THE DEVELOPMENT OF BANKING IN MINNESOTA[1]

Introduction

The development of banking in Minnesota is a record of economic evolution. Banking has invariably been the outgrowth of certain special needs of the industrial and commercial world. A place of deposit is required for the accumulation and safe-keeping of money and capital; exchange becomes a necessity for the wider extension of the business operations of mercantile and commercial institutions; and a demand for loans and discounts is created by increasing trade and economic development. In a new country, especially, growing commercial enterprises have certain wants which are satisfied only by banking institutions performing the functions of deposit, discount, note issue, and exchange. To understand the development of the banking institutions of Minnesota requires that the beginnings be traced from the earliest stages of economic life and from the first exchanges of economic goods.

History demonstrates that the first steps taken in the settlement of a new country are generally due to the discovery of some real or potential source of wealth, that is, some natural resource. The first people to venture into a new land are the explorers. Exploiters, soldiers, and, perhaps, missionaries follow; in the course of time, if conditions are favorable, permanent settlers begin to arrive, and industries and commerce develop. In the territory now comprising Minnesota, as in a large part of North America, the magnetic natural resource which drew the first white men was the fur-bearing animals.

[1] A thesis submitted to the faculty of the graduate school of the University of Minnesota in June, 1915, in partial fulfillment of the requirements for the degree of Master of Arts; read in part at the stated meeting of the Minnesota Historical Society, December 11, 1916.

The fur trade introduced this portion of the country to the civilized world and provided the first step in the commercial development of the region. It is in the operations of the fur companies, then, that the beginnings of banking are to be found.

The French were the pioneers in developing the fur trade of the Northwest. From the time when they first gained a foothold along the lower waters of the St. Lawrence River, adventurous *coureurs de bois* and *voyageurs* made their way up this river and throughout the region of the Great Lakes, whence they returned with canoes laden with valuable peltries. It is known definitely that two of these traders came back to Montreal in August, 1656, after a two years' sojourn in a country some five hundred leagues to the west. These men, now identified by many historians as Medard Chouart, Sieur des Groseilliers, and Pierre d'Esprit, Sieur de Radisson, were probably the first white men in Minnesota.[2] Their enthusiastic accounts, as well as the furs they succeeded in bringing back, aroused traders and explorers alike; and by the first years of the eighteenth century several trading posts were established along the Great Lakes and in the Mississippi Valley.[3]

The French continued to control the fur trade in this region until 1760, when, by the fortunes of war, France lost her American colonies, Canada and her dependencies passing under the dominion of England. English merchants and trading firms at once superseded the French trading companies. The beginning of the American Revolution found the Montreal merchants firmly established in the Northwest. Their supremacy in this region, however, did not go unchallenged. Already traders from New York were making vigorous efforts to gain some share in the fur business—efforts which the war for independence for a time terminated, but which at its close

[2] Thwaites (ed.), *Jesuit Relations,* 42: 219, 296 n. 11; Folwell, *Minnesota, the North Star State,* 7–13.

[3] Neill, "The French Voyageurs to Minnesota" in *Minnesota Historical Collections,* 1: 17–36 (1872 ed.), and "A Sketch of Joseph Renville" in *Minnesota Historical Collections,* 1: 197.

were renewed; while in the North the Hudson's Bay Company was opposing all attempts to encroach on what it very properly considered its territory. The need of concerted action in order to exclude American traders, on the one hand, and to meet the opposition of the Hudson's Bay Company, on the other hand, as well as a desire to eliminate competition, led to the formation of large trading companies. The Northwest Company, organized in 1783, by absorbing gradually smaller rival concerns, by the year 1804 gained exclusive control of the region beyond Lake Superior, including much of the territory nominally belonging to the United States which was still dominated by the English by virtue of their retention of the military posts along the Great Lakes and in the Mississippi Valley. The Michillimackinac Company was organized in 1806 for the control of the trade in the upper Mississippi, south of the region controlled by the Northwest Company. This company met with little success. The operations of the government trading factories established by the United States at various points on the frontier and the growing business of the American Fur Company, organized in 1808 by John Jacob Astor, contributed to its failure. In 1810 the company was dissolved. Two of the trading firms forming the partnership immediately organized a new company, which in the following year joined with the American Fur Company in a new concern called the Southwest Company. These trading firms were also shareholders in the Northwest Company; and an agreement was entered into by which the latter company was to confine its trade to the Indians of the British dominions, and the Southwest Company, to those south of the boundary. The disorganization of the fur trade during the War of 1812 led to the dissolution of the Southwest Company. The passage by Congress in 1816 of a law prohibiting foreign traders from operating within the territories of the United States marked the withdrawal of the British trading companies from the Mississippi Valley.[4] The American Fur Company succeeded them

[4] United States, *Statutes at Large,* 3:332.

in the control of the fur trade; and thereafter for many years, under various owners and titles, was commercially and politically the greatest single force in the development of the region of which Minnesota forms a part.[5]

In the transactions carried on by the fur-traders no metallic money was used, furs being exchanged by the Indians for guns, ammunition, blankets, calicoes, knives, tobacco, rum, wampum, and various other articles. One of the foremost explorers and students of this region, Henry R. Schoolcraft, wrote in 1834 that the "standard of value and computation in this trade, is an abiminikwa, or prime beaver, called *plus* by the French." Under this system of barter the astute traders were able to reap large profits.[6] In the early part of the nineteenth century the credit system began to develop. Indians were permitted to obtain various articles at the trading posts and were given credit according to their hunting and trapping ability; in payment therefor they were required to turn over their furs to the trader with whom they had an account.[7]

[5] *Minnesota Pioneer* (St. Paul), August 22, 29, 1850; *Minnesota Chronicle and Register* (St. Paul), August 26, 1850. For further details on the history of the fur trade, see Stevens, "The Organization of the British Fur Trade" in the *Mississippi Valley Historical Review,* 3:172–202; Chittenden, *The American Fur Trade of the Far West* (New York, 1902).

[6] "A plus, tradition states, was given for as much vermilion as would cover the point of a case knife, and the same price was paid respectively for four charges of powder, or four charges of shot, or fifteen balls, or two branches of wampum." In 1784 furs were reduced to plus on the following basis: A bear, an otter, three martens, a lynx, and fifteen muskrats were worth, respectively, one plus; a buffalo robe was worth two plus, and a keg of mixed rum, of standard size, was worth thirty plus. As examples of the large profits enjoyed by the traders Schoolcraft cites one instance in which goods worth $2,000 were given in exchange for furs worth about $34,560, and another in which a fine gun worth about $51 was traded to a chief at one of the northern posts for 120 pounds of beaver worth about $480. *Narrative of an Expedition through the Upper Mississippi to Itasca Lake in 1832,* 89, 90 (New York, 1834). See also Sibley in *Minnesota Historical Collections,* 3:171.

[7] Sibley in *Minnesota Historical Collections,* 1:465; Schoolcraft, *Narrative of an Expedition,* 90; Smoky Day to Sibley, December 1, 1836, in the Sibley Papers.

Development along another line began in 1819, when a detachment of United States soldiers was sent up the Mississippi to establish a post at the mouth of the St. Peter's or Minnesota River. In the early summer of 1823 the first steamboat on the upper Mississippi, the little "Virginia," laden with supplies, picked its way up the river to Fort St. Anthony, later to be known as Fort Snelling. Thereafter each season steamboats came regularly to the fort.[8] Almost a decade passed after the advent of the soldiers, however, before settlers began to arrive in numbers.[9]

As a result of the treaties negotiated with the Sioux and the Chippewa in 1837, the United States government gained possession of the land between the Mississippi and the St. Croix rivers south of a line drawn through the mouth of the Crow Wing; and, after the ratification of the treaties in the following year, this area was open to settlement.[10] Immigration was light. In the next few years small settlements were made at St. Paul, St. Peter's (Mendota), Pembina on the Red River of the North, and Marine and Dakota (Stillwater) on the St. Croix; along the latter river a few farms were also scattered.[11] When Minnesota Territory was organized in 1849, its population numbered 4,680, of which 840 were in St. Paul, 637 in Pembina, and 609 in Stillwater.[12]

[8] Neill, "Occurrences in and around Fort Snelling from 1819 to 1840" in *Minnesota Historical Collections,* 2: 103, 107. Up to May 26, 1826, fifteen steamboats had arrived at Fort Snelling; by 1839 there were nine steamboats making regular trips to the post. Baker, "History of Transportation in Minnesota" in *Minnesota Historical Collections,* 9: 16.

[9] Several families of refugees from the Selkirk settlement on the Red River of the North settled on the Fort Snelling reservation during the years from 1822 to 1836. A report of the commandant in 1837 gives the number of white inhabitants (exclusive of the soldiers) in the vicinity of the post as 157, of whom 75 were connected with the establishments of the fur companies. Williams, *History of the City of St. Paul,* 42, 60 (*M. H. C.* vol. 4); Adams, "Early Days at Red River Settlement and Fort Snelling" in *Minnesota Historical Collections,* 6: 88.

[10] Kappler, *Indian Affairs: Laws and Treaties,* 2: 491–494 (Washington, 1904).

[11] Le Duc, *Minnesota Year Book,* 1851, pp. 25–32.

[12] *Council Journal,* 1849, p. 183.

The business of the fur company was extended in the years following 1837 to include transactions other than those pertaining peculiarly to the fur trade. The Indians no longer considered it necessary to tender furs in payment of their credits, but paid the traders in money at the regular government payments. It is needless to say that the traders exercised great care that they should be at the place designated for the payments, bringing stocks of goods with them.[13] Thus, it came about that the fur company not only dealt in furs, but also sold goods on credit, to be paid for later in cash—a strictly retail business. With the arrival of more settlers this retail department was enlarged to supply their needs, and the company entered into competition with other business houses.[14]

A second line of departure was brought about by the occasional demands of the people for certain banking services. These demands were too irregular and too small in volume to justify the establishment of banks; and the people naturally turned to the American Fur Company, the strongest moneyed institution in the territory, for the satisfaction of these needs. The company, therefore, began to extend to explorers, missionaries, and others the privilege, previously accorded only to its own employees, of using it as a fiscal agent. Its activity in this field requires examination, for it is in these transactions that banking really finds its beginnings in Minnesota. The company made loans, cashed drafts on eastern cities and St. Louis, and sold exchange on its offices in New York and other places. It carried some of these loans on its books as credits (checking accounts), and honored drafts drawn against them whenever presented. It collected customers' notes falling due in other sections of the country, and it also acted as the agent of eastern people in the collection of notes from local inhabitants. Its local operations were greatly facilitated by the "outfits" (trading posts) established at various points through-

[13] H. L. Dousman to Sibley, December 22, 1837, November 2, 1838; to David Aitkin, September 26, 1838, in the Sibley Papers.

[14] *Minnesota Pioneer,* April 24, June 2, 1851.

out the Indian country; and its various foreign operations, by the main office in New York.[15]

While the company realized a profit on these banking operations, nevertheless it suffered some losses, which were inevitable at the time because of the lack of rapid communication and the uncertainties of the monetary situation. Protested

[15] Henry H. Sibley, afterwards the first governor of the state of Minnesota, arrived at St. Peter's (Mendota) in 1834 as resident partner and manager of the American Fur Company. His daybook and letter files, now in the possession of the Minnesota Historical Society, contain considerable material for this particular phase of the subject. Illustrations of the fur company's banking operations are too numerous to be given here, but a few examples will suffice to corroborate these statements.

"I enclose you my own acceptance @ 3 dys for one hundred dollars, being the amt. you wish to borrow from me, and which I advance you with much pleasure. The draft will be cashed by any of the boats, or by R. H. Campbell Esq. in Galena." Sibley to H. L. Moss at Stillwater, August 11, 1849.

"I have advanced Doct. Norwood of the Geological Corps the sum of $390. which he expects to get from Mr. Carter at your place, in which case, I have requested him to turn the amt. over to you, taking your receipt therefor." Sibley to R. H. Campbell at Galena, September 27, 1849.

An entry in Sibley's daybook for August 23, 1838, shows that F. Ayer, a missionary among the Indians of the Snake River district, credited the Pokegama mission with a draft drawn on New York, at ten days, in favor of G. M. Tracy.

"We duly honored the 3 drafts you drew on us at Prairie du Chien last fall, say for $908.08 which we charged as directed on the face of the bills." Ramsay Crooks, president of the American Fur Company, to Aitkin, New York, April 7, 1840.

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

On October 24, 1838, Joseph Renville Sr. wrote to Sibley from Lac qui Parle, asking that the latter give Dr. Williamson, a missionary, one hundred dollars and charge the amount to his (Renville's) account; and on November 25, 1835, Dr. Williamson, writing to Sibley from the same place, said: "I send you above a draught on M^r^ Tracy of New York for 112 dollars & 14 cents. This with the 25 dollars which you told me you intended contributing to the Board . . . covers all the orders I have drawn on you togeth[er] with 15 dollars for corn which we have obtained drafts drawn on people in the East were one source of loss; the notes of insolvent state banks in other parts of the country were another.[16] The fact that the company continued its operations in this field is sufficient proof that it realized a net profit from these transactions.

With the creation by Congress in 1849 of the territory of Minnesota, a change took place in the industrial and commer-

from Mr Brown and fifteen dollars fifty five cents which you will please credit to Mr Renvills account and charge to ours."

"I wish to draw some money from the savings bank, at Quebec, and I do not know of a surer way of getting it than by asking you." G. A. Belcourt, missionary at Pembina, to Sibley, June 14, 1849.

"Understanding that the maker of the enclosed note is in your country, I take the liberty of handing to you his (Louis Brunelle's) note dated Sault Ste Marie 11 Augt 1831, payable 1 July 1832. . . . Whatever you may collect have passed to the credit of the office in New York for % of St Marys Outfit." Crooks to Sibley, Mackinac, October 18, 1836.

"Mr. Brown starts in the morning by Land for your place. I have advanced him $85.90 & charged Sioux Outfit." Dousman to Sibley, Prairie du Chien, November 5, 1838.

"I enclose with this an acct. against Mooers for $25.75 which he will pay you—also Farribaults acct. which charge to him, & his note which can be given up to him." Dousman to Sibley, June 20, 1836.

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

"We have credited Western Outfit 1841 for the Revd Dr Gavins draft on Lentilhon & Co paid 6 July 1842 $916.67 and Wm Leiths draft on Wm Smith." Crooks to Sibley, New York, July 7, 1842.

[16] "Order H L Dousman on Mr De Rham for $1000 was refused; and Mr Chouteau took it up on the 21 Jany 1837 for the honor of the *endorser*—So this $1000 will also go back to the Prairie & Mess Pratte Chouteau & Co be paid for the amount. . . . Be cautious whose draft you take. But few are good." Crooks to J. Rolette at Prairie du Chien, May 26, 1837. H. L. Dousman on November 6, 1838, wrote Sibley from Prairie du Chien that of $645.50 in bank bills sent him by the latter $71.50 were counterfeit, and the greater portion of the rest were Wisconsin bank notes then not current and not received anywhere. "Take no more of them—Illinois, Indiana, Missouri & *Detroit City* Banks are the only ones current & take none other—all Michigan notes are entirely rejected." B. W. Brisbois of the Western Outfit at Prairie du Chien wrote William Forbes at Mendota on February 26, 1842, "The Illinois Banks are going down fast. We have stopd taking it."

cial, as well as the political, life of the people. New fields of activity were opened; and, to meet the new and growing needs of industries and commerce, banking in Minnesota entered upon the second distinct period of its development. The American Fur Company had rendered, and continued to render, great service to the people of this region; but, as the incoming merchants and business men began to look to other institutions for assistance in financial transactions, the prestige formerly enjoyed by the company gradually waned.

The Beginnings of Private Banks, 1849–55

The organization of Minnesota as a territory called attention to possible opportunities. This region was still mainly Indian country with but a few small and scattered settlements in that part of the territory which had been ceded to the government. In 1849 St. Paul was a small village, "just emerging from a collection of Indian whiskey shops, and birch-roofed cabins of half-breed voyageurs."[17] Its advantageous location at the head of navigation on the Mississippi just below the confluence of that river with the Minnesota, and the fact that it was the capital of the territory, combined to make it the Mecca of the immigrants coming into the region and the gateway for all traffic in the Minnesota and upper Mississippi valleys.[18] It was natural, therefore, that St. Paul should become the business center in the early development of Minnesota.

The United States census of 1850 shows that the white population had increased to 6,077, distributed by counties as follows: Ramsey, 2,227; Kittson (and Roseau), 1,134;

[17] Neill, *History of Minnesota*, 494 (Minneapolis, 1882, 4th edition). Mr. Neill, according to the *Weekly Minnesotian* (St. Paul) of April 9, 1853, came to Minnesota in April, 1849, and for some years was prominent in religious work in St. Paul. He was a careful student of the history of Minnesota, and his writings are considered reliable.

[18] An efficient barometer of prosperity in those days is furnished by the number of steamboat arrivals, which for the years 1848 to 1852 were 47, 73, 104, 119, and 171, respectively. *Weekly Minnesotian*, April 9, 1853.

Washington, 1,056; Dakota, 584; Benton, 418; Wabasha, 243; Wahnahta, 160; Mahkahto, 158; and Itasca, 97.[19] Immigration increased rapidly after the negotiation and ratification of the Sioux treaties of 1851.[20] In the early summer of 1853 five steamboats engaged in the Minnesota River trade carried capacity cargoes and numerous passengers. Villages grew up in the valley of the Minnesota and farms appeared in all directions.[21] This growth was merely a forerunner of the unprecedented immigration of the four succeeding years.

The people migrating to Minnesota were hardy frontiersmen, with slender financial resources—typical of those who have always been in the vanguard of settlement. As a class they were far superior in morality, education, and intelligence to the pioneers of many of the older territories. A large part were farmers who came west with wagons and stock.[22] There were practically no established industries, and the quantity of ready money—insufficient even in the better settled and more industrially advanced communities—was far too meager for business purposes.[23] In order to supply the finances necessary for industrial and commercial advancement money was brought in from outside the state, in payment for which high rates of interest were exacted. Rates varying from two to five per cent a month were prevalent, even for loans based on good security. A large part of this money went, however, not into industries, but into real estate, in response to the popular cry of "Land! more land!"[24]

[19] *United States Census*, 1850, p. 993.

[20] *St. Anthony Express*, July 16, 1852. For the text of the Sioux treaties concluded at Traverse des Sioux and Mendota, see Kappler, *Indian Affairs: Laws and Treaties*, 2:588–593.

[21] *Minnesota Democrat* (St. Paul), May 11, 1853.

[22] Sibley, "Reminiscences of the Early Days of Minnesota" in *Minnesota Historical Collections*, 3:244; *Minnesota Pioneer*, June 23, 1853; *St. Anthony Express*, June 21, July 12, 1851; *Minnesota Democrat*, August 4, 1852.

[23] The lumber and logging industries had come into prominence after the building of the first mill in 1838 on the St. Croix River.

[24] *St. Anthony Express*, March 13, 1852; *Minnesota Democrat*, November 17, 1852.

The scarcity of capital, the high rates of interest, the increasing population, and the growing industries and commerce provided rich opportunities for a bank of issue as a means of increasing the supply of money. But all attempts in this direction met with such strenuous opposition that no institution of this kind having legal or public sanction was established during the territorial period.[25] The hostile attitude of the people arose from the fact that many had had unpleasant experiences with "wildcat" banks and "cheap currency" in other states and had no desire to repeat such experiences in their new home.[26] Several attempts were made, however, to establish banks of issue, the first of which was, so far as has been discovered, the Bank of Saint Croix, in 1849.

In September of that year a stranger by the name of Isaac Young induced a Mr. Sawyer, then a resident of St. Paul, "to sign a large number of handsomely engraved pieces of paper; on which were engraved the words 'Bank of Saint Croix, Saint Paul, Minnesota,' or something of that purport." The signer understood that they "would be promptly redeemed when issued." These bank notes were quoted at the time "in the Eastern bank note lists *at one per cent. discount;* the quotation being doubtless furnished by some accomplice in the fraud, living in Wall street, N. Y. city." Young disappeared from St. Paul and when next heard of was in St. Louis buying goods with this money, which had been given value by favorable quotations in the current bank note lists. The extent to which these notes were placed in circulation in Minnesota is not known, but Sawyer stated that he had signed only a small amount, between five and seven hundred dollars. The public at large was notified that no such bank existed in Minnesota

25 *Minnesota Pioneer,* July 14, 1853.

26 The editor of the *Minnesota Chronicle and Register* in the issue of January 12, 1850, wrote in this connection: "We are no especial sticklers for Banks of any kind, or in any community, and most certainly no apologists for irredeemable Bank issues. Our pockets have suffered considerably in by-gone days from this cause."

and that, if people ever heard of an institution of this character as existing in the territory, they should consider it "a fraudulent, unlicensed concern."[27]

That the intention of the promoters of this enterprise was to flood the territory south of Minnesota with these notes when navigation closed is not known, but that the situation appeared serious is indicated by the articles published in the papers of Galena and St. Louis, and also by the following apologetic notice in Presbury and Company's *Counterfeit Detector:*

> BANK OF ST. CROIX.—We have stricken this Bank from our "Detector," with this explanation:
>
> A few days previous to the issuing of our October number, Mr. Daniels, of this city, introduced to us a gentleman by the name of Young, who informed us that he, with some other capitalists, were about to establish a Bank at St. Paul, and showed us two notes—one of the denomination of "one dollar," the other for "two dollars". He also stated that but few had been signed, and that no more would be issued until the charter had been sanctioned by the authority of law. He left those two notes with us, and money sufficient to redeem *all* that was *issued.*
>
> Upon this representation we mentioned the money in the Detector, giving holders of the notes information when they would be redeemed.
>
> Since the mention of the paper above alluded to, we have been advised that it is improbable that the Legislature of the Territory would grant any such charter.[28]

This notoriety was sufficient not only to prevent the circulation of many notes of this bank, concerning which discussion soon ceased, but also to dampen the ardor of other "wildcatters." It was not until the year 1853 that the attempt to establish institutions of this type was renewed.[29]

[27] *Minnesota Pioneer,* November 15, December 12, 1849.

[28] Quoted in the *Minnesota Pioneer* of January 9, 1850, from the *Missouri Republican* of St. Louis. Other articles on this subject from Galena and St. Louis papers appeared in the *Pioneer* of January 2 and 9, 1850.

[29] The *Minnesota Pioneer* of November 17, 1853, contained an article on business opportunities in St. Paul, in which it was asserted that there was "no bank" (i. e. bank of issue) in that city, although under the heading

In contrast to the attitude assumed towards banks of issue was that regarding offices of discount. As early as 1850 the question arose regarding the advisability of establishing such an office in order to alleviate the financial distress to which business was subject whenever government payments were delayed. These payments were largely Indian annuities and formed the main source of ready money for the traders, who made easy prey of the Indians.[30] To render the financial situation more acute, the money derived from the Indian payments could not be retained for local circulation but was drained from the territory in payment for provisions and for freight thereon, since, with the exception of lumber and cranberries, Minnesota as yet imported practically everything worn or consumed in the territory.[31]

With characteristic American optimism, however, capital alone was thought necessary to make Minnesota a great agricultural region and a "better . . . manufacturing country than any of the Eastern and Middle States." For supplying this capital a loan office was considered desirable inasmuch as it was "free from the objections to banking," since a bank relied upon its charter for its credit, whereas a loan office would "rely upon its *capital* to sustain its credit." Again in November, 1851, an editorial in one of the St. Paul papers discussed the need of a loan office. The article maintained

"Bankers and Exchange Brokers" three offices of discount and deposit were listed. The early territorial governors were opposed to banks of issue, and repeatedly urged upon the legislature the advisability of postponing the enactment of measures establishing such institutions. See especially the messages of Governor Ramsey and of Governor Gorman in *House Journal*, 1852, p. 31; 1854, p. 30.

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

31 *Minnesota Pioneer*, October 17, November 7, 1850. In the *Minnesota Democrat* of December 22, 1852, the statement is made that "over $200,000 of the Sioux money went below in drafts and bank notes, by the last mail."

that such an "office at St. Paul, from which to borrow, not paper, but money, might facilitate the business of lumbering or Indian payments by anticipating sales or payments, and thus equalizing the amount of currency more between periods of payment, and preventing extreme pressure and tension."[32] The response to this suggestion was not long in forthcoming. In January, 1852, Charles H. Oakes of the fur company advertised that he had money to loan; and, as the field was so large, other loan offices were opened the same year.[33]

In the meantime other events of great importance to the banking business of the territory had taken place. As early as May 1, 1851, Charles W. Borup, also of the fur company, began dealing in bills of exchange and drafts on all parts of the United States, with his office in the building of the Minnesota Outfit, St. Paul.[34] In June of the next year Messrs. Borup and Oakes formed a partnership. This establishment met with no opposition; on the contrary, those most bitterly opposed to banks of issue gave hearty support to the new institution.[35]

Borup and Oakes did not long enjoy a monopoly of the banking business in Minnesota. Before the end of 1853 Smith, Newell, and Company, William Brewster and Company, and C. H. Parker had established similar offices; and by November 1, 1854, five other banking houses were in operation in St. Paul.[36] In the same year the growth of population increased financial needs so rapidly in other communities that

[32] *Minnesota Pioneer,* November 21, 1850, November 20, 1851.

[33] *Weekly Minnesotian,* January 24, November 6, 1852; *Minnesota Pioneer,* July 8, October 18, 1852.

[34] *Minnesota Pioneer,* May 1, 1851.

[35] The *Minnesota Pioneer,* the organ of the antibanking element, in giving notice of this event on July 1, 1852, said, "That is what we want—men of capital, cash men and not paper banking institutions."

[36] *Minnesota Pioneer,* January 6, November 24, 1853. The *Minnesota Democrat* of November 1, 1854, listed the banking houses as follows: Borup and Oakes, C. H. Parker, A. Vance Brown, William Brewster, Mackubin and Edgerton, Truman M. Smith, Brown and Fletcher, Rice, Hollinshead, and Becker, and George K. Smith.

R. Martin, Tracy and Farnham, and the C. L. Chase Land Company in St. Anthony, and S. J. R. McMillan in Stillwater, opened banking houses.[37] Within the next three years similar institutions were established in other localities. All these establishments were private banks, having no fixed capital and under no regulation save that of commercial honor. In general, they transacted the same kind of business as that of Borup and Oakes—a commercial banking business—making loans and discounts, dealing in exchange, making collections, and later receiving deposits, on which the rate of interest, because of the competition among the banks, rose to seven and twelve per cent a year. The majority of these institutions also conducted a real estate business.[38]

Banking operations were conducted under difficulties. The isolation of the territory and the lack of currency placed the bankers at a decided disadvantage. The rate of exchange on eastern cities varied from one to five per cent, and, since home products were insufficient to satisfy the needs of the rapidly increasing population, none could be exported; consequently exchange had to be created by shipments of gold and currency.[39] The nearest railroads terminated on the east bank of the Mississippi at La Crosse and Prairie du Chien, so that shipments had to be made by steamboat in the summer and by stage in the winter.[40]

The quality of the currency furnished another problem for the bankers. For a short time after the organization of the territory the limited amount of currency consisted almost entirely of specie, but soon counterfeit and irredeemable bank notes made their appearance, thereby necessitating close scrutiny and the use of bank-note detectors. In this connection the

[37] *St. Anthony Express,* May 6, August 19, September 23, 1854; *Weekly Minnesotian,* August 19, 1854.

[38] *Minnesota Pioneer,* December 22, 1853; *Minnesota Democrat,* December 21, 1853, November 1, 1854.

[39] *Minnesota Democrat,* November 1, 1854.

[40] Isaac Atwater (ed.), *History of the City of Minneapolis,* 486 (New York, 1893).

bankers and newspapers rendered great service by publishing, from time to time, lists of counterfeit notes or those rendered worthless by the failure of the issuing banks. Cognizant of the splendid opportunities offered for the circulation of their notes, individuals and banks sent agents to Minnesota with large quantities of their small bills for "purposes of speculation and imposition." The merchants, and the public as well, suffered no inconsiderable losses from these spurious issues, and in the winter of 1853–54 the situation became so serious that the business men of St. Paul petitioned the territorial legislature for relief. They urged the passage of a measure forbidding "the circulation . . . of all bills of whatever kind, designed as currency, under the denomination of ten dollars, with heavy penalties for the violation of the law," which was then before the legislature, but which failed to pass.[41]

Among the "shinplasters" were found a few notes of a local "bank." It soon developed that "a Shinplaster financier by the name of Israel Smith" had left New York shortly before with a large amount of notes of the "Merchants and Mechanic's Bank, Iowa," en route to St. Paul or St. Anthony, where he intended to establish a bank.[42] Upon his arrival at the latter place he prevailed upon one of the citizens—reputable but poor—to sign notes of the Merchants' and Mechanics' Bank of St. Anthony. Attempts were then made in St. Paul to pass bills in denominations of from one dollar to ten dollars but without much success, only four or five hundred dollars passing into circulation. Smith then left for Galena, where he falsely reported, for the purpose of giving his notes value, that he had received the permission of Governor Gorman of Minnesota Territory to establish his St. Anthony bank. Not long

[41] *St. Anthony Express,* December 13, 1851, June 17, November 19, 1853; *Minnesota Democrat,* January 26, 1853, November 1, 1854; *Minnesota Pioneer,* February 22, March 1, 1855. For the text of the petition, see *Council Journal,* 1854, appendix, p. 177.

[42] The *Minnesota Democrat* of July 6, 1853, quotes the *Milwaukee Free Democrat* of June 29, 1853, and Thompson's *Bank Note Reporter.* The latter prefaced the statement with the words "EXTRA CAUTION."

afterwards, his efforts having proved futile, he left for New York "to make arrangements for the redemption of the bills." The prevailing sentiment stirred up by this episode is expressed in this sentence, "We want no wild-catting or buzzard-roosting here in Minnesota," and in the advice given, "Be careful in counting your money—touch not—handle not!"[43]

About the same time Richards, Clarke, and Company opened a banking house in St. Paul under the name of the Central American Bank. Their business consisted of dealing in exchange and making collections. In addition, they attempted to issue notes; and although, unlike the two former attempts at establishing banks of issue, they actually opened an office, their effort aroused resentment to a high pitch. The organ of the Democratic Party, the *Minnesota Pioneer,* published its views in opposition to wildcat money and advocated the election of sound money men to the next legislature. In addition, it was stated that "the currency paid by Government to the Territory, and disbursed to its citizens by the proper officers, is the *only* currency recognized by the constitution."[44] Two days after the publication of this editorial a large meeting of indignant and determined St. Paul business men organized to carry on the warfare against the Central American Bank and similar institutions. The following resolutions were unanimously adopted:

> *Whereas,* A recent attempt has been made to circulate as money an issue of a so-called Central American Bank, of this city, and
> *Whereas,* Such an attempt is antagonistical to the best interests of this Territory, and particularly to the interests of the business men of this city. Therefore be it
> *Resolved,* That we will oppose, under all circumstances, now and hereafter, this and all similar attempts to impose upon us an illegitimate and irresponsible paper currency,

[43] *Weekly Minnesotian,* July 2, 1853. No communication of any kind relative to the St. Anthony bank passed between Smith and Governor Gorman. *Minnesota Pioneer,* July 14, 1853.

[44] *Minnesota Pioneer,* July 21, 1853.

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

Resolved, That the proceedings of this meeting be published in all the papers in this Territory.[45]

In the face of such opposition the bank could not long exist, and in January, 1854, it gave notice that it would redeem its outstanding notes until February 1 of that year. On February 8, 1854, its advertisement appeared for the last time in a territorial paper.[46]

A more successful attempt to establish a bank of issue was made by Borup and Oakes, who, in the latter part of January, 1854, announced that they would receive current bank notes on deposit, for which they would give "their certificates payable in like funds or in coin, or exchange on the east at current rates."[47] Action was immediately taken by the legislature, and a law, approved March 4, 1854, forbade the issue by unauthorized persons of "bills or promissory notes, or checks, certificates of deposit, or other evidences of debt, for the purpose of loaning them, or putting them in circulation as money, unless thereto especially authorised by law." The offense was made punishable by a fine of one hundred dollars, and any person aiding in the circulation of such evidences of debt was liable to a fine of twenty-five dollars.[48] This law was practically a dead letter from the day of its passage, and Borup and Oakes continued their note issue without interference.

A bill to incorporate the Bank of Minnesota was introduced in the same session. It provided that this bank should have a capital of one hundred thousand dollars, which might be increased to five hundred thousand; and that its notes should

[45] *Minnesota Democrat,* July 27, 1853.

[46] *Minnesota Pioneer,* January 5, 1854; *Minnesota Democrat,* February 8, 1854.

[47] *Minnesota Democrat,* January 19, 1854.

[48] *Session Laws,* 1854, p. 67. The act was repealed February 7, 1855. *Session Laws,* 1855, p. 167.

be secured by a deposit of securities of the United States or individual states, or of real estate mortgages, thus making it a free banking institution. Governor Gorman in his message had declared that "no law, creating a bank within this Territory, for circulating a paper currency, can receive my official sanction." The Democratic sentiment in the legislature, however, was sufficiently strong to prevent the passage of the bill, and it never came to the governor's hands.[49]

The currency in circulation continued to present a grave problem. In 1854 the paper issues in the territory amounted to millions of dollars. With a single exception the notes came from unknown banks in Maine, Georgia, Indiana, and other places distant from Minnesota.[50] The sole reliance of those who received them was on the genuineness of the engraving and on the reports of counterfeit detectors. In several instances the fact that a local banking house received or issued a certain foreign bank note gave the public confidence in that note, but the banker might at any moment refuse to accept the notes that he himself had introduced into circulation. Much loss was occasioned in the fall of this year by the notes of "broken banks" and by the fluctuation in note values arising from the rumors of bank failures circulated by speculators in bank notes.[51]

The Whig newspapers had long advocated the establishment of a state-regulated banking system similar to those in operation in Illinois and Wisconsin.[52] In these states notes issued by the banks were secured by the deposit of United States or state bonds, a system which was considered the best yet devised. The Democratic press, on the other hand, had

[49] *Council Journal,* 1854, pp. 69, 126, appendix, p. 7; *St. Anthony Express,* February 11, 1854.

[50] *Minnesota Democrat,* November 8, 1854. The exception was the notes of Borup and Oakes.

[51] *Minnesota Democrat,* November 8, 1854.

[52] *St. Anthony Express,* July 30, 1853; *Weekly Minnesotian,* July 23, 1853.

been unalterably opposed to any form of banks of issue.[53] The conditions existing in 1854, however, presented a problem to which there appeared to be but one solution, and the Democratic press united with the press of the opposite party in advocating the establishment of banks of issue under the strictest regulations possible with the hope that their note issues might drive from circulation the spurious issues then current and place the territorial circulating medium on a firm foundation.[54] At a meeting of the business men of St. Paul on November 29, 1854, held for the purpose of organizing a board of trade and discussing the currency problem, resolutions were adopted condemning the circulation of foreign paper money in the territory. When the legislature assembled, however, Governor Gorman in his message of January 18, 1855, again issued a warning against the establishment of note-issuing banks, and no action was taken.[55]

THE BOOM AND PANIC PERIOD, 1855–58

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

The year 1855 developed but little of particular interest in banking. The first event in chronological order was the issue by Borup and Oakes of a new shinplaster, redeemable in gold at a discount of one per cent.[56] These notes circulated at first somewhat freely throughout the territory because of the integ-

[53] *Minnesota Democrat,* December 24, 1850, October 21, 1851; *Minnesota Pioneer,* November 20, 1851.

[54] *Minnesota Democrat,* November 8, 1854.

[55] *Weekly Minnesotian,* December 2, 1854; *Council Journal,* 1855, p. 39.

[56] *Minnesota Democrat,* March 7, 14, 1855.

rity and high standing of the issuing firm. As time went on, however, there gradually developed considerable opposition to this issue. Two factors were operative in causing this opposition: jealousy on the part of other bankers, who refused to accept the new notes, on the one hand; and, on the other hand, distrust on the part of the public, due to the difficulty of redemption in localities other than St. Paul, to the fear that possible temporary embarrassment might cause the notes to depreciate, and especially to the apprehension that less responsible firms should begin the issue of similar notes. For these reasons the legislature of 1856 again prohibited "the issue and circulation of unauthorized bills as currency" and provided that payments of debts with such notes should be void. Borup and Oakes thereupon ceased to issue notes and began the redemption of those outstanding.[57]

Immigration during 1855 surpassed that of any preceding year.[58] Southeastern Minnesota gained more of this incoming population than any other section of the territory, the gateway being Winona. The rush to Fillmore, Houston, Winona, Olmsted, and other counties was extraordinary. Villages sprang up as if by magic, hamlets became thriving villages and towns, and farms appeared in localities which no one dreamed would be settled for years to come.[59]

What was true of the southeastern section in 1855 was applicable to the entire territory the following year. Every

[57] *Weekly Pioneer and Democrat,* January 31, 1856; *Minnesota Democrat,* March 7, 1855; *Session Laws,* 1856, p. 7. See also the report of the "committee on shin plasters" to the house of representatives, February 26, 1858. *House Journal,* 1857–58, p. 398.

[58] The *Minnesota Democrat* of November 1, 1854, estimated that forty-five thousand people were brought to St. Paul by boat during the preceding season. According to the *St. Anthony Express* of November 22, 1856, the steamboat arrivals in the years from 1851 to 1854 numbered, respectively, 119, 171, 200, 245. The figures for 1853 and 1854, as reported in the *Weekly Minnesotian* of November 15, 1856, are 235 and 310, respectively.

[59] *Weekly Pioneer and Democrat,* May 22, 1856. The census of the territory taken in 1855 shows that Houston, Fillmore, Mower, Winona, Olmsted, Dodge, Steele, Rice, Goodhue, and Wabasha counties had a

portion, notwithstanding the spirited competition prevailing, appeared to be receiving a share of the inflow. The boats engaged on the Mississippi were unable to keep pace with the tremendous influx of trade and travel, and by May 10, 1856, huge piles of freight had accumulated and were daily increasing at Dubuque and Dunleith. In the first two months of navigation in 1856 (April and May), two hundred steamboats arrived at the wharf in St. Paul, a record estimated as nearly equal to that of the entire preceding year and exceeding that of any previous year. Immigration literally poured into the Minnesota Valley. Sometimes two boats a day left St. Paul, but even these, loaded to their utmost capacity with passengers and freight, were unable to handle the rush. On the upper Mississippi between St. Anthony and Sauk Rapids two steamboats were scarcely equal to the demands of the trade. In the St. Croix Valley the unusual success which had attended the beginning of the lumbering industry had its effect on every branch of trade, and led to a rapid increase in wealth and population of the villages in that region.[60]

It was confidently expected that there would be an even larger volume of immigration and commerce in 1857; therefore steamboat men made great preparations for accommodating an enormous transportation business. The basis of their belief was the record of the preceding year and a calculation of favorable results from the land grant made by Congress for the building of railroads. In the spring the boats were crowded with passengers; settlers with prairie schooners and cattle were constantly passing through towns in the eastern part of the territory, bound for the unsettled western por-

population of 17,665 out of a total for the territory of 53,600. *Weekly Minnesotian*, August 11, 1855. The population of Winona increased from practically nothing in 1852 to 800 in 1855 and 3,000 in 1856. *Weekly Winona Express*, August 28, 1855; *Winona Republican*, December 25, 1855, December 30, 1856, February 10, 1857.

[60] *Weekly Pioneer and Democrat*, May 22, 1856; *St. Anthony Express*, May 10, 1856; *Weekly Minnesotian*, May 17, 1856.

tions.[61] The warnings of the eastern papers regarding western lands, however, and the unsettled monetary conditions of that year, culminating in the panic, undoubtedly had a dampening effect on many eastern people who would have come west had conditions been as propitious as in 1856.[62]

As a natural sequence of this extraordinary increase in population came an increase in the volume of business. Encouraged by the rapid rate at which the population was growing and the increasing area over which trade was being established, the merchants considered it advisable to enlarge their enterprises to the limit of their capital and credit. To do so they were forced to borrow at the prevailing rates of interest, which, as subsequent experience showed, were justified by neither actual nor prospective profits.[63] The most considerable and important class of borrowers, however, were the operators in real estate, who had been attracted by the cheapness of the land and by the strong tide of immigration, and had come westward in large numbers to reap a harvest, especially in the boom years of 1855 and 1856. Their transactions caused the price of real estate to advance rapidly; and, in consequence, all classes of people became obsessed by the mania for speculation in land. In 1856 this speculation assumed alarming proportions, and prices reached heights out of all proportion to real value.[64]

[61] *St. Paul Advertiser,* March 21, 1857; *Weekly Pioneer and Democrat,* April 2, May 28, 1857; *Winona Republican,* April 21, 1857. An article copied from the *Cannon Falls Gazette* by the *Pioneer and Democrat* of June 25, 1857, describes the volume of travel through Cannon Falls.

[62] *St. Paul Advertiser,* June 13, 1857; *Weekly Minnesotian,* June 27, 1857.

[63] *St. Paul Advertiser,* June 27, 1857, and an article in the issue of June 20, 1857, quoted from the *New York Independent* of June 11.

[64] The *Weekly Pioneer and Democrat* of December 18, 1856, announced that 140 acres at the mouth of Bassett's Creek, Minneapolis, preëmpted the year before for $1.25 an acre, had just been sold for $35,000, or $250 an acre. The same paper, in the issue of July 16, 1857, quoted a notice from the *Hastings Journal* to the effect that 40 acres adjoining Hastings, which had sold in September, 1856, for $14,500, had recently been resold for $32,480. These were typical transactions.

A spirit of optimism pervaded the territory. One editor in the summer of 1856, after mentioning that it was a common thing to buy lots in St. Anthony and Minneapolis one day and sell them the next at an advance of from fifty to seventy-five per cent, declared that it was impossible for any land at the prices then prevailing to deteriorate in value, and that a price level had not yet been reached in St. Anthony, Minneapolis, or the surrounding country. Apparently everything was at the high tide of prosperity; most of the people were living beyond their means, in an atmosphere of feverish excitement, basing all their hopes on the outcome of the most fantastic projects, a condition of affairs certain to prove disastrous to all concerned.[65]

Coincident with the expansion in other lines of activity there was an expansion in the banking field. Numerous banking houses appeared in the various towns of the territory, six being established in Winona alone by the end of 1856.[66] In the early part of 1857 there were ten such institutions in St. Paul. Taking as a basis for calculation the advertisements of banks in the various territorial papers, a very conservative estimate would place the minimum number in existence in the summer of 1857 at not less than thirty. At the commencement of 1857 the bankers of St. Paul perfected an organization known as the "board of brokers." Its announced intention was "to obtain the most valuable information as to the condition of such banks as are circulating their paper in our community, and also to receive the earliest possible news, by telegraph or otherwise, of anticipated or actual failure of such banks." In this respect the board rendered valuable service to the public, but some of its activities were not quite so commendable.[67]

[65] *St. Anthony Express,* July 5, 1856; *Weekly Minnesotian,* October 3, 1857.

[66] *Winona Republican,* February 10, 1857; *St. Paul Advertiser,* August 22, 1857.

[67] *Weekly Pioneer and Democrat,* January 15, 1857. See below, pages 139, 153, 155.

Currency troubles had gradually convinced a majority of the people that some kind of a regulated banking system was a necessity. In January, 1857, the opinion was expressed that a general banking system would, in all probability, soon be established. In the spring of the year the "Address of the Territorial Central Committee to the Democratic Voters of Minnesota" concerning the important measures to be considered at the coming constitutional convention advised that the fundamental law should contain no provisions for banking institutions unless they were so guarded and restricted as to secure the community against irresponsible and excessive note issues.[68] The constitutional convention was in session from July 13 to August 29, 1857, and after much discussion adopted the general provisions under which the state banking system later developed. These provisions will be discussed in connection with the consideration of the banking laws of 1858.

Money in the years preceding 1857 had been fairly steady. To be sure there were changes in rates under varying conditions of supply and demand, but there were no sudden or violent fluctuations. In 1856 the interest rate on call loans was two and one-half per cent a month; on loans for from six to twelve months, secured by real estate, three per cent a month; and on loans for from three to six months, secured by good paper, from three and one-half to four per cent a month. These rates prevailed into 1857. For a short time in the spring, however, rates rose to five, ten, and, in one case, to fifteen per cent a month, the highest points reached in Minnesota for money loaned for speculative purposes. With the beginning of immigration and the importation of money, the rate dropped to two and one-half and three per cent a month, near which level it remained until September.[69]

As the year advanced, the territorial financiers began to feel the effects of the uncertain conditions in the East. Stringency

[68] *St. Paul Advertiser,* January 24, 1857; *Weekly Pioneer and Democrat,* May 21, 1857.

[69] *St. Anthony Express,* August 23, 1856; *St. Paul Advertiser,* April 4, 11, 1857.

in the money market became the rule, and business was dull. New farms had been taken up and industries established on borrowed capital attracted by high interest rates; but the uncertain monetary conditions in the East, arising from excessive speculation, had stopped the supply. The local bankers, having invested heavily in real estate and real estate mortgages themselves and having but little money for business loans, were compelled to loan almost entirely on short time. In August the banking business was light, money was close, and maturing paper was not paid with the usual promptness. As a general rule banks did not discount except to their regular customers, whom they charged the prevailing rate of three per cent. Eastern exchange was scarce and was worth one-half per cent premium, while transactions in real estate were "growing small by degrees and beautifully less."[70] It was the lull before the storm.

On August 28, 1857, a telegram reached St. Paul announcing the suspension of several eastern banking institutions, including the Ohio Life Insurance and Trust Company, which had closed its doors on the twenty-fourth. Within a week the effects of these failures were felt in the territory. Real estate transactions ceased; payments on paper were slow, and past due paper began to accumulate; eastern exchange was scarce but light, and bankers were willing to buy it at a premium of three-fourths per cent, selling at one and one-fourth per cent; gold commanded a premium of one and one-half per cent; confidence was shaken, and there was much anxiety as to the future. As the effects of the panic began to be felt more powerfully, the outlook steadily darkened. Gold disappeared from circulation, money of any kind became scarce, and bankers refused to discount; gold in the middle of September sold for two and three per cent premium, with but little for sale; specie was hoarded by every one who could obtain it.[71]

[70] *St. Paul Advertiser,* July 4, 11, 25, August 15, 22, 1857.
[71] *St. Paul Advertiser,* August 29, September 5, 19, 26, 1857.

In the early part of October the banks of St. Paul suspended specie payment, and the problem arose as to how the merchants were to pay their eastern creditors, for the latter refused western currency except at almost prohibitive discounts, and it was impossible to get eastern exchange at even five per cent. Stores and warehouses were full of goods, but there were no buyers. Many merchants notified their eastern creditors that there was no specie in Minnesota, but that they could and were willing to pay their debts with western currency, which was on deposit in St. Paul subject to creditors' drafts.[72] At a meeting, held October 5, the merchants resolved to ask eastern creditors to pay one half of the exchange rates; to ask depositors to leave their money in St. Paul banks until needed, as they were safer than distant banks; and, as it was impossible to collect notes receivable, to make sales for cash only in order to be able to meet accruing liabilities.[73]

In the meantime, on October 2, the firm of Marshall and Company of St. Paul closed its doors on account of the failure of correspondents in St. Louis. Considerable anxiety developed lest this failure should directly affect other banking houses in the city, but the fear proved groundless. The following day, however, Truman M. Smith was compelled to close his doors. The greatest shock came on October 21, 1857, when Borup and Oakes, suffering from severe losses through the failure of the Ohio Life Insurance and Trust Company and other eastern correspondents, was compelled to suspend.[74]

[72] *St. Paul Advertiser,* October 3, 1857. According to the issue of October 24 the St. Paul merchants alone owed eastern and foreign creditors $1,500,000, and local debts amounted to $1,000,000, secured by real estate mortgages drawing from two to five per cent a month. These amounts included only transactions through the banks and not those of private persons.

[73] Eastern exchange was quoted at five and ten per cent, and currency was frequently discounted at ten per cent in the East. *St. Paul Advertiser,* October 10, November 21, 1857.

[74] A published statement in the *Weekly Pioneer and Democrat* of October 8, 1857, showed that Marshall and Company had as assets, bills receivable $168,666.61, cash and cash items $24,569.44, and real estate

The prospects for the coming winter filled people with foreboding. Trade was at a standstill. Immigration had ceased, and in its place an exodus began. House rents dropped, and over two hundred houses were left vacant in St. Paul. Large numbers of people were out of employment, but had no money with which to leave the territory.[75] To meet these conditions a meeting was held in St. Paul, October 24, at which suggestions were made that a stay law be enacted to be in force two years, and also that banks of issue be established with limited charters, their notes to be based on real estate and such other securities as could be obtained in the market.[76] People apparently found it impossible to grasp the fact that real estate was practically worthless. According to John H. Stevens, a pioneer of Minneapolis, corner lots in that town, which in May, 1857, sold for three thousand dollars, could not be sold in October for three hundred dollars. In the latter part of 1857 the newspapers contained numerous notices of sheriff sales, mortgage sales, and private advertisements of land sales; yet so strong was the confidence of the people in land values that they were willing to base their note issue on real estate securities.[77]

Lieutenant Governor Chase and, later, Governor Medary declined to consider the petition framed at the St. Paul meeting and refused to call an extra session of the legislature to institute a general banking system; therefore other means of

$250,000; as liabilities, $83,277.48 due depositors and $60,000 in bills payable in eastern exchange. Truman Smith held real estate to the value of $100,000, real estate mortgages for $300,000, and bills receivable for $80,000, with a few minor items, to offset $19,026.40 in deposits and $147,000 in bills payable. According to a statement in the *Weekly Minnesotian* of October 24, 1857, since September 10 Borup and Oakes had paid out $185,000, and nothing had come in.

75 *Weekly Minnesotian*, October 24, 1857; *St. Paul Advertiser*, October 24, 1857, April 3, 1858. The census of 1857 showed a population of 153,332. *Weekly Pioneer and Democrat*, May 27, 1858.

76 *Weekly Pioneer and Democrat*, October 29, 1857. The legislature was to meet in regular session in the winter.

77 Stevens, *Personal Recollections of Minnesota and Its People*, 301, 302 (Minneapolis, 1890); *Weekly Minnesotian*, November 28, 1857; *St. Paul Advertiser*, November 28, 1857.

alleviating the financial troubles had to be devised.[78] The city council of St. Paul authorized the issue of city order bills. This example was soon followed by Ramsey County, which, on November 3, authorized an issue of county scrip. Both issues were of denominations not less than one dollar or more than twenty dollars. Other counties followed Ramsey in this attempt to supply a circulating medium.[79]

The board of brokers, as such, refused to receive city scrip, but three of its members, J. Jay Knox and Company, Caldwell and Company, and Bostwick, Pease, and Company, advertised their willingness to take it on deposit. The banks, however, provided a currency of their own by endorsing the notes of defunct eastern banks, agreeing to take them on deposit and to make them pass current. Operating on this plan, Mackubin and Edgerton, W. L. Banning, J. Jay Knox and Company, Caldwell and Company, and Ennis and Plant of Hastings obtained a quantity of the inoperative Central Bank of Gray (Maine) notes, and placed them in circulation with the endorsement of the local issuing bank across the face. Bostwick, Pease, and Company in the same way issued the notes of the Farmers' and Merchants' Bank of Memphis, said to have failed, August 16, 1854. The prevailing rate of interest on loans was three per cent a month and five per cent a month after maturity.[80] The fact that the bankers were willing to place these notes in circulation, receive them at par, and loan them out at the above-mentioned rate, but refused to accept city scrip save at a discount, is sufficient evidence to prove that they were willing to capitalize the misfortunes of the public for their own selfish ends. For all practical purposes a piece of plain paper with the same endorsement would have answered as well inasmuch as the purpose was to provide a currency for

78 *Weekly Pioneer and Democrat,* October 29, 1857.

79 *Weekly Pioneer and Democrat,* October 29, 1857; *St. Paul Advertiser,* November 7, 28, 1857.

80 *St. Paul Advertiser,* November 7, 21, 1857; *Weekly Pioneer and Democrat,* November 12, 1857; *Weekly Minnesotian,* January 23, 1858.

local use, and the people were not in a position to object to the type or method of issue.[81] The Minneapolis merchants, in the fall, issued scrip for ten, fifteen, twenty-five, and fifty cents in order to meet the demand for small change. These notes had a large circulation, although there was a heated discussion over their issue.[82]

Many merchants failed in the fall and winter, and those who survived were hard pressed at all times.[83] With the convening of the legislature discussion turned to the subject of a new banking law which was now imperatively demanded by the people as a panacea for the financial ills from which they were suffering.

THE CONSTITUTIONAL CONVENTION AND THE BANKING ACTS OF 1858

The constitutional convention was held in the summer of 1857. Of the provisions incorporated into the fundamental laws of the proposed state, few, if any, received more careful consideration than those relating to the subject of banking. There were two conventions in session at the same time, each claiming to be the legally constituted body. Since the constitutional provisions adopted were those promulgated by the Democrats, a discussion of the Republican convention will not be necessary.

Many of the men who assisted in framing the banking provisions stated repeatedly that they themselves were not in favor of establishing a banking system; but, since the people demanded one, it was their duty to provide the best one possible. Impelled by this spirit, the convention formulated the con-

[81] *Weekly Minnesotian*, October 24, 1857; *St. Paul Advertiser*, November 21, 1857.

[82] Hudson (ed.), *A Half Century of Minneapolis*, 236 (Minneapolis, 1908).

[83] *St. Paul Advertiser*, April 3, 1858. A St. Paul merchant summed up one week's business as "$5 in City Scrip, and $5 worth of credit." *Weekly Minnesotian*, December 19, 1857.

stitutional basis for the state banking system.[84] The provisions finally adopted are, briefly, as follows:[85]

The legislature was denied the "power to pass any law sanctioning in any manner, directly, or indirectly, the suspension of specie payments by any person, association or corporation issuing bank notes of any description." It was empowered to pass by a two-thirds vote a general banking law. Certain restrictions were enumerated which were required to be incorporated in such a law. These requirements furnish further illustration of the great stress laid at that time upon the function of note issues. The registration of all bills issued and the furnishing of "ample security in United States stock or State stocks for the redemption of the same in specie" were required. If any of the deposited stocks should depreciate ten per cent or more on the dollar, the banks depositing them were to be obliged to make up the depreciation by the deposit of additional stocks. The stockholders of all corporations or associations issuing bank notes were made subject to double liability for all debts of that corporation or association, such liability to continue for one year after the transfer or sale of the stock by its holders. The bill-holders were made preferred creditors of any insolvent bank. The notes and property of every bank were to be taxed. Finally, the names of all the stockholders in such a corporation, the amount of capital stock held by each, the time of transfer, and the person to whom transferred were to be recorded.

These provisions were agreed upon only after the rejection of many proposed amendments, which are of interest in that they show the ideas prevailing with regard to banking. An

[84] Minnesota Constitutional Convention (Democratic), *Debates and Proceedings,* 401, 406, 407, 411, 412, 413 (St. Paul, Goodrich, pr., 1857). In his inaugural address, delivered June 3, 1858, Governor Sibley referred to the state banking system in these words: "The Constitution of Minnesota has provided for a judicious banking system, which will protect the citizens effectually, against loss from the depreciation of bank notes." *House Journal,* 1857–58, p. 606.

[85] Constitution of Minnesota, article 9, section 13.

amendment was offered which would have rendered the note-issuing power of a bank of no value whatever by declaring that no debts should be considered liquidated by the payment of the paper money of any banking corporation. Another amendment, designed to protect the public from fraud, which was adopted but later stricken out, provided that the stockholders in every corporation issuing bank notes should be held liable individually for all the debts of such corporation. The convention refused to make depositors preferred creditors over note-holders, and, after much discussion, it also refused to make the state liable for the redemption of all notes of the banks, on the ground that note-holders would be sufficiently protected by the deposit of United States and state bonds. Other amendments, which were rejected, endeavored to make the deposit of stocks and specie the basis of note issue, and to substitute real estate in place of the United States and state stocks.[86]

Fear lest a split in the Democratic Party, such as had taken place in Ohio and Indiana, would occur if the question of banks were submitted to the people for decision, led the convention to provide that the legislature might pass a general banking law by a two-thirds vote. Accordingly, on the convening of the legislature, December 2, 1857, numerous bills providing for a banking system were introduced and provoked considerable discussion. Some opposition was apparent, but it was directed against all paper money, which was described as the "bane of our country" and the direct cause of the present troubles. The measure which was finally passed on March 17, 1858, was a combination of the various propositions and was modeled on the Wisconsin and Illinois systems. It was described as a little more stringent than some of the bankers

[86] For the record of the action of the convention regarding the proposed amendments, see Minnesota Constitutional Convention (Democratic), *Debates and Proceedings,* 385, 397–417, 419–421. Governor Medary in his message of December 11, 1857, recommended that depositors as well as note-holders be given legislative protection. *Senate Journal,* 1857–58, p. 37.

desired, and possibly a little less liberal than was necessary for the entire security of note-holders.[87]

The provision exciting the most interest, aside from those concerning note issue, was undoubtedly that fixing the maximum rate of interest on loans. The opinion of the lending class had long been that no usury law should be enacted inasmuch as such a law would drive capital from Minnesota to other places where it could be more profitably invested. It was predicted that if a usury law were passed and enforced, it would produce universal bankruptcy within two months. The rate of interest on loans by bankers was, nevertheless, fixed by the new law at not more than twelve per cent a year. The suggestion was immediately made that men of capital would prefer private banking with unregulated rates of interest to the new system. What results would have followed it is impossible to determine, since the law was not put in practical operation. The act of Congress admitting Minnesota to the Union was approved May 11, 1858. The legislature, which had adjourned on March 25, reassembled on June 2, and, influenced by the warning of Governor Sibley in his inaugural message, on July 21 replaced the measure of March 20 with another act more carefully drawn. This act as amended at the same session became the basis for all later banking legislation of the state.[88]

The new act placed the supervision of banking under the state auditor. Elaborate provisions were made for the incorporation of banks of issue and for defining the rights and powers of stockholders and note-holders. All persons desiring to incorporate under the act were required to select a town of not less than two hundred inhabitants,[89] and to have an aggre-

[87] *St. Paul Advertiser,* January 16, March 6, 1858; *Weekly Pioneer and Democrat,* January 14, 21, 1858; *Senate Journal,* 1857–58, p. 323. For the text of the act of March 20, see *General Laws,* 1858, pp. 301–310.

[88] *Winona Republican,* December 30, 1857, April 7, 1858; *St. Paul Advertiser,* August 22, 1857; *House Journal,* 1857–58, pp. 599, 600, 606, 880; *General Laws,* 1858, pp. 68–81; Folwell, *Minnesota,* 160, 161.

[89] The act of March 20 placed the minimum at three hundred; the proposals in the discussion of the act of July 26 ranged from one hundred

gate capital of not less than twenty-five thousand dollars. The incorporators were required to certify as to the name of the bank, the names of the stockholders, and the dates of commencing and terminating business. The maximum rate of interest which such banks could receive or ask on loans or on notes and bills discounted was fixed at fifteen per cent a year, subject, however, to any general law fixing rates of interest that the legislature might thereafter enact.

Upon the application of persons incorporating under the act the auditor was authorized to furnish blank notes engraved and printed from plates, dies, and materials supplied by himself, or from plates, dies, and materials furnished by the incorporators but in his possession.[90] All expenses in preparing the notes were to be borne by the bankers to whom the notes were issued. The denominations of the notes were to range from one to five hundred dollars.[91] Each note was to be countersigned by the auditor and numbered and registered by him or his appointed agent.

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

to one thousand inhabitants. Limitation as to the locality was made to protect note-holders against a pernicious practice, carried on by bankers in other states, of locating banks of issue in some inaccessible place. The banks would then redeem their notes at convenient places at a discount just below the expense of going to the bank and redeeming them there.

[90] The public soon realized that this system would lead to an endless variety of notes, and therefore greatly facilitate counterfeiting. *Weekly Pioneer and Democrat,* July 29, 1858. Before the bill became a law, this provision was repealed, and a uniform set of plates was adopted. *General Laws,* 1858, p. 81.

[91] No notes were to be issued for denominations between five and ten, ten and twenty, twenty and twenty-five, twenty-five and fifty, and fifty and one hundred dollars.

the owner was required to make up the deficit, at the call of the auditor, either by additional stock or by the surrender of notes. In addition to the original deposit stockholders were required either to give bonds to the auditor to an amount equal to one fourth of the note issue or to deposit in lieu thereof ten per cent additional stock.[92]

Notes were to be redeemed at the bank only, and were made payable on demand and without interest. If a bank failed to redeem its notes upon presentation, a due protest by a notary, together with the numbers, denominations, and amount of the bills presented, was to be sent to the auditor, who thereupon was to give the bank a written notice that such notes were to be redeemed. This notice was to be published for thirty days in a newspaper of the county in which the bank was located, in a paper at the state capital, and in another in New York. After forty days had expired, the auditor was authorized to sell the securities at auction at the Merchants' Exchange in New York and to redeem all outstanding notes pro rata.

Bankers were authorized to return notes to the auditor in sums of not less than one thousand dollars and to receive in return a corresponding amount of securities deposited with him. If the entire circulation of any bank was to be retired, the officers were required to give notice for two years thereafter, in the newspaper of the county and a paper at the capital, that notes would be redeemed. All notes were to be canceled by the auditor in the presence of the governor and an official of the bank, and a record kept of such cancellation. Bank notes were made receivable in payment of all debts due the issuing bank. Counterfeiting of notes was punishable by a fine of not less than one hundred dollars, or imprisonment of not less than three months or more than twelve months, or by both fine and imprisonment.

Supervision was provided by requiring the presidents and cashiers of the banks to make out a report containing the

92 This provision really amounted to an issue of notes equal to ninety per cent of the par value of the stocks deposited.

names of the shareholders, the amount of stock held by each, the time of transfer, and to whom transferred, and to file the report in the office of the county register of deeds and in the office of the auditor on the first Monday in January and July. The bank officers were also required to make out a quarterly report, under oath, of the condition of the bank, using a prescribed form. The report was to be sent to the auditor and published in a newspaper in the place where the bank was located and also in a paper in the capital of the state. A fine of one hundred dollars was the penalty for late reports, and a punishment of not less than one year or more than ten years at hard labor was prescribed for any one convicted of making false reports.

All banks organized under this act were given the right to discount bills, notes, and "other evidences of debt," to receive deposits, to buy and sell gold and silver bullion, foreign coin, and foreign and inland bills of exchange, to loan money on real and personal securities, and to exercise "such incidental powers as may be necessary to carry on such business." Such a bank could hold, buy, or sell real estate if the necessities of its transactions so required, or if such real estate came into its possession as security for loans or money due it, or if conveyed to it in satisfaction of debts, or if acquired by sale on an execution in its favor.

Even a casual reading of the act will disclose the emphasis placed upon safeguarding and regulating note issue. Twenty-seven of the forty-five sections are concerned with notes or the securities deposited for the notes. Actual experience had bred in the people a fear of irresponsible note issue; under the new system, therefore, they set up every known safeguard for their protection. The act was lacking in any requirement for a reserve to be held against deposits and in regulations concerning limitations upon loans and discounts. No mention was made of the length of time charters should run, their life apparently being perpetual. Although the minimum capitalization was fixed at twenty-five thousand dollars, no provision was made for ascertaining whether or not that amount was actually paid in, so that for most of the banks this requirement was merely nominal, there being in fact but little real capital.

The clause exciting the most comment was that fixing a maximum rate of interest. Disapproval was expressed by some on the ground that such regulation was a "restriction upon the free competition of capital." Even those in favor of placing a limit on interest rates were of the opinion that this section should either be repealed or broadened to include every one; otherwise bankers might have private brokerage houses, collecting high rates of interest, "connected with, though outside of their institutions," to which funds available for loans could be transferred. An effort to remedy the situation was made. A general usury act fixing a maximum rate of fifteen per cent a year was passed by the legislature on August 9, 1858; it was vetoed by the governor, however, because of the fact that the enrolled bill presented for signature was not the one passed by the two houses.[93]

On August 14, 1858, an amendment in regard to the security required for note issue was passed, which caused considerable change in the meaning and significance of these provisions.[94] With the idea of providing a market for the state railroad bonds, banks were to be permitted to deposit stocks issued by the United States or by the state of Minnesota at their current value, the provision in regard to securities of other states remaining as in the original act. This change sealed the fate of the early state banks in Minnesota.

The currency situation in 1858 presented as great a problem as that of the preceding fall, with conditions more acute in St. Paul and St. Anthony than in other places. "Shinplasters of Michigan, the wild cats of Georgia and Pennsylvania, the wildest of all red dogs from Nebraska and Indiana," and worthless notes from North Carolina, Kentucky, Maryland,

[93] *Weekly Pioneer and Democrat,* August 5, 1858; *Weekly Minnesotian,* July 31, 1858; *House Journal,* 1857–58, pp. 1051, 1103.

[94] *General Laws,* 1858, p. 80.

and Virginia were passing from hand to hand. Practically every state in the Union contributed to the supply of trash in circulation in Minnesota, making it, as the *Chicago Tribune* said, the "Paradise of the feline tribe." The situation was further complicated by the city and county note issues. With the object of affording immediate relief the legislature of 1857–58 very early in the session authorized the issuance of state warrants bearing twelve per cent interest. This paper was taken freely at par by the merchants, mechanics, and laboring men of St. Paul and St. Anthony; and substantial alleviation was, for a time, afforded all classes. Business began to revive, merchants sold goods readily, and laborers received prompt compensation. The improvement was only temporary, however. The bankers from the first refused to receive the state warrants except at a discount; at times they even refused to take them at any price. According to their own statements they were obliged to take this course because the scrip could not be used to liquidate the eastern indebtedness of merchants and business men. A leading St. Paul paper did not hesitate, however, to charge the board of brokers with attempting to depreciate the value of the warrants in order that through their agents they might purchase them "on the street at a large reduction," knowing that in a short time the state would be in a position through the sale of bonds to redeem the scrip in coin at its face value; furthermore, it was shown, this policy was pursued in face of the fact that in Washington, for example, the scrip was selling at par and was regarded as a good investment. In April bankers were buying state scrip for seventy and eighty per cent of its face value; in July it rose to ninety and ninety-five; at the same time city scrip sold at sixty-five per cent, and county at sixty-two and a half per cent.[95]

[95] *Winona Republican,* January 27, February 24, 1858; *Weekly Minnesotian,* February 20, June 5, 1858; *Weekly Pioneer and Democrat,* April 8, 22, May 6, July 15, 1858; *General Laws,* 1858, pp. 16–18.

Business was dull; there was little demand for money, and its use was confined to safe and legitimate purposes, chiefly to the payment of debts. As the season advanced, it became apparent that it was best to prepare for a continuance of hard times, until another spring at least.[96] The anticipated increase in population did not materialize, for the course of immigration had changed and was flowing into the territories of Kansas, Missouri, and Nebraska. Population in Minnesota had grown too rapidly for the opportunities offered; thousands had been compelled to leave the territory in the fall of 1857; and people were consequently cautious about coming to a place which had fallen so rapidly from a height of great apparent prosperity to the depths of hardship.[97] Hope as to the future was revived to a considerable extent by the passage of a bill providing for a five million dollar loan to the railway companies to be used in railroad construction in Minnesota.[98] For years the people of the territory had been awaiting the coming of a railroad. Numerous companies had been chartered, but not a mile of road had been built. The loan, which was bitterly opposed, later proved futile for the carrying-out of the project.[99]

Such was the financial situation in 1858 which the new banking law was expected to relieve. But no banking system in force in any state at that time could have eradicated the deep-seated, basic evils with which the commercial world of Minnesota was beset.

The Period of Free Banking, 1858–63

The years of free banking, or of the state system, were important ones for Minnesota. Struggling desperately to overcome the effects of the panic of 1857 and to gain that

[96] *Winona Times*, February 6, 1858; *St. Paul Advertiser*, June 5, 1858.

[97] *St. Paul Advertiser*, April 3, 1858. Despite adverse conditions considerable immigration had flowed into southern Minnesota.

[98] *General Laws*, 1858, pp. 9–13; *Weekly Pioneer and Democrat*, April 22, 1858.

[99] *Weekly Minnesotian*, April 3, 10, 17, 24, 1858.

prosperity which a few years before had appeared to be her natural heritage, the state was compelled not only to contribute her full quota of men for the preservation of the Union, but also to fight for her own existence through one of the worst Indian uprisings that America has ever witnessed. The resulting conditions were far from conducive to the highest economic development and prosperity, and the effects may be seen in the history of banking during that period. In view of the inherent weaknesses of the existing system, it is doubtful whether results would have been different even under prosperous conditions unless radical changes had been made in the banking laws. This fact becomes evident when one studies the operations of the banks organized under the act of 1858.

By August 20, 1858, of the twelve applications for bank charters, three for banks to be located at Austin, Faribault, and Northfield, all under the control of B. W. Clarke, formerly of Milwaukee, had been accepted by the auditor. By September 12, 1858, six more applications had been approved. In the whole period ending October 8, 1858, eighteen applications were filed. In November the first banks went into operation, the Bank of the State of Minnesota at St. Paul and the Exchange Bank at Glencoe. The year closed without further accessions.[1] The new system was not inaugurated at an auspicious time. Trade was still in a depressed condition; taxes were unpaid; and mortgage sales and foreclosures were numerous.[2] But one bright ray shone through the gloom. An abundant harvest enabled Minnesota to take her place as a grain-exporting state.

An event occurred in the fall of the year that was vital in determining the status of the Minnesota state banks, not only

[1] *Daily Pioneer and Democrat,* August 20, September 12, October 8, 1858; *Winona Republican,* November 30, 1858; "State Auditor's Report" in *Senate Journal,* 1859–60, p. 730.

[2] *Daily Pioneer and Democrat,* October 7, November 25, 1858, March 10, 1859; *Winona Republican,* August 11, 1858.

in the state itself, but throughout the United States as well. Several railway corporations, including the Minnesota and Pacific Railroad Company, having complied with the conditions of the constitution entitling them to the issue of a certain amount of state bonds, applied to Governor Sibley for them, tendering in return a corresponding amount of their first mortgage bonds, amounting to about twenty-one million dollars. According to Sibley's interpretation of the constitution the first mortgage bonds of a railroad company were an exclusive first lien on the road, lands, and franchises of the company; therefore, he refused to accept the bonds unless a deed of trust were executed giving the state first lien. The Minnesota and Pacific Railroad Company immediately applied to the supreme court for a writ of mandamus to compel Sibley to issue the bonds. In granting the writ the court (Flandrau dissenting) stated that the constitutional provision did not require that the railroads give the state a prior lien.[3]

This decision naturally caused the state railroad bonds to depreciate greatly in value. The amendment to the banking act had opened the door for the use of these bonds as security for the note issue of banks. Certain newspapers in Minnesota had from the beginning bitterly opposed the railroad loan.[4] Their opposition continued even after the people had voted their approval of the loan. After the supreme court decision they proclaimed the railroad bonds unfit as security for currency at par.[5] The Exchange Bank of Glencoe, the second state bank to be organized, deposited the bonds as security for its note issue, which was promptly declared unsafe.[6] In the winter of 1858–59 the railroad bonds, commonly known as Minnesota Sevens, were placed on sale in New York; but the adverse decision of the supreme court, the fact that notes

[3] Minnesota and Pacific Railroad Company *v.* H. H. Sibley, Governor. 2 *Minnesota,* 1–20.

[4] The *Weekly Minnesotian,* beginning March 6, 1858, stopped at nothing in its attacks on the loan bill.

[5] *Weekly Minnesotian,* November 20, 1858.

[6] *Weekly Pioneer and Democrat,* November 17, 1858.

issued with railroad bonds as security were looked at askance even in Minnesota, and the thinly veiled hints of repudiation by the hostile newspapers of the state, combined to give the bonds such a character that eastern financiers refused to accept them. Governor Sibley's visit to New York for the purpose of assisting the managers of the Minnesota railway companies in negotiating the bonds accomplished little in the way of effacing from the minds of eastern financiers memories of the railroad swindles of Wisconsin.[7] People in the East, moreover, were under the impression that the currency of Minnesota was based on the much-maligned bonds and were afraid of it. Willard and Morris of Chicago in their *Bank Note Reporter,* after congratulating the people of St. Paul upon having as their first bank one of such excellent character—the Bank of the State of Minnesota—stated that a little discretion in choosing securities would give Minnesota a currency as good as that of Illinois and Wisconsin. They warned the people, however, that notes secured by the railroad bonds would provide only a depreciated and dangerous currency. The delay in determining the financial status of these bonds prevented several institutions organized under the banking act from going into immediate operation.[8]

Notwithstanding warning from the East and adverse public opinion, the auditor and governor, possibly with the idea of creating confidence in the railroad bonds, in the months that followed accepted them at ninety-five and permitted several banks to organize and to issue notes secured by these certificates.[9] These banks were generally established by people

[7] The *Weekly Pioneer and Democrat* of December 30, 1858, quotes from an article in the *New York Tribune* of December 17, written with a view to discredit the railroad bonds. The same paper in its issue of January 13, 1859, reprints from the *New York Herald* of December 31 a statement of Sibley's in which an attempt is made to correct the misrepresentations which had been circulated regarding the character of the securities and the circumstances under which they were issued. See also *Pioneer and Democrat,* January 20, 1859.

[8] *Weekly Pioneer and Democrat,* December 9, 1858.

[9] *Weekly Minnesotian,* March 19, 1859.

interested in the railroads, who had large holdings of the bonds now practically worthless.[10] The state officials also accepted state university bonds as security for note issue, an action that raised a storm of protest throughout the state upon the ground that they were not state bonds. The Nicollet County Bank, whose issue was secured by university bonds, was promptly classed as wildcat.[11]

In a short time the engraved notes of the new banks began to appear and soon the state was flooded with them. Within a few months the words La Crosse and La Crescent, Owatonna, Glencoe, and the names of other "railroad" banks became familiar to every one. From the outset these new issues were viewed with distrust. Private bankers in St. Paul, who were issuing endorsed Bank of Gray notes and certificates of deposit, tried for reasons of their own to depreciate Minnesota money. In other states it scarcely circulated at all. Chicago brokers warned note-holders against it, even against that of the well-secured banks, because of their fear lest doubtful securities be substituted for present good ones; and St. Louis banks threw out all Minnesota currency with the single exception of the notes of the Farmers' Bank of Garden City, which they received on deposit.[12]

Not all the banks, however, based their note issue on the railroad bonds, as is shown by the history of the Bank of the State of Minnesota.[13] This institution was organized in St. Paul, October 1, 1858, the first to go into operation under the new law. Its circulation was based at the start on Minnesota eight per cent bonds, which never fell below par on the

[10] *Weekly Pioneer and Democrat,* March 10, 1859.

[11] *Winona Republican,* March 2, 1859; *Stillwater Messenger,* February 15, 1859.

[12] *Weekly Pioneer and Democrat,* March 24, April 8, 1859; *Weekly Minnesotian,* April 23, 1859.

[13] The facts concerning this bank may be obtained from J. Jay Knox, *History of Banking in the United States,* 754–756 (New York, 1900). Mr. Knox was a member of the private banking house of J. Jay Knox and Company, prominent in the banking business of the time, and was later United States comptroller of the currency.

New York Exchange. After the university ten per cent bonds had been declared state bonds for note issue purposes, this bank purchased the entire issue of forty thousand dollars and replaced ten thousand dollars of its eight per cent bonds with a corresponding amount of university bonds.[14] The bank had a capital of twenty-five thousand dollars, fully paid, and was owned by Sewell, Ferris, and Company of New York, who were also its correspondents in that city. Its officers were experienced bankers; its local business was profitable; but the expenses sustained in note redemption in New York made it impossible to maintain a legitimate business with a circulation in such a proportion to its capital as to be profitable. Gold coin and New York drafts were selling at a premium of from two to three per cent. With a circulation of but twenty-five thousand dollars it had to redeem about three hundred dollars of its notes daily in New York. This problem, faced by all the early banks in Minnesota, was a powerful factor in determining their location and operations.

Few, if any, of the banks at that time had a very great amount of capital aside from a small sum required for the redemption of any circulating notes that might be presented. They purchased their bonds on credit and paid for them with the notes which they received from the auditor, a practice which rarely left anything for the conduct of the business of the bank.[15] The corporators expected to receive their profits from the interest on the bonds. The banks were located, therefore, in remote or practically inaccessible towns and villages. Each bank maintained an agency in New York and Chicago, at which its notes were redeemed at from three to five per cent discount. This system was not altogether displeasing to the public, since the discount was less than the

[14] When placed on sale for the redemption of notes, these bonds fell to twenty-two cents on the dollar; but they were later redeemed by the university. Knox, *History of Banking*, 755.

[15] This privilege was granted under the provisions of an act of 1860 amending the banking law of 1858. *General Laws*, 1860, pp. 176–178.

expense involved in a journey to the bank in order to present the notes for redemption. Many of the banks also had agencies in St. Paul, from which they issued notes. The intent of the law undoubtedly was that banks should be located at the place where, according to the face, the notes were dated and issued; but, as express provisions were lacking on this point, the law was easily evaded, and the agencies were allowed to exist. According to the law, moreover, the bills of the bank were redeemable in coin at the place where they were (or apparently were) issued; but it became the general practice to issue the notes from the agency and to redeem them at the bank. Inconvenient as this system was to the people of the state, it was decidedly advantageous to the banks, since a bill-holder, desirous of the redemption of the bill in coin, upon presentation at the agency could be directed to repair to the bank, located in a frontier village perhaps one hundred miles away.[16]

In the early summer of 1859 the St. Paul brokers began a bold warfare against the banks whose issues were based on railroad bonds in order to test redemption and force the notes to be protested. They accumulated notes that were redeemable in gold, and, when a sufficient quantity had been secured, sent them to the issuing bank for redemption. Since exchange was high, with the gold thus obtained they could make a profit of from two to five per cent. In addition the brokers endeavored in various ways to create among the people a feeling of distrust of "organized banking institutions."[17] By June 23, 1859, one bank had collapsed and three others were tottering.[18]

[16] Knox, *History of Banking*, 756; *Weekly Minnesotian*, April 23, 1859; *Weekly Pioneer and Democrat*, August 12, 1859; *Stillwater Democrat*, October 1, 1859.

[17] *Stillwater Democrat*, June 4, 1859; *Weekly Pioneer and Democrat*, June 8, 1859; *Winona Republican*, June 22, 1859.

[18] The Bank of Glencoe had closed its doors, and the notes of the Bank of Owatonna, the Bank of Rochester, and the Chisago County Bank were no longer current. Nine banks only remained in operation. *Weekly Pioneer and Democrat*, June 23, 1859.

The opposition to notes secured by railroad bonds became so strong that on July 9, 1859, merchants and business men held a meeting at the courthouse in St. Paul. Resolutions were adopted denouncing railroad currency and protesting against the issue of more notes of this type. A committee was appointed to wait on the governor and present the protest. Notes issued upon other securities were expressly approved.[19] No results from this or other meetings can be discovered.

Another blow was struck at railroad currency when the Minnesota Supreme Court issued a writ of mandamus to compel the attorney general to apply to a justice of the court "for leave to bring an action, in the name of the State, against the 'Bank of La Crosse and La Crescent,' to annul its charter, for alleged violations of law." The claim was made that the amendment to the banking act, upon which the issuance of notes secured by railroad bonds was based, was unconstitutional, since it had been passed by less than the required two-thirds vote; and that such note issues were, therefore, illegal.[20] The archives of the clerk of the supreme court show that the writ of mandamus was served on the attorney general, August 4, 1859; there is, however, no record that the court granted that official leave to bring suit against the Bank of La Crosse and La Crescent. This institution continued its note issues secured by railroad bonds until the state system collapsed in 1865.

One morning in the fall of 1859 news was received in St. Paul that Sewell, Ferris, and Company had become involved in a disastrous speculation in New York and had failed. Upon the receipt of the news the Bank of the State of Minnesota closed its doors. It was generally recognized that the Nicollet County Bank of St. Peter, of which Sewell, Ferris, and Com-

[19] *Weekly Pioneer and Democrat,* July 14, 1859; *Weekly Minnesotian,* July 16, 1859.

[20] State of Minnesota *ex rel.* William L. Banning *v.* Charles H. Berry. 3 *Minnesota,* 190. For a review of the proceedings in the supreme court, see the *Weekly Minnesotian,* July 30, 1859; *Weekly Pioneer and Democrat,* July 28, 1859.

pany were the owners, must also soon take similar action. For a few hours there was great excitement in St. Paul. Runs began on the agencies, all of which, with one exception, referred their bill-holders to their respective banks. About the same time several railroad banks closed their doors. Railroad bonds, when thrown on the market in order to provide funds for the redemption of the notes, were quoted at from thirteen to thirty and one-half cents on the dollar, a depreciation resulting in much loss to the note-holders.[21]

In the latter part of October, 1859, the general confidence which the people had in those banks whose notes were secured by other than railroad bonds was practically destroyed. On October 21 it was learned that one of the banks standing highest in public confidence—the Bank of St. Paul—had substituted in August railroad bonds for Ohio Sixes as security for its note issue. Its action met with the severest condemnation and resulted in a run upon the bank, which lasted all day. The fact that even the best of the local currency might be rendered worthless by the substitution of poor for good securities called forth the opinion that all home currency should be treated as worthless and driven from circulation.[22]

Immigration was very light during 1859; but it was thought that the large crops of that fall would enable the people of Minnesota, in spite of currency troubles, to enter upon a new period of prosperity with the beginning of the next year.[23] The prices offered, however, were so low that the producers could scarcely pay expenses. Many people left the state temporarily. A writer in the *New York Journal of Commerce,* describing the situation in Minnesota, declares: "Property holders are burdened with heavy taxes, and money lenders

[21] *Weekly Minnesotian,* October 15, 23, 1859. Twelve of the banks which had been organized used Minnesota Sevens (railroad bonds) as security for their note issues. On May 23, 1860, Minnesota Sevens brought from sixteen to seventeen cents on the dollar and university bonds, thirty cents. *Weekly Pioneer and Democrat,* July 28, 1859.

[22] *Weekly Pioneer and Democrat,* October 21, 1859.

[23] *Weekly Pioneer and Democrat,* July 21, 1859.

frequently find more land mortgages as collaterals upon their hands, than they are able to pay taxes upon, and at the same time are paying Eastern capitalists from 7 to 10 per cent. for money loaned on the same security."[24] As a consequence the advertising columns of the papers of the territory were filled with notices of mortgage sales.[25] On February 10, 1860, in an effort to relieve the tension, the legislature passed an interest law which fixed the maximum rate at twelve per cent a year.[26]

More than a year had now elapsed since the passage of the state banking act, and in that time it had proved a failure. Of the sixteen banks that had been organized by December 1, 1859, but seven remained; and some of these had announced an intention of closing up their business.[27] The public and the merchants of the state had exhibited considerable distrust and a decided disinclination to use the currency; the private bankers received it at a discount; people of other states looked upon it with disfavor. The banks were unable to stand the pressure.

These facts led the auditor in his report of December 9, 1859, and Governor Sibley in his annual message of December 7, 1859, to the legislature, to recommend the repeal of the general banking law. Furthermore, Governor Ramsey in his inaugural address of January 2, 1860, urged the repeal of the existing law and the substitution of "that of some one of our neighboring States, which, after years of severest trial, has been found to furnish a currency safe and desirable."[28] In spite of the recommendations of the state officials, who were most intimately acquainted with the banking system, no important changes were made. For many years the law known

[24] Quoted in the *Stillwater Democrat,* October 15, 1859.

[25] The *Stillwater Democrat* of February 25, 1860, advertised twenty-seven mortgage sales.

[26] *General Laws,* 1860, p. 226.

[27] "State Auditor's Report" in *Senate Journal,* 1859–60, pp. 719, 738.

[28] *Senate Journal,* 1859–60, pp. 10–16, 123, 719.

to be inefficient and to all purposes practically useless remained as the only banking legislation of the state.[29]

The spring of 1860 brought new troubles into the financial world, for a large number of Illinois banks refused to furnish additional securities to make up for the depreciation of Missouri bonds, the basis of their note issues.[30] Loss of confidence in its own banks had caused the public of Minnesota to turn to Wisconsin and Illinois for currency for the transaction of business; consequently the depreciation of this currency caused a serious derangement in the local business world. Banking funds became scarce, and collections were hard to make.[31] To meet this situation, merchants and others began to issue "checks" of five, ten, fifteen, twenty, twenty-five, and fifty cents to provide small change. Such issues were very numerous and, withal, rather convenient, though they were also a great annoyance. Specie disappeared, and mistakes in change were frequently made; for example, a thirty-dollar check was paid out in change instead of a thirty-cent check. Many of these small checks were worthless because no signatures were attached and too many people issued them.[32]

Upon the commencement of hostilities between the North and South, the Wisconsin and Illinois bank notes suffered greater depreciation due to the fact that they were secured in large part by the deposit of bonds of the southern states. The financial affairs of Minnesota, in common with the whole Northwest, were seriously disturbed. Exchange on New York rose to ten per cent premium. Abundant crops in 1859 and 1860 had stocked the granaries, and it was hoped that sales in the East would bring in eastern currency or coin.[33] This

29 By the act of March 5, 1860, the note issue was changed to ninety-five per cent of the current market value of the stocks deposited. *General Laws*, 1860, pp. 176–178.

30 *Stillwater Messenger*, February 28, 1860.

31 *Winona Republican*, December 19, 1860.

32 *Winona Republican*, January 9, 1861.

33 *Winona Republican*, May 8, 22, 1861; *Stillwater Messenger*, May 28, 1861. There were estimated to be at least two million dollars of notes

hope was not fulfilled, and during the years covered by the period of the war Minnesota had but a comparatively small amount of currency.

At the beginning of the year 1862 the number of banks in operation in Minnesota was six, but in June two failed and the currency was further curtailed by the retirement of their notes. Of the remaining banks two, the Bank of La Crosse and La Crescent and the Bank of Chatfield, although organized under the Minnesota laws, maintained no office of discount, deposit, and circulation in the state; their circulation, secured by a deposit of Minnesota railroad bonds, was confined entirely to Wisconsin. The general character of the notes issued prior to January 1, 1863, may be better understood by a review of the bank failures and the rates at which the notes were redeemed during this period. These were as follows: Bank of Rochester, 16¼ cents; Chisago County Bank, 19¼ cents; Fillmore County Bank, 20 cents; Bank of Owatonna, 20¾ cents; Exchange Bank of Glencoe, 21¼ cents; Central Bank, 30 cents; Nicollet County Bank, 35 cents; Bank of the State of Minnesota, 70 cents; and Bank of St. Paul, 98 cents. Of these banks it will be noticed that seven paid thirty-five cents or less on the dollar on the notes in circulation at the time they closed. The rates of redemption show clearly the heavy losses which the bill-holders of these banks were compelled to undergo.[34]

Commenting on the banking situation, the state auditor, in his report of December 31, 1861, says: "The only Minnesota banks circulating in the State are the Winona County and People's, with a circulation of only $21,863. The taxable valuation of the State being nearly $40,000,000, a ready circulation would be found for at least $1,000,000 currency. In

in Minnesota based on bonds of southern states. *Winona Republican*, April 10, 1861. On January 1, 1861, according to the state auditor's report there were $137,679 of Minnesota bank notes outstanding. *Annual Reports*, 1861, p. 5.

[34] State Auditor, *Annual Reports*, 1861, p. 5; 1862, p. 17.

ordinary times it would be the policy of the State to encourage a circulation to that amount, giving preference to her own stocks.[35] From present appearances no further issue of notes on State securities will be profitable, consequently the State must wait for the General Government to mature a policy for a National circulating medium."[36] Governor Ramsey, in his annual message to the legislature, January 9, 1862, after expressing the opinion that in many instances the currency of neighboring states introduced into Minnesota had "proved itself even less entitled to public confidence than our own," declared that the bank failures of Wisconsin and Illinois had "proved the whole system of Western banking upon State stocks to be false in principle and ruinous in its operation." He looked with favor upon the proposed currency to be issued by the national government and, after enumerating some of its advantages, ventured the belief that it would provide "a final relief from the recurrence of the enormous losses which are now suffered by our people, with the periodical explosion of the banks."[37]

During this period the cost of labor and commodities steadily increased. In spite of the drain of the war upon the male population an increased acreage of land was sown, and, with the beginning of Scandinavian immigration, the outlook for the future appeared brighter than for several years previous. State banking reflected the industrial activity of the state, and on the first day of January, 1863, seven banks were in operation having an aggregate capital of $318,000 and an outstanding circulation of $198,107, secured for the most part by United States bonds, the state Eights, and the war bonds.[38]

[35] In 1861 the auditor was authorized to accept securities of the United States bearing five per cent interest. The previous rate was six per cent. *General Laws*, 1861, p. 170.

[36] State Auditor, *Annual Reports*, 1862, p. 18.

[37] *Executive Documents*, 1861, p. 13.

[38] *Stillwater Messenger*, July 2, 16, 1861; State Auditor, *Annual Reports*, 1863, pp. 35–39.

THE NATIONAL BANKING SYSTEM, 1863–74

The year 1863 is marked by the enactment of the National Banking Act and by the organization of the first national bank within the state. The state officials, who were best acquainted with the weaknesses of the state system, looked with favor upon the proposed national banking system, and their view was shared generally by the people.[39] The Democratic Party, however, was on principle bitterly opposed to such a system, particularly to one based on badly secured notes. Bitter attacks were made upon the financial scheme of the government, while the most direful predictions were made as to the results certain to obtain were such a system to be inaugurated.[40] In the ensuing two years the national banking system was considered by its opponents as the cause of all the financial troubles which the United States experienced.

On February 17, 1863, Hon. J. H. Brisbin of St. Paul introduced in the lower chamber of the legislature a set of resolutions declaring that the legislature of Minnesota was unalterably opposed to the national banking bill or any similar bill, for eleven enumerated reasons. The house refused to print these resolutions and by a party vote laid them on the table.[41]

[39] *Winona Republican,* July 2, 1862.

[40] The *St. Paul Pioneer* of January 17, 1863, declared that "the immediate consequence of adding $300,000,000 to our currency, must be to inaugurate one of the most stupendous eras of speculation ever known in this or any other country. The present values will be largely increased. Stocks will advance, and the price of real estate will be enormously enhanced. . . . An unnatural rise must be followed by a corresponding fall." The same paper in the issue of January 24 declared that should the national government monopolize all bank note issues of the country, state banks, state bonds, bankers, financiers, and the business community would go down together, "displaying such a financial wreck as the world has never yet witnessed or conceived. . . . Green-backs will become as plenty and cheap in Wall street as wall paper! . . . Such a plan, applied to our present situation, would involve People, States, and Federal Government in universal confusion, tumult, and bankruptcy; the climax of which would be a Reign of Terror, in which the lowest and worst class of citizens would enjoy a carnival of fierce indulgence."

[41] *St. Paul Pioneer,* February 18, 1863; *House Journal,* 1863, p. 223.

That this opposition was not entirely barren of results is shown by the fact that one of the four Minnesota members of Congress voted against the bill, the other three voting for it.[42]

Minnesota financiers were slow to establish banks under the new act, apparently preferring to wait and observe the experience of banks operating in other states before embarking in the new enterprise. During the first nine months following the passage of the measure a number of new state banks were placed in operation in Minnesota, but no national banks, although several banks in neighboring states were organized under the national system.[43] The failure to organize national banks in Minnesota was due to several reasons. Minnesota was still a frontier state and was less advanced commercially and industrially than the other states. The regulations under which state banks could be organized were, moreover, less stringent than those of the national system. Finally, the large capital necessary for the organization of banks under the national system was lacking at that time, while a nominal capital was all that most banks needed to remain in operation under the state system. Not until December 8, 1863, when the First National Bank of St. Paul was organized with a paid-in capital of two hundred and fifty thousand dollars, increased in September of the following year to five hundred thousand dollars, did the new system obtain its first foothold in the state. It is interesting to note that this bank was but the reorganized and converted Bank of Minnesota, incorporated under the state banking laws in 1862.

42 Senator Rice voted against the bill, and Senator Wilkinson and Representatives Windom and Aldrich voted for it. 37 Congress, 3 session, *Congressional Globe,* 897, 1148. The act was approved on February 25, 1863; it was amended by the act of June 3, 1864. United States, *Statutes at Large,* 12: 665–682, 13: 98–118.

43 Up to the date of the report of the comptroller of the currency, November 28, 1863, twenty banks had been organized in Indiana, seven in Illinois, six in Iowa, four in Wisconsin, four in Michigan, thirty-eight in Ohio, and two in Missouri. United States Secretary of the Treasury, *Reports,* 1863, p. 49.

The state had prospered during 1862 and 1863. Although the summer of 1863 had been characterized by drouth, a good harvest had been gathered. Railroad construction had commenced; the industrial prosperity of 1862 continued; and from an economic point of view the people enjoyed the best year, in spite of the Indian troubles, that they had experienced since the summer of 1857.[44] This prosperity accounts for the organization of the first national bank in the state; six new banks were also incorporated under the state laws in the year ending November 30, 1863, making a total of thirteen state banks in operation at that date. The state auditor reports that "these Banks are all located in the chief commercial towns of the State, and are owned and controlled by reliable business men of acknowledged integrity."[45]

With the beginning of 1864 the state entered upon another year of industrial development. The inflation of the currency, which had been in progress during the past year, produced an unprecedented rise in the cost of living as measured in greenbacks. Under a similar standard of measurement gold, which on June 2, 1864, was quoted at 190, on July 12 reached 282, the highest point during the war.[46] The greenbacks made exchanges easier and more numerous, giving an impetus to trade and inducing activity, which resulted in higher prices for both commodities and real estate. Several railroads were in process of construction, and the demand for labor was great.[47]

[44] Railroad Commissioner, *Annual Reports*, 1872, pp. 7, 10.

[45] The aggregate capital of the six new banks was $262,500, and the circulation, $154,580, bringing the aggregate total of state bank capital to $662,500 and of circulation to $412,398. One bank, the Bank of Winona, issued no notes; those of the Bank of La Crosse and La Crescent and of the People's Bank were still secured by state railroad bonds, but the circulation of the other ten banks, amounting to $366,525, was well secured, the average market value of the securities during the previous six months being $411,382. The thirteen state banks were located at Minneapolis, St. Paul, Stillwater, Red Wing, Hastings, Winona, Chatfield, Hokah, and St. Peter. State Auditor, *Annual Reports*, 1864, pp. 21, 68.

[46] *St. Paul Pioneer*, June 5, July 12, 1864.

[47] Governor Miller's message of January 4, 1865, in *Executive Documents*, 1864, p. 19.

During the spring of the year the currency again gave cause for concern, but on this occasion it was not the notes of the banks of Minnesota or of neighboring states which were the source of apprehension. On April 17 the First National Bank, the Marine Bank, and several brokers in St. Paul gave notice that they would neither receive nor pay out the notes of banks of Pennsylvania, New Jersey, and Michigan "except such as are being redeemed at par in Philadelphia or New York." On May 12, 1864, agents of the Northwestern and of the La Crosse and St. Paul packet companies announced that on and after May 15 they would receive nothing but national currency for tickets. Two days after this announcement the bankers of the state held a meeting in St. Paul and adopted the following resolution:

Resolved, That the Banks of the State of Minnesota, represented in this Convention, regarding it for the interest alike of the public and the Banks, that all money in circulation shall be made equivalent in value with the lawful money of the United States, agree that on and after July 1, 1864, they will receive and pay out as bankable funds only Treasury Notes, National Currency, and the issues of Minnesota Banks which are redeemable in lawful money of the United States within the State.

This course was a necessary consequence of similar action taken in Chicago and other commercial centers to prevent the flooding of the West with currency discarded in other places, and was effective in saving the people from financial loss.[48]

During the summer months two new banks were organized, one a national and one a state bank.[49] The auditor's report for 1864 showed that the fourteen state banks then in operation were in splendid condition. They were apparently in no haste to reorganize as national banks, though several had announced their intention to do so.[50] The situation was

[48] *St. Paul Pioneer,* April 17, May 12, 20, 1864.

[49] The First National Bank of Rochester was organized September 7, 1864.

[50] State Auditor, *Annual Reports,* 1865, p. 24.

changed, however, when Congress, acting upon the recommendation of the comptroller of the currency, inserted a provision in the revenue act of March 3, 1865, imposing a tax of ten per cent a year upon the circulation of state banks paid out by them after July 1, 1866. The passage of this measure forced the banks either to retire their circulation and close up their business or to incorporate under the national system. On March 2, 1865, the Minnesota legislature, following the precedent established in other states, passed "An act to facilitate the reorganization of banks incorporated under the laws of this state into national banks." By October 1, 1866, fifteen national banks were in operation with an aggregate capital of $1,660,000; while the state banks had all surrendered their charters.[51]

The period following the close of the war was one of great financial ease. The large expenditures of the government in the payment of war claims, war bounties, amounts due discharged soldiers, and other debts made money very plentiful locally.[52] Greatly increased activity in all lines of industrial and commercial life inevitably resulted. Railroad building progressed rapidly, agriculture was given a great impetus by the steadily increasing population, and interstate trade developed.[53] The effect of this industrial activity at once manifested itself in the banking business of the state, which was carried on efficiently and effectively, in happy contrast to the methods employed by the state banks a few years before. The bankers were of great assistance to the growing industries and in return profited by the latter's prosperity. During this period

[51] United States, *Statutes at Large*, 13: 484; Minnesota, *General Laws*, 1865, p. 74; *Report of the Comptroller of the Currency, 1866*, pp. 180, 184 (39 Congress, 2 session, *House Executive Documents*, no. 3—serial 1287); State Auditor, *Annual Reports*, 1867, p. 22.

[52] George E. Warner and Charles M. Foote (eds.), *History of Dakota County*, 157 (Minneapolis, 1881).

[53] Governor Austin's inaugural address of January 7, 1870, in *Executive Documents*, 1869, pp. 1–9. The United States census for 1870 gave the population of the state as 439,706. *United States Census*, 1870, vol. 1, p. 40.

the national banking system enjoyed an almost complete monopoly of the banking business. By 1870 practically every town of importance in the southeastern section of Minnesota had at least one national bank, and in 1871 seven new national banks were established in the same district.[54]

The early seventies comprised one of the most notable boom periods in the economic history of Minnesota. Inflation and speculation were rife, and both the state and the railroads enjoyed an unusual period of material progress and development.[55] As a consequence of these "good times" the number of banks and the amount of business transacted showed a substantial increase. A serious effort to operate banks under the state banking laws was made in the years 1872 and 1873; these institutions did not, however, issue notes. Several banking firms were incorporated; and, although in some cases their lights flickered out in a short time, they showed the way to others, and soon a steadily increasing number of state banks were contesting in the business field with the national institutions.[56] This renewal was undoubtedly due to the increasing use of deposits as a circulatory medium. In 1874, when the first complete records are available, the banks of the two systems were located for the most part in southeastern Minnesota.

On September 16, 1873, the failure of the banking house of Jay Cooke precipitated a panic which spread throughout the United States. In Minnesota, after the first few days, its effects were scarcely noticeable beyond a slight stringency in the money market, a cessation of railroad building, and a dull-

[54] From 1865 to 1871 only one attempt was made to establish a state bank. The City Bank of St. Paul was organized on April 29, 1869; it became a national bank in 1873. State Department of Banking, *Reports*, 1912, p. 9.

[55] Warner and Foote, *History of Dakota County*, 158; Governor Austin's annual message of January 9, 1873, in *Executive Documents*, 1872, vol. 1, p. 5.

[56] State Department of Banking, *Reports*, 1912, pp. 7–10.

ness in real estate for several years.[57] But few mercantile institutions failed and not one bank closed its doors—a striking commentary on the economic and financial progress of the state since 1857, when similar circumstances threw it into convulsions.

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

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MINNEAPOLIS, MINNESOTA

[57] Atwater, *History of Minneapolis*, 517.