bank. The first of these conditions — the inflation of the currency by greenbacks — compelled the bank to suspend specie payments in self defense.

The State Bank branches were required to redeem their notes in specie on demand, but debts to them could be paid in greenbacks. Since specie was at a premium, these banks were at a disadvantage. To defend themselves against this drainage of specie, the directors voted to permit the branches to redeem their notes in greenbacks, except for bona fide holders of notes who were residents of the State. This, of course, was a technical, though justifiable, violation of its charter.

Federal Tax on Notes of State Banks.— But this was not the only difficulty. On February 25, 1863, Congress passed an act establishing national banks and by another act a tax of two per cent was imposed on State bank notes. In 1865 this was raised to ten per cent and applied to all bank notes paid out after July 1, 1866. The law was a death blow to State banks so far as the issue of paper money was concerned. Since this was the chief purpose of the State Bank of Iowa, preparations were made to dissolve it. The last regular meeting of the directors was held at Iowa City on August 16, 1865, and on November 22, 1865, the directors burned some \$35,460 of the redeemed bank notes. November 14, 1867, was set for the final redemption of its notes. The records indicated, however, that several hundred dollars in notes were never presented and the bank profited by that much. These notes, of course, were probably lost or destroyed, or perhaps hoarded by people who were not

aware until long afterwards that the notes had been called for redemption.

Most of the branches, if not all, soon became national banks continuing to function and to issue bank notes under Federal supervision, thus illustrating one more step in the transfer of power to the Federal government. The Davenport branch began business as the First National Bank of Davenport on June 29, 1863, the first national bank in the United States.⁸⁴

PAPER MONEY BECOMES FEDERAL

The State Bank of Iowa was conservatively managed and showed promise of permanence and stability, at least until the lessons of 1857 should have been forgotten. The Civil War, however, brought complications. The nation, shaken by the strife within, went forward one more step in the direction of centralization and when the war was over, the issue of paper money had passed from the control of the States — which had done it badly — to the United States. Before taking up the greenbacks and national bank notes, it may be of interest to mention briefly some earlier forms of money or exchange furnished by the United States.

United States Bank Notes.— During the years before the Civil War the United States government did not issue paper money. It did authorize the issue of bank notes by the two banks of the United States, the second operating from 1816 to 1836 and thus touching the early period of Iowa history, but as the recharter of this bank was opposed at least as early as 1831, it is unlikely that many of these notes reached Iowa, at least until after its reincorporation as a State bank under Pennsylvania laws in 1836.⁸⁵

⁸⁴ *The History of The First National Bank in the United States*, p. 34.

⁸⁵ For a history of the first and second Bank of the United States, see Knox's *History of Banking in the United States*, pp. 35-79.

United States Treasury Notes.—Treasury notes were not in the beginning intended to be used as money. They were rather short term bonds, drawing interest and transferable only by assignment. In 1837, Congress authorized the issue of \$10,000,000 in Treasury notes due in one year with interest not to exceed six per cent. No notes were to be for amounts less than fifty dollars. In 1838, 1839, 1840, 1841, 1842, the issue of notes to take the place of those redeemed was authorized. The amount outstanding under these acts was \$5,000,000, except in 1842, when the maximum was set at \$6,000,000. An act of 1846, raised the maximum of Treasury notes to \$10,000,000 and in 1847 to \$23,000,000. These acts also authorized borrowing money on certificates of stock instead of the issue of the notes, at the discretion of the President.⁸⁶

In December of 1857 an issue of Treasury notes of not to exceed \$20,000,000 was authorized. After the issue of the first \$6,000,000, these notes were to be sold for specie to the bidders who accepted the lowest interest rate. A law of 1859 extended the issue of these notes, adding a proviso authorizing interest at six per cent in lieu of exchanging them for specie upon bids for the lowest rate of interest.⁸⁷

During the Civil War the issue of Treasury notes was increased until the inflation caused the suspension of specie payments. An issue of \$10,000,000 was authorized in December, 1860, with a minimum denomination of fifty dollars. These notes were payable in a year and drew interest not to exceed six per cent. In July, 1861, an act authorized three different kinds of Treasury notes and marks the transition from notes as a form of investment to notes used as money — greenbacks.

⁸⁶ *United States Statutes at Large*, Vol. V, pp. 201–204, 228, 323, 370, 411, 469, 581, Vol. IX, pp. 40, 118–121.

⁸⁷ *United States Statutes at Large*, Vol. XI, pp. 257–259, 430.

The Greenbacks.—The Secretary of the Treasury might, under this law, issue notes for the purpose of borrowing money in denominations of not less than fifty dollars, bearing interest at the rate of 7.3 per cent, payable in three years. He might also issue notes in exchange for coin or in payment of salaries, in denominations less than fifty dollars, payable on demand, or he might issue notes due in one year, bearing interest at 3.65 per cent, which were exchangeable for larger Treasury notes. None of these could be smaller than ten dollars. The total of non-interest bearing notes was not to exceed \$50,000,000. Less than a month later this act was amended to permit the issue of notes as small as five dollars. The demand notes under \$50.00 were made receivable for public dues.⁸⁸

On February 12, 1862, another \$10,000,000 of the demand notes were authorized, in addition to the \$50,000,000 provided for in the earlier law. Two weeks later an act authorized the issue of \$150,000,000 in Treasury notes, payable on demand to bearer, in denominations not less than five dollars. Of these \$50,000,000 were to take the place of other notes. These notes were made receivable in payment of all taxes and debts due the United States except duties on imports, and for all claims against the United States, except interest on bonds and notes. They were also made legal tender. Such notes, because of the green color of the obverse side, were called "greenbacks". The following July a second issue of \$150,000,000 was authorized on much the same terms. These, however, could be issued in amounts as low as one dollar. Early in March, 1863, the Secretary of the Treasury was authorized to issue \$400,000,000 in Treasury notes, bearing interest at six per cent. These notes were not to be for less than ten dollars.⁸⁹

⁸⁸ *United States Statutes at Large*, Vol, XII, pp. 121, 122, 259, 313.

⁸⁹ *United States Statutes at Large*, Vol XII, pp. 338, 345, 532, 710.

How many of these Treasury notes and greenbacks circulated in Iowa, it is, of course, impossible to determine. The earlier Treasury notes were in large denominations and payable to order. They were not intended to circulate and were not convenient for that purpose. On the other hand they were receivable for public lands and must have been a convenient form in which to carry money from the eastern States to Iowa.

Postage Currency.— The use of fiat money in the form of greenbacks soon tended to drive the silver and gold money out of circulation. Even the smaller coins disappeared. Postage stamps were used, but they were sticky and scarce. Private individuals, business firms, and banks issued fractional paper currency and even copper coins. To remedy this situation the Federal government in July, 1862, prohibited the circulation of private fractional currency, but authorized the use of stamps to pay debts due the United States up to five dollars. Enterprising advertisers provided transparent cases for the stamps.

In response to this law the United States put into circulation small bills — approximately $2\frac{1}{2}$ or 3 inches by $1\frac{3}{4}$ or 2 inches — which were designated as “postage currency”. They were issued in various denominations such as 3, 5, 10, 15, 25, and 50 cents, and bore designs similar to the regular postage stamps. The fifty cent piece, for example, bore the imprint of five ten-cent stamps.

Fractional Currency.— Apparently this postage currency answered a financial need, for in March, 1863, Congress authorized the issue of more bills of less than a dollar. These were frankly fiat money. They were receivable for stamps and were exchangeable for United States notes in amounts of not less than three dollars. The denominations were similar to the postage currency, but in 1865 the issue

of fractional currency for less than five cents was prohibited. The whole amount of fractional currency, including postage and revenue stamps used as money, was not to exceed \$50,000,000.⁹⁰

National Bank Notes Make Their Debut.—The Civil War, following closely upon the heels of the Panic of 1857 revealed the inadequacy of the exchange system in the United States. In 1861 the circulation consisted of \$246,400,000 in coins and \$202,005,767 in notes of State banks. More money was needed. The recurrent issue of Treasury notes, which were intended to circulate, put gold at a premium and on December 31, 1861, the banks voted to suspend specie payments. As a result specie, especially gold, circulated at a premium which increased as inflation continued until in 1864 a dollar in gold was worth \$2.85 in greenbacks. As a result \$2,565,233,591 issued in the form of paper currency during a period of 45 months previous to September 30, 1865, gave the government only \$1,705,347,632 in gold—a loss of \$860,000,000 which, of course, ultimately had to be paid by the taxpayers.

To supplement the issue of legal tender greenbacks, the United States, on February 25, 1863, made provision for the incorporation of national banks by Federal charter. This law was revised on June 3, 1864. These banks were banks of issue, but their notes were carefully regulated by law, and were protected by United States bonds deposited with the Comptroller of the Currency at the rate of \$100 in bonds for every \$90 of notes issued. The denominations authorized were one, two, three, five, ten, twenty, fifty, one hundred, five hundred, and one thousand dollars. In addition, as has been said before, the United States government levied a tax on the bank notes issued by State banks.

⁹⁰ *United States Statutes at Large*, Vol. XII, pp. 592, 711, Vol. XIII, p. 518; *White's Money and Banking*, p. 117.

The result, of course, was to give national banks a monopoly of the issue of bank notes. The new bank law thus did three things: created a market for United States bonds; gave the Federal government control of the amount of bank notes to be issued; and furnished to the people a uniform and well-protected paper currency.⁹¹

MONEY IN IOWA DURING THE CIVIL WAR

The money in circulation in Iowa during the war was made up largely of the notes of the State Bank, greenbacks, national bank notes, and, in limited amounts, gold and silver coins. Because of the Federal tax on State bank notes, the greenbacks and national bank notes gradually displaced the State Bank notes, so that by the close of the Civil War, the money in Iowa was almost entirely Federal in its origin. Coins of the United States and greenbacks were, for most purposes, legal tender by Federal law.

The status of the State bank notes and national bank notes was not fixed by the United States, but in March, 1864, the Iowa General Assembly passed a law authorizing and requiring county treasurers to receive for taxes, in addition to the coins and legal tender greenbacks, notes of the national banks established by authority of the law of February 25, 1863, and notes issued by the branches of the State Bank of Iowa, but these State Bank notes were not to be so received after any branch should fail to redeem its notes. The county treasurers, however, were forbidden to exchange specie for notes and specie received for State taxes must be paid over to the State Treasurer.⁹²

About a week after the adoption of the above law, the General Assembly enacted another law, which so far as

⁹¹ Conant's *A History of Modern Banks of Issue*, pp. 397, 400, 401, 407; *United States Statutes at Large*, Vol. XII, Ch. 58, pp. 665-682, Vol. XIII, Ch. 106, pp. 99-118.

⁹² *Laws of Iowa*, 1864, Ch. 43, pp. 42, 43.

Iowa was concerned, ended the circulation of "wild cat" money. This law read as follows:

That whoever shall within this State, after the fourth day of July next, pay out, or offer to pay, or in any manner put in circulation or offer to put in circulation, any bank note, bill or other instrument intended to circulate as money, issued or purporting to be issued by any bank, individual or corporation in any other State, district or Territory within the United States or in any foreign country, shall be deemed guilty of a misdemeanor, and shall upon conviction before any court having jurisdiction, be fined the sum of five dollars for each note, bill or other instrument as aforesaid, so paid out or offered to be paid out, put in circulation or offered to be put in circulation.

This did not apply to Treasury notes, national bank notes, any other currency issued by authority of Congress, nor to notes of the State Bank of Iowa.⁹³

This act met with bitter opposition from private bankers and brokers who, in spite of the effect of worthless bank notes, still found it profitable to buy up issues of bank notes in other States, often at a considerable discount, and put them in circulation through produce buyers and in the form of loans. Thus the least reliable money was still being paid out to the farmers and the borrowers — the classes least able to afford risks and least able to judge the value of bank notes. With the adoption of this act, the profit on "shady money" ended. How much the people in Iowa lost in poor money between 1838 and 1864 it is impossible to say, but it must have been in the hundreds of thousands of dollars.⁹⁴

With the advent of the national bank notes, Treasury notes, and greenbacks, and the prohibitory tax on State bank notes, the control of paper currency passed definitely

⁹³ *Laws of Iowa*, 1864, Ch. 53, pp. 56, 57.

⁹⁴ Gue's *History of Iowa*, Vol. II, p. 106.

from the States to the United States. Debate has raged upon such questions as "resumption of specie payments", "demonetization of silver", "the gold standard", "free silver", "greenbacks", "inflation", "the controlled dollar", and "the commodity dollar", but whether there has been much or little money, whether it has been gold or silver, fiat, representative, or credit, the money in circulation in Iowa has, since the Civil War, been Federal in origin and control. If money is to come "out of a hat" as the scrip did in the fifties, then the hat must be in Washington and not in Iowa.

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