

Politics of Free Banking in
the Old Northwest,
1837-1863

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By

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A DISSERTATION

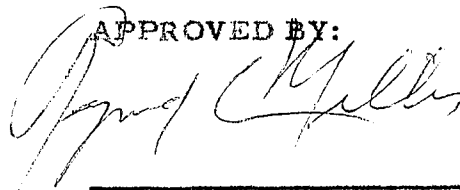
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PREFACE

There is a great gap in the history of American monetary politics between the years of Jackson's "Bank War" and the lengthy debate over bonds, Greenbacks, and silver that occupied the energies of the nation after the Civil War. While these years were chaotic and produced little constructive monetary legislation, the money issue played an important role. This study is designed to help clarify the nature of the issues during this period and the ways in which the parties reacted.

The study of these issues has usually been confused by assumptions derived from a projection of the post-war issues into the pre-war period and by the tendency to view American history in terms of a continuous conflict between the party of conservatism and the party of liberalism. I have rejected these assumptions as invalid and attempted to reconstruct the issues of the time as the parties involved perceived them. The rejection of these organizational concepts has forced me to make some conjectures based on limited evidence which may ultimately prove inaccurate. I also have no doubt that the situation in other areas at different stages of social and economic development was different from that in the Old Northwest and my conclusions would have to be altered accordingly to apply in those areas. However, I hope that this study makes clear

the weakness of interpreting American history within the limited bounds of the liberal-conservative dichotomy which impresses ideological continuity on the immensely complicated convolutions of parties and interest groups.

Every student owes debts to countless fellow scholars, librarians, teachers, and friends. The staffs of the Ohio State Historical Society Library, the Indiana State Historical Library, the Illinois State Historical Library, the Wisconsin Historical Society, and the Wayne State University Library, were always friendly and helpful. In particular, I must thank James Babcock and his staff at the Burton Historical Collection in the Detroit Public Library. A grant from the Society of Colonial Dames made possible much of the research. Members of the faculty of Wayne State University have been a constant source of encouragement. Professors Edward Lurie and Sidney Glazer have read all or portions of the manuscript, made suggestions, and offered criticism at various stages of the project. My greatest thanks must go to Professor Raymond C. Miller who originally suggested the topic and has guided the dissertation to completion. One's peers are always the most incisive and devastating of critics. I have been fortunate to have such friends as James K. Flack, Ron P. Formisano, and Lewis Gould who put aside their own work to read, criticize, and improve mine.

Finally, it is difficult to adequately thank my wife. Like other academic wives, she has been called on to perform the functions

of typist, editor, and critic as well as the more mundane of wifely chores. Her aid and encouragement have been indispensable.

CHAPTER I

BANKS AND POLITICS IN THE OLD NORTHWEST DURING THE 1830's

During the 1830's, the Old Northwest faced a dilemma. Its early experiences with banks had been unfortunate and dictated caution. Yet, the demands for credit and currency--the sinews of economic development--grew yearly. In the first years of the decade old prejudices were laid aside, and the easy money spirit was allowed to dominate. The number of banks was increased in every state, and there is little evidence that "hard money" attitudes gained more than a limited hearing. Before Jackson's veto, there was little opposition to the Bank of the United States, and between that time and 1837, both parties struggled to establish state banks in answer to popular demands. State banking was not a party issue, and the Democracy of the Old Northwest was not a "hard money" party.

Andrew Jackson's attack on the Bank of the United States opened a period of monetary debate in this country which lasted through the Civil War. The language of the veto and Jackson's subsequent messages structured this debate by giving to the Democratic party a symbolism which was politically effective, but unrealistic in the face of the exigencies of an expanding economy. This was particularly true in the Old Northwest where there was a positive need for banks and banking services. At first, the Democrats in this area chose to interpret the veto as a manifesto of emancipation for local banks from domination by the Chestnut Street "Monster"; but gradually, they moved toward acceptance of Jackson's opposition to all banks. By the 1840's this was the orthodox position in the party. This limited their action on the

problem of providing an adequate currency to the sterile negativism of "hard money." Constructive policy had to come from their opponents, and those of the Democracy willing to break with party orthodoxy. During the three decades of monetary controversy it was the Whigs, Republicans, and their few Democratic allies who struggled to implement and perfect free banking as an answer to the economic needs of the Old Northwest.

Western experience with banks in the decade following the Peace of Ghent left an ambiguous legacy. "Soft money" and "hard money" men often stood side by side; and those favoring local private banks often opposed those who favored banks owned either wholly or in part by the state. The situation was hardly ever simply "banks" versus "no banks."

For a time the most pervasive attitude was a distrust of and antipathy toward the Bank of the United States resulting from the part the Bank played in the Panic of 1819 and the subsequent depression. This was aggravated by a parochial suspicion of the distant institution. During the depression which lasted until 1822, the rather crusty doctrines of John Taylor were revived and found their way into the political battles in the West.¹

1 This is emphasized in: Charles G. Sellers, Jr., "Banking and Politics in Jackson's Tennessee, 1817-1827," Mississippi Valley Historical Review, XLI (June, 1954), pp. 61-84; and Lynn Marshall, "The Early Career of Amos Kendall" (Unpublished Ph. D. dissertation, University of California, Berkeley, 1962), pp. 195-240.

In the Old Northwest there was a broad vein of distrust of state banking institutions that was more related to experience than any environmentally determined conservatism. The 1820's had seen the economic crisis decimate the Ohio banking system. Fraud and mis-management undermined the experiments with State Banks in Indiana and Illinois. Intended for relief, they brought further depreciation and failure.²

Yet, while the Panic of 1819 and its aftermath left a legacy of fear, a scarcity of capital and an inadequate supply of currency to conduct day to day transactions made some kind of banking necessary. Like any rapidly growing area, the West lacked the capital necessary to finance economic growth. The expansionist policies of the Bank of the United States after 1829 in the West and Southwest dispelled much of the earlier animosity toward that institution. Particularly in the Old Northwest, little opposition to

2 Logan Esarey, "State Banking in Indiana, 1814-1873," Indiana University Studies, X (April 15, 1912), pp. 221-242; George William Dowrie, "The Development of Banking in Illinois, 1817-1863," University of Illinois Studies in the Social Sciences, II (December, 1913), pp. 22-48; and C. C. Huntington, "A History of Banking and Currency in Ohio Before the Civil War," Ohio Archaeological and Historical Society Publications, XXIV (1915), pp. 253-343.

the Bank could be found.³

After 1830, a boom in economic activity spurred by a wave of immigration and rising land values caused anti-bank feelings to be submerged by the desire for expanded credit facilities. Between 1830 and 1840 the population of this area nearly doubled going from 1, 470, 018 to 2, 924, 728. The most populous state, Ohio, grew by nearly seventy per cent, while Indiana doubled its population and Illinois tripled the number of its inhabitants. Particularly after the brief recession, known as "Biddle's Panic," in 1834, land values zoomed to unheard of heights. A young Illinois lawyer, Stephen Douglas wrote one of his clients in early 1836, "I am happy to inform you that I can now sell your Lots at from fifty to an hundred per cent advance... which by the by is pretty good interest."⁴

The growth of this area was so great that even before the Jacksonian assault on the Bank, that institution could not supply

3 Harlan Scott White, "Western Banking Ideas and Practices Before 1840," (Unpublished M. A. Thesis, University of Indiana, 1942); F. Cyril James, The Growth of Chicago Banks (New York: Harper and Brothers, Publishers, 1938), I, pp. 70-117; and Ralph C. H. Catterall, The Second Bank of the United States (Chicago: The University of Chicago Press, 1903), pp. 132-63.

4 U. S. Bureau of Census, Historical Statistics of the United States. Colonial Times to 1957 (Washington D. C., 1960), p. 13; Thomas Senior Berry, Western Prices Before 1861 (Cambridge, Massachusetts: Harvard University Press, 1943), pp. 406-450; and Robert W. Johannsen, ed., The Letters of Stephen A. Douglas (Urbana, Illinois: University of Illinois Press, 1961), pp. 35-36.

sufficient credit to answer the area's needs and the agitation for local banks increased. Experience dictated caution; necessity demanded currency and credit. Such demands effected the entire political spectrum, and anti-bank feelings were laid aside.

The idea of a State Bank based on public credit gained a wide hearing in the capital-shy states of the Old Northwest. A State Bank was proposed in Ohio in 1829 to establish a sound currency, lower the interest rate, and increase available capital. It was hoped that this would lead to the growth of agriculture, commerce, and manufacturing. Although the legislature responded by increasing the capital of two of the state's leading banks, a state institution was not established at this time. The demand for more currency and credit kept the idea of a State Bank alive. Such an institution was proposed in December, 1832 by Governor Duncan McArthur, an opponent of Jackson, and the following year by Jacksonian governor, Robert Lucas. Even though this was now favored by the Democratic Central Committee, the combination of backers of a national bank and the advocates of local banks was able to bring about its defeat. In the place of such an institution, the Democratic legislature chartered ten new local banks and revived two that had suspended business. At this point the legislators balked and no further charters were granted, and an attempt was made to repeal the charter of the million dollar Ohio Life Insurance

and Trust Company.⁵

While the demands for the repeal of the charter of this financial giant and the passage of the law prohibiting notes below five dollars in 1836, reveal the growing power of the "hard money" faction within the Democratic party, the developments of the thirties do not lend themselves to a simple interpretation concerning party position on banks. Nationally the Democrats opposed the Bank of the United States, but it was a Democratically controlled legislature that chartered the ten (or twelve) new banks including the Ohio Life Insurance and Trust Company in 1834. At the same time one of the leading Whig editors, who supported the Bank, Charles Hammond, urged a conservative state policy:

Those who recollect the creation of banks, from eighteen to twenty-four years back, cannot fail to see, in the present conditions, a great probability of the evils from 1815 to 1822, in all their distressing and destructive vicissitudes. The same causes must produce something like the same effects. Banks are put in operation, not by money lenders, but by money borrowers. They can have but one career, but one termination...

Hammond's advice seems to have been heeded by the newly formed Whig party which following its success in the election of 1834

5 Huntington, "Banking and Currency in Ohio," pp. 343-363; Harold E. Davis, "Economic Basis of Ohio Politics, 1820-1840," The Ohio State Archaeological and Historical Quarterly, XLVII (October, 1938), pp. 311-314; and Francis P. Weisenburger, The Passing of the Frontier 1825-1850, Vol. III of The History of the State of Ohio, ed. Carl Wittke (6 vol.; Columbus, Ohio: Ohio State Archaeological and Historical Society, 1941), pp. 277-285.

dominated the 1835 legislature and refused to charter any additional new banks.⁶

Similarly, the fight over the repeal of the "monied monster," the Ohio Life Insurance and Trust Company, was an intra-party feud rather than an inter-party battle. The move to repeal the company's charter was backed by most of the Democratic press, and led in the legislature by Cincinnati Democrat, Robert T. Lytle. However, among the directors of the company were four of the state's leading Democrats: David Disney, Noah Swayne, Micajah T. Williams, and Daniel Kilgore. Disney, in particular, led the fight against repeal. He was aided by a small group of Democratic papers headed by the Cincinnati Daily Republican. The Whig press joined the opposition to repeal. In the legislature the Whigs voted with the successful defenders of the institution.⁷

In general, no clear cut dichotomy between the parties on banking issues existed. Economic interests and personal or sectional ambitions dictated one's position on the bank question. Democrats tended to be more anti-bank than Whigs; and those men who harbored a dislike for banks of any variety were usually found within the Democratic fold. However, opposition to banks was hardly a test of party orthodoxy. Ardent bank expansionists marched side by side

6 Cincinnati Gazette, April 14, 1834, quoted in Berry, Western Prices, p. 422, fn. 39.

7 Weisenburger, Passing of the Frontier, pp. 308-13.

with "hard money" restrictionists under the colors of the Democracy. The Whigs, who advocated credit expansion through a moderate increase of banking facilities, were often caught between the factions of the Democratic party. Only on the question of small bills was there a neat party split, with the Jacksonians favoring prohibition and the Whigs opposing it.⁸

The same pattern seen in Ohio was repeated in Indiana and Illinois where the demand for currency and credit led to the establishment of new State Banks. The failure of the first State Bank in Indiana left the state with a motley foreign currency in which the only stable element was the issue of the Bank of the United States. Jackson's veto of the recharter of the Bank led to demands in Indiana for a state institution that would regulate the currency in the state and fill the vacuum left by the retirement of the national bank's notes. In 1834 the state legislature created one of the strongest and most successful State Banks in the country. Some Jacksonian journals, such as the Western Sun, opposed the monopoly features of the bank; and Democratic legislators attacked the bill as establishing the basis of a political machine. In the legislature, James Raiden opposed the bank, asserting that the "people," i. e. farmers

8 A soon to be published study by Professor Herbert Ershkowitz of Temple University reveals these tendencies in Ohio. For similar conflicts over internal improvements see: Harry N. Scheiber, "Urban Rivalry and Internal Improvements in the Old Northwest," Ohio History, LXXI (October, 1962), pp. 227-39.

and laborers, did not need banks. However, these views represented only a minority of Democratic opinion. The leading organ of the Democracy, the Indiana Democrat backed the bill and attacked its opponents as "low politicians" who either preferred "wild cat" banking or were "hard money" men. This combination, which had blocked such legislation in Ohio, gave way in Indiana to "an overwhelming sentiment. . . in favor of chartering a bank."⁹

Although the earlier experience with a State Bank had soured many Illinoisians on such institutions, the same forces that had been at work in Ohio and Indiana finally led to the chartering of the Illinois State Bank in 1835. Attempts in the early thirties to charter a state institution were defeated by very narrow margins in the Democratic legislature. The distress of 1834 and general demands for extended credit facilities led even John Reynolds, who had been elected in 1830 as an anti-bank candidate, to advocate a new State Bank. "By 1835 the Illinois speculator had just reached the point where he was demanding the 'accommodation' which could not be had without access to a bank plentifully supplied with notes." Two defunct banks were revived; and in the legislature, Whigs and Democrats combined to create a new State Bank. Stephen Douglas explained to his friend Julius Granger, "... I am no friend to the

9 Esarey, "State Banking in Indiana," pp. 243-253; and William F. Harding, "The State Bank of Indiana," The Journal of Political Economy, IV (December, 1895), pp. 1-10. The quotation is from the Indiana Democrat, June 15, 1833, in Esarey, p. 251.

Banking System but on the contrary am in favor of real Bentonian Shiners; but under the existing circumstances a Bank may be necessary in this State in self-defense,"¹⁰

Throughout the West optimism greeted this increase in banking facilities as the economy continued to spiral upwards on the wings of extended credit. Although it was not the intention of the Jackson administration, the removal of the deposits to the pet banks and the retirement of the debt neatly coincided with Western expansion and contributed to the speculative mania.

All of these tendencies affected, usually in an accentuated way, the newest of these states, Michigan. It was in Michigan that the first American free banking experiment was attempted. An analysis of the political and economic pressures which produced this legislation gives a clear picture of western needs and attitudes toward banks in the 1830's.

The population of Michigan was growing at a fantastic rate as a steady stream of immigrants poured into the West drawn by "the prospect of speedy and golden fortunes." The federal surveys had opened the lands of Michigan to settlement and speculation at \$1.25 per acre. To handle the new traffic, land offices were opened at Detroit, Monroe, and Bronson (now Kalamazoo). The demand for wild lands and the desire to exploit the virgin resources of the West

10 Dowrie, "Banking in Illinois," pp. 59-63, the quotation is from p. 61; Johannsen, ed., Letters of Stephen A. Douglas, pp. 13-14.

seemed insatiable. Cities of the future were laid out on paper complete with "Hotels, warehouses and banks...like places in fairy land; piers projected into harbors, and steamboats were seen entering." While some of these expectations may have been overly sanguine, Michigan's growth during the thirties was not fictitious. From 1820 to 1830 the population grew from 8,896 to 31,634, but this was nothing when compared to the next decade. By 1834 the population was more than three times what it had been in 1830, and three years later it had nearly doubled again to 174,600. This immigration swelled speculations to immense proportions and boosted expectations even among the most conservative men. As Stevens Mason's biographer has written: "Hope and enthusiasm were in the ascendency." There seemed little reason to believe that Michigan with its excellent "water advantages" might not become one of the richest states in the Union.¹¹

The state government was not unaware of this prospect and acted to provide the necessities for such development. In the brief

11 See: the reminiscences of Bela Hubbard, Memorials of a Half-Century (New York: G. P. Putnam's Sons, 1887), pp. 93-105; Thomas M. Cooley, "State Bank Issues in Michigan: A Retrospect of Legislation," Michigan Political Science Association Publications, Vol. I (np., nd.), pp. 1-20; Joseph Gantz, "A History of Banking Legislation and Currency in Michigan, 1835-1865," (Unpublished M. A. Thesis, Wayne State University, 1936), pp. 1-5; Michigan Legislature. Joint Documents, 1854, #12, and Legislative Manual of the Senate and House of Representatives of the State of Michigan, 1939, p. 75 for population figures. The quotations are from Hubbard, pp. 94, 95-96, and Lawton T. Hemans, Life and Times of Stevens Thomson Mason the Boy Governor of Michigan (Lansing, Michigan: Michigan Historical Commission, 1920), p. 212.

period between the drawing of the constitution and the final acceptance of Michigan as a state, the legislature organized fifty-seven townships, provided for sixty-six state roads, chartered eleven railroads, and gave permission for the erection of thirteen dams to provide water for manufacturing. The greatest need was banks to provide the necessary currency to finance both speculation and development.

Looking back on the period, Thomas Cooley wrote,

More money was required to enable people to carry out the enormous transactions that from day to day they engaged in, the most of them purely speculative; but nevertheless, at the time, seeming to a large portion of those who were parties to them, to be not only substantial but altogether reasonable, since the inflow of immigration and the extensive system of railroads and canals planned for the State, and then well underway, were expected speedily to make Michigan a populous as well as a prosperous /sic/ commonwealth. 12

Michigan's first bank was short lived. The Bank of Detroit began in 1805 and lasted without Congressional approval until 1808 when it was closed by the law passed that year prohibiting unauthorized banking. In 1817 the Bank of Michigan was chartered by the governor of the territory. The influx of population following the opening of Erie Canal led the Territorial Council to charter eight more banks between 1827 and 1835. In 1831 the charter of the Bank of Michigan was extended, and subsequently it was allowed to increase its capital

12 Thomas McIntyre Cooley, Michigan: A History of Governments (Boston: Houghton, Mifflin and Company, 1885), pp. 254-256; the quotation is from Cooley, "State Bank Issues in Michigan," p. 8.

and establish a branch at Kalamazoo. In general these charters were "framed to suit the corporations, if not by them."¹³

Up to this point there was little anti-banking sentiment, and the state's leading Jacksonians were deeply involved in these institutions. During the twenties the president of the Bank of Michigan was John R. Williams, a member of the "liberal faction" of the Democracy in the next two decades. Williams became involved in an altercation with the directors that resulted in his removal and a suit against the bank which he eventually lost. His place was taken at the Bank of Michigan by Peter Desnoyers, another leading Jacksonian; and Williams took over as president of the Farmer's and Mechanic's Bank of Michigan which was chartered on November 5, 1829.¹⁴

The Bank of Michigan was made a government depository in 1831 and remained one throughout the thirties although its presidency went from Desnoyers to Eurotus P. Hastings, and then

- 13 Alpheus Felch, "Early Banks and Banking in Michigan," Pioneer Collections: Report of the Pioneer Society of the State of Michigan, Vol. II, pp. 111-124 and Cooley, "State Bank Issues in Michigan," are the standard accounts of early Michigan banking on which all writers have drawn. Both were written by Jacksonians. The quotation is from Cooley, p. 5.
- 14 Clarence M. Burton, ed., The City of Detroit Michigan, 1701-1922 (Detroit: The S. J. Clarke Publishing Company, 1922) 2 Vols., I, pp. 227-235. By Democrats and Whigs I mean people who were consistently in one party or the other in the late thirties and forties when these affiliations are easily identifiable. Special cases such as John Biddle will be further explained. I will use "Democrats" and "Jacksonians" interchangeably although many people at the time disputed this.

C. C. Trowbridge who were Whigs. During this period the great majority of stock in the bank was held by out of state Whigs, however, the largest local stockholder was General Cass. In 1834 at the urging of John Norvell, leader of the "liberal Democratic faction," the Farmer's and Mechanic's Bank was also made a federal depository. According to Norvell, at this time 90% of the directors were Democrats. Interestingly, John Biddle, brother of Nicholas, eventually became president of this Democratic "pet."¹⁵

The Michigan State Bank was founded in 1835 by Williams with the aid of Albany capitalists Thomas Olcott and Erastus Corning, both members of the Albany Regency. In the East the stock of this bank eventually fell into the hands of Whigs with Thurlow Weed being one of the investors. However, in Michigan, cashier John Norton, a close friend of Stevens Mason controlled the bank; and it numbered among its borrowers most of the leading Jacksonians in the state. Eventually this bank became the center of Whig attacks as the "pet" of the

15 Ibid., 633-634; Harry N. Scheiber, "George Bancroft and the Bank of Michigan, 1837-41" Michigan History, XLIV (March, 1960), pp. 82-90, gives information on stock holding; all the stock holders are listed in Michigan Legislature House Documents Accompanying the Journal, 1841, #61, pp. 219-20. This also lists Robert A. Forsyth, A. T. McReynolds, Epaphroditus Ransom, T. C. Sheldon and Justus Burdick, all Democrats, as stock holders in this "Whig bank" along with Cass.

Democratic state administration.¹⁶

The debate over the constitution in 1835 showed little antagonism toward banks. The majority of the members of the convention wished to eliminate any multiplication of banks; and the provision from the New York constitution providing that bank charters must receive a two-thirds majority in the legislature was adopted unanimously. An attempt by Peter Ferry of Monroe to outlaw all corporations was lost fifty-six to nine in the convention that was dominated by Jacksonians. The nine, moreover, were not all Democrats, and included John Biddle! John McDonell, a Democrat from Wayne county, made several attempts to get the Convention to sanction, or at least to leave the way open for, the establishment of a State Bank with branches such as that in Indiana. These were unsuccessful, the final attempt being soundly defeated fifty-seven to nineteen.¹⁷

The most crucial question to come before the convention concerning banks involved the attempt to require all future chartered

- 16 Burton, ed., Detroit, pp. 636-640; Michigan Legislature. Senate Documents Accompanying the Journal, 1841, #42, pp. 165-75, lists stockholders and borrowers; Daily Advertiser October 7, 1839, is a typical Whig attack on the Michigan State Bank; on the political affiliation of Olcott and Corning see Lee Benson, The Concept of Jacksonian Democracy (Princeton, New Jersey: Princeton University Press, 1961), p. 91.
- 17 Harold M. Dorr, ed., The Michigan Constitutional Conventions of 1835-36: Debates and Proceedings (Ann Arbor, Michigan: The University of Michigan Press, 1940), pp. 392, 390, 336, 391. The roll call votes are listed in Appendix A.

banks to provide mortgages on Michigan lands as security for redemption of their notes. This idea, which eventually became embodied in the free banking act of 1837, was suggested in the Report of the Committee on Banking presented June 12, 1835. In order to cure the "great evil of the present system... its insecurity," the report proposed that bank directors invest in bonds or mortgages as a "pledge" against their issues. This would be of advantage to the bank by allowing them to receive interest on funds invested as well as interest on the discounts of the issues thus secured. Such security would allow the safe use of "the greater convenience of the paper medium." "This single provision would secure every advantage and preclude every evil of the present banking system." In addition, those individuals in the society excluded from the benefits of the banking business because they were unable to use short term credit would benefit by this plan:

By retaining, for merchants, the facilities and advantages usually derived from the credit, and giving, on good security, to farmers and the producing classes, generally, the loan of capital of such institutions, for such periods as may be required, the different classes of the community will share more equally the advantages of whatever moneyed corporations may be granted; and at the same time, as has been shown, those institutions will be placed on a more secure and stable foundation. Men of intelligence and enterprise, will be enabled to project and complete improvements that cannot fail to be greatly to the advantage of individuals and the country generally, especially in the interior of the

state, where for many years to come, there must be a want of capital for such purposes. . . 18

This report was presented by a predominately Democratic committee chaired by the leading "conservative" Democrat, Lucius Lyon, but the committee's proposal was lost forty-eight to twenty-seven in a vote that defies simple class or party interpretation. Of the members of the committee four favored the report and three voted against it without reference to party. Within the Democratic party, there was no discernible split between the so-called "liberals" and the "conservatives." John Barry, John Biddle, Edward Ellis, Townshend Gidley, Robert McClelland, Ross Wilkins, and William Woodbridge, who represent practically every factional variation in the subsequent party structure, voted together to defeat the motion.¹⁹

- 18 "Report of the Committee on Banking" is reprinted in Dorr, ed., Michigan Constitutional Conventions, pp. 520-24, the quotations are from pp. 521, 522, 523, 524.
- 19 The designations of "liberal" and "conservative" have been applied to factions of the Democratic party by Harold Dorr and Floyd Streeter, the two best historians of Michigan in this period. See Dorr, ed., Michigan Constitutional Conventions, p. 9, fn. 1, and Floyd Benjamin Streeter, Political Parties in Michigan (Lansing, Michigan: Michigan Historical Commission, 1918), pp. 1-42. The narrative should reveal some of the problems in applying these terms to factional positions on banking. If anything the Mason-Norvell-Williams faction represents in Michigan the position usually called "conservative" and is dominated by "entrepreneurs." The faction that bears resemblance to the "radicals" in usual terminology is that associated with John Barry, Edward Ellis and Alpheus Felch.

A state government with Stevens Mason as governor and a legislature with a large Democratic majority in both branches came into existence in late 1835. Floyd Streeter argues that this government and the Democratic party from 1835 to 1839 was controlled by "the poor and radical element" that was "hostile to monopolies and vested interests and wished to break down the power of monied men in politics." The messages of Mason seem to bear him out. In a series of vetoes of steam-boat corporations he repeated his argument that a multiplication of monied institutions undermined individual enterprise. Such "souless bodies" were "aristocratic in their tendencies" and a departure from true republican principles. It was Mason's belief that "the Legislature should not interfere unless a branch of business or enterprise, useful and important to the public cannot successfully be carried on and conducted by citizens in their individual capacity." In his first message as Governor, Mason praised the provision of the new constitution requiring a two-thirds majority for the passage of corporate charters and urged that prudent care be taken in the cases of banking companies. He warned of the difficulties in constructing proper banking legislation and the evils of excessive issue of notes. However, the degree to which Mason and the other "radical" elements of the Democracy adhered to these ideas as anything more than symbols is open to question. In 1836 acting under the restrictive provision of the new

constitution concerning corporate charters, this "anti-monopoly" legislature chartered nine new banks, and in no case did the governor who warned against the multiplication of such enterprises return a charter with his veto. The thrust for credit was general and widespread, limited to no single party or faction.²⁰

Various attempts to provide security for bill holders culminated in the adoption of a Safety Fund law, March 28, 1836. This bill was reported to the Senate on March 2, 1836 by Democrat Horace Comstock and reported back from the committee five days later without amendment. The "Report" which accompanied the bill recommended the passage of the law which was consciously patterned on the earlier New York Safety Fund law. In this way Michigan could receive "all the benefits to be derived from an extensive and well conducted credit system." The "Report" went on to say:

But the great object contemplated by your committee, and which had great weight with them in recommending the adoption of a safety fund system, were, in addition to more perfect security perhaps, on which banks associated under such a system can be placed, that all the desirable advantages of unity and feeling, of interest, and of action, attainable by a single mammoth monied corporation with subject branches /as suggested earlier in the session by John McDonnell/, are thereby attained, without the risk of the dangerous influence and tendency of such an over-

20 Streeter, Political Parties in Michigan, p. 5; George N. Fuller, ed., Messages of the Governors (Lansing, Michigan: The Michigan Historical Commission, 1925-26), I, pp. 140-42, 174-75; Cooley, "State Bank Issues in Michigan," pp. 6-7; Felch, "Early Banks and Banking in Michigan," pp. 113-14.

powering institution; and that, instead of subjecting all the enterprise and business facilities of the country, to the whim and caprice or favoritism of a few to be managed as inevitably must and would be the case, to suit their own views and interests, --under this system, the benefits of independent banking stitutions, if they shall otherwise be properly guarded and restricted, can be extended to all the various parts of the state, requiring such accommodation. 21

On March 21 an attempt was made by a group of "conservative" Democrats including John Clark, Edward Ellis, and John Barry to make bank directors under the new law liable to the extent of their property and stockholders liable to the amount of their stock. Yet, this failed in the Senate by a vote of ten to four. While the vote on the Safety Fund bill was not recorded, it was, like its predecessor in New York, a Jacksonian measure. 22

About mid-1836 the Detroit Democratic Free Press began to pick up articles from New York papers advocating a repeal of the restraining laws, and to follow the New York argument over free banking with some consistency. However, the assertion by some historians that "the poor cried out against" the banks and demanded free banking seems both contradictory and clearly out of line with the facts. Although sometimes cast in loco-foco arguments,

21 Michigan Legislature. Senate Journal, 1836, pp. 171, 232-33; Michigan Legislature. Senate Documents Accompanying the Journal, 1835-36, #9.

22 Michigan Legislature. Senate Journal, 1836, p. 243; Bray Hammond, Banks and Politics in America (Princeton, New Jersey: Princeton University Press, 1957), p. 600.

the thrust for free banking in Michigan came mainly from the entrepreneurial desire for extended credit facilities. This can clearly be seen in the choice of articles reprinted in the Democratic Free Press which was not hesitant in making clear its opposition to loco-focoism. Although some of these articles came from the New York Post, the majority represented the entrepreneurial element in the New York argument. In general these papers were Democratic but articles from Whig papers were often reprinted. The emphasis was on the removal of the restrictions which limited banking to the investors excluding "the small capitalist... that is the mechanic with his \$100. . . ." While the example of English joint stock banks was often looked to, supposed "agrarian" distrust of banks "typical" of the frontier was completely absent. The closest sentiments to the traditional conception of Jacksonian ideas came from Mason who continued to mouth anti-bank rhetoric. In his message of January 2, 1837, the "Boy Governor" warned against a multiplication of banks and bank papers' that would only aggravate unfavorable conditions. The Whig, Detroit Daily Advertiser for once agreed with Mason and urged that no banks be chartered at the coming session. "We believe the people are opposed to it. --As for the importunate beggars of privileges," wrote the Whig organ, "there is no satisfying them. They must be refused first to last. Too

many banks have been granted already."²³

The clamor for banks would not be stilled. Each new town, whether actually established or merely "on paper," demanded banking facilities. Further demands came from the people deeply indebted by speculative and developmental enterprises who hoped that additional banking resources would provide relief. "The public seemed imbued with the idea that to relieve them from the galling burden of indebtedness, and to restore activity and prosperity to the business world, nothing was needed but extensive bank issues." In January the legislature was faced with eighteen requests for new bank charters. This crisis in the legislature created by a flood of demands for banking privileges led to the passage of Michigan's free banking law.²⁴

On January 18, 1837 Edward Ellis, one of the leading "conservative" Democrats, introduced a bill "to regulate banking associations" through the establishment of "a uniform and equal system." The main debate on the bill concerned the minimum and maximum amounts of capital. Barry, McDonell, and Calvin Britain

23 Detroit Democratic Free Press, August 21, December 14, 1836, January 19, January 25, 1837 in particular, the quotation is from the New York Evening Star reprinted in the Democratic Free Press, December 14, 1836; Fuller, ed., Messages, I, p. 200; Detroit Daily Advertiser, January 13, 1837.

24 Felch, "Early Banks and Banking in Michigan," p. 115 for the quotation; Michigan Legislature. House Journal, 1837, pp. 30, 39, 41, 45, 55, 58, 61, 65, 67, 73, 77, 86, 87, 108, 137, listed in Gantz, "A History of Banking Legislation," p. 6, fn. 3.

all hoped to keep the minimum capital at least \$150,000. Britain pointed out the possible political consequences. He argued that they did not want to be accused of "overwhelming" the country with small banks, for the people were not prepared for this. John Clark, Horace Comstock, and Jonathan Davis believed that banking should be open equally to all areas and those that could not raise the necessary \$150,000 capital should not be deprived of the advantages of credit. Davis went so far as to assert that as long as the proper security was given there was no reason to limit capital even to \$50,000 as was proposed. Clark, supposedly a "conservative" Democrat, favored small banks because they facilitated the business of the farmer and the mechanic. "It is when a man commences in the world," argued Clark, "that he needs assistance." He further advocated a maximum capitalization of \$100,000 rather than the suggested \$300,000 in order to lessen the temptation to corruption by large eastern capitalists.²⁵

The bill which eventually became the Michigan free banking law was introduced into the House on January 27 by Edwin Lothrop, a Kalamazoo Democrat who was Chairman of the Committee on Banks and Incorporations. It easily passed the House on February 14 by a vote of thirty-nine to four, the main opposition coming from

25 Michigan Legislature. Senate Journal, 1837, pp. 61, 90, 150, 158, 178; the debates are in the Daily Advertiser, March 2, 7, and 9, 1837.

"conservative" Democrat Alpheus Felch, who feared its inflationary character. Various attempts were made in the Senate by McDonell, Moore, Hough, Ellis, and Britain to limit bills to denominations above five dollars, but all such efforts were defeated; and the Senate eventually accepted the House bill on March 8 by a vote of fourteen to one.²⁶

The lone vote cast against the bill was that of John McDonell a member of the supposedly "radical" Mason-Norvell faction. He constantly advocated the establishment of a state bank with branches, and believed the free banking law a "hazardous experiment" that could only succeed if limited to large banks with more than \$150,000 capital which were prohibited from issuing bills under five dollars.²⁷

Thus, the free banking law of Michigan was passed with little dissent by a legislature in which, according to Streeter, "a majority of the members were Democrats representing poor and radical constituents." The only opposition came from individuals within the Democratic party who feared the inflationary consequences of the bill. As in the constitutional convention of 1835 no consistent party or factional variation could be seen in the voting, and such

26 Michigan Legislature. House Journal, 1837, pp. 144, 200-201, 217; Michigan Legislature. Senate Journal, 1837, p. 245.

27 Daily Advertiser, March 2, 1837.

future anti-bank Democrats as Barry, and that supposed "loco foco," Kingsley Bingham lined up in favor of the law.²⁸

While the Monroe Times hailed the act as a "killer of all monopolies," its passage was a foregone conclusion. The Democratic Free Press, long an advocate of such legislation, praised the passage of this "Important Measure." When considering the accomplishments of the legislature, it included the "general banking law" which by "giving equal rights and privileges to all in regard to banking, . . . will save thousands of dollars which would otherwise be expended in legislating for the creation of particular incorporations." However, it did not devote a great deal of space to the endless praise that often accompanied party victories in the newspapers of this period. Nor was the act vociferously condemned by the opposition. The Daily Advertiser which had been rather non-committal while the bill was being considered, announced the bill's passage to its readers in an article that differed little from that in the Democratic Free Press although it noted, "the associations thus authorized are fenced around with such restrictions as may, and we hope will serve for the security of the public." In the same issue an article appeared favoring the desire of the people to change the New York banking system to remove "monopoly and other political

28 Streeter, Political Parties in Michigan, p. 9; Hemans, Life of Stevens Thomson Mason, p. 274; Felch, "Early Banks and Banking in Michigan," p. 115.

abuses which have grown up under it," and praising the suggestion of the Albany Argus to establish a "GENERAL SAFETY FUND LAW." This was in essence what had been passed by the Michigan legislature.²⁹

The law which received Mason's signature on March 15, 1837 was a primitive form of free banking which Fritz Redlich has aptly termed a "sort of land bank open to all." The most important provisions of the act were that any twelve freeholders in any county might organize a bank with a minimum capital of \$50,000, thirty per cent of which had to be paid in specie before commencement of operations. Discounts and circulation were both limited to two and one-half times paid in capital, and total liabilities were not to exceed three times paid in capital. Directors were made personally liable for all debts of the bank and stockholders liable for an amount equal to the stock held. On commencing operation, the directors of the bank were to deposit with the Auditor General mortgages on real estate located within the state or the personal bonds of resident freeholders equal to the amount of permissible indebtedness of the bank. In order to provide further security all of the banks organized under this law were to be subject to the Safety Fund law passed the previous year. What had been constructed for Michigan was a

29 Monroe Times, February 23, 1837, quoted in Streeter, Political Parties in Michigan, p. 33; Democratic Free Press, March 15, March 29, April 5, 1837; Daily Advertiser, March 15, 1837.

Safety Fund law open to all with a provision to supply added security in the form of mortgages and personal security as collateral to be applied against the bank debts in case of failure.³⁰

Historians have usually explained this law as a product of the frontier or as an example of the direct transference of ideas by migration. A more adequate explanation would be one that emphasizes both ideological borrowings and the demands of the situation. From all sides the legislature was bombarded with demands for more banks, and individual actions on these requests would have created a legislative bottleneck that the new and swiftly developing state could ill afford.³¹

It was only logical that the idea of a general banking law such as that being agitated for in New York be proposed. However, there are indications that most of the legislature in Michigan had little faith that the "laws of trade" would provide adequate protection against the "insecurity" of the banking system. Convinced that it was the government's duty to regulate the currency in such a way as to protect the people of the state, the legislators added to the idea of a general banking law every safeguard popular at the time.

30 Fritz Redlich, The Molding of American Banking (New York: Hafner Publishing Company, 1947), II, pp. 203-204; Michigan Laws, 1837, pp. 76-88, summarized in Gantz, "A History of Banking Legislation," pp. 8-11.

31 Streeter, Political Parties in Michigan, pp. 33, 26; Redlich, American Banking, p. 203.

Mason had warned that "Every guard should... be thrown around... bank charters, which may have a tendency to satisfy the public mind of the solvency of the institutions and of their ability to render their paper at the will of the holder." All of the standard limitations written into bank charters at the time were present in the new law. Discounts and issues were limited, and rigid (although not rigid enough) requirements concerning paid-in capital were established. Directors were made liable for the bank's debts, and stockholders were made liable to the amount of their stock. All of the new banks were required to join the Safety Fund, and thus were placed under the periodic inspection of the bank commissioner. Finally, in line with the practices of other western and southern states and the suggestion made in the constitutional convention of 1835, further security was required in the form of collateral mortgages and bonds. Given the environment, in which land was plenty and capital scarce, and the revival of American "land banking" in the eighteen thirties, it was only logical that this form of security also be adopted. Thus, the Michigan free banking law stands as an eclectic attempt to supply adequate security once popular demands and considerations of time forced the legislature to give up individual chartering of banks.³²

32 Fuller, ed., Messages, I, p. 201; on earlier charter provisions see Gantz, "A History of Banking," pp. 2-3; for evidence on legislators' conception of their duty see remarks by C. Britain in Senate debate recorded in the Daily Advertiser, March 2, 1837.

The economic crisis which began to appear in the East during the winter of 1836-37 continued to mount throughout the next spring and finally led to suspension of specie payments by the Eastern banks in May. Although some observers believed that the West might benefit from this, the close commercial and financial relation with New York forced Michigan banks to quickly follow suit in order to protect their specie holdings. In reaction to news of the New York suspension received the previous day, a public meeting in the Detroit City Hall presided over by the mayor resolved that the banks should suspend and that a request be made to the governor and the legislature to make provisions for the existing crisis. A committee of the town's political and economic leaders was established to see the governor and urge a special session in order to legalize the suspension. Mason responded by issuing a proclamation calling for a special session of the legislature to convene June 12, and by instructing the bank commissioner to prepare a detailed report on the state's banks to be presented to that body.³³

Mason opened his message to the special session with an analysis of the "true sources" of "the present crisis" which was framed in typical Jacksonian terms and placed the main responsibility

33 Charles Butler to Charles C. Trowbridge and Elon Farnsworth, December 19, 1836, and Lucius Lyon to C. C. Trowbridge, May 1, 1837, in C. C. Trowbridge MSS. Hemans, Life of Stevens Thomson Mason, p. 287; Democratic Free Press, May 24, 1837.

on "overbanking." While a paper currency was a necessary convenience, it must not be allowed to too greatly exceed the metallic base. The remedies which he suggested for the country as a whole were gradual curtailment of bank issues, curtailment of trade, cessation of "mad investments" in unproductive land, and a return to frugality and "honest industry." However, he followed the analysis with a recommendation that the legislature sanction the admittedly "hazardous" suspension of specie payments by Michigan banks for one year or until the New York banks resumed. In line with this request, he asked the legislature to force the Safety Fund banks to accept each other's paper during the suspension, to prohibit the banks from selling their specie at a premium, and to restrict the issues to the "reasonable" needs of the public. Further, the bank commissioner and the chancellor of the state should be given unrestricted authority to close any institution violating these provisions.³⁴

One can clearly see why Thomas Cooley might wonder, "How far the governor, in what he was saying, was expressing settled convictions in his own mind, and how far he was merely repeating the current talk in the political circles to which he inclined. . . ." Defenders of Mason have answered that he should not be held responsible for the "rascality and criminality" that were prevalent

34 Fuller, ed., Messages, I, pp. 208-212.

after the suspension, but they have not resolved the illogic of the message. If Mason believed, as he asserted, that the crisis resulted from an excess of bank issues, why did he recommend legislation that would result in the further multiplication of banks and bank issues? There is one possible explanation that most historians have over-looked when considering the dilemma of why some Jacksonians who opposed banks also supported general laws which led to the multiplication of banks.³⁵

It is quite possible that they believed that competition under free banking would lead not to a multiplication of banks but a limitation of banks to the "few" demanded by the "reasonable" needs of trade. It must be remembered that in England the laws sanctioning the establishment of joint stock banks had led to just such a decrease in the number of banks; and it was often this example to which Jacksonians favoring general banking laws looked. That such ideas affected Mason is quite likely since in the previous year, the Democratic Free Press, the paper which supported the "Boy Governor," printed an article from the New York Post praising the English joint stock system as a model for American "Bank Reform."³⁶

However, while this explanation might supply ideological consistency to the position of a Leggett, it does not really remove

35 Cooley, Michigan, p. 265; Hemans, Life of Stevens Thomson Mason, p. 292, defends Mason.

36 Democratic Free Press, August 21, 1836.

the confusions from Mason's message. This argument, in any form, assumed, in fact depended upon, a rigid enforcement of specie payments. Mason would allow these to be suspended. It is incorrect to present Mason and the faction he represented as anything like loco-focos of the Leggett variety. Individually they were almost to the man, "men on the make." Mason's father, John T. Mason, was a spoilsman, a speculator, and an entrepreneur; a typical "Democrat by trade." Williams combined his bank adventures with the presidency of an insurance company and large land speculations. Nearly all of the leaders of this group borrowed heavily from the Michigan State Bank, and many were involved with other banks. In the legislature they were responsible for the free banking law and when that failed, they attempted to establish a state bank. They also formed the spearhead for the gigantic internal improvements policy undertaken in 1837. There is nothing very "radical" (in the usual use of the term) about this group although some of them did support unlimited white manhood suffrage in the Constitutional Convention of 1835. They might better be called by Streeter's alternate term, "the office-holding faction."³⁷

37 The John R. Williams papers include a letter from his cousin Thomas Williams concerning their uncle (probably Joseph Campau a leading Democrat), "You undoubtedly recollect his maxim (d--m a poor man). Take heed nephews--incur not the displeasure of your uncle, make money! make it honestly if you can but by all means make money!" Thomas Williams to J. R. Williams October 17, 1836, in John R. Williams, MSS.

While advocacy for suspension has traditionally been connected with the Whig party, this was not the case in Michigan. Not only did a Jacksonian governor propose the legalization of suspension but it was carried through an overwhelmingly Democratic House by a vote of thirty-seven to eight with even Felch and the Speaker Charles Whipple, both of whom voted against the original law, favoring suspension. The vote was much closer in the Senate where Barry, Clark, and Ellis failed to block its passage nine to six. The Calhoun County Patriot, an avid Jacksonian paper, recommended allowing suspension, "Although we are no great friend of banks, and are decidedly opposed to the substitution of a rag money currency, yet... we believe that the Michigan banks are as solvent and as well conducted as those of any other system...." Thus, the suspension bill like the free banking act itself was the work of Jacksonians; and the only opposition to either came from the "conservative" faction of that party.³⁸

There is little indication that state banking policy was a field in which party differences were either clear or important. The opposing presses echoed their party positions on national banking questions, but showed few differences on state policies. The position of the Democratic Free Press was somewhat ambiguous.

38 Michigan Legislature. Senate Journal, Special Session, 1837, p. 450; Michigan Legislature. House Journal, Extra Session, 1837, pp. 44, 455, 461; Calhoun County Patriot in Democratic Free Press, June 28, 1837.

Before the suspension it favored repeal of the Specie Circular asserting that, "It is one of the greatest illusions of the day; to suppose that the business of this country can be carried on prosperously, without an extensive and well guarded paper currency."

After the suspension, they acknowledged the wisdom of the measure and traced the crisis to an excess of banks and the distribution bill.

"In regard to our own banking institutions it is to be hoped that while the legislature acts with justice and equity towards them it will at the same time take good care that the rights and interests of the people are sufficiently protected."³⁹

The Whig Daily Advertiser contrasted on national policy, but hardly differed on state policy. Early the Daily Advertiser warned of a crisis, but while ascribing it to overtrading and speculation, the paper laid the blame on Jackson's "wild" monetary policies. Although it attacked various Democratic state legislatures for establishing monied "monsters" and causing an over-extension of bank issues, it did not extend this criticism to the state banking policy of the local Democratic party. In fact, it complimented the state legislature on its work including the free banking law which it believed to be the body's leading accomplishment. Following the suspension, the Daily Advertiser suggested legislation to sustain banks and to secure safety to the public which was virtually that

39 Democratic Free Press, May 3 and 24, 1837.

enacted by the Democrats in the special session in 1837.⁴⁰

These general attitudes were reflected in the party platforms written in late July and early August. While each reflected its party's position on national policy, neither mentioned the state banking question. The gubernatorial election of 1837 brought the bank issue into state politics, but in ways hardly consonant with the generally accepted interpretations of the parties and state banking. The situation was confused by a factional split in the Democratic party, and the fact that the Whig party really only emerged as a political force at this time.⁴¹

The charges and counter charges concerning banks and bank influence grew out of the argument between the parties over national policy. The Whigs charged the Democrats with destroying the positive controls on over-expansion exerted by the national bank, and calling for a specie currency while at the same time sanctioning the vast increase in unstable state banks. The Democrats retorted with attacks on Biddle and the idea of a national bank, and the charge that the suspension was a victory for the Whig policy of an irredeemable paper currency. Both parties admitted that an over-expansion

40 Daily Advertiser, January 13 and 27, February 28, March 15 and 22, and May 1, 1837.

41 The platforms are reprinted in Paul Randall, ed., "Gubernatorial Platforms for the Political Parties of Michigan (1834-1864)" (Unpublished M. A. Thesis, Wayne State University, Detroit, 1937), pp. 10-13.

of state banking had been an important cause of the crisis, and each tried to blame this situation on the opposition. The Whigs usually made their argument by pointing to the many banks chartered by the Democratically controlled legislatures, and the Democrats responded by pointing to those legislatures where the Whigs had chartered banks. The Democrats, perhaps because they saw the weakness of their position, shifted to the more tenable charge that even if banks were chartered by the Democrats, it was the Whigs who were the bankers and speculators. This eventually led to another round of charges and counter-charges concerning the political affiliations of Michigan bankers.⁴²

In order to repel Democratic charges that most bankers were Whigs, the Daily Advertiser listed the officers of Michigan's banks showing that twelve bank presidents favored Mason while only three favored Charles C. Trowbridge the Whig candidate. Among the cashiers eight were Democrats, four were Whigs, and the affiliation of two was unknown. The Democratic Free Press replied that this was another Whig lie since Austin Wing, Sidney Ketchum and John Biddle along with "half a dozen more" were erroneously named as Democrats.⁴³

42 These arguments can be followed in the Democratic Free Press and the Daily Advertiser.

43 The affiliation of bankers is in the Daily Advertiser, August 11, 1837, and the rebuttal is in the Democratic Free Press, August 16, 1837.

Since such estimations have had great weight with historians, some comment on the meaning of these changes is in order. The Whig estimate was that roughly sixty-nine per cent of the bankers were Democrats. The Democrats charged that this was false and in reality fifty-five per cent of the bankers were Whigs. Both sets of statistics tend to confirm only that being a banker had little to do with a man's choice of party. Further, the problem is complicated by the unstable political situation that existed. Neither party wished to claim John Biddle although he was popular with both parties. The truth is that Biddle was consistently with neither party at this time. After 1839 he was a Whig, and in 1834 he had run on the opposition ticket, but in the constitutional convention and the first senatorial contest, he proved his popularity among the Democrats and his willingness to cooperate with them. A careful reading of the Democratic Free Press (as the Advertiser pointed out) shows that its editor believed Biddle to be a Democrat in 1836. In the election of 1837 he could be attacked by both parties because he ran with Edward Ellis on the splinter "Jeffersonian Democratic" ticket. Finally, such simple tabulations do not even reveal what they are supposed to show, namely the relation of the parties to the financial power of banking institutions. Whatever one may consider Biddle, he was at the time president of the "pet" whose stockholders were mainly Democrats.

On the other hand, while the stockholders of the Michigan State Bank were mainly Whigs, and its president was a Whig, it was actually run by its Democratic cashier and was the "pet" of the state administration. Nearly every major Democrat borrowed heavily from this bank with a Whig president. A limited examination of the stockholders of Detroit banks reveals that "democratic" banks had Whig stockholders, and that Democrats invested in "Whig" banks. Certain names appear again and again regardless of party. Interestingly the Daily Advertiser tabulation of the politics of Michigan bankers showed that in six of the twelve banks in which politics of both president and cashier were known, the president was from one party and the cashier from the other. This is not to deny the existence of predominantly Democratic or Whig banks, but to agree with Professor Harry Scheiber "that personal inter-relations of entrepreneurs and politicians in the 'Age of Jackson' complicated what are too often described as strictly political divisions." In Michigan there was an entrepreneurial group that invested in and borrowed heavily from banks. Many of these men, perhaps a sizeable majority, were affiliated with the Democratic party. ⁴⁴

44 Scheiber, "George Bancroft and the Bank of Michigan," p. 90. Historians wishing to find a quantitative measure of influence have too often accepted partesan charges as proof. Even Professor Scheiber accepts unquestioningly the figures of Samuel Medary as a measure of Whig control of financial power (Harry N. Scheiber, "The Pet Banks in Jacksonian Politics and Finance," Journal of Economic History, XXIII / June, 1963/, p. 204.) Further systematic examination may prove Democratic charges, but thus far this has not been done.

The Whigs were to a degree responsible for making state banks a political issue, because they nominated as their candidate for governor, Charles C. Trowbridge, the president of the Bank of Michigan. The Democrats could and did raise the specter of bank influence; but they were forced to tread rather lightly, because of the general banking law. The "Democratic Address" chided over-banking and attacked the Bank of the United States declaring, "Our motto in relation to the credit system is, LET IT BE PRESERVED and LET IT BE REFORMED." Even though in the Special Session a limitation on the size of bills had been defeated, the "Address" advocated as one "reform" laws limiting circulation to bills over five dollars. A second "reform" would be the passage of general laws by all states such as the Michigan law which the "Address" praised as a system "based upon the soundest principles, and which, with such further provisions for the public security as experience will soon suggest will render it the most safe and popular system of banking that has ever been adapted." As far as the opposing candidate was concerned, the Democrats also had a problem. They argued that his nomination was consistent with Whig veneration of the incorporated monied power. However, they also attacked Trowbridge as an apostate Democrat who had backed Van Buren in 1836; and the Whigs for bringing banks into politics.⁴⁵

45 Democratic Free Press, August 9, 1837.

Up to this point the Whigs had generally denied Democratic charges and had attacked Jackson's policies. They denied that Whigs favored an irredeemable paper currency, and countered with the assertion that Jackson favored an exclusive metallic currency. They attacked "Tory Consistency" that talked against a multiplication of banks and legislated them into existence. However, the Whig platform did not mention the state banks or the free banking law.⁴⁶

The first attacks on the free banking law evolved out of the argument concerning the inconsistency of Democratic rhetoric and policy that led the Whigs to point out unethical practices of Democratic bankers. In July the Daily Advertiser called attention to the Pontiac Bank which it charged was run by Van Buren men to lend to its own stockholders. The Ann Arbor Journal noted the defalcation of the Ann Arbor Bank which was run by leading Democrats saying, "This standing in the democratic ranks won't redeem their bills in circulation." The Daily Advertiser commented that the Ann Arbor Bank was "the first fruits" of the free banking law which had been passed by a "Tory legislature and charged fraud against the people by the "Tories" who ran the bank. In November the Daily Advertiser attacked the opposition as "the Rag Party"

46 Daily Advertiser, May 27, July 28, August 12, 1837. The Whig platform is in Daily Advertiser, August 7, 1837 and reprinted in Randall, ed., "Gubernatorial Platforms," pp. 8-10.

questioning how the Democrats could say they opposed paper currency and supported the free banking law "which" now tends to fill our state with miserable rags."⁴⁷

The Democrats took these attacks as an opportunity to defend the free banking law and attack their opponents as the aristocrats. Their argument was clearly made in an article "The Aristocracy vs. the General Bank Law" which argued that "Federalists" were agitating against the law because its anti-monopoly features did not suit "the organs and retainers of the monied aristocracy." The existence of the free banks would drive down the value of bank stock, particularly that of Trowbridge, the largest holder of such stock in Michigan. The "Federalists" were the aristocrats and the party of monopoly; the Democrats were the party which favored "giving equal rights to all classes of investing their capital in that branch of business which had been heretofore monopolized by the few." Far from being anti-bank the Democratic press hailed the establishment of each new bank. The Pontiac Balance praised the Bank of Oakland as a true "anti-monopoly bank!" which would bring to the area liberal discounts and prosperity. Pontiac had three banks for less than one thousand people, and the Balance proudly declared "few eastern villages can boast of like means of enterprise." Similar

47 Daily Advertiser, July 28, August 22, November 2, and November 28, 1837; Ann Arbor Journal in the Daily Advertiser, August 22, 1837.

statements came from the Democratic papers all over the state. The Grand River Times, the Constantine Republican, and the Ann Arbor Argus all joined in welcoming new banks set up under the "anti-monopoly" law. This affluent praise was even extended to the most famous of the "wild cats," the Bank of Brest; and irate editorials appeared in the Tecumseh Democrat and the Pontiac Balance defending the soundness of the banking system against Whig "libel."⁴⁸

Mason and the Democrats won the election of 1837 by the close margin of 514 votes, but this could hardly be termed as a victory of "radical" principles concerning banks. Throughout the election, they had stood for a multiplication of banks in every corner of the state. It would also be incorrect to term the free banking law victory for a newer set of capitalists over an older one. By their own statistics, that probably represented an absolute minimum; forty-five per cent of the officers of the state's chartered banks were Democrats, and nearly every leader of the party was involved in the Michigan State Bank. They used the anti-monopoly arguments to attack not the chartered banks in general, but their political opponent who happened to be president of one of them. It appears to have been

48 Democratic Free Press, September 6, 1837; Pontiac Balance in the Democratic Free Press, September 20, and September 27, 1837; Grand River Times in Democratic Free Press, October 11, 1837; Ann Arbor Argus in Democratic Free Press, December 20, 1837; Constantine Republican in Democratic Free Press, January 17, 1838; Tecumseh Democrat in Democratic Free Press, November 8, 1837.

a selective use of party symbolism rather than actual attack by one economic group upon another. Nor can the Whigs be considered defenders of the chartered banks. They attacked Democratic banks whether chartered or organized under the free banking law. In general they maintained a rather consistent position throughout 1837 urging moderation in the creation of new banks. A third party in the 1837 race could be mistakenly interpreted as a pro-bank "conservative" faction of the Democratic party like that in New York. However, this was not the case. While the group included Biddle, John A. Wells, John R. Williams, and Cullen Brown all of whom were involved in banks, its ticket was headed by Edward Ellis, one of the men who had constantly voted like a "loco-foco" in the Michigan Senate. The Whig Press attacked this group as "loco-focos," while the Democratic Press called them "Whigs," and they referred to themselves as "Jeffersonian Democrats," "Mechanics," or "Conservatives." While they certainly were not mechanics, there seems to be little evidence to substantiate the charge that they were financed by the Whigs. Probably they represented resentment against the control of the party by the Mason-Norvell faction.⁴⁹

49 Democratic Free Press August 9, September 6, and November 8, 1837; Daily Advertiser, May 27, July 28, August 16, and October and November issues contain numerous references to "Ellisites." Hemans, Life of Stevens Thomson Mason, pp. 303-304, argues that "Ellisites" were financed by Whigs to split the Democratic vote. While this is certainly quite possible, the evidence he gives is very weak and hardly proves that the "Ellisites" were not what they said they were, opponents of the office-holding faction.

During the 1830's, even after Jackson's defeat of the Bank of the United States, there was very little opposition to state banking in the Old Northwest and the entrepreneurial spirit was dominant. Every portion of that area joined in the demand for banking facilities. Neither party was immune although there was a tendency for those opposed to banks to congregate in the Democratic party. Before 1837 this group was a minority within the party and the section. Although the experiences of the 1820's would have dictated distrust of banks, "agrarian" sentiments did not reappear until the political and economic situation was altered by the Panic of 1837 and the depression which followed in its wake.

CHAPTER II

PARTY PERCEPTION OF THE PANIC OF 1837

The Panic of 1837 and the subsequent depression significantly altered the attitudes toward banks as each party read its own meaning into the course of events. In order to exonerate Jackson, the Democrats found it necessary--and logical given the rhetoric of the "Bank War"--to blame the nation's banking system for the crisis. The Whigs developed a contrary interpretation of the causes of the crisis which emphasized Jackson's responsibility. These interpretations originated with the national leaders of the party, but soon spread to the Old Northwest where they formed the basis for the subsequent debate over banking in the states.

In practically every state the banking boom was actively aided by Jacksonians, and it was an unintended consequence of Jackson's policy. Alarmed by the excesses to which this policy had given rise, Jackson and his subordinates moved in the mid-1830's to restrain the expansion and paper issues. In 1834 Congress prohibited government agents from making disbursements in currency that was less than par value. The following year the Treasury established a policy of accepting no bills under five dollars for land purchases and indicated that in the future this prohibition would be extended to bills under ten dollars. In 1836 government disbursements were limited to bills over ten dollars and March 3, 1837 was set as a date at which this would be raised to include all bills

under twenty dollars.¹

In his annual message at the end of 1836 Jackson praised this legislation along with those state laws which eliminated small notes for "restoring to the country the sound currency provided for in the Constitution." He hoped that future salutary legislation of this type would be forthcoming from both Congress and the States.²

Most important of the actions taken during these years to limit the expansion of the banking system and place the federal government's transactions on a specie basis was the Specie Circular issued by Secretary of the Treasury Levi Woodbury on July 16, 1836. This provided that public lands must be paid for in either gold or silver. In this way "frauds" and "the monopoly of the public lands" would give way to settlements by "actual Settlers," and "the ruinous extension of bank issues and credits" upon which speculation was based would be discouraged. Jackson praised the

- 1 Scheiber, "The Pet Banks in Jacksonian Politics and Finance, 1833-1841," pp. 196-214, is an interesting and mis-named analysis of Jacksonian financial policies. It, along with George Rogers Taylor, The Transportation Revolution 1815-1860, Vol. IV of The Economic History of the United States, ed., Henry David, et al. (10 vols.; New York: Holt Rinehart and Winston, 1945-), pp. 338-345; Reginald Charles McGrane, The Panic of 1837 (Chicago: The University of Chicago Press, 1924), and Richard Timberlake, "The Specie Circular and the Distribution of the Surplus," Journal of Political Economy, LXVIII (April, 1960), pp. 109-117, forms the basis of my analysis of the panic.
- 2 James D. Richardson, ed., A Compilation of the Messages and Papers of the Presidents (Washington: By Authority of Congress, 1900), III, pp. 236-260.

Specie Circular in December:

It checked the career of the Western banks and gave them additional strength in anticipation of the pressure which has since pervaded our Eastern as well as European commercial cities. 3

Jackson did not note the adverse affects of the Circular.

It had caused an increased demand for specie in the interior where the land offices could only be supplied by withdrawing specie from the eastern financial centers. This drain on the eastern banks came at a time when they faced an unfavorable international situation. England, America's main creditor, had undergone a banking expansion similar to that of the United States. As loans increased, a drain on the gold reserve of the Bank of England forced that institution to raise its discount rate in July, 1836, to 4 1/2%. Eventually the Bank moved to curtail the activities of the joint stock banks that were deeply involved in the purchase of American bills. This might have caused little alarm had it not been for the exceedingly large balance of trade that had turned against the United States at this time. The boom of the thirties led to increased purchases of foreign goods by Americans; and the mania for internal improvements flooded the English market with State bonds. At the same time grain crops, which might have balanced this movement of goods

3 Ibid., p. 249. The Specie Circular is reprinted in Henry Steele Commager, ed., Documents of American History (New York: Appleton-Century-Crofts, Inc., 1949 fifth ed.), p. 283.

and capital, were so poor that wheat actually had to be imported in 1836.

The Specie Circular thus acted in two ways to bring on the panic of 1837. It weakened eastern banks at a time when the international situation placed them under a severe strain disrupting normal banking arrangements. More important, the Circular contributed to a general public distrust of banks and fragmented mutual confidence within the banking community. In the West, far from strengthening the banks by giving them a broader specie basis, the Circular struck at the basis of bank circulation: the belief that the notes would be accepted at the land offices.⁴

The problems of the banks, both eastern and western, were accentuated by the Deposit Act of 1836 which proposed a distribution of the surplus revenue of the federal government to the states for safekeeping. At the time this act was passed, the structure of the American banking system was inadequate to make the necessary transfers from the West, where revenues from land sales were collected, to the populous states of the East; and within that section from the commercial centers to banks in more rural areas. The

4 Most historians like McGrane and Taylor have acknowledged the importance of the Specie Circular; however, Timberlake, "The Specie Circular and the Distribution of the Surplus," pp. 111, 117, disputes this. Scheiber, "The Pet Banks," and Carter H. Golembe, "State Banks and the Economic Development of the West," (Unpublished Ph. D. Dissertation, Columbia University, 1952) uphold the traditional view.

government responded by trying to keep intersectional transfers to a minimum and was partially successful. However, enough specie was moved to cause a severe decline in reserves and a general contraction was the result.⁵

The Deposit Act had been passed by a coalition of Whigs and Democrats against the advice of Jackson and Woodbury and tended to stimulate state investments in internal improvements. Hoping to aid Van Buren in the West where the bill was popular Jackson refused to veto it, but he presented his objections to it in his December message. His opposition was based on strict construction of the constitution, states' rights, and an abhorrence of the moral consequences of a national debt. He showed little or no awareness of the question of the transfers or the degree to which the western banks were hurt. Jackson must have been aware of the problem, because Chief Justice Roger B. Taney had written to him in October that the mercantile community, which was indebted to the deposit banks, had been hurt when these banks were forced to call their loans to make the transfers of government deposits. Taney also added that the mercantile classes would foolishly blame Jackson's policies when it was in reality their own folly that brought on distress. "The currency will however be always liable to these ruinous fluctu-

5 Timberlake, "The Specie Circular and the Distribution of the Surplus," pp. 114-16, is a convincing analysis of the effect of the distribution. See also Golembe, "State Banks and Economic Development," pp. 207-209.

ations while it continues to be of paper, and nothing will cure the evil but the success of your great plan of restoring the Constitutional currency of Gold and silver."⁶

With the whole financial structure suffering under the severe strains brought on by the Deposit Act, the Specie Circular, and the policies of the Bank of England; the collapse of the cotton market in early 1837 led to the commercial and financial panic which precipitated the suspension of specie payments by the nation's banks in May of the year.

Although New Orleans and New York were hard hit in 1837, and business was dull everywhere, agricultural areas and some manufacturing areas were not badly hurt. 1838 saw conditions improving, and a resumption based on British credit which was again expanding. However, the situation worsened in 1839. A reversal of English credit policies, and the failure of the attempt of the Bank of the United States to "peg" sagging cotton prices led to a second suspension of specie payments in October 1839. Depression had come to stay and during the next four years, the whole economy experienced one of the most severe setbacks in American history.

6 Roger B. Taney To Jackson, October 27, 1836, in John Spencer Bassett, ed., Correspondence of Andrew Jackson (Washington, D. C.: Carnegie Institution of Washington, 1931), V, pp. 431-32. Richard M. Johnson to Jackson, June 21, 1836, Ibid., indicates there were many Democrats who favored the act. See also Thomas Hart Benton, Thirty Years' View (New York: D. Appleton and Company, 1854), I, p. 658.

Such financial disasters inevitably give rise to conjecture as to their causes, and the depression from 1837 to 1843 was no exception. The keenest commentators of the day, including Eiddle, tended to emphasize the effect of the Bank of England's credit policies while they blamed Jacksonian policies to a lesser or greater degree in line with their general economic beliefs. One such individual, Charles Francis Adams, who voted for Van Buren in 1836, and who would later become a leader of the "reform" element in the Whig and Republican parties, presented a relatively non-partisan analysis. The crisis of 1837 was, according to Adams, the result of capital borrowed from Europe. This could only have been handled adequately if the country were free from the burden of a vast speculative debt caused by an undue expansion of the state banking systems. Concerning the responsibility of the President he wrote:

Perhaps I may be in grievous error; but to me General Jackson appears highly responsible, not for the present state of things, inasmuch as in this trading country it is always more or less likely to happen, but for the defenseless condition into which the government of the Union, intrusted to him for very different ends, has been thrown by it. It was the voluntary withdrawal of the beneficial influence of the national power over currency which threw

away all control over private and corporate cupidity, for which he must answer. 7

However, most contemporary analyses were not as balanced as that of Adams; and two conflicting conceptions of the causes of the depression were advanced by the parties contesting for power. The Whigs had been warning that such a convulsion would be a result of Jacksonian financial policies, in particular the destruction of the Bank of the United States. They successfully exploited the issue, laying the blame for the depression entirely on Jackson's policies, and joining in a call for a national bank of some sort. Usually they interpreted their electoral success as repudiation of the policies of the Democrats. On the other hand, the Democrats defended the President's policies and were forced to fall back on a vague general theory of business cycles which laid the blame on the speculative expansion of banks. This interpretation had been offered by William Leggett and the loco-focos of New York in a moral terms well suited to explain political defeats

7 C. F. Adams, Further Reflections Upon the State of the Currency of the United States (Boston: William D. Ticknor, 1837), p. 5; Leonard C. Hilderman, National and State Banks: A Study of their Origins (New York: Houghton Mifflin Company, 1931), pp. 2-8. Martin B. Duberman, Charles Francis Adams 1807-1886 (Boston: Houghton Mifflin Company, 1961), pp. 56-61, argues that Adams was connected with neither party and that his comments on the crisis "countered" partisan assessments of Jackson. While the basic argument of the pamphlet shows Adams to hold economic ideas that would be more comfortable among Whigs in the 1840's, Duberman is essentially correct. The tone of "Further Reflections" differs greatly from contemporary partisan pieces.

as the result of "bank influence" and corruption.⁸

Both parties asserted that there was some evil agent corrupting the proper functioning of the economic system. For the Democrats, it was the "bank speculators" who sought to control the supply of currency and to expand and contract it for their own advantage. For the Whigs, Jackson's policies had been like "setting a Blacksmith to mending a watch with a sledge hammer."⁹

The Democratic conception of the causes of the "distress" might be traced to Condy Raquet, William Gouge or Leggett, but its most important and influential exponent was Jackson himself. Taney had urged Jackson to attack the reckless expansions of the "paper making corporations and speculators;" and both the "Farewell Address" in March, 1837, and Jackson's annual message in December

8 The debate on the responsibility of Jackson's policies for the depression was recently revived by two economists, basically interested in using the question to advocate their own theoretical hypotheses. George Macesich, "Sources of Monetary Disturbances in the United States, 1834-1845," Journal of Economic History, XX (September, 1960), pp. 407-26 argues that the primary source of the depression was external. His theoretical model and resulting conclusions are attacked by Jeffrey G. Williamson, "International Trade and United States Economic Development: 1827-1843," Journal of Economic History, XXI (September, 1961), pp. 372-83. Macesich attempts an answer, "International Trade and United States Economic Development Revisited," Ibid., pp. 384-5. Williamson has much the best of the argument.

9 William Woodbridge to William L. Woodbridge, May 19, 1837, Woodbridge MSS.

of the previous year struck out at the evils of the "paper system." While corruption and political danger of the Bank of the United States were emphasized, all banks received the President's censure as agents harmful to the interests of the producing classes, "undermining the purity and complicating the simplicity of our virtuous Government..." His annual message set forth the indictment of paper issuing banks in its classic form:

When thus, by the depreciation in consequence of the quantity of paper in circulation, wages as well as prices become exorbitant, it is soon found that the whole effect of the adulteration is a tariff on our home industry for the benefit of the countries where gold and silver circulate and maintain uniformity and moderation in prices. It is then perceived that the enhancement of the price in land and labor produces a corresponding increase in the price of products until these products do not sustain a competition with similar ones in other countries, and thus manufactured and agricultural productions cease to bear exportation for the cost. This is the process by which specie is banished by the paper of the banks. Their vaults are soon exhausted to pay for foreign commodities. The next step is a stoppage of specie payment--a total degradation of paper as currency--unusual depression of prices, the ruin of debtors, and the accumulation of property in the hands of creditors and cautious capitalists.¹⁰

10 Roger B. Taney to Jackson October 27, 1836, in Bassett, ed., Jackson Correspondence, V, pp. 431-32; Richardson, ed., Messages and Papers of the Presidents, III, pp. 236-260, 292-308; the brief quotations from Jackson to Roger B. Taney, October 13, 1836, in Bassett, ed., Jackson Correspondence, V, p. 430, and the longer one is from Richardson, III, p. 248. On general theories concerning banking and the business cycle at this time see: Harry E. Miller, Banking Theories in the United States Before 1860 (Cambridge, Mass: Harvard University Press, 1927), pp. 55-70, 187-208.

Personally, Jackson's animosity to Banks and the paper system was on a less sophisticated level. The suspension and the depression itself were part of the conspiracy by the monied interests led by Biddle to control the government in their own interests and to undermine true Republicanism. In mid-1837 he wrote to his friend, the Jacksonian editor of the Cincinnati Advertiser, Moses Dawson, "Is it possible that any true republican of talents and experience can have confidence in Banks as a safe repository of the public revenue after witnessing their late treacherous conduct to the government joining in league with Biddle and the Bearings to Bankrupt the government, degrade its character, both at home and abroad. . . ." The only proper regulation of the currency could come from "a strict specie policy."¹¹

Although Van Buren hardly mentioned banking in his Inaugural, he set forth the official party position on the causes of the depression in his September 4, Message to the special session of Congress. Van Buren asserted, "the present condition is chiefly to be attributed to overaction in all departments of business--an overaction deriving, perhaps, its first impulses from antecedent

11 John J. Whealen, ed., "The Jackson-Dawson Correspondence," Bulletin of the Historical and Philosophical Society of Ohio, XVI (January, 1958), pp. 3-30. The quotation is from Jackson to Dawson, August 31, 1837, pp. 9-10. Other Jacksonian editors had similar exchanges with Jackson, for an example see the letters to and from Francis P. Blair in Bassett, ed., Jackson Correspondence, V, pp. 474-479.

causes, but stimulated to its destructive consequences by excessive issues of bank paper and by other facilities for the acquisition and enlargement of credit. "Redundancy of credit" and the spirit of speculation which it engendered led to an increased foreign debt, unwise investments in "unproductive public lands" at inflated prices, "improvident" expenditures of "immense sums" on internal improvements, "the diversion to the pursuits of much of the labor that should have been applied to agriculture" making it necessary to import grain, "and finally, . . . the rapid growth among all classes, and especially in our great commercial towns of luxurious habits founded too often in merely fancied wealth, and detrimental alike to the industry, the resources, and the morals of our people."¹²

Van Buren's message was mildly worded and far from an anti-bank diatribe, but he presented all of the themes that were current in the Democratic literature. Business fluctuations, in general, and the Panic of 1837, in particular, were viewed as the results of the paper money system. Banks in their greed for profit expanded credit beyond a "natural" amount. This led to a general rise in the price level which engendered a false sense of wealth. The result was an increase in the spirit of speculation which undermined habits of thrift. Once this had happened, the moral fiber of society was weakened; formerly virtuous young men

¹² Richardson, ed., Messages and Papers of Presidents, III, pp. 324-346, the quotations are from pp. 325, 326.

left the professions of their fathers for the improvident life of the speculator and developed luxurious tastes that could only be satisfied by the products of a depraved Europe. This caused a decrease in the basic products of the United States and an adverse balance of trade which led to the withdrawal of specie and eventually economic embarrassment.

In each of the states of the Old Northwest, the Democratic press and the Democratic politicians developed the Jacksonian view of the depression although it sometimes led them to strange contradictions. In Michigan, where the Democrats were intimately connected with banks and multiplication of banks resultant from the free banking act, the immediate reaction of the party of Jackson was to absolve the President's policies by blaming the "present pecuniary embarrassment" on the spirit of speculation fostered by "the excessive issues of paper money" by the banks, and to call for a continuation of the administrative attempts "to introduce a greater amount of specie into our circulating medium." Governor Mason had warned against overbanking in January, and in this message to the extra session of the legislature in June, he ascribed the "crisis of the moneyed affairs of the country" to the "one fatal error into which the country has fallen... overbanking."¹³

13 The 1837 Democratic state platform is reprinted in Randall, ed., "Gubernatorial Platforms," pp. 10-11; Fuller, ed., Messages, I, pp. 200-212, the quotation is on p. 209.

The Democratic Free Press praised the opening of the new banks and attacked the Whig "panic makers" in late 1836 and early 1837. On May 10, 1837 the paper somewhat prematurely announced that the panic, which it believed had been caused by overtrading, speculation, and the distribution bill, was over. While continuing to defend the state's banks and particularly those set up under the free banking act, the Democratic Free Press slowly shifted its ground. By mid-summer it asserted "that all sagacious men of both parties have long been anticipating the difficulties in the money market, in consequence of the unwise legislation of Congress and the states in regards to banking." In early June the paper printed a report of the Democratic members of the New York legislature denying the Whig charges that the veto of the Bank of the United States and the specie circular were responsible for the panic. The report blamed overtrading, speculation, the heavy foreign debt, and the measures of the Bank of England. The following month a discussion of the causes of the panic presented the standard democratic interpretation emphasizing overtrading, overbanking, speculation in land, and the distribution of the bill which caused specie to be locked in state treasuries and forced the state banks to contract. Throughout the year attacks on Biddle and his "wild cat" bank were printed, and attempts were made to associate the Whigs with those banks most responsible for the crisis. Both the Democratic Free Press and the Constantine Republican were forced to admit that the

Democrats played an active role in granting bank charters. However, they both argued that the Whigs made up a large proportion of the bank men and speculators since they were wealthy men while the Democrats were farmers and workingmen. "The truth is," asserted the Democratic Free Press, "the spirit of stock-gambling and desperate speculation, in which the Whig aristocracy have borne the principal share, has been almost the exclusive cause of the multiplication of worthless local banks without specie capital, and without any substantial basis, for securing public confidence, on prompt redemption of their bills."¹⁴

Much the same process occurred in the other states, but in no other was the Democratic situation so ambiguous. Although there was a sizeable faction of the Ohio Democracy that was anti-bank in the thirties, the party, in general, had supported state banking and most of the charters for Ohio banks were secured from Democratic legislatures. Nonetheless, the party accepted the Jacksonian interpretation of the causes of the panic. In January the Democratic meeting of Delaware county blamed the depression on the Bank of the United States and the state banks. Two months later the Ohio Statesman reprinted an article from the Globe,

14 Democratic Free Press, January 25, May 10, May 24, May 31, June 7, June 14, June 25, July 5, July 12, 1837, and the Constantine Republican reprinted in the Democratic Free Press, July 26, 1837, show the development of the argument. The quotations are from the issues of June 14 and July 5.

"Democratic Creed in Relation to Banks, State and National," which blamed the state banks for the depression. In his annual message in 1839, Governor Wilson Shannon alienated the loco-foco faction of his party by his friendly attitude toward banks, but he presented the party position on the causes of the crisis. An adverse balance of payments resulting from "the overgrown system of banking" that multiplied currency beyond "the real business wants of the community" and drove up domestic prices making importation favorable. The following year he further developed this to include the standard arguments concerning the relation between paper money and speculation, unnecessary debts, and extravagance. He emphasized the importation of bread stuffs in 1836 by which the United States was "made tributary to Europe for the necessities of life by means of this artificial, anti-American system." A paper currency made a tariff useless and acted as a bounty to foreign manufacturers "thus operating so as to promote the interest of the foreign manufacturer at the expense of our own." Thomas W. Bartley, who served out Shannon's second term, and was well liked by the loco-foco faction of the party echoed this interpretation in 1844.¹⁵

15 Ohio Statesman, January 3, 1838; Washington Globe reprinted in the Ohio Statesman, March 14, 1838; Documents... of the State of Ohio, 1839, Document #1; Documents... of the State of Ohio, 1841, Document #1; Documents... of the State of Ohio, 1845, Document #1.

Through this period the leading Jacksonian editors presented Jackson's interpretation of the depression to the people and attempted to associate the Whig party with the banks. The Newark Advocate charged that "the Banks are Whig children;" and the Ohio Statesman referred to Governor Vance and his associates as a "knot of Bankers." To prove these charges the editor of the Statesman computed that of 405 bank officials in the state, 341 were Whigs and only 64 were Democrats.¹⁶

In Illinois much the same pattern was repeated. "Long John" Wentworth's Chicago Democrat connected the banks with the crisis, and the Whigs with the banks. Governor Thomas Carlin charged that the banks had brought "gloom and desolation" where "prosperity and happiness had existed." The banking system which was "unsanctioned by any principle of republican virtue" was the only way to account for the "fluctuations" of the economy which created fictitious value, engendered a spirit of speculation and led to ruin by turning the people from honest industry. He had earlier attacked the "pernicious and corrupting influence upon the morals of the people" exerted by the suspension of specie payments.¹⁷

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- 16 Newark Advocate reprinted in the Ohio Statesman, October 24, 1837; Ohio Statesman, October 27, August 9, 16 and 27, 1837.
- 17 Illinois. Governor, 1838-1842. Charles Manfred Thompson, "The Illinois Whigs Before 1846," University of Illinois Studies in the Social Sciences, IV (March, 1915), pp. 52, 83, and Don Fehrenbacher, Chicago Giant (Madison, Wisconsin: American History Research Center, 1957), p. 27, assert that Illinois bankers were Whigs.

The situation in Indiana differed from that in the other states and gave rise to some local variations on the standard pattern. The Whigs had solid control of the state throughout the 1830's; and the State Bank of Indiana was one of the soundest and best managed banks in the country. In the state Senate, the Democrats presented their interpretation in answer to Whig charges, defending Jackson's policies and attacking those of the Whig state administration. They denied that the general government was responsible, but rather that the "present collapsed state" was "a necessary consequence of our former inflated condition." This condition could hardly have been the result of Jackson's policies since England as well as the United States was affected. This inflation was the result of the "vicious paper system" and in particular the action of the Bank of the United States, which by contracting its issue forced the state banks to expand, multiplying the currency extravagantly. They thus placed the blame for the expansion on the Bank of the United States and the state banks (excluding their own State Bank). From this point they developed the standard Democratic arguments that the banking expansion led to extravagant foreign spending, and "induced men of all classes to drop their lawful callings and to turn out into the great Maelstrom of reckless

speculation."¹⁸

In addition the Democrats argued that Indiana had its own peculiar local circumstances that aggravated the general distress; and it was those they connected with the Whig party. In particular, they attacked the internal improvements system of the Whigs that provided for simultaneous construction of all internal improvements. To the Democrats it was "a system in fact conceived in sin, brought forth in iniquity, and attempted to be sustained by deception." Further the system had undermined the credit of the state and crippled the state bank. They concluded:

Our depressed financial system in short has been produced by our own unwise system of internal improvements, by our more unwise manner of persecuting it, and by the most unwise course pursued by our fund commissioners in trusting our state bonds to so large an amount in the hands of irresponsible and swindling corporations /the New York banks/, and not as modestly suggested by Governor Wallace is it owing to the measures of Andrew Jackson or Martin Van Buren.¹⁹

The Democratic press of Indiana was somewhat less delicate although it also avoided direct attacks on the State Bank. By mid-1837 the standard Jacksonian interpretation of the crisis was

18 "Minority Report on Select Committee of the Senate on the Governor's Message," in Dorothy Riker, ed., Messages and Papers Relating to the Administration of David Wallace, Governor of Indiana, 1837-1840 (Indianapolis, Indiana: Indiana Historical Bureau, 1963), pp. 376-81, the quotations are from pp. 377, 378.

19 Ibid., pp. 380, 381.

current and Gouge the accepted authority on banking. Even Stevens T. Mason, Michigan's young governor, was quoted authoritatively on the relation of over-banking to the crisis. The Biddle-Whig currency of irredeemable paper was contrasted with the Jacksonian-Republican currency of gold and silver; and the Whigs were attacked as the bank party. In its notice of the election, the Indiana Democrat tabbed Whig David Wallace as "The Speculator's Candidate."

However, most attempts were made to prove that the Whigs nationally, not just in Indiana, were the bank party; and Medary's figures on the political affiliation of Ohio bankers were reprinted.²⁰

The Whigs blamed the crisis and the bank suspension on the policies of Jackson's administration. Clay made the classic statement of the Whig interpretation in his speech on the Sub-Treasury Bill. "Prior to that series of unfortunate measures" instituted by Jackson, "no people on earth enjoyed a better currency, or had exchanges better regulated, than the people of the United States." But in 1837 the country was endangered by the prospect of an irredeemable paper currency. "Can it be doubted that it is the result of those measures to which I have averted? When at the very moment of adopting them, the very consequences which have happened were foretold as inevitable, is it necessary to look elsewhere for

20 Indianapolis Indiana Democrat, May 3, July 12, June 7, June 21, July 26, September 6, 1837. The Charlestown Indianan did attack the State Bank when it suspended, "We do not believe the people desire a bank longer. Let Indiana be first in the noble work. . .," in the Ohio Statesman, November 1, 1837.

their cause? Never was prediction more distinctly made; never was fulfillment more literal and exact." Clay attacked to Van Buren's argument that the fact both Europe and Britain also suffered "embarrassment" showed it could not have been the result of Jackson's policies. "The degree of embarrassment has been marked, in commercial countries there by the degree of their connection with the United States." The great failures were among those houses engaged in the American trade. The suffering in those countries showed that Britain which was the most involved with the United States was worst hit followed by France "and so on in the order of their greater or less commercial intercourse with us." However, the fact remained that the intensity of suffering in the United States exceeded that of any other country. This, Clay argued, indicated that this country suffered from "some peculiar and more potent causes than any which" operated in Europe: "1st. The veto of the bank. 2nd. The removal of deposits, with the urgent injunction of Secretary Taney upon the banks to enlarge their accommodations. 3rd. The gold bill, and the demand for gold for foreign indemnities. 4th. The clumsy execution of the deposit law; and 5th. The Treasury order of July, 1836."²¹

Clay's speech included most of the themes that made up the Whig interpretation. The veto of the recharter of the Bank of

21 Thomas Hart Benton, ed., Abridgement of the Debates of Congress From 1789 to 1856 (New York: D. Appleton and Company, 1859), XIII, pp. 404-405.

the United States removed its salutary effects on the currency, and abdicated federal control over the banks. The removal of the deposits along with the encouragement of the Secretary of the Treasury led to the banking expansion of the mid-thirties. However, although expansion had been encouraged, the mishandling of the distribution and the specie circular struck at the entire banking system and led to depression. It was a clear question of the misuse of power by the executive.

Throughout the Old Northwest the Whig press and the Whig politicians echoed these charges. Whig governors joined in blaming the crisis on the "unhappy policy of the national government." Ohio's Governor Vance argued that "it is not the amount of circulation that produces these evils, but the want of power to control, and judgement in the application of our means, by those who have the management of our financial system." What was necessary was a well regulated financial system capable of contraction and expansion in line with the needs of a growing economy. Duncan, the governor of Illinois, agreed that Congress should "regulate the currency, and restore it to its former sound condition and beneficent action" rather than try to escape the consequences of the Democratic policies "by amusing the people with the absurd and impracticable project of an exclusive hard money currency." In Indiana a lively debate over the causes of the depression was touched off by Governor David Wallace's message on December 3,

1839 which laid the blame for the "sudden blight which has come over our prospects" on the policies of Jackson's Administration. Democratic committees in the state Senate and House answered Wallace denying the administration's responsibility and urging the governor to tell the truth and to accept the consequences of his actions and those of his party. In the press Christian C. Nove countered these reports and asserted that the Democrats were completely wrong in their interpretation. The responsibility lay with Jackson. Samuel Judah also came to the defense of the Whig state administration. He argued that the distress was a national phenomena and it could hardly be blamed on the Whig policies in Indiana.²²

Although the Whigs emphasized the responsibility of the Jacksonian financial policies, they did not ignore the relation of "overbanking" to the depression, and they were not uncritical of the state banks. In Illinois, the Whigs constantly reminded the Democrats that they had voted overwhelmingly for the State Bank, and had tried as best they could to disconnect themselves from the

22 Fuller, ed., Messages, I, pp. 371-72; Documents... of the State of Ohio, 1838, Document #1; Illinois. Governor, 1834-1838; Indiana Legislature. Documentary Journal, 1839, Part II, Document #9; "Minority Report of Select Committee of the Senate on the Governor's Message," and "Report of Select Committee of the House on Governor's Message," in Riker, ed., Messages... Relating to the Administration of David Wallace, pp. 376-81, 393-99; Indianapolis Indiana Journal, January 14, February 3, February 10, 1840.

institution. David Wallace in Indiana told his constituents that "experience teaches us the fearful lesson that there are limits beyond which if banking privileges and banking operations are carried, they cease to do good, and become engines of incalculable mischief." In Ohio Thomas Corwin readily admitted that banks, when not properly controlled, could cause dangerous fluctuations in the currency. It was in Michigan, however, where the Whigs vied with the Democrats in their damnation of banks. The Detroit Daily Advertiser believed that the spirit of speculation and overtrading helped to produce the crisis, but that "the great moving cause" was the Specie Circular. The Ann Arbor State Journal connected "overbanking" to Jackson's policies:

Overtrading and overbanking is [sic] then not the cause of the present difficulties, but the effect, the legitimate and undeniable consequence of the fatuitous acts of a party administration. 23

In mid-1837 the Daily Advertiser began attacking "Tory Consistency" which produced the increase in banks and turned the Jacksonian charges against the party. A run down on bank presidents and cashiers showed a larger number to be Democrats. Concerning

23 Thompson, "Illinois Whigs," p. 66; Indiana Legislature. Documentary Journal, 1838, Document #1; Documents... of the State of Ohio, 1841, Document #76; Detroit Daily Advertiser, January 27, 1837; Ann Arbor State Journal reprinted in the Detroit Daily Advertiser, July 28, 1837.

which party housed the speculators the Advertiser wrote:

The speculators are of all parties, but of one more than another, the most of the Van Buren party, because these had control of the pet banks. Who form the great land companies of New York and of Washington? Ask the Butlers, ask Kendall, Blair and all that race.

Michigan was suffering from a bank mania and the Democrats talked "gold humbug" but gave the people "a litter of infant monsters."²⁴

All of the elements of the Whig interpretation were pulled together in the 1841 platform in Michigan three fourths of which was devoted to banking and money questions. It set about to trace how the country which had been in 1829 "generally prosperous and happy" came to its condition of "unparalleled embarrassment and distress" and argues that this is the result of "the mismanagement, the improper and dangerous measures, the misconduct and corruption of our late rulers." It then noted:

Our enemies say that all these things have been produced by the spirit of speculation which has prevailed, and by and by the great increase of Banks, and of a paper currency. But what stimulated this spirit of speculation and brought it into existence, and what caused the increase of Banks and paper currency? Who created these banks? . . . more than two-thirds of these banks were created by the loco foco party, mostly in the states of New York, Pennsylvania, Virginia, Ohio, Indiana, Louisiana, Alabama, Mississippi, Michigan, and a few others. . . the loco foco party created more than one hundred and fifty millions of dollars of State Bank capital, between the years of 1829 and 1838, and

24 Detroit Daily Advertiser, August 11, August 12, 1837 and March 5, 1838.

claimed to be the particular friends of State Banks, in opposition to a National Bank, until the general suspension and the great shock of 1837, when they suddenly renounced their own progeny, denounced all Banks and Bank paper, and became advocates of the Sub-Treasury, and specie currency.

What was needed was "a well regulated National Bank... to furnish the people of the United States a sound and uniform currency; to check the over issues of local State Banks, and to regulate the exchanges of the country...."²⁵

Implied in each of these interpretations were certain ideas about banks and their relation to the Good Society. In the Jacksonian's view of banks, their economic function was subordinated to their symbolic role. All of the structure of political symbolism that had been created during "the Bank War" was extended in the period following 1837 to cover all banks until the sins of the Bank became the sins of banks in general. The Jacksonians conceived of the Good Society in terms of simple decentralized government, "republican virtue," and the ultimate morality of agricultural labor. In certain cases the last element was altered to all "productive classes" although this was not limited to Jacksonians. The United States represented all of these values in their minds. However, they realized that the purity of their ideal had been somehow corrupted. Banks functioned as a perfect symbol of the corrupting influence in American society. The banks were the "snake" in the

25 Randall, ed., "Gubernatorial Platforms," pp. 20-28.

Republican Eden.

Each of the positive values for which the Jacksonians stood found its negative in the banking system. The "paper aristocracy" was the constant target of Jacksonian literature. William Gouge declared that "a paper money aristocracy [is] the only kind of aristocracy that can possibly exist in the United States" because of the impossibility of ecclesiastical, military, or landed aristocracies.²⁶ The only aristocrats the Jacksonians saw were bankers.

The purity of elections was soiled by "bank influence." Jacksonian defeats in the late thirties and early forties were ascribed to bank influence. In particular, the supposed party played by "bank influence" in the New York elections of 1837 and 1838 was echoed throughout the Democratic press.

Nearly all corruption had its genesis in the banking system. By drawing labor from agriculture and other virtuous occupations into the morally destructive activity subsumed under the general rubric, "speculation," banks undermined morality in the society. The banks corrupted the youth of America and forced the most fertile land in the world to go begging among the potentates of Europe for foodstuffs.

26 Gouge is quoted in the Dutchess County, New York, Anti-Bank Democrat, #4, April, 1842, p. 61.

This general set of beliefs led to the demand for the "divorce of bank and state." The pure simplicity of republican government should no more be associated with the schemes of the bankers than those of the clerics. And the funds of the people should no more support the banks than the churches. Government too easily could be made to stand in the way of liberty when made subservient to certain classes or interest groups. All such influences must be sheared from their relation to government, and republican simplicity restored. "All communities are apt to look to government for too much... the framers of our excellent Constitution... wisely judged that the less government interferes with private pursuits the better for general prosperity."²⁷

The Whigs viewed banks as purely economic institutions whose main function was to supply the credit necessary for economic development. They functioned as valuable tools when properly used, and the improper use was no argument that they should be discarded. In general this coincided with the Whig conception of the Good Society which more readily accepted the function of business enterprise, emphasized the opportunity created by economic diversification and development, and saw the ideal citizen in terms of the self-made man. While symbolic content was not absent, it was less important in the Whig conception of banks than in the Democratic conception.

27 Richardson, ed., Messages and Papers of the Presidents, III, p. 344.

More important to the Whigs was the idea that government bore some responsibility to aid enterprise, and most could agree with Webster when he said in the debate on the Independent Treasury, "I feel as if I were on some other sphere, as if I were not at home, as if this could not be America when I see schemes of public policy proposed, having for this object the convenience of Government only, and leaving the people to shift for themselves...."²⁸

Although these interpretations and conceptions played a crucial role in the struggle over the Independent Treasury, they became more important when the Jacksonians succeeded in shifting the center of the banking struggle to what Van Buren called "the proper tribunal--the people of the States." The Democracy of the Old Northwest had not opposed state banks; and while they readily accepted the Jacksonian interpretation of the causes of the economic crisis, they were also slow to embrace the central program of the Administration's "hard money" policy, the Independent Treasury. The logic of the Jacksonian interpretation of the depression eventually drove them to oppose all banks as political and economic problems multiplied. In contrast, the Whig argument, which implicitly accepted

28 Webster is quoted in Glyndon G. Van Deusen, The Jacksonian Era (New York: Harper and Brothers, 1959), p. 122.

governmental responsibility for economic progress and blamed mismanagement for the crisis, led the party into a series of attempts at reform of the state banking systems.²⁹

29 Richardson, ed., Messages and Papers of the Presidents, III, p. 342; Arthur Schlesinger, Jr., The Age of Jackson (Boston: Little Brown and Company, 1950), pp. 217-41, 250-66; Evarts B. Greene, ed., "Letters of Gustav Koerner, 1837-1863," Transactions of the Illinois State Historical Society For the Year 1907 (1908), pp. 224-26.

CHAPTER III

THE REVULSION AGAINST BANKS, 1837-1845

During the depression period from 1837 to 1845, the logic of the Democratic interpretation of the economic crisis worked itself out. The Democracy of the Old Northwest became dedicated to the extinction of banks and a return to the "constitutional currency" of gold and silver. This transformation took place in two stages. Between 1837 and 1839 anti-bank feelings grew, but the party stood for reform rather than abolition of the state banks. After the second suspension in 1839, the Democrats moved quickly--spurred by political reverses--to a complete "hard money" position advocating abolition of all banks. In this they followed the lead of the eastern members of their party. The Whigs were not uncritical defenders of all banks, but tried to reform the state banking systems in order to provide abundant credit and a well secured currency. By the mid-1840's the Democrats conceived of economic reform in terms of retrenchment and deflation; while the Whigs hoped that a moderate inflation would raise prices and wages, and, thus, quicken economic expansion.

The effects of the panic were not immediately felt in the Old Northwest because agricultural prices, while falling, held up fairly well throughout 1837 and 1838. The crisis of 1837, which was basically urban and commercial, forced all of the banks into suspension; but in each state, bank commissioners affirmed the soundness of local banks and asserted that suspension was a defensive measure. In the main, the West was bothered by a shortage of adequate currency, and there were many individuals who believed that the misfortunes of the East would benefit the West. Lucius Lyon, one of Michigan's senators, wrote Charles Trowbridge in

May, 1837, "It is estimated that 4000 mechanics were discharged here on Saturday last, and most of these, together with several thousands previously out of employment will find their way to our country. This will do something toward counteracting the effect of the present scarcity of money, so far as we are concerned."¹

The year 1838 brought with resumption of specie payments, an increase in credit facilities, and the tremendous expansion of expenditures in all of these states for internal improvements projects. Although land prices never recovered, optimism did. Lyon continued to praise the possibilities of Michigan, and from Ogle County, Illinois, J. H. Smith wrote to a friend in the East, "All kinds of business are good /, and a] good mechanik /sic/ can get any kind of price and cash down."²

This resurgence of the economy continued into 1839. However the suspension of specie payments by the Bank of the United States of Pennsylvania in October, signaled a downturn into a full fledged depression. By 1840 this was increasingly felt in the Old Northwest.

- 1 Lucius Lyon to C. C. Trowbridge, May 1, 1837, in the Trowbridge MSS.
- 2 Numerous letters boosting Michigan are to be found in "Letters of Lucius Lyon," Historical Collections... Michigan Pioneer and Historical Society (Lansing, Michigan: Robert Smith Co., 1897), XXVII, pp. 412-604; J. H. Smith to David Portz, May 27, 1838, in "Letters From Ogle and Carrol Counties, 1838-1857," Transactions of the Illinois State Historical Society For the Year 1907 (Springfield, Illinois: Phillips Bros., 1908), pp. 247-261.

The banks of the area had again suspended specie payments; and by 1843 most of them had gone into liquidation. Illinois was entirely without authorized banking facilities; and Michigan was left with six rather shaky institutions one of which closed voluntarily and two of which failed in the next three years. In Ohio, the most economically developed of these states, the charters of fifteen banks expired in 1843 and 1844, leaving the state with eight banks. Only the Bank of Indiana came through the period with its reputation intact. The numerous exposures of fraud and malpractice during these years along with the two suspensions of specie payments built up a great deal of dissatisfaction with banks in general.

However well deserved much of this censure was, there is good reason to believe that banks and the banking system were made the scapegoat for the economic disasters of the period. Men who had stood in the forefront of credit expansion in 1836 and 1837 shifted their allegiance to the "loco focus" by 1841. Good banks were attacked along with the bad, as the experience of the Bank of Indiana shows. One student has very succinctly written:

No matter what the policy adopted, it was sure to be criticized. An increase in accommodations was evidence of "reckless banking" while, if the bank attempted to reduce its circulation and called some loans, it was oppressive." In a period of crisis failure to suspend specie payments might mean ruin, but the suspension meant that the bank was a "fraud," issuing worthless promises. 3

3 Golembe, "State Banks and the Economic Development of the West," p. 74.

The political possibilities of such a flexible issue were clear, and the Democratic party which was hurt by the hard times seized upon it. The rhetoric of the "Bank War" was easily, almost logically, extended to all banks. The policies of the Old Hero could be defended against Whig charges, and the embarrassing situation of the "party of the people" being soundly trounced at the polls could be explained by "bank influence." In each of the states of the Old Northwest banking became a political issue of first importance during the depression years. Although there were certain local variations, a pattern emerged from this controversy that was remarkably similar in each state. At first, the Democrats disavowed any intention to "war on credit" or destroy all banks, and favored "bank reform." However, after the second suspension of specie payments, the Democracy became increasingly opposed to banks of any kind so that by the mid-1840's this was a test of orthodoxy within the party.

I

The suspension of specie payments which came in May, 1837, encouraged the appearance of a widespread hostility to banks within the Democratic party. The Chicago Democrat and the Jacksonville (Illinois) News redoubled their attacks against all banks; and former advocates of the Illinois State Bank such as ex-governor Ewing turned against that institution. The Ohio Life Insurance and Trust

Company was forced by its charter to resume without redress from the legislature. In that state a number of "loco foco" papers demanded that all other banks either forfeit their charters or resume.⁴

However, anti-bank ideas did not yet dominate the party.

The Indiana Democrat defended the soundness of the State Bank and argued that it was compelled to suspend for self-protection just as the Michigan Democrats defended suspension in their state. Even Ohio's Samuel Medary, who would become one of the most virulent opponents of banks, tried to prevent hysterical reactions against banks, and assured his readers that, "Our own are strictly solvent, and ought not to be a slave for many misdeeds." The leading Democratic organ in Illinois, the Illinois State Register, joined with the Whigs in supporting the bill to legalize suspension. Similar bills were passed in Michigan and Indiana with the support of both parties, allowing the banks to suspend and requiring conformity to certain restrictions which it was hoped would insure resumption at an early date.⁵

Following the suspension the Democratic press began an attack on banks that was more a result of their attempts to defend

4 Pease, Frontier State, pp. 307-308; Weisenburger, Passing of the Frontier, p. 336.

5 Indiana Democrat, May 31, 1837; Western Hemisphere (Columbus, Ohio), May 17, 1837, quoted in Weisenburger, Passing of the Frontier, p. 335; Illinois State Register, August 4, 1837; James, Chicago Banks, I, pp. 122-123.

Jackson's policies and the logic of the "Bank War" than any deeply ingrained opposition to banks. The party press blamed the depression on the multiplication of banks and generally advocated reform of the state banking systems. Biddle was a favorite target both in private correspondence and in the press. The Indiana Democrat attacked Biddle and the Whig bankers for saddling the country with an irredeemable paper currency.

Biddle's bills are now at two per cent discount. The New York City Banks refuse to take them, while the Jackson currency, the gold and silver, demands a premium of ten per cent and there will always be this relative difference between the Whig and Democratic currency. 6

Throughout 1837 and 1838 party conflict revolved around the question of the Independent Treasury system. The Indiana Democrat, the Illinois State Register, the Ohio Statesman, and the Detroit Democratic Free Press all backed Van Buren's plan while their Whig counterparts, the Indiana Journal, the Sangamo Journal, the Ohio State Journal, and the Detroit Daily Advertiser opposed the Independent Treasury. State platforms and resolutions of county committees reflected this conflict and usually ignored state banking problems. In some areas Democratic county committees advocated a "hard" currency. The vigorously anti-bank Charleston Indianan declared, "That state which first casts off her banks will be in the

6 Indiana Democrat, June 7, 1837.

best financial condition--she will draw her supply of specie from the adjoining states." Still most county meetings and the leading Democratic papers denied that their party wished to destroy the banking system as the Whigs charged. The "Democrats of Old Franklin [Ohio]" asserted, "Our object is not to destroy, but to preserve--to correct the errors of Banking, and preserve the rights of the people, is the desire of all true Democrats." Banks and paper money were seen as dangers to honest elections, and even freedom of the press was threatened by "corporate power." The charge that the defeat of the Democrats in New York resulted from the interference of the money power was repeated in each state. To insure "the SUPREMACY OF THE PEOPLE," the Dayton (Ohio) Herald asserted, "TOTAL AND THOROUGH bank reform. . ." was necessary.⁷

The Democratic concept of bank reform at this time seemed to involve three principles: an immediate return to specie payments; individual liability of stockholders; and the prohibition of small notes. The Democrats of Muskingum County, Ohio, explained that they

7 Democratic Free Press, July 9 and 12, 1837; Newark Advocate in the Ohio Statesman, October 24, 1837; Ohio Statesman, October 27, and November 20, 1837; Charleston Indianan in the Ohio Statesman, November 1, 1837; Illinois State Register, August 4, 1837; Ohio Statesman, December 2 and 12, 1837, and March 13, 1838; Democratic Free Press, November 24, 1838; Dayton Herald in the Ohio Statesman, December 4, 1837.

desired a mixed currency with large bills "for Merchants and Traders, and Gold and Silver for the government and the people." The Indiana Democrat was more specific about reform. Throughout November, 1837, the paper suggested a number of ways to reform the banking structure of the state. A specie reserve of 33 1/3% should be established against issues, deposits, and liabilities. No notes under \$10 should be issued after 1840, and none under \$20 after 1842. Further, such notes should not be received or paid out. Resident stockholders should be made individually liable and non-residents asked to give security. The state itself should be responsible to the amount of its stock. Suspension of specie payments was to lead to forfeiture of the charter. Surplus profits over 1/16 of the Bank's capital were to be divided once every three years. If the president or the directors owed the Bank or were liable as endorsers, they were to be removed. A schedule of the debtors of the Bank was to be published. Sometimes the paper suggested that the legislature maintain the right to repeal or ammend the charter.⁸

The Whigs, in general, tended to be far less critical of the state banking systems and to justify suspension. They steered a

8 OhioStatesman, November 26, 1837; Indiana Democrat, November 1, 15, and 22, 1837; "Democratic Address" in Michigan saw the free banking law in these terms, Democratic Free Press, August 9, 1837; and by September 18, 1838, the Democratic Free Press, accepted this concept of reform, favorably reprinting an article from the Indiana Democrat.

moderate course. In Indiana a number of reports from the Whig controlled State Bank assured the legislature of the soundness of the institution, but recommended that no new branches be created until sound business conditions returned. Samuel Merrill, the president of the State Bank, took note of the demand for increased currency, but warned that matters be allowed to regulate themselves and that an overabundance of currency would only make things worse. He was not opposed to an increase in capital and the number of branches once the crisis had passed; and, in fact, he recommended such a move.⁹

Governor Joseph Vance of Ohio reflected a number of Whig attitudes in his message in December, 1837. Besides setting forth the Whig interpretation of the crisis, he looked upon economic society and money in ways that tended to be more common among Whigs than Democrats. He had a corporatist view of society which saw various economic interests as interdependent rather than antagonistic.

Agricultural, commercial, manufacturing and mechanical labor, are linked together by a strong common interest, and he who shall undertake to sever either branch of business from the others, strikes a blow at the prosperity of the whole.

9 Sangamo Journal, August 19, 1837; Governor Duncan's Message of July 11, 1837, in Illinois. Governor, 1834-1838; Detroit Daily Advertiser, May 19, 1837; Woodbridge family to William L. Woodbridge, May 22, 1837, in the Woodbridge MSS; Indiana Legislature. Documentary Journal, 1837, Documents #3, #8, and #29.

As far as money was concerned, he believed that the quantity had a direct effect on price level.

Every man conversant with the laws of trade, and the effects of currency must admit that all articles of merchandise, and all descriptions of property, must fall in proportion to the reduction of circulation.

An exclusive metallic currency would thus contract the money supply, lower prices, the value of land, and wages. He could not see how anyone other than office holders could be helped by the substitution of "hard money" for credit. With credit the disadvantaged youth of high moral principles could compete with the more fortunate members of society. "That the destruction of credit will make the rich richer and the poor poorer," was to Vance, "... too plain a proposition to be called into question." It was not just individuals who were aided by credit. Credit was the dynamic element in economic growth. The state of Ohio had been built on credit which served as a spur to enterprise. Yet, neither Vance nor the many other Whigs who agreed with this point of view could be described as unbridled inflationists or advocates of fiat money. Vance thought that the suspension of specie payments was "one of the greatest calamities that can come upon an industrious and enterprising people." Nor was he a thorough-going advocate of laissez-faire. He argued, in contrast to the Democrats, "it is not the amount of circulation that produces these evils, but the want of power to control, and judgement

in the application of our means, by those who have the management of our financial system." What was needed was a well regulated financial system capable of contraction and expansion to comply with commercial and agricultural needs.¹⁰

The problem was seen by Vance as a national one, and he urged a national solution, but the President and Congress promised no relief. "Our only reliance then must be on the state institutions." He suggested that the prohibition of small notes be removed on the condition the banks resume specie payments and "a relinquishment of any right they may possess [as some Ohio banks did] to issue notes under the denominations of one dollar."¹¹

The Democratic press vigorously opposed Vance. The Ohio Statesman thought his proposal would flood the state "with nothing but trash." The Norwalk Experiment attacked his idea of an elastic currency as "an absurdity." When the question came before the legislature, the Whig majority, which included a number of bank directors and stockholders, carried through Vance's plan by a strict party vote with every Democrat in the House and Senate in opposition.¹²

10 Documents... of the State of Ohio, 1837-38, Document #1, the quotations are from pp. 24, 10, 11, 14, and 12.

11 Ibid., p. 14.

12 Ohio Statesman, December 5, 1837; Norwalk Experiment in the Ohio Statesman, December 19, 1837; Huntington, "A History of Banking and Currency in Ohio," pp. 289-290; Weisenburger, Passing of the Frontier, pp. 343-346.

It is incorrect to assume that all of the opposition to bank suspension came from among the Democrats. The Whig Indiana State Journal, which usually defended the State Bank, noted that opposition to the Bank was not confined to the "Van Buren Party." Such leading Whigs as George Proffit and Samuel Judah were opponents of the Bank. Judah, an outspoken advocate of internal improvements, was a constant critic of the State Bank's policies and later a leader of the free banking movement in Indiana. In January, 1838, he reported to the Judiciary Committee that the State Bank had forfeited its charter by suspending. The main object of the establishment of the Bank had been to insure a sound currency redeemable in specie. He was not theoretically opposed to banks, but rather a staunch defender of a redeemable currency. Judah was also the leading member of the Investigating Committee that reported later that month. The report is critical, but not a true anti-bank document; and it shows a surprising awareness of the problems created by the dual role of the State Bank as a public institution and a private corporation designed to yield profits. The main arguments of the report were directed toward supplying the legislature and the public directors with greater control over the Bank. Judah believed that as a public Bank it should be used to aid the public welfare and encourage the industry of the people. The report praised the "credit

system" in general, but warned against wild speculation.¹³

Nor had the Democratic party been purged of bank advocates by 1838. In Michigan, as one might suspect, the Democrats, who were successful in the 1837 elections, tried to establish a State Bank.

Michigan Democrats had allowed suspension in the special session of 1837 to save the state's banks. As the year continued, Michigan currency degenerated; and it was only taken in Buffalo and Cleveland at a substantial discount. Before the free banking system had hardly been tried and before its fraudulent operations had been uncovered, suggestions that Michigan establish a State Bank were coming from the Democratic press. In January, 1838 Mason praised the free banking bill for removing "the odious features of monopoly." Yet in the same address he recommended a State Bank to help pay for internal improvements. It would also help sustain public credit, have a "salutary influence upon our currency," and aid the commercial community. Mason believed that such a bank should be a mixed enterprise with the state holding control. It should be limited in its circulation and issue no bills under ten dollars. As added security, the private stockholders should be made to place securities with the state equal to their holdings. Preferably

13 Indiana Journal, January 20, 1838; Indiana Legislature. Documentary Journal, 1837, Documents #30 and #32. The Judah reports are examples of opposition to bank monopoly similar to that I associated with Seward in New York and quite in line with my generalization concerning the Whigs and the "banking school."

these should be six per cent bonds of Michigan.¹⁴

Although a great deal of the session dealt with the free banking system, a bill to establish a State Bank passed the Senate and died in the House where it failed to receive the necessary two-thirds vote. The Democratic Free Press favored the establishment of a State Bank and charged the defeat to the Whig insistence that a majority of the directors be chosen by the private stockholders. This, thought the paper, was a perfect example of Whig distrust of the people.¹⁵

Whigs, if they opposed the State Bank, generally feared that if control were in the hands of the governor, the Bank would be used for political purposes. Trowbridge who was consulted by members of both parties believed it was best to leave control with those whose financial interests were involved, and suggested that all other bank charters be extinguished including that of his bank, the Bank of Michigan. Isolated Whigs even opposed the Bank on the grounds that no more bank capital was needed. The Daily Advertiser was silent on the issue.¹⁶

14 Kalamazoo Gazette in the Democratic Free Press, November 29, 1837; Fuller, ed., Messages I, pp. 227-232.

15 Democratic Free Press, February 7, 1838.

16 C. C. Trowbridge to Woodbridge March 5, 1838, in the Woodbridge MSS; C. C. Trowbridge to Charles Moran, March 27, 1838, in the C. C. Trowbridge MSS. E. P. Hastings to Woodbridge, February 3, 1838, in the Woodbridge MSS opposed any new banks. The Daily Advertiser, March 19, 1838, believed there were too many banks.

One student has asserted that it was a clear fight with both parties holding firm, the Whigs favoring private control and the Democrats favoring state control. The vote in the House hardly suggests this. Equal numbers of Whigs could be found on either side of the issue. The failure of the bill resulted from the fact that eight of the twenty-two Democrats, including the defender of free banking Mr. Gantt and the Speaker Mr. Bingham, voted against the bill. The two-thirds clause in the Michigan constitution rather than opposition from either party killed the bill.¹⁷

Throughout the summer of 1838 the Democratic papers kept up demands for a State Bank in which the State maintained control. They asserted that it was a question of the Democrats favoring "A People's Bank" the "federalists" opposing it because of their distrust of the people. They were the corporation party and "true Tories." During this period, the Democratic Free Press attacked the Bank of Michigan, and at the same time defended the Michigan State Bank from the "loco foco malignity" of the Whig Daily Advertiser. At one point the Democratic Free Press argued that C. C. Trowbridge, Thurlow Weed and the "bank whigs" defeated the State Bank bill, because such an institution would endanger their "enormous profits." By the late fall, although it still was attacking the Whigs as "loco focus,"

17 Gantz, "A History of Banking Legislation," pp. 35-36; Michigan Legislature. House Journal, 1838, p. 453; Michigan Legislature. Senate Journal, 1838, p. 311.

the Democratic Free Press became more vehement in its attacks on bank influence and more rigid in its defense of Jackson and "constitutional currency."¹⁸

The Whig press mainly concerned itself with attacking the Independent Treasury system and the Michigan State Bank. When the Daily Advertiser dealt with the question of a new State Bank, it warned that control in the hands of the state would make the Bank a "political engine." Would it be a bank controlled by "the people" or one controlled by the "executive and his tools"? The Whigs, the Daily Advertiser argued, wanted a State Bank not a political machine.¹⁹

Again Mason opened the session calling for reform of the banking system through the establishment of a State Bank; and a bill was favorably reported out of the House Committee on Banks. Although the only opposition came from Democrats, the Committee's report and the overwhelming vote indicate that anti-bank ideas did not yet dominate the Democratic party.²⁰

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- 18 Gantz, "A History of Banking Legislation," p. 36; Kalamazoo Gazette in the Democratic Free Press May 22, 1838; Democratic Free Press April 18, April 25, May 9, May 16, September 5, September 12, October 17 and December 19, 1838.
- 19 Daily Advertiser, August to September issues attack the Sub Treasury plan, August 18, October 24, December 27, 1838, and January 3, 1839, deal with the State Bank plans.
- 20 Fuller, ed., Messages, I, pp. 251-260, the quotation is from p. 259. Michigan Legislature. House Documents Accompanying the Journal, 1839, Document #29, the quotation is from p. 578; Democratic Free Press, March 27, 1839, reported the debate.

While Michigan was attempting to solve its problems by setting up a State Bank, the idea of free banking spread throughout the Old Northwest. Certainly the attitudes necessary for an attempt at free banking were well distributed during this period and had invaded both parties.

Following the establishment of the Michigan system, the Ohio Statesman noted derogatorily that bank projects were taking on the new form of "real estate banks." Although the Statesman was not impressed by the land bank idea, it and the Cleveland Advertiser followed the debate in New York during 1838. New York editorials were reprinted; and Medary praised the "loco-focos." He advocated "free scope for everything." "The issue," wrote the editor of the Statesman, "between Bank monopoly despotism, and free trade and equal rights had to be made sooner or later and we are rejoiced that the last stroke has been struck and the standard of freedom has been raised. . . ." The Cleveland Advertiser proclaimed the New York law as a triumph of "loco-foco" principles and chided the Whigs who backed the law for having none of their own. Similar charges were made by Michigan Democrats who were busy defending their own law. ²¹

²¹ Ohio Statesman, November 23, December 13, and 22, 1837; Cleveland Advertiser in the Ohio Statesman, May 9, 1838; Detroit Democratic Free Press, April 18, 1838.

Yet, many Whigs were in favor of free banking. Ohio's Governor Vance noted in his 1837 message that, "The great amount of local legislation, and bestowment of corporate privileges, is believed to be a growing evil in the State." The following year he discussed free banking as a possible way to reform the state's banking system. He reminded the legislators that it had failed in Michigan, but was largely successful in New York. He left the question to the legislature and recommended "laborous and careful investigation." In the 1839 session an unsuccessful free banking bill was introduced by a Whig, John Green of Pickaway County. The Ohio Statesman did not hesitate to attack the bill and reprint an article from the Cleveland Gazette opposing the free banking "mania."

We have felt the disastrous effects of the bursting of one General Banking experiment in a sister State, and we prefer that the experiment New York is working, should be further tested, before Ohio embarks on a similar one.

Governor Wilson Shannon's second message in 1839, echoed doubt concerning free banking. "It will not do to trust entirely to the commercial law of supply and demand to regulate the amount of paper circulation."²²

22 Documents... of the State of Ohio, 1837-1838, Document #1, p. 24;
Documents... of the State of Ohio, 1838-1839, Document #1;
Cleveland Gazette in the Ohio Statesman, February 6, 1839;
Documents... of the State of Ohio, 1839-1840, Document #1,
the quotation is from p. 12.

Understandably the Michigan experience made members of both parties wary of the security of free banking systems. Democrats were usually attracted to the idea of freedom in the banking business. The Whigs were attracted to this, and the idea that a currency based on stocks or mortgages would provide both security to the note holder and a way to bring dormant capital funds into active use. Illinois' Governor Duncan had several times proposed a plan by which notes would be issued against mortgages on Illinois land and be used "with discretion" as currency. His plan which was very much like that suggested by the Lyon Committee in the Michigan Constitutional Convention of 1835 had the same ends. Like the Lyon plan it did not provide for freedom in the banking business. ²³

By mid-1838 the Indiana Democrat had begun to agitate for free banking in that state. In June it printed "Mr. Young's Report on Currency and Free Banking," and praised it highly. Commenting on the Young Report, the editor asserted:

We are willing to be distinguished as ultra, when we can find authority for our course in the messages of Andrew Jackson and Martin Van Buren, and in the official reports of Samuel Young. ²⁴

The Indiana constitution prohibited the establishment of any but a State Bank, and this caused a constitutional problem concerning

23 Duncan's speech is in Illinois Legislature. House Journal, 1838-1839, pp. 10-17.

24 Indiana Democrat, June 13, 1838.

free banking. The Indiana Democrat took the position that the constitution did not prohibit private banking, but "private banking, if carried on indiscriminately by all men, would soon entail upon the community, unless controlled and regulated by the legislature, evils greater than can be imagined." There was no doubt, according to the paper, that the legislature could not regulate private banking. However, the Indiana Democrat did not come out positively for such a reform leaving the decision to the legislature.²⁵

The Whig Indiana State Journal took issue with the argument that a general banking law was constitutional; but it was not an outspoken opponent of such legislation. In his annual message Governor Wallace asked for an addition of capital to the State Bank, but could hardly be described as a violent bank advocate. He warned this should not be done recklessly, nor should the legislators believe that banks can relieve the people of taxation. "Experience teaches us the fearful lesson that there are limits beyond which if banking privileges and banking operations are carried, they cease to do good, and become engines of incalculable mischief." He also warned against the establishment of "swindling shops." On the question of bank investigations he argued that the bank as a public institution must be open to the representatives of the people, but he

25 Ibid., November 21 and December 7, 1838.

also asked for a limitation on the governor's ability to call an investigation.

Is he anxious to secure an election? What better expedient can he resort to than to make war upon the bank? Is it necessary to shield his conduct or the complexion of his principles from too severe a scrutiny, how more successfully can he accomplish this than to join in a crusade against the bank? The bank! Why hostility to the bank or banks has become in these latter days a kind of universal panacea--a cure for every disease of political principle--the vilest leprosy of Federalism may even be made whole by it. ²⁶

The report of the State Bank noted that business conditions were improving and specie payments had been resumed. The banking capital of the state was small and perhaps at this time the amount of state owned capital might be increased. While this was the eventual result, Samuel Judah led an attempt to pass a free banking law in Indiana in 1839.

Judah had been an early follower of "the Old Hero," but as the Whig party developed in Indiana, he became one of its leaders. He was best known as a supporter of internal improvements in his state. He was also a defender and admirer of Biddle. His position on state banking was one typical of more progressive Whigs. ²⁷

26 Indiana Journal, November 10, 1838; Indiana Legislature. Documentary Journal, 1838, Document #1, the quotations are from pp. 10, 12-13.

27 Paul L. Haworth, "Samuel Judah," in Dumas Malone, ed., The Dictionary of American Biography (Charles Scribners Sons, 1946), X, pp. 227-228; for Judah on Biddle, Indiana Journal, February 15, 1839.

Judah sometimes sounded like an advocate of laissez faire.

In his report to the legislature he wrote:

Banking, in all its relations, whether dealing with the precious metals and in exchange, or embracing the production and distribution of a paper circulation, is a mere trade; a branch of commerce; and as such, is open to all men, to a free competition, in all civilized countries unless restrained by law.

But he did wish legislation to "regulate the exercise of private banking" such as the free banking law of New York. "The New York regulations for private banking, are the best yet devised," he argued, because the main principle of the law was that notes be based on ample security.

If ample security be given to the public for the notes it is not easy to discover any well founded objection to free-banking; none certainly that can be sustained on just principles; none consistent with any approved system of Political Economy, can be shown; none but such as would sustain all the long abandoned fallacies of times past; the regulation of prices and wages, the duration of apprenticeships, the prohibition of the exportation of specie, sumptuary laws and all those varied regulations, by which Governments formerly attempted to restrain the freedom of commerce, and to limit the wants of society /my italics/.

The laws of supply and demand would regulate banking, but they might not protect the public. This protection had to be supplied by security of state or national stocks. As an additional bonus this would create a demand for Indiana stocks, and hopefully it would "induce men of wealth and experience to embark in the business of

Banking in this state. . . ."²⁸

His argument was more thoroughly developed in the debate on his bill, and its essential spirit was more clearly revealed. He denied that his bill was unconstitutional and asserted that "we ask only a regulation of the present undoubted rights of individuals." However, he introduced a new argument. Certain areas of the state which desired banks were unable to obtain them under the present system. He warned that, "We have no right to expect men to act in opposition to the dictates of their own interest, and especially this should not be expected from bank directors." An addition of new branches increased the risk to all other branches because they were mutually responsible. It was Judah's belief that the directors should hardly be expected to assume such risks without some hesitation.²⁹

Judah hoped that a free banking law would provide for "The extension of bank facilities to various parts of the state now destitute in our present system, would encourage commerce, stimulate agriculture, and bring forth and sustain manufacturers." Here was

28 Indiana Legislature. Documentary Journal, 1838, Document #13, the quotations are from pp. 188, 191, and 192.

29 The debates are in the Indiana Journal, February 15, 1839. Examples of Whig arguments against the Independent Treasury using a similar argument are those of Lincoln in Basler, ed., Collected Works of Abraham Lincoln, I, pp. 157-179, and of Jacob M. Howard in Michigan Legislature. House Documents Accompanying the Journal, 1838, Document #62.

nearly a repetition of Governor Seward's stand concerning the New York law. Judah had no fear of banks, in fact, part of his argument was that free banking would not hurt the State Bank. He looked upon credit and banking as positive elements of the economy which should be regulated for the ultimate good of the society.³⁰

In the debate on the bill Judah received strong support from Robert Dale Owen, the Democratic representative from Posey County. Owen argued that Judah's free banking law was republican in its character because it opposed monopoly.

It is founded upon the principle from which so much that is good and useful springs--the principle of free competition. It grants to all certain general rights--to none exclusive privileges. And it regards, as every banking system ought, the security of the people first and the profit of the stockholders afterwards.³¹

The opponents of the bill emphasized the constitutional question, but they hardly took a position that could be termed "pro-business." Basil Champer, a Whig from Owen County, believed such a bill clearly unconstitutional; yet, he acknowledged the necessity for banking facilities, and urged his colleagues to first wait and see what would be the result of the increase of the capital of the State Bank. He was joined by Robert Cooper, a Whig from Henry County, who believed that Owen was wrong in asserting the bill to

30 Indiana Journal, February 15, 1839.

31 Ibid.

be "a democratic measure" and that it was really "a private measure; a measure for private speculation. . . ." He feared the depreciation and the destruction of the State Bank should free banking be instituted. George Cutter, the representative from Vigo County who was affiliated with neither party, warned that the good of the state should not be subverted to sectional feeling or local interest. "Pass this bill and you put a dagger in the hands of private partners to stab the dearest interests of the state."³²

The many references to private desires and local interests, including Judah's disclaimer of any such interests, indicates that these were factors influencing the voting on the bill. What is in question here is party position. The Democratic paper in the state supported the Judah bill on the grounds that the bill provided more safety than the State Bank for the note holder. The paper commented on the security of the New York system and even mildly defended the Michigan system. The leading Whig paper had very little to say about the bill. It briefly asserted in November that such a law would be unconstitutional. While the bill was before the legislature, it printed the debates, but refrained from either an attack on the bill or defense of the State Bank. The Whig party "Address to the People of Indiana" in February acknowledged that perhaps the State Bank currency was not the best possible, but since the system

32 Ibid.

had been adopted, it was now in the best interest of the people to insure proper management of the system. In other words, the party press does not seem to have fought on the issue with one side bitterly opposing and the other defending the bill. This ambivalence of position is revealed in the vote which tabled the bill. The State Bank was associated with the Whig administration and seems to have been run by Whigs. This would in itself go a long way in explaining why the majority of Whigs voted against free banking and the majority of Democrats voted for it. Yet, forty-four per cent of the Democrats, a sizeable minority, opposed free banking, and Judah, the Whig sponsor of the bill was able to get thirty per cent of his fellow party members to back free banking.³³

In Ohio and Illinois Democratic bank reform candidates succeeded in the 1838 elections. Yet, the picture was not so clear as it might have been. Illinois Governor Duncan had been a supporter of Jackson, but he steadily moved toward the Whig fold. He was elected in 1834, before the rise of parties in Illinois, and represented the Republican distaste for the spirit of party that was coming to dominate state politics in the late thirties. In 1838 the newly developed convention system brought the feuding Democrats together on a rather undistinguished compromise candidate, Thomas Carlin who

33 Indiana Democrat, February 28, 1839; Indiana Journal, February 15 and 9, 1839; Indiana Legislature. House Journal, 1838, pp. 501-502.

soundly defeated Cyrus Edwards, the candidate of the "People's Party." The campaign centered on the internal improvements policy and the question of currency. On the latter question the argument revolved around the Independent Treasury plan with little attention paid to the State Bank. The Democrats bitterly attacked the idea of a national bank and called for the "divorce of Bank and State." For their part the Whigs called for a sound and uniform currency "so that a dollar in Illinois will be equal to a dollar in New York or new-any-place-else." It was the governments's duty to "foster enterprise" and raise prices. The Vandalia Free Press and Illinois Intelligencer, a Whig journal, declared:

The Whigs would have the farmer obtain \$10 a barrel for his Flour, and that in money, which would be received by the government for lands and other dues--\$20 a 'head' for his cows and for asses heads just what they are worth.

Aside from lowering prices, it was believed that the Independent Treasury would enhance executive patronage and increase governmental corruption. Finally, it would "create two species of currency, gold and silver for the pampered office holders and rags for the people, the laborers, and producers of the country. . . ." ³⁴

Conditions had measurably improved in 1838 and specie resumption had been carried out voluntarily by the Illinois State Bank

34 Pease, Frontier State, pp. 136-149, 236-250; Charles Manfred Thompson, "The Illinois Whigs," pp. 59-60; the Vandalia Free Press and Illinois Intelligencer, July 27, 1838, quoted in Thompson, p. 60, fn. 41; Sangamo Journal, October 11, 1839.

in August. This tended to quiet Democratic attacks. When the question of state banking arose, the Whigs generally repudiated the system and denied responsibility for the passage of the law creating the State Bank.³⁵

Carlin's Inaugural Address echoed Democratic party orthodoxy on the causes of the panic and the necessity of the Independent Treasury to "dissolve the connexion between the Government and Banks--a connexion as unnatural and dangerous as the union of church and state. . . ." The State Bank was not directly attacked by Carlin, but he gave indications of things to come asserting that the whole banking system was "radically defective." He chastized the laws legalizing suspension as violations of moral obligations and as a corrupting influence on the people. Suspension would never be necessary in a well regulated system. He warned against the growing political influence of banks and called for repeated examinations. Finally, he exhibited the fear that any institutions which could control the currency whether controlled by the state or private individuals were dangerous to freedom and liberty. Carlin had not made any specific suggestions, and nothing was done to alter the Illinois banking system at that session of the legislature.³⁶

35 James, Chicago Banks, I, pp. 126-127; Thompson, "The Illinois Whigs," p. 66.

36 Illinois. Governor, 1838-1842.

In Ohio the currency question also had a place in the election of 1838. As in Illinois and the other states of the Old Northwest a great deal of argument concerned the Independent Treasury question with the Democrats upholding the plan and the Whigs attacking it. On state banks the Democrats argued that banking reform was the true issue. "An Address to the People of Ohio" proclaimed:

The Democratic party one in favor of Bank Reform-- in favor of compelling banks to resume specie payments--in favor of making the holders of Bank stock individually liable for their corporate debts-- are in favor of imposing heavy penalties on Banks and their agents, whenever guilty of usurious practices; and in favor of annulling the charters of Banks when they have been violated.

Governor Vance was attacked as an advocate of the "Bank monopolists" and his opponent Wilson Shannon was praised as a leader of the bank reform forces. Shannon made his position clear July 7 at a speech at Ravenna in which he called for stockholder liability, larger specie reserves, prohibition of small notes, and prohibition of loans to stockholders and directors.³⁷

The Whigs generally attacked Shannon for making too much of the bank question. However, they could hardly be termed uncritical defenders of state banks. In his final message to the

37 Weisenburger, Passing of the Frontier, pp. 347-351, Ohio Statesman, July 3, July 31, and July 20, 1838. The official organ of the Democratic party the Globe praised Shannon's speech, Ohio Statesman, August 14, 1838; and the Indiana Democrat, December 28, 1838, showed agreement with his ideas as expressed in his inaugural.

legislature Vance argued in favor of a national bank to control currency. The idea of allowing twenty-six states to each regulate the currency was "totally impracticable and delusive." Banks, he believed, originally fulfilled a public function enabling small investors to share in their profits through the purchase of stock and allowing "the enterprising class, who have not been favored by an inheritance of wealth" to "wield capital not often possessed even by our wealthiest individuals." But this system must be controlled for public advantage not private profit and "subject to the control of the people through their representatives." Something must be done about the state banks "or a few great bankers, doing business entirely on their own account, irresponsible to the people, and yet at critical moments, able, very seriously, to cripple their resources..." will dominate. ³⁸

Following the election, Shannon embodied the Democratic idea of bank reform in his message to the legislature, and suggested that provisions be inserted in bank charters allowing the legislature to ammend, alter, or repeal them in the public interest. This had been opposed by many Whigs, but others such as Vance believed that such "ultraism" in favor of "vested rights" only hurt the party. In early 1839 the legislature carried part of Shannon's plan into effect limiting the issue of small notes and following the example

38 Weisenburger, Passing of the Frontier, p. 348; Documents... of the State of Ohio, 1838-1839, Document #1, the quotations are from pp. 6, 7 and 8.

of Illinois by prohibiting the issue of notes to unauthorized corporations.³⁹

Thus was Democratic bank reform in the period from the suspension to mid-1839. Constantly the party of Jackson denied Whig charges that it wished to burden the country with an exclusive specie currency. Rather, it would reform the banking system by prohibiting small notes, extending individual liability, and requiring the resumption of specie payments. A few Democrats were outspokenly opposed to banks of issue, but as yet, they were in the minority in every state. The Whigs for their part opposed the extension of liability and the prohibition of small notes, but agreed with the Democrats on the importance of the resumption of specie payments.

II

The events of 1839, particularly the second suspension of specie payments in October, signaled a shift in the Democratic party toward a full fledged opposition to banks of issue. It was after 1839 that the anti-bank forces came to dominate the Democratic party. Anti-bank feelings seemed to rise as the economy sank.

In May, 1839, John Wentworth renewed his attack on the Illinois State Bank accusing it of financing pork and lead speculations.

39 Shannon's inaugural is in the Ohio Statesman, December 14, 1838; Joseph Vance to John Sloan, March 4, 1838, quoted in Weisenburger, Passing of the Frontier, p. 348; Huntington, "A History of Banking and Currency in Ohio," p. 390.

Although the accusations later proved true, much of the early attack from Democrats was motivated by the fact that Whigs ran the State Bank; and the attack itself accounted to a great degree for Whig defense of the Bank.⁴⁰

The second suspension in October led to a redoubled effort of the anti-bank forces. Several Democratic County Committees in Illinois passed anti-bank resolutions. Indiana Democrats attacked the State Bank and called for a "constitutional currency." The Johnson County, Indiana, Democrats blamed the fluctuations of business on the "seizure of banks by Whigs" who used them for political purposes only. Banks, they argued, were only needed to facilitate the transport of the only true money, specie; and thus, it was only necessary to have bills of large amounts. The Indiana Democrat insisted that it did not oppose banks established on "correct principles" but rejoiced at the renewed suspension.

It is not because any relief will be given that we think the suspension a glorious event, but it is because, that the time is now at hand when all the evils of the present banking system can

40 Pease, Frontier State, p. 308; Bessie Louise Pierce, A History of Chicago (New York: Alfred A. Knopf, 1937), I, pp. 154-155. Sangamo Journal, August 23, 1839; Thompson, "The Illinois Whigs," p. 83; Thomas Ford, History of Illinois (Chicago: S. C. Griggs and Co., 1854), p. 226; Charles Manfred Thompson, "A Study of the Administration of Governor Thomas Ford," in Evarts B. Greene and Charles M. Thompson, ed., Governor's Letter-Books, 1840-1853 (Springfield, Illinois: Illinois State Historical Library, 1911), p. xliii, all support this conclusion.

be rooted out--when unsound and swindling institutions can be wound up--when paper promises, based upon nothing, will no longer be seen, and when the present vitiated and false credit system will be made to yield to a sound, safe and proper one.

Such a system would be "steady and prosperous" without the fluctuations of the present one.⁴¹

Ohio Governor Shannon's moderate "bank reform" views expressed in 1839 no longer satisfied a large segment of his party and his "Whig views" were attacked. A Cincinnati Democratic meeting in December denounced Shannon's views, proclaimed gold and silver as the only "constitutional currency" and called the chartering of any more banks inexpedient. Governor Carlin of Illinois bitterly attacked all banks. He opposed the legalization of suspension as "a fatal blow at the fundamental law of contracts." He also believed that "incorporation of companies for the regulation of the financial operations of the country, [was] at war with the genius of free government." He repeated his earlier charge that the banking system was defective and "unsanctioned by any principle of republican virtue." The arguments that the State Bank was forced to suspend to defend itself and that its destruction would harm the people of the state were rejected by the Governor. "We indeed labored in vain," he said, "in overthrowing the Bank of the United States, if we should now draw to our embrace an institution above

41 Illinois State Register, November 23, 30, and December 25, 1839; Indiana Democrat, November 26, and October 23, 1839.

responsibility and capable of inflicting within its own sphere a still more deadly sting."⁴²

Perhaps the greatest shift in attitude came in Michigan. Up to 1839, the Democrats often mouthed the standard rhetoric concerning banks, but had shown no reluctance to carry through a free banking experiment and to attempt to establish a State Bank. On the other hand, the Democratic press tabbed their opponents as "loco focus." The two parties split not on banks as such but on their attitudes toward specific banks. The Democrats were most closely associated with the Michigan State Bank, and it was the constant target of the Daily Advertiser. The Democratic Free Press defended the Michigan State Bank and trained its guns on the Bank of Michigan which was more closely associated with the Whigs because of their gubernatorial candidate, C. C. Trowbridge. When the Michigan State Bank failed in 1839 with \$600,000 of the state's money on deposit, the Daily Advertiser gloried in exposing "Loco Fraud" revealing that nearly every leading Democrat in the state owed the Michigan State Bank money.⁴³

42 Springfield Republican in the Ohio State Journal, December 10, 1839; Edgar A. Holt, "Party Politics in Ohio, 1840-1850," Ohio Archaeological and Historical Publications, XXXVII (July, 1928), p. 503; Ohio Statesman, December 17, 1839; Weisenburger, Passing of the Frontier, p. 354; Illinois Governor, 1838-1842.

43 Daily Advertiser, August and September, 1838, and October, 1839 issues; Democratic Free Press, April 18, September 5, September 12, 1838 and March 13, 1839; Daily Advertiser, November 6, 1839.

By the end of the year a shift in attitude of the Democratic press could be seen. The election of that year resulted in the victory of the "Democratic-Whigs" led by William Woodbridge. Elan Farnsworth, the Democratic candidate may have lost as a result of opposition of the "radical" elements of the party who had lost control to the "conservatives." The result was that the Democrats no longer were in power, and within the party the element which was more generally opposed to banks had control.⁴⁴

Attempts were made to associate the Whigs with the "Wild Cat" system. By September, 1839 the Democratic Free Press was asserting that the Whigs had a full share in the passage of the free banking law and had organized most of the banks under it. Now the paper argued, "the whig party headed by their wild cat whig bank presidents, directors, and stockholders have the audacity and hardihood to endeavor to throw upon the democratic party the responsibility of the irredeemable issue of wild cat banks." It also began to reprint demands from other anti-bank Democratic organs such as the Indiana Democrat, the Ohio Statesman, and the Chicago Democrat. The failure of the Michigan State Bank came not as a blow to the Democrats, but as a kind of emancipation which allowed them to be consistently anti-bank. The Democratic Free Press charged the

44 Streeter, Political Parties in Michigan, pp. 19-21, 35-37; "Letters of Lucius Lyon," p. 525. It is my contention that the "conservatives" such as Berry were the opponents of banks, while the "radicals" associated with Norvell were not.

failure to DeGarmo Jones and his "Whig friends," and printed a letter from the popular John Norvell minimizing the amount owed the bank by Democratic politicians. The suspension of specie payments finally pushed the Democrats into an anti-bank stand, seen in the blatantly anti-bank article, "Bank Currency," in the Democratic Free Press:

Better be poor than the panders to vice; better reduce our currency to commodities, than ourselves to be fleeced of our hard earnings by faithless banks and banking institutions. . . . Will the people tacitly permit a bank clique and party to ruthlessly en/tail these miseries upon them again in continuous succession, while every other state is restraining, restricting and guarding its bank issues. 45

In his valedictory Governor Mason chastised suspension as a result of the "false and pernicious system of banking." The banking system must be changed to protect the public by personal liability, a stricter criminal code, and private banking. "Take from them to this extent the corporate veil, which now encourages, and at the same time conceals and protects their frauds and villainies." Mason assured his audience that these simple reforms would insure adequate capital and responsible management. All of these evils could be traced to the free banking law. 46

45 Democratic Free Press, September 18, September 25, October 16, 1838, and March 11, 1839, the quotations are from September 18, 1838 and December 11, 1839. DeGarmo Jones was the Whig mayor of Detroit and later a State Senator.

46 Fuller, ed., Messages, I, pp. 287-289. This was not delivered, but printed in the Daily Free Press.

Revelations of fraud and unbusinesslike activities on the part of the banks added to the distrust of banks. In Illinois this turned members of both parties against the State Bank. The Whig press had tended to moderately defend the State Bank and charge the Democrats with the desire to establish a new bank under their control. However, individual Whigs seemed willing to let the State Bank die. Lincoln wrote John T. Stuart in December, 1839, that the legislature had "suffered the Bank to forfeit its charter without Benefit of Clergy. There seems to be but very little disposition to resuscitate it."⁴⁷

The report of the legislative investigating committee confirmed most Democratic charges and silenced Whig defenders, who had been at best moderate. It showed that the Chicago branch of the State Bank had been involved in pork speculation, and that the branch in Alton had been deeply involved in the attempt to make that city the center of the lead trade on the upper Mississippi. The State Bank was also chastised for over lending to directors and members of the legislature. Other violations of the law were revealed as were generally unsound management practices. A minority report was even more critical, and argued that an excessively large amount of State Stocks were held in the Bank's

47 Saugame Journal, January 7, 1940; Roy P. Basler, ed., The Collected Works of Abraham Lincoln (New Brunswick, New Jersey: Rutgers University Press, 1953), I, p. 159.

portfolio.⁴⁸

The Democrats made as much political capital as possible out of the disclosures and the suspension, but shied away from killing the Bank. The Illinois State Register continued to urge moderation; and the legislature, which was dominated by Democrats, decided that the interests of the state demanded that suspension be sanctioned until the close of the next session of the legislature. A number of Whigs, such as Lincoln, were disgusted by the way the Democrats used the bank issue for partisan purposes, "detaching a fragment from their party to help the Whigs pass a measure and then turn around and kick and cuff us for it. . . ." The Chicago American believed that the Democrats were adopting a "rule or ruin" policy against the State Bank. Since it would not become their "political engine," the Democrats had "in a most unnatural manner turned against their own bantling, because it had more honesty than its fathers."⁴⁹

During 1840 economic conditions improved slightly, but the reputation of the Illinois State Bank was immeasurably harmed by the report of the investigating committee, and the financial condition of the state deteriorated. A special session of the legislature was

48 The majority report is in Basler, ed., Collected Works of Abraham Lincoln, I, pp. 185-195; Dowrie, "Illinois Banking," pp. 90-94; James, Chicago Banks, I, p. 136.

49 Illinois State Register, December 25, 1839; Dowrie, "Illinois Banking," pp. 94-95; Basler, ed., Collected Works of Abraham Lincoln, I, pp. 237-238; Chicago American in the Detroit Daily Advertiser, January 31, 1840.

called to handle this problem. Carlin again attacked the banks for suspending. Such "usurpations" for whatever seemingly good purpose led to "political slavery." "The idea that the people should look up to government for assistance in times of pecuniary distress, is most revolutionary in its tendency. . . ." Especially, when it leads to aid for private interests and thus destroys equality. "In the pure republican days of the Revolution, merit and demerit, virtue and vice, alone drew the line of separation between one man and another: now the pampered fed monopolist scorns an association with honest poverty." The Democrats then chose to interpret the end of the special session as the time of termination for the suspension, and they were able to force the banks to resume over the protests of the Whigs. This forced resumption months before the other banks of the country had begun to pay specie had the expected result. The Bank was drained of \$455,000 in specie and forced to curtail its business drastically increasing the pressure on debtors and causing a fall in the price level. The policy of curtailment was extended to cover loans to the state and this combined with the Bank's refusal to cash salary warrants caused a minority of Democrats to vote with the Whigs to legalize suspension. Again similar provisions restricting the Bank's activities were part of the bill. This time the Bank was allowed to issue bills in denominations of one, two, and three dollars to ease the currency shortage, but

in exchange for this forced to take \$50,000 of six per cent Illinois bonds at par every six months for the next two years. Before this plan was worked out Lincoln had written a bank bill to ease the tight currency situation by creating a bank that would issue notes against Illinois stock, but this was not accepted.⁵⁰

Whig action in Illinois was generally in line with the policy of currency expansion through the use of the banking systems urged by Whigs in the other states in 1840 and 1841.

A split in the Ohio Democracy over the bank question aided in the victory of Whig Thomas Corwin. While not unaware of the dangers of banking, he also proposed that Ohio either accept a State Bank system or that the present banks be rechartered under the direction of a board of control that issued all paper and examined the banks. He would also establish a safety fund, limit dividends, and set amount of circulation in relation to capital. Neither suggested plan was successful as Democrats were able to block action on any bill without individual liability of stockholders. The Whigs in Michigan and Indiana were more successful in their program of "bank reform."⁵¹

50 Dowrie, "Illinois Banking," pp. 95-100; Carlin's message is in Illinois Legislature. House Journal, 1840, pp. 18-30; James, Chicago Banks, I, pp. 137-140; Pease, Frontier State, p. 311.

51 Weisenburger, Passing of the Frontier, pp. 404-406; Documents... of the State of Ohio, 1840-1841, Document #76.

The Whig victory in 1839 in Michigan had been complete giving them control of both houses of the legislature and the governor's chair. It was obvious that one question with which the new administration would have to deal was that of currency and banking. During the fall, the Daily Advertiser mainly contented itself with attacks on the Michigan State Bank and assertions that the Democrats could only view banks as political machines run by party men. In October, it attacked Biddle's bank for suspending and viewed this as further failure of "loco foco" policy!

The suspension of the U. S. Bank is the climax of the assertion, that every financial scheme of the present administration is sure to fail. The pet Bank system was the first. That failed. The Pennsylvania U. S. Bank scheme was next. That has failed. --If even the Sub-treasury goes into operation, that will fail. Equally unsuccessful have been all the fiscal schemes of the loco focus of this State. They gave us the wild cat system. That's gone. They took the State Bank to their bosom and that sleeps. You can't make currant jelly out of calves heads. 52

In December, 1839 the newly elected governor received a series of letters suggesting various plans. Robert Stuart, a shrewd Whig politician, saw the main problem as one of adequate currency. He favored a State Bank, but feared it would either become a "political engine" or fall into the hands of men who would misuse it. Private banks he believed were less likely to fail and less open to fraud; thus, perhaps the state could take advantage of the Detroit

banks by diverting internal improvement funds. He, like other Whig correspondents of Woodbridge, believed that a State Bank could not be organized quickly enough to give adequate relief. He was not particular about how it was done but believed that "the Banks must be enabled to extend that relief that is so much needed." There was not enough currency even to pay taxes let alone move crops. The threat of necessity to resume seemed to Stuart the reason that banks couldn't provide needed currency. He believed Woodbridge should sanction suspension, but for political reasons cast this in terms of demanding resumption at some future date. Stuart had a generally dynamic view of money like many Whigs and believed that only adequate currency could revive the economy. He had no use for retrenchment.

I was pleased to hear you remark the other day, he wrote to Woodbridge that retrenchment alone cannot relieve us, this is so self evident to my mind, that I was amazed to hear a man I had taken to be wise and experienced in business, say, that all we needed, was reform and digging in the earth; this might answer if we were preparing for our graves, but if we mean to live, there is a need of much more--. 53

The view that the legitimate function of banks was to encourage industry and facilitate trade, and that currency had a dynamic function in this process was reflected in other letters to Woodbridge. John A. Wells, a Democratic banker turned Whig,

53 Robert Stuart to Woodbridge, December 23, 1839, in the Woodbridge MSS.

agreed basically with Stuart that the greatest problem was a lack of currency and that a State Bank could not be easily formed. He suggested the state buy the already existent banks, reform them, and make state officers their directors. The most novel part of Wells' plan is his suggestion (somewhat like the Populist Sub-Treasury plan) that the banks lend money to farmers on deposits of produce at accessible points, with the proceeds of the sale minus shipping going to the farmer.⁵⁴

Many of these ideas were echoed in Woodbridge's message in January. While he laid the blame for the evils of the currency at the steps of the administration, he analysed the problem as had Stuart and Wells. "The melancholy truth is now brought home to us all, that for the want of sound currency, the ample products of our soil--the richest fruit of the toil of the husbandman, are in imminent danger of remaining a mass of useless rubbish in his yard and granaries, because a safe and convenient currency can alone furnish the avenue through which an appropriate market can be found." The state was obviously limited and Congress must act; until then something temporary must be done. Because experience has shown there was not sufficient capital for a State Bank, the existing banks had to be used to give the relief the people demanded

54 John A. Wells to Henry Chapman, December 30, 1839, in the Woodbridge MSS.

by increasing bank issues to facilitate movement of crops. Woodbridge concluded with a suggestion that if the use of private banks was attempted, they should first be thoroughly investigated.⁵⁵

During the session the Whig press suggested that a State Bank like that of Indiana was probably the best way to supply the additional two million dollars needed to move crops. "Hundreds of thousands of dollars worth of wheat are heaped up in counties where absolutely, there is not a sufficient circulating medium if it were all scraped into one pile, to meet the town, county and state taxes. This state of things is intolerable, and must be remedied."⁵⁶

The Daily Advertiser was favorably disposed to a plan presented to the Senate by a select committee headed by Democrat Samuel Etheridge. This report, which was concurred to by the Whigs on the committee, examined banking in various foreign countries and concluded that none offered a completely safe precedent and in general such examples were "not in accordance with the genius of our political institutions." A banking system must be erected that fits Michigan's problems and aids in restoring prosperity. Thus a State Bank like that of Indiana was suggested. Concerning the question of control, the officers of the state were to be made directors. It was hoped that such a system could provide adequate facilities to all parts of the state and investment opportunities to

55 Fuller, ed., Messages, I, pp. 320-324.

56 Daily Advertiser, January 17, 1840.

capitalists, without the multiplication of weak institutions as under the free banking law, and the costs of the charter system. The committee also hoped that corruption of the charter system and political domination as under the Safety-Fund in New York would be avoided. By the committee's admission, it was an attempt to gain the advantages of free banking without the drawbacks. The plan for such a State Bank never got out of the Senate where it was opposed by the Whigs. ⁵⁷

In general the Whigs followed the suggestion of Woodbridge to make use of the Detroit banks (the Bank of Michigan and the Farmer's and Mechanic's Bank). Like Woodbridge the majority of the committee to consider this question (two Whigs) blamed the poor state of the currency on the Jackson and Van Buren Administrations. Now, "...the states are compelled to resort to the most available means in their power to sustain their own credit, and mitigate, if possible, the embarrassments of the people." Thus, Michigan "should not reject" the possible use of the already established banks for relief. To force them to resume and wind up affairs would only further accentuate the depression. Instead of ministering to perverted "party madness" and "the clamors of hireling partizans" the committee hoped that the recommended

57 Daily Advertiser, January 17, 1840; Michigan Legislature. Senate Documents Accompanying Journal, 1840, Document #49.

measures could secure the "best circulating medium within the power of the legislature to obtain, and to our citizens the most ample reward for the products of their labor and industry." It was a choice between this or leaving "the country wholly destitute of the means of liquidating balances between our citizens."⁵⁸

Throughout March the Daily Advertiser defended the "Currency Bill" as impending the Whig legislation was called. Everyone would be hurt by a "no-currency" policy, and the "Currency Bill" would be the best way to augment the currency.

Without it, inevitable ruin would stare every man in the face--whether merchant mechanic farmer or laborer. --It will give new life to every department of trade. It will enable the farmer to sell his produce at a fair price--the mechanic and laborer to find employment at living wages--and the merchant to sell his merchandise to pay his debts.⁵⁹

On March 20, the "Currency Bill" was enacted into law authorizing the sale of the drafts for the installment of Michigan's internal improvements loan. These future drafts would serve as the basis for a loan to the state. In this way the banks were to supply the state with currency to pay its contractors. In exchange for this the banks were allowed to legally suspend until February 1,

58 Michigan Legislature. Senate Documents Accompanying Journal, 1840, Document #50, the quotations are from pp. 481, 482, and 483.

59 Daily Advertiser, March 7 and March 9, 1840.

1841 and increase their issue to the amount of their paid in capital. To this were added a number of restrictions to safeguard the public. In an unusual vote the measure was carried in the Senate with every Whig favoring it and every Democrat opposing. One House Democrat joined the twenty-nine Whigs who favored the bill, and one House Whig joined the twelve Democrats who opposed it. The "Currency Bill" was clearly a party measure. The "Whig Legislative Address" took full credit.

Not only will it enable the state to pay off its debts, promptly, to its contractors on public works--and thus enable the contractor to pay off his laborers--and thus enable the laborer to feed and clothe his children--and thus enable the merchant to pay off his debts; but will create a circulation for the purchase of the farmers produce--give life to trade and commerce--labor to mechanic--credit to the state abroad--and business energy and spirit to everyone. It will not only do all this, but will give us, what is indispensable to the successful prosecution of business, a sound healthy, redeemable currency. 60

While Whig confidence in mid-1840 was no more justified than that of the Democrats the previous year, their program reveals the essentials of the Whig attitude toward banks. They tended toward a corporatist view of the economy with an emphasis on cooperation between government and business and the inter-dependence

60 Gantz, "A History of Banking Legislation," pp. 50-52; Michigan Legislature. Senate Journal, 1840, p. 441; Michigan Legislature. House Journal, 1840, p. 393; Daily Advertiser, April 4, 1840.

of the various elements of the economy. They favored an expansion of the currency supply to spur economic development and, thus, bring relief to the entire population. Fearing an irredeemable currency, they chose to base this expansion on bank currency, and came to the aid of the banks they believed to be strongest.

Similar attitudes can be seen in the way Indiana Whigs attempted to bring about relief in their state. Governor Wallace urged legislation that would provide as much uniformity as possible between specie and paper. In late 1840 he criticized banks that did not have proper capital and praised the Scottish system for its frequent settlements. His successor Samuel Bigger made the Whig position very clear in his inaugural address.

When properly regulated, banks exercise a beneficial influence on labor and enterprise, almost incalculable. When injudiciously or dishonestly conducted, they are powerful instruments of evils to the country, and ultimately, of loss to those who own their stock. They should be watched with a jealous eye, not with view to their destruction but for the purpose of restricting them to their appropriate spheres.

He then went on to insist that a convertible paper currency was "essential to our progressive improvement."

In it is laid the foundation of the true credit system, which is our surest protection against actual monopolies of capitalists. Credit constitutes the capital of the poor man, bestowed upon him as the reward of his enterprise and integrity. With it he can compete successfully with wealth in all its forms. Without it, labor and property would be brought entirely within the heartless grasp of individual wealth, whose operations can never be brought under the control of legislation.

Bigger concluded by criticizing those who would set interest against interest and argued that the various branches of business are mutually dependent and it is the duty of government to protect each from undue encroachment of the rest. Here the Whig position was clearly delineated.⁶¹

The State Bank in its report to the legislature often made the arguments that bank credit opened opportunity to the poor but honest and thus kept business from the hands of a small group of capitalists. These reports also complained that the legislature was "making the business of banking a matter of party contest," and accused its opponents of wishing to remove the controls of the Bank and "engross the profitable business of regulating the exchange of the country. . . ." ⁶²

The Whigs generally defended the State Bank and backed the legislation increasing its stock and authorizing it to issue small bills. At the same time, they favored legislation prohibiting the issue of irredeemable currency by both the state and private entrepreneurs. Charles Test charged the Democrats with being

61 Indiana Legislature. Documentary Journal, 1839, Part II, Document #9; Indiana Legislature. Documentary Journal 1840, Part I, Document #8; Indiana Legislature. Documentary Journal, 1840, Part I, Document #9, the quotations are from p. 129.

62 Indiana Legislature. Documentary Journal, 1842, Part I, Document #8, p. 456, and Part II, Document #7, pp. 168-69.

in favor of irredeemable currency so that the public would eventually revolt and demand a specie currency. "Our object," he asserted, "should be to give all proper encouragement to good banking institutions, and thrust aside the miserable trash with which the community is threatened." He, Judah, and the Whigs in general favored the issue of small notes by the State Bank in the hope that these would drive out worthless shinplasters which they connected with the Democratic party.⁶³

Although some Democrats agreed with the Whig views, the official party reactions to these Whig policies show a contrasting set of attitudes were coming to dominate in that party. In general, their view of economic society was atomistic, with the various elements of the economy in beneficial (for the whole) competition. To them, Whig attempts to use the banking system or other corporations smacked of special legislation and a violation of equality in economic affairs. In contrast to the Whigs, they feared price rises and believed that relief would only come with retrenchment and the return to a redeemable currency. They did not trust bank

63 "Introduction," of Riker, ed., Messages and Papers of Wallace Administration, pp. 40-41; Samuel Judah to Noah Noble, October 26, 1839 in Ibid., pp. 277-278; Charles H. Test to Editor of the Richmond Palladium, January 19, 1841, in Thornbrough, ed., Messages and Papers of Bigger Administration, pp. 193-195; Samuel Judah to Editor of Vincennes Saturday Gazette, January 24, 1841, in Ibid., pp. 198-200; Samuel Judah to Editor of Vincennes Saturday Gazette, February 8, 1841, in Ibid., pp. 226-228.

money, and many turned to demands for a specie currency. Most of them distrusted government, particularly legislative interference in the economy. As the depression grew worse the party moved toward deflation, hard money, and laissez faire.

The attack on the "Currency Bill" by Michigan Democrats reflected these attitudes. According to the hostile minority report on suspension and the use of the Detroit banks for relief, suspension struck at "the basis of civil liberty" and was a "corporate infringement of individual right." What the people wanted was relief from banks and bank frauds. Only by resumption and the establishment of the only "constitutional currency" could the state return to prosperity. The Democratic press charged that the bill would provide relief only to the bankers. All the Whigs were doing was using the public funds to save the tottering Bank of Michigan. Anti-bank articles charging the Whigs with being the party of speculators, monopolists, and suspensionists were printed in the various papers. The two themes most dominant were that the Whigs favored an irredeemable currency--"Whig wild cat currency"--and that the Whig legislation was a triumph of the "money power." The only alternative offered was a return to "constitutional currency." To the Democrats the idea that an increase in currency, credit, and prices could spur economic recovery was absurd. Currency was only the representative of wealth and had no dynamic function. The

only answer was economy and retrenchment. ⁶⁴

In the election of 1841 John Berry, an early and consistent opponent of banks, won the governorship of Michigan on a policy of a return to strict economy. In his messages of 1843 and 1844 he bitterly attacked banks and suspension. These views were echoed in the Democratic platform of 1845 which stated that the party was "entirely opposed to the further incorporation of banks of issue in the state...." Berry's successor Felch and the Democratic press joined in this anti-bank stance. ⁶⁵

In Indiana the anti-bank attitudes such as those expressed by Ebenezer M. Chamberlain and his Democratic colleagues abated after they gained the governor's chair in 1843. The new governor James Whitcomb took typical Democratic positions on the causes

64 Michigan Legislature. Senate Documents Accompanying Journal, 1840, Document #51; Democratic Free Press, January 29, February 5, February 19, March 11, March 18, and April 1, 1840; Free Press... Extra, January 24, 1840. It is significant that on March 11, 1840 the paper reprinted an Ohio Statesman article charging that all Whigs came from the non-producing groups in society: bankers, office holders, lawyers, doctors, merchants, and speculators.

65 The 1841 Democratic platform is reprinted in Randall, "Gubernatorial Platforms," pp. 30-37; Streeter, Political Parties in Michigan, p. 22; Cooley, Michigan, pp. 294-296; Fuller, ed., Messages, I, pp. 448-454, 467-68, 489, and 506-507; the 1845 Democratic platform is reprinted in Randall, "Gubernatorial Platforms," pp. 64-70; Fuller, ed., Messages, II, pp. 33, 81; Democratic Free Press September 22, 1845; Marshall Expounder in the Democratic Free Press, September 11, 1845; Pontiac Jacksonian in the Democratic Free Press, February 6, 1846.

of the depression, the nature of money, and the desire to "again seek the ancient land marks of frugality and republican simplicity from which too many have unwittingly strayed." However, after he replaced Samuel Merrill as president of the State Bank with a Democrat, Judge James Morrison, little was heard about the bank question in Indiana. ⁶⁶

As in Michigan where many of the Whigs turned anti-bank after the failure of the Bank of Michigan, both parties became increasingly anti-bank in Illinois after the failure of the State Bank in February, 1842. In the election of that year Duncan was attacked as "a British Bank Whig"; and he constantly replied by pointing to his hostility to banks as governor. The question that remained concerned how to wind up the affairs of the State Bank. The new Governor Thomas Ford urged moderation and was opposed only by

66 Ebenezer M. Chamberlain to the Editor Goshen Democrat, December 11, 1841, in Thornbrough, ed., Messages and Papers of Bigger Administration, pp. 349-354; Ebenezer M. Chamberlain to the Editor Goshen Democrat, January 15, 1842, in Ibid., pp. 395-398; Indianapolis Indiana State Sentinel, January 17, 1842; Indiana Legislature. Documentary Journal, 1843, Part I, Document #8, p. 316; Harding, "The State Bank of Indiana," p. 12; Esarey, "State Banking in Indiana," p. 257. Throughout the rest of the decade Whitcomb's speeches did not mention the State Bank.

a small minority of "ultra" Democrats led by Lyman Trumbull.⁶⁷

The period between 1843 and 1851 in Michigan, Indiana, and Illinois was an anti-banking period in which the Democrats controlled each of these states. The governors of each argued that the economic revival resulted from the policies of retrenchment urged by their party and took a consistently anti-bank line. In Illinois and Michigan the Democratic "ultras" seem to have carried the day. Throughout the decade Wentworth kept up his anti-bank barrage, and the more moderate Illinois State Register insisted that it was unequivocally opposed to banks. By the mid-forties Illinois Democrats regularly included anti-bank planks in their platforms.⁶⁸

Only in Ohio which came under Whig control during this decade was a sound banking system established. In the late thirties

67 Robert Stuart to William Woodbridge, January 29, 1841, and Robert Stuart to William Woodbridge, July 16, 1841, in the Woodbridge MSS; Sangamo Journal May 13, 1842; Pease, Frontier State, p. 312; Dowrie, "Illinois Banking," p. 113; Ford, History of Illinois, pp. 297-304. The Whigs charged that Trumbull had purely political motives. Ford (p. 304) ascribed his action to his wish to aid his friends and to his hatred of Shields and McClernard. Pease (p. 314) seems to give credence to these charges. Mark Krug in Lyman Trumbull (New York: A. S. Barnes and Company, Inc., 1965), pp. 38-39, sees Trumbull's action as "a matter of principle," but offers no evidence other than reference to Trumbull's future career.

68 Fuller, ed., Messages, II, p. 81; Indiana Legislature. Documentary Journal, 1847, Part I, Document #7; Illinois Governor, 1842-1846; Illinois State Register, February 3, August 18, 1843, February 9, and October 11, 1844; Pierce, History of Chicago, I, p. 169; Charles Hunter Garnett, State Banks of Issue in Illinois (n. p. "Published by the University of Illinois", 1898), p. 43.

Ohio went through the same pattern that was seen in the other states with the anti-bank faction within the Democratic party growing with each suspension as economic conditions worsened. As in other states the Whigs opposed the Independent Treasury and tended to defend the banks, but they could hardly be pictured as opponents of bank reform. Shannon's message that the radical elements of his party attacked was applauded by the Whig press which sometimes taunted the Democrats to reconcile the views of Van Buren with those of Shannon. By 1840 the leading Democratic editors Moses Dawson and Samuel Medary were vehemently anti-bank and opposed to Shannon. This is also true of the Ohio congressional delegation. However, the moderates retained control and re-nominated Shannon. This factional bickering combined with a large Whig turnout put Thomas Corwin in the governor's chair.⁶⁹

Whig county conventions called for a properly restricted banking system affording a convertible currency. These demands were in the Whig platform in 1840. During the campaign, the Ohio State Journal pictured the Democrats' "War on credit" as a direct thrust at the poor who without the benefit of credit were at the mercy of the wealthy. It and other Whig papers tried to picture the Whigs

69 Holt, "Party Politics in Ohio," XXXVII, pp. 456-57, 501-503; Ohio State Journal, October 23, December 7, 1839, and January 4, 1840; Weisenburger, Passing of the Frontier, pp. 402-403; Ohio Statesman, July 30, 1839; Weisenburger, Passing of the Frontier, pp. 404-405.

as friends of the common man, and denied that the party of Van Buren had the right to the name, "Democrat."⁷⁰

Corwin suggested two possible plans: a State Bank, or the recharter of the present banks under a safety fund like that of New York. While a majority of Whigs seemed to favor the latter plan, nothing was carried through in the session of 1840-41. The Democrats had insisted on individual liability which the Whigs argued would allow only the wealthy to invest in bank stock. A standard Whig argument was that the small denominations of bank stock opened good investments to the "little man."⁷¹

Conditions worsened during 1841. In two years from 1840 to 1842 the amount of specie in Ohio banks declined to almost half of what it had been, and many banks were failing. The banks themselves often increased suspicion by not reporting. In the legislative elections of 1841 the Democrats were victorious, and the county meetings took violently anti-bank stands. The defeat of 1840 enabled the more radical elements to gain control of the party, and attempts by the banks whose charters were expiring to obtain new

70 Holt, "Party Politics in Ohio," XXXVII, p. 510; Ohio State Journal, October 7, 1840; Holt "Party Politics in Ohio," XXXVII, pp. 486-491.

71 Documents . . . of the State of Ohio, 1841-1842, Document #76; Holt, "Party Politics in Ohio," XXXVII, pp. 515-517; Ohio State Journal, February 13, 1841.

ones were rejected. The riots in January, 1842 against the Cincinnati banks which resulted in the looting of their vaults received sympathy from the Ohio Statesman which bitterly denounced the bankers as thieves and hoped "The people--a robbed, swindled, and ruined people--will restrain their feelings under the outrages of these shin-plaster gamblers."⁷²

Corwin again suggested either a State Bank, which he seemed to favor, or a safety fund to solve the problem. The Democrats, who seem to have been under "loco-foco" control, although they again nominated Shannon in January, pushed a bill through the legislature providing that all banks that did not redeem their notes would lose their charters. They also passed the Lapham Act establishing a free banking system. This law was basically a "loco-foco" general banking law that did not embody the principle of a bond-secured (or even a mortgage-secured) currency. Safety was to be provided by capital stock being paid in specie before opening, individual liability of stockholders and officers, and a safety fund. Both of these acts were passed by strict party votes with the Whigs opposing them.⁷³

72 Weisenburger, Passing of the Frontier, pp. 406-407; Holt, "Party Politics in Ohio," XXXVII, pp. 518-524; Ohio Statesman December 14, 1841, and January 13, 1842, the quotation is from the latter.

73 Documents... of the State of Ohio, 1841-1842, Document #1; Weisenburger, Passing of the Frontier, pp. 407-408; Huntington, "History of Banking and Currency in Ohio," pp. 405-406.

However, no new banks were organized under the Lapham law even after it was altered in regard to limited liability in 1843. The thirteen banks whose charters expired on January 1, 1843 chose not to reorganize under the new law and closed their doors. A year later two other charters expired.

The Whigs voted solidly against the amendment to the Lapham law. They attacked the Democrats for playing politics with the currency issue and suggested that there could be no sound currency until the Democrats were swept from office. Some Whigs believed that the currency question was hurting them and should be dropped. Others hoped the issue would split the Democrats. Corwin wanted to settle the issue any way practicable on Whig principles so that the Democrats would be forced to fight on the tariff.⁷⁴

The Democrats continued to bicker among themselves over the banking issue. While the radicals seemed to have control,

74 Huntington, "History of Banking and Currency in Ohio," p. 406; Holt, "Party Politics in Ohio," XXXVII, pp. 531-2, 539; "Selections from the Follett Papers, II," Quarterly Publications of the Historical and Philosophical Society of Ohio, IX (July-September, 1914), pp. 73-75; Thomas Corwin to Oran Follett, November 12, 1842, in Ibid., pp. 75-77; Oran Follett to Thomas Corwin, November 18, 1842, in Ibid., pp. 77-80; Oran Follett to V. W. Smith, February 3, 1842, in L. Belle Hamlin, "Selections from the Follett Papers, III," Quarterly Publications of the Historical and Philosophical Society of Ohio, X (January-March, 1915), pp. 4-6.

there were certainly enough conservatives to make that control unsteady. Shannon continued to advocate moderation, and as late as 1844 some conservative Democrats--including Samuel Lahm who was personally interested in one of the banks--broke with the party to vote for the extension of the charters of five banks. When Shannon was made minister to Mexico, his successor was Thomas Bartley of the anti-bank wing of the party. He vigorously attacked special legislation and praised the Lapham law as a "general law of joint stock partnerships." His position resembled that of Adam Smith whom he quoted. However, his faith in "the laws of trade, which regulate and control prices and currency... and are as searching, as all pervading and as irresistible as the law of nature" seems more than his mentor. While he favored general laws, he was opposed to a system with a bank-secured currency as "the most objectionable and dangerous... to the independence and purity of the government, and the liberties of the people." It would be "a union of bank and State... and incestuous and unholy coalition" like the Bank of England a danger to liberty. Only "punctual conversion" and the use of short loans "on strictly commercial paper" could secure paper money and prevent its depreciation. Like Smith, he was an advocate of the "real bills" doctrine. However, the Whig success in 1843 permitted him only

to make suggestions.⁷⁵

In January, 1844 the Democrats met and decided on David Tod and a strongly anti-bank platform. The Whigs who had been successful in 1843 nominated Mordecai Bartley, the father of Democrat Thomas Bartley, as their standard bearer. Although many other issues intervened, Tod found himself caught in the conflict between the factions of his party and consequently lost to Bartley who was an adherent of free banking.⁷⁶

Bartley's inaugural address carefully considered the banking question. Of the current systems of banking he believed that State Banks had showed themselves to be little better than local banks which gave rise to corruption and special privileges. The existing general law was impracticable. Probably the New York system was best, but it was liable to the objection that it was controlled by Wall Street. Thus, he suggested a tightly restricted free banking system with currency secured by Ohio bonds or Ohio real estate. Security was to be protected by the maintenance of a 33 1/3% specie reserve against circulation as well as the stocks. He attempted to assure his constituents that its fate would

75 Documents... of the State of Ohio, 1843-1844, Document #1; Holt, "Party Politics in Ohio," XXXVII, pp. 548-551; Weisenburger, Passing of the Frontier, pp. 416-417; Documents... of the State of Ohio, 1844-1845, Document #1, the quotations are from pp. 18, 20, and 22.

76 Weisenburger, Passing of the Frontier, pp. 418-420; Holt, "Party Politics in Ohio," XXXVII, pp. 552-558.

not be that of the Michigan law because Ohio land that could be used as security was cultivated and saleable. In the State Senate a bill was brought forth by the Standing Committee on Currency under the direction of Alfred Kelley. Kelley was a somewhat conservative old Whig who had played a major role in the state's canal policies and was later important in the fight over taxation. The Kelley bank bill bore the pragmatic stamp of the type of western developer Daniel Boorstin has termed the "booster."⁷⁷

It was clear that the purpose of the bill was both to provide "a safe and convenient currency" and to aid in providing capital for "commercial and manufacturing operations." The Committee found that a system of associated banks was most popular in areas where there was local capital, and that in capital shy areas free banking similar to New York was favored. "To reconcile these conflicting opinions and to extend to the different sections of the State that relief which the people so generally demand at the hands of the General Assembly," the Kelley bank bill proposed to establish a State Bank of Ohio and to provide for free or, as they were called, independent banks. In this way security for the bill holder could be guaranteed, while proper inducements would be offered capitalists. The State Bank was not a central bank but rather an

77 Documents... of the State of Ohio, 1844-1845, Document #2; Weisenburger, *Passing of the Frontier*, pp. 420-422. On Kelley see the less than adequate biography, James L. Bates, Alfred Kelley: His Life and Work (Columbus, Ohio: Privately Printed, 1888).

association of twelve branches with capital between \$100,000 and \$500,000 supervised by a Board of Control. They were required to redeem their notes at all times, and the amount of notes was limited in ratio to specie. As added security each branch was to contribute ten per cent of its notes to a safety fund which was to be invested in Ohio stocks, United States stocks, or Ohio real estate. The independent (free) banks could be smaller with capital of \$50,000. The security for their notes was provided by the deposit of stocks of either Ohio or the United States equal to its capital with the State Treasurer who issued the currency. Yearly examinations were also provided for. The Lapham Act was specifically repealed by the new law.⁷⁸

Although the Kelley bill included a free banking provision, it resulted from the demand for well secured banking facilities in capital poor areas rather than any belief in the efficacy of the "laws of trade." Kelley specifically warned that the belief that banks should be free as any other business stretches an analogy which too often fails. A well restricted system rather than free competition was the only way that the community could have the benefits of banks without the dangers of inflation.⁷⁹

78 Bates, Alfred Kelley, pp. 132-139; Ohio Legislature. Senate Journal, 1845, Appendix, pp. 40-43, the quotation is from p. 41; Huntington, "A History of Banking and Currency in Ohio," pp. 421-426.

79 Ohio Legislature. Senate Journal, 1845, Appendix, p. 43.

The Kelley bill was a Whig party measure that carried through the Senate after seventeen days of debate by a strict party vote. It was before the House nine days after which a party vote passed the measure. Although some Whig papers such as the Xenia Torch-Light were not satisfied with the bill, most Whigs saw it as a measure necessary to the welfare of the state. Most capitalists must have also looked with favor upon the bill, because twenty-one new banks were organized by the end of the year. In his annual message Bartley praised the new system and credited the rising prosperity to it. Truly a credit system was essential to a free and enterprising people.

In those countries where despotism prevails to the greatest extent, and where the laboring classes of people are most oppressed, Banks of issue are not known. Hence it is, in these countries, that the man who in indigent in early life, whatever may be his native ability and energy of character, ends a tedious existence as he commenced it. 80

The Democrats, both in the legislature and outside it, attacked "The Monster Bank Bill." As soon as it was passed the Ohio Statesman demanded its repeal, but such an attempt led in the House by Charles Reemelin was defeated by the Whig majority. The Statesman feared that with the bill's passage "a few old bank

80 Ohio Legislature. Senate Journal, 1845, p. 399; Ohio Legislature. House Journal, 1845, pp. 534-36; Holt, "Party Politics in Ohio," XXXVII, p. 562; Huntington, "A History of Banking and Currency in Ohio," pp. 427-28; Documents... of the State of Ohio, 1845-1846, Document #1, p. 5.

hunker nabobs" would rule. The Hamilton County Democratic meeting saw it as "a monstrous and dangerous system of paper" as did the Cadix Sentinel which equated Kelley with John Law.

It is a mistaken idea that a flood of bank paper will add to the prosperity and happiness of the people. Idleness and vice, speculation and rascality, are necessary attendants upon the excessive emission of paper money.

In the Senate, David T. Disney an ex-director of the Ohio Life Insurance and Trust Company now seemed to see the true Jacksonian light. He believed the bill much too complex for the people to understand. "No wise, no pure, no sound legislation requires" the combination of these two different systems. It could only lead to the rule of the money power and the "ruin of a free and independent people" by flooding the country with paper money.⁸¹

When repeal efforts failed the Democrats carried the issue to the people. Through the use of federal patronage, and because the Kelley bill was a Whig measure, the "hards" were able to finally control the party and dedicate it to a "hard money" course. The vociferous Democrats of Hamilton County resolved:

... that metallic currency has been tested by the experience of the ages. On the contrary all systems of paper currency ever yet contrived have

81 Ohio Statesman, January 31, 1845; Ohio Legislature. House Journal, 1845, pp. 851-52; Ohio Statesman, February 1, 1845; Democratic Meeting of Hamilton County in Ohio Statesman, February 4, 1845; Cadix Sentinel in the Ohio Statesman, February 3, 1845; Weisenburger, Passing of the Frontier, p. 424; Disney's speech is in the Ohio Statesman, February 5, 1845.

failed, and in their inevitable overthrow have entailed more distress and loss, and perpetuated more robbery and fraud than would colonize a continent with convicts and paupers. Nor have we seen in the Whig legislature of last year any symptoms of a wisdom superior to the paper-mongers who have gone before them--but a compound rather of all shallow schemes of their predecessors. 82

The Whigs defended the Kelley bill, and asserted that credit was necessary to the progress of civilization while "hard money" was monarchial, savage, and a detriment to the laboring classes. For the time being the people agreed, and the Whigs were successful at the polls throughout the remainder of the decade. 83

In each of the states of the Old Northwest a similar pattern appeared in the banking argument. Gradually the Democrats moved from acceptance of banks to bank reform to the opposition of all banks of issue. Their outlook was constantly regressive searching for purity, simplicity, and virtue. When they advocated free banking, it was generally out of a faith in the "natural laws of trade" and a desire to simplify and purify the governmental process. Their opponents did not stand in direct contrast to these ends, but rather

82 Holt, "Party Politics in Ohio," XXXVII, pp. 562-569; Democratic Meeting of Hamilton County, resolutions are reprinted in Huntington, "A History of Banking and Currency in Ohio," p. 428, ftn. 13.

83 Ohio State Journal, October, 1845, issues in particular.

emphasized what we today call economic development. Banks and bank credit could serve a dynamic function in this process. Their outlook tended to be forward looking and emphasized opportunity offered by an expanding economy. They moved gradually toward acceptance of the idea of free banking based on stocks. Such a system could provide a safe currency, adequate accommodations for business enterprise, and draw capital into developing areas. The contrasting attitudes of the two parties toward banking revealed slightly different views of the Good Society which were more fully developed in the constitutional debates of the mid-nineteenth century.

CHAPTER IV

THE DIALOGUE OF PARTIES: FREE BANKING IN THE CONSTITUTIONAL CONVENTIONS, 1846-1851

The banking issue was debated at length in these state constitutional conventions at mid-century. These debates reveal crucial differences between the parties on the issue of currency which were connected with contrasting conceptions of the proper economic base for republican government. The Democrats were dominated by the "radical" faction of their party which wished to return to the "only constitutional currency," specie. This was in line with their desire to insure purity and simplicity in government. Their opponents, the Whigs, continued to argue that an adequate currency was necessary to stimulate economic development. They generally advocated free banking as the means by which this purpose could be achieved without the danger of an unsecured currency. In each convention "hard money" proposals were defeated by the Whigs and a faction of the Democratic party which was unwilling to give up the benefits of bank facilities.

During the period of recovery following the depression, the Democracy pressed increasingly for alterations of the constitutions of the states of the Old Northwest. Between 1846 and 1851 conventions met in Illinois (1847), Indiana (1850), Michigan (1850), and Ohio (1850-51) to revise their fundamental law, and two conventions met in Wisconsin (1846 and 1847-48) to write that state's first constitution. Historians have generally seen the documents produced by these conventions as the embodiment of Jacksonian governmental reform. The agitation for such reform was carried on mainly by the Democratic press; and when the conventions met, they were dominated by

the followers of Jackson who appealed to the spirit of the Old Hero at every turn. In general the principles set forth in these constitutions represented the ideas of the "radical" wing of the Democracy which had come to dominate the party. The "radicals" limited the function of government, particularly in the economic sphere, and whittled away the positive powers of the legislature. These alterations sought to simplify and make more economical the governmental process by restricting the sessions of the legislatures and substituting general laws for the wide variety of specific legislative enactments. Historians have too often failed to see that many of these restrictions, the result of the common experience with burdensome state debts and cumbersome demands for special legislation, were supported by Whigs as well as Democrats. For that matter, both parties favored universal white manhood suffrage although Whigs tended toward some relationship between citizenship and voting while the Democrats were blatantly anti-Negro. Thus, on most of the main issues to be settled the parties were reasonably close.

The articles on banking remain the most misunderstood aspect of these constitutions. Here Jacksonian principles were generally defeated. Everywhere in the Old Northwest the Democracy stood forth on platforms firmly dedicated to the extinction of banks and the return to a "constitutional currency." Yet, only the 1846 constitution for Wisconsin, which was soundly defeated at the polls, included this demand. In every other case the Whig idea of free banking prevailed.

The heated debates on this issue give a unique insight into the party differences on the banking issue, and the way this crucial issue functioned within the "persuasion" of each party.

Initial attempts to call constitutional conventions in the early forties met with little success. Wisconsin voters who feared increased taxes and government interference rejected statehood proposals four times before 1846. The advocates of statehood were the politicians and businessmen, anxious to build up the territory. In the 1830's, the Democratic governor, Henry Dodge, had been an advocate of statehood, but in the 1840's the Whigs and Governor James Doty led the campaign. By 1846 when the issue was finally decided, the Democrats had swung behind the movement. The first convention meeting in 1846 was dominated by Democrats and produced a "radical" document in line with Democratic doctrine. Leaning on the experience of Texas and Iowa, this constitution included a prohibition of all banks and a gradual elimination of notes under \$20. The banking article, and one guaranteeing the property rights of married women, met with general disfavor and the constitution was defeated. Later that year a second convention, still dominated by the Democrats, but with a stronger Whig contingent, met and drew up a new constitution that was accepted in 1848. This document provided that a free banking law might be passed if it was submitted to

the people.¹

Voters in Illinois and Indiana showed a similar hesitancy. In 1842 the Illinois voters demonstrated a general indifference by voting down a proposed convention to revise the constitution. By 1846 sufficient interest had been aroused so that a convention was sanctioned by the voters. A series of unsuccessful attempts to call a convention to revise the Indiana constitution preceded the narrow acceptance of the idea in 1846. Fewer than half the Indiana voters who voted for the governor registered an opinion on the question.²

While the Illinois convention met in 1847, constitutional problems and politics delayed Indiana's for nearly five years. The public had exhibited little interest in the question, but constitutional revision was pushed by the Democrats and their organ the Indiana State Sentinel. About this time the national Democracy, through the agency of the Democratic Review called for the revision of the state constitutions and laid down the lines to be followed. Although revision

1 Louise Phelps Kellogg, "The Admission of Wisconsin to Statehood," and Frederic L. Paxson, "Wisconsin--A Constitution of Democracy," in Milo M. Quaife, ed., The Movement for Statehood, 1845-46 (Madison, Wisconsin: the State Historical Society, 1918), pp. 18-29, 30-52.

2 Pease, Frontier State, pp. 407-09; Arthur Charles Cole, "Introduction," in Arthur Charles Cole, ed., The Constitutional Debates of 1847 (Springfield, Illinois: Illinois State Historical Library, 1919), pp. i-xix; Charles Kettleborough, ed., Constitution Making in Indiana (Indianapolis, Indiana: Indiana Historical Commission, 1916) Vol. I, pp. xv-ccxli.

had not been a party issue in 1845, the calling of a convention came to be looked upon as a Democratic measure and drew opposition from the Whigs. In 1846 the Whig-controlled Indiana legislature refused to support the call for a convention on the ground that legitimate doubt existed as to the wish of the people and the constitutionality of such a convention. During the next two years the Democrats pushed the issue. Twice in 1848 Governor James Whitcomb advised calling a convention in order to rid the state of the evils of special legislation and cut the expense of government. The Democratic State Convention which met in early 1849 echoed this demand. The opposition from the Whigs was moderate. Generally, they argued that there seemed no indication the people wanted change. Here and there were indications that the Whigs feared the convention might permit slavery in the southern counties. Finally, a new call for a convention passed the legislature in early 1849 with little opposition, was accepted by the people, and the convention met in 1850.³

While the Indiana convention met, similar bodies convened to alter the fundamental law of Ohio and Michigan. The Democratic governor of Michigan, Alpheus Felch, led the agitation for reform of the constitution, but the question of a convention was not really a party issue. In the election of 1849, which returned the tight-fisted

3 Ibid., pp. xxvi-lxxxiii.

John Barry to the governor's chair, the voters favored the calling of a convention by a large margin. What opposition the question received came from Whigs, but it appears that more Whigs voted for the convention than against it.⁴

The fight over the calling of a convention in Ohio was more a clear cut party contest with the Democrats again leading the demands for revision. In 1843 Governor Wilson Shannon suggested the calling of a convention, and after the passage of the Kelley Law in 1845, the Democrats increased efforts to get the legislature to act on constitutional revision. The Whigs, who feared Democratic "ultraism" and the possible destruction of the banking system, were able to block such attempts in 1847 and 1848. Certain Ohio Whigs were worried that the Democrats might institute Negro suffrage as well as eliminate banks, but the Whig governors, William Bebb and Seabury Ford, better represented the majority of the party when they attacked the "Black Laws" and accepted the idea of constitutional revision. Both the Democratic and Free Soil platforms in 1848 endorsed the idea of a convention. Throughout the year Samuel Medary's Ohio Statesman and a weekly special The New Constitution kept up the demand for a convention. The following year the Whigs gave up their opposition and the voters of the state

⁴ Frederick W. Stevens, Michigan Constitutional Convention of 1850 (n. p., n. d.).

endorsed the calling of a convention.⁵

Within the matter of four years six conventions had met and revised the constitutions of the five states of the Old Northwest. The "radical" or as they called themselves "Progressives" within the Democracy led the battle for reform. Most Whigs took a "conservative" position on the question of change, and agreed with the Indiana State Journal:

A change in the fundamental law should not be made for trivial causes. It ought to be made only to abrogate some great wrong resulting from its provisions. Frequent changes impair the respect in which a constitution to be valuable ought to be held by the people.⁶

The dichotomy of the "Progressive" Democrats and the "conservative" Whigs is almost universal in the historical literature on the period. Too often these labels have been allowed to take on twentieth century connotations, and content in the context of the 1840's is ignored.

The Democrats who took the initiative in the movement for constitutional reform had a fairly well defined program in which banking reform played a central role. This set of reforms made up the content of "Progressivism" in its ante-bellum form.

5 Weisenburger, Passing of the Frontier, pp. 478-79; Roseboom, Civil War Era, pp. 124-35.

6 Indiana Journal, January 5, 1847.

Medary's Ohio Statesman carried on its masthead the basic principles of the "Progressive" Democracy: "The Sovereignty of the People--The Rights of the States, and a Light and Simple Government." The general principle that "that government governs best which governs least" was accepted as the only sure guard against encroachments on individual liberty. In the mid-forties Medary emphasized this interest in the individual:

The true democrat wars against the existing state of society which is built upon the supposition that men are of less value than property. The real character of the contest of which this country is the scene is a war between man and money. The democracy advocate the right of revolution, of universal suffrage, of freedom of trade, of overthrow of banks, of the establishment of a constitutional currency.⁷

In this there was a moral imperative which equated money with power, and power with corruption. Essentially, it was a secularized version of the conflict between Christ and the anti-Christ. All virtue emanated from the people, all corruption from the "money power." The Milwaukee Courier asserted that men were "able to trace the artificial inequality of wealth, much pauperism and crime, the low state of public morals, and many of the other evils of society directly to this [paper money] system." Experience with broken banks and a debased currency, and the struggles to repay the huge internal improvements debts seemed to dictate simplicity and economy as the only

7 Western Review, 1846, p. 208, quoted in Henry C. Hubbart, The Older Middle West (New York: Russell and Russell, 1963), p. 11.

proper course. Indiana's governor, James Whitcomb, warned against swelling prosperity that might induce another "orgy" of speculation. "The sure and only sure remedy against this threatening evil, is, the observance of economy and industry, and above all, to resist the allurements of credit."⁸

This outlook dictated a certain number of reforms which the Democracy agitated for in all of the western states. On the question of universal suffrage Medary was somewhat at variance with his Negrophobic party. In reality the "Progressive" Democracy stood for universal white manhood suffrage and they were willing to extend this right to resident aliens. Although there was some deviation within the party, particularly among the "Old Hunker" faction, the Democracy also advocated the election of all state officials including judges. This would reform the government to more nearly represent the people.⁹

In addition to making the government more representative, the "Progressive" Democracy wished to check the tendencies toward corruption and governmental intrusion on individual rights. The target of

8 Milwaukee Courier, November 18, 1846, reprinted in Milo M. Quaife, ed., The Struggle Over Ratification, 1846-1847 (Madison, Wisconsin: The State Historical Society, 1920), pp. 200-202; Indiana Legislature. Documentary Journal, 1847, Part I, Document 7, emphasis in the original.

9 The following generalizations are based on numerous issues of the Democratic newspapers, the addresses of the Democratic governors, and speeches made in the conventions. Only specific quotations or references will be cited.

of this agitation was the legislature which was held responsible for the evils of debt, banking, and special privileges. In most cases the Democrats advocated a strong veto and viewed the executive as the representative of the will of the people. As the emphasis on the veto indicates, the executive's functions were conceived in negative terms. His duty was to protect the people's rights from violation by the legislature. The Democrats looked upon the legislature as a center of corruption rather than as a representative body. It was the arena in which the power of money and interest held sway. It was responsible for the ruinous internal improvements projects and the depreciated currency. It saddled the people with a complex and confusing body of "unnecessary laws," and fostered special privilege. All this was done at a tremendous expense to the taxpayer. In order to make the legislative process cheaper and rid the states of the inequities of special legislation, the Democracy advocated general laws. If this reform was implemented, the legislature would be able to conduct its necessary business in much shorter time making biennial or even triennial sessions possible. This would mean a tremendous saving to the taxpayers. By substituting general laws for the numerous instances of special legislation, equality, simplicity and economy could be achieved.

Even with this reform, the tendencies toward corruption had to be blocked in certain specific instances. Constitutions were thought

to protect the people from the excesses of legislatures and, in particular, should set a limit on the size and nature of the public debt and eliminate banks of issue. The Cleveland Plain Dealer spoke for most of the "Progressive" Democracy when it said,

It must not be left to the corrupt cupidity or caprice of future Legislatures to say whether this State shall be dotted over with Bank Corporations or cut up with Plank and Rail Road Corporations, with such tyrannical and exclusive privileges as shall make them masters, we their slaves. 10

While some Democrats seemed willing to support a well guarded banking system, everywhere the party as such stood solidly opposed to any banks. By the mid-forties the Democracy of every state in the Old Northwest except Indiana had written into the party platform a demand for the elimination of banks of issue and a speedy return to the "constitutional currency." The Democratic governors of Michigan and Illinois echoed these demands in addresses to their legislatures. 11

In Indiana all of the standard demands for biennial sessions, general laws, and limitations on the state debt were aired by the governors and the State Democratic convention, but the banking issue

- 10 Cleveland Plain Dealer, February 27, 1850, quoted in Roseboom, Civil War Era, p. 127.
- 11 For example see: Ohio Statesman, January 8, 9, 1846; Illinois State Register May 5, 1848; Randall, "Gubernatorial Platforms," p. 66; Milwaukee Courier, December 30, 1846, in Quaife, ed., Struggle Over Ratification, pp. 204-207; Fuller, ed., Messages, II, pp. 173-5; Illinois Legislature. House Journal, 1846-47, pp. 8-17.

was sidestepped. However, by the late 1840's the hard money element had considerably increased their power. A lengthy list of Democratic demands urged by the Goshen Democrat in late 1848 included the revision of the banking system. By 1850 the Indiana State Sentinel was listing the abolition of banks of issue and a return to the "constitutional currency" as basic principles of the Democracy.¹²

The majority of the party favored the complete abolition of banks of issue and the use of an exclusive specie currency, or at least one with no bills under \$20. This was the view put forth in the party's platforms, adhered to by Democrat governors in their addresses to the legislature, and championed as the "true test of Democracy" by the leading party organs in every state.

Because the Democrats favored general laws in most cases, their attitude towards banking should not be confused with an advocacy of free banking as it is being considered here. Their ideas are vehemently opposed to any type of inflation and are, in fact, harshly deflationary. They were opposed to banks of all kinds, not merely those created by special charters. Leading Democrats like John Barry of Michigan and Augustus French of Illinois made it clear that free banking was no better than any other system. Barry believed the argument for a stock secured currency was "as indefensible as others that have

12 Indiana Legislature. Documentary Journal, 1845, Part I, Document 4, and 1848, Part I, Document 6; Indiana State Sentinel, March 19, May 28, 1846, and January 11, 1849; Goshen Democrat, December 27, 1848, in Indiana State Sentinel, January 31, 1849; Indiana State Sentinel, January 1, 1850.

preceded it." While French's 1846 message seems to have been misunderstood by some people as favoring free banking, he made it quite clear that along with a few, simple, general laws he advocated the complete prohibition of banks. In 1849 he saw nothing "to recommend the new system free banking over the old chartered institutions." Two years later he told the legislature that free banking was only a way to cover up the "odious features" of banking by "show." It would seem that the major sources of Democratic thought agreed with the Ohio Press which believed that the Democracy would "reform banking by the entire abolition of all chartered and special privileges and by a return to the constitutional currency of gold and silver."¹³

Because of the two party nature of American politics, it is seductive but dangerous to conceive of one party as the antithesis of the other. This tendency is encouraged by party rhetoric which attempts to picture the opposition as antithetical to the interests of the people which they claim to represent. In the argument over constitutional revision the Democrats charged that the Whigs opposed the interests of the people by resisting universal suffrage, advocating an irredeemable paper currency and generally defending the interests of the privileged monopolies. Since the Whigs were after all a political

13 Fuller, ed., Messages, II, p. 173; Orlando B. Fricklin to A. C. French, December 30, 1846, in French MSS; Illinois Legislature. House Journal, 1849, pp. 8-17; Illinois Governor, 1846-1853; the Ohio Press, July 23, 1847, quoted in Huntington, "History of Banking and Currency in Ohio," p. 434.

party contending for power and would hardly admit to these charges, the Democrats generally charged that the Whigs tried to fool the people. The Daily Lafayette [Indiana] Courier said of the Whig principles, "In relation to the great subject of constitutional reform, there appears to be a studied effort to deceive." While it is not hard to see why the Indiana Democracy would make such a charge, it is rather surprising that most historians have believed them.¹⁴

While the Whigs were on the defensive in the fight over constitutional revision and spent a great deal of time denying the Democratic charges, they did present a program for reform. It is this program which makes up the content of Whig "conservatism." When examined in detail, it proves hardly to be the antithesis of Democratic "progressivism."

On most of the major questions concerning democratic government the Whigs and their opponents were very close. Both parties advocated electing state officials including judges. Both parties favored universal white manhood suffrage. A minority of the Whigs wished to extend suffrage to the Negro population and there were probably as many Whigs as Democrats who favored female suffrage. In any case the number was very small in both parties. The only real difference on this question was that the Whigs usually

14 Daily Lafayette Courier, March 1, 1850, reprinted in Kettleborough, ed., Constitution Making in Indiana, pp. 212-13. The Democratic point of view is expressed in the histories of Weisenburger, Holt, Roseboom, Esary, Kettleborough, Pease, Cole, Paxson, Streeter, and Hubbart.

wished to limit suffrage to native and naturalized citizens. The parties agreed on issues concerning social democracy like the elimination of imprisonment for debt and the exemption of homesteads and tools in bankruptcy proceeding. Both parties favored public schools although the Whigs were more energetic on this issue and some had opposed the calling of a convention because they feared the Democrats might do away with the public school system. On one such issue, the Democrats were silent while the Whigs took the lead in attacking land monopolies. In Wisconsin they wished to restrict the ownership of land to 640 acres so "that the soil of the state may not pass from the many to the few, accompanied with a landed aristocracy and oppressed tenantry."¹⁵

The Whigs differed from their opponents on the veto power, and tended to see the legislature as the truly democratic element of the government. This does not mean that the Whigs did not advocate some restrictions on the legislature's power. They usually joined their Democratic opponents in wishing to see a limitation placed on the state's power to incur debt, special legislation give way to general laws, and biennial sessions in order to save the taxpayers' money.

15 The Madison Express, July 28, 1846, reprinted in Quaife, ed., The Movement for Statehood, pp. 154-56. As with the Democratic argument, the generalizations are drawn from a wide variety of sources and only specific quotations or references will be cited.

Where the two parties came into direct conflict was on the question of banking. Here the Whigs took a positive stand that was clearly at odds with Democratic anti-bank "hard money," positions. By the mid-forties the free banking element had come to dominate the Whigs and, in every state, they stood for expansion of credit and the establishment of a secure currency through free banking. A typical Whig editorial reported, "We voted for a Constitutional convention because we wanted the following changes: Biennial sessions; electing of judges and all other officers; a general free banking law; a homestead exemption law; fines to go to the school funds of the township."¹⁶

State conditions caused some variations in the arguments. Where there were no banks, as in Michigan and Illinois, the Whigs were clearly and almost unanimously in favor of free banking. Ohio Whigs stood solidly for retention of the Kelley Law which combined free banking and a State Bank with branches. In Indiana the party split between groups wishing to retain the State Bank which had performed so well and those wishing credit expansion through free banking. As the convention showed, these factions of the Whig party were not entirely at odds.

The situation in Wisconsin was complicated because the Whigs in powerful Dane County--the county in which the capital, Madison, is located--passed a resolution in favor of "a direct and positive prohi-

16 Quoted in Esary, History of Indiana, I, p. 513, fn. 10. See also: Indiana Journal, January 7 and March 23, 1850.

bition against the granting by legislature of any charter for banking purposes, or the passage of any law whereby any monopoly or any special exclusive rights and privileges may be conferred for private purposes." Several days later the Whig paper, the Madison Express, explained that they agreed with the rest of the Whig party that a mixed currency was essential to national prosperity and that it was only at that particular time that successful banking in Wisconsin faced a number of obstacles. The situation was compared with that of Michigan in the 1830's and banking should wait until the public was secured against a similar failure. Other Whigs in the state took a more positive attitude toward free banking. In particular the dynamic young John H. Tweedy urged the adoption of a free banking system like that in New York. The Milwaukee Sentinel and Gazette also took this position, and in the 1846 convention it was the Whigs who attempted unsuccessfully to have free banking principles written into the constitution.¹⁷

Failing in their attempt to have free banking accepted by the convention, the Whigs organized the opposition to the constitution and defeated it. During the fight over the 1846 constitution one of the most

17 Madison Express, July 28 and August 4, 1846, and the Milwaukee Sentinel and Gazette, October 9, 1846, in Quaife, ed., The Movement for Statehood, pp. 154-56, 157-59, and 209-10; Paxson, "Wisconsin--A Constitution of Democracy," pp. 38-40; Milo Quaife, ed., The Constitution of 1846 (Madison, Wisconsin: The State Historical Society, 1919), pp. 185-186, for Tweedy's attempt to include free banking, and Appendix I, roll call #17, for vote defeating this measure.

avid opponents of banking, Edward Ryan, wrote a fellow Democratic leader:

The opposition may talk about married women and exemption, but here along the Lake shore, at all events the real opposition is to the restrictions against banks, internal improvements and state debt. A new convention, elected as it would be by the opponents of the present constitution if they succeed now, would give us the old brood of corruption.

Another Democrat believed that the opponents of the constitution in the eastern part of the state were openly "declaring and preaching for banks." The Whig press spoke clearly in favor of free banking. When the second convention met the Whig influence was increased and a free banking provision was accepted in the new constitution which in other ways did not alter the 1846 document. It seems clear from the pre-convention agitation of the question that the Whigs stood for free banking against the Democratic demand for the complete prohibition of banks of issue.¹⁸

In the course of the convention debates the appeals of the two parties were fully developed and the strength of the various factions within the parties revealed. The Democrats had majorities in all the conventions, and nearly complete control of those of Wisconsin and Michigan. As a consequence of this, most of the oratory came from the Jacksonians and not a little of it was directed as much to

18 E. G. Ryan to Moses Strong, February 8, 1847, and J. G. Knapp to Moses Strong, March 21, 1847, quoted in Paxson, "Wisconsin-- A Constitution of Democracy," pp. 46, 47.

their constituents as to their fellow convention members. However, the issue gave rise to intra-party feuding which caused John Palmer, an Illinois Democrat, to praise the Whigs for having "shown so much judgement and discretion as to keep silent, and leave this war entirely in the hands of the 'harmonious' democracy...."¹⁹

Regardless of the intra-party strife it engendered, the banking debate did reveal the ideas of the Democracy on the subject. If one had to pick a single document embodying the most widely accepted Democratic views it would be the Majority Report from the Committee on Banks and Currency in the Ohio convention. This report was presented by John Larwell, a merchant from Wayne County and an avowed "hard money" Democrat. It was signed by the other three Democratic members of the committee with the only dissent coming from the Whigs.²⁰

This report suggested that the constitution prohibit the formation of any new banks of issue, and forbid the "circulation of any bank notes or paper of any description" by any corporation or associations then in existence. In defending this total prohibition of banks

19 Cole, ed., Debates of 1847, pp. 169-70. As above only specific quotations and references will be cited.

20 J. V. Smith, reporter, Report of the Debates and Proceedings of the Convention for the Revision of the Constitution of the State of Ohio, 1850-51 (Columbus, Ohio: S. Medary, Printer to the Convention, 1851), I, pp. 707-708. This will be referred to as Debates of Ohio.

and paper money the Report made five arguments which had been pressed by Democrats in every state.

According to the Ohio Report, "The great objection to the policy of the paper money banking system, consists in its corrupting and dangerous political tendency and the stupendous frauds, and the occasional extensive disasters to which invariably, sooner or later, result from it." In establishing the moral case against banks of issue, the Democrats appealed to the authority of Jackson, whom one called "a man of as remarkable sagacity as ever lived," and built upon the arguments and rhetoric which had evolved in the course of the previous decade. To the fiery editor of the Detroit Free Press, John S. Bagg, the issue was clear:

Our government is based upon equal rights--banks upon fraud and corruption; and no man dare deny that they are unequal in their practices; a bundle of absurdities, of hypocrisy and incongruity, from their commencement to their death; and in justice to equal rights let us have no banks. 21

In the destruction of equal rights, the banking system permitted the growth of a monied aristocracy with no productive economic function. Most Democrats believed that, "All wealth is the result of

21 Debates of Ohio, I, p. 708; H. Fowler, reporter, Report of the Debates and Proceedings of the Convention for the Revision of the Constitution of the State of Indiana. 1850 (Indianapolis, Indiana: A. H. Brown, Printer, 1850), p. 221; Report of the Proceedings and Debates in the Convention to Revise the Constitution of the State of Michigan. 1850 (Lansing, Michigan: R. W. Ingals, State Printer, 1850), p. 692. These will be referred to as Debates of Indiana and Debates of Michigan.

labor, yet, strange enough the man who does the labor never has the wealth." This was because "the whole system of paper money is a tax upon labor, produce and commerce." Wealth created by the producing classes was shifted "to a class who produces nothing," the monied aristocracy.²²

However, this monied aristocracy was not simply destructive to republican equality. It represented the source of corruption of the entire political system. In every convention the Democrats brought forth the argument that the constitution had to prohibit banks and paper money in order to protect the people from the reckless actions of legislatures easily corrupted by the "money power." In Wisconsin Edward Ryan, the leading "hard money" Democrat declared:

Constitutions are made to restrict and restrain legislatures, as well as to protect the citizen... who can tell when there will be a 'soft' legislature?... I fear the 'softs.' They cannot be killed. The hundred heads of the hydra might be lopped off, but the 'softs' have no heads. They spring up at every hand; they sway and govern legislatures.

Zadoc Casey, a leader of the Illinois Democracy and president of his state's convention defended his demands for a smaller legislature with the biennial sessions limited to sixty days on the grounds that all the evils of the state could be traced to the legislative branch. "If we had no Legislature for the last Twelve years we would now be a happy and prosperous state." The most obvious example of corruption

22 Debates of Indiana, pp. 1459, 1501.

was in the chartering of banks in opposition to the interest of the "people." The legislatures were the instruments by which the bank frauds were perpetrated. Robert McClelland explained that the people could not trust the legislature, because while its members were opposed to banks when "fresh from the people," they underwent "some unaccountable changes" in the course of the session. In this way banks and paper money could be viewed as the source of all political, social, and personal corruption, "a gangrene on the body politic" that must be exorcised.²³

The Democratic denunciation of banks embodied more than moral condemnation. It also asserted that state banks of issue were unconstitutional. Here the main argument was, as the Ohio Report said, that "Gold and silver coin, the constitutional currency, has been thrown out of circulation by the paper medium." It was common parlance for Democrats in all the states to refer to the "Constitutional currency" of gold and silver. This was in line with the dogma of strict construction which asserted that because only gold and silver are mentioned in the Constitution, they were the currency dictated by the Founding Fathers. This seems to have been based on a confusion of sections 8 and 10 of Article I. The former gives to Congress the power to coin money, and regulate its value; and the latter prohibits the states from emitting bills of credit, and making anything but gold

23 Quaipe, ed., Convention of 1846, p. 85; Cole, ed., Debates of 1847, p. 124; Debates of Michigan, pp. 582-83, 581.

and silver legal tender.²⁴

The Ohio Report also included a more sophisticated argument that was heard in the Illinois and Indiana conventions, and fully developed in the Ohio convention. Usually it was combined with the strict constructionist view that saw specie as the only constitutional currency. The argument began from the position that bank notes were bills of credit, and as such, came within the scope of the Constitutional prohibition. If the states themselves could not emit bills of credit, agencies created by the states could hardly have this power. In this light the creation of banks of issue by the states was "a derogation of the true intent" of the Constitutional prohibitions against creating bills of credit and making something other than gold and silver legal tender. This argument forced the Democrats into some unusual positions for a party opposed to centralism. To defend the Democratic position, William S. Groesbeck, a Cincinnati lawyer, appealed somewhat loosely to "the opinion of the eminent whig judges," John Marshall, Joseph Story, and John McLean. While this argument had nationalist overtones, Charles Reemelin declared "the power over the standard value, belongs to the General Government, and no other authority," it was not a call for "greenback" inflation but rather a demand for a return to exclusive use of the only "constitutional currency," gold and silver. Reemelin, who went further than most

24 Debates of Ohio, I, p. 707.

Democrats in the acknowledgement that Congress had some control over the value of gold and silver, was first and foremost a "hard money" man.²⁵

Aside from being unconstitutional and morally dangerous, the Ohio Report also asserted, "The policy of a system of paper money is condemned alike by sound principles of political economy, and by the history of paper money banking in every country in which it has been in use..." Certainly the argument from experience and history was one of the most powerful put forth by the Democracy, and in the states of the Old Northwest could not have but fallen on fertile ground. In every convention the long train of bank frauds and failures was detailed. It seemed to most of the Democratic historians that the periods devoid of banks were those of the greatest prosperity while those which witnessed the multiplication of banks of issue were also the periods of greatest chaos and economic distress. Most Democrats seemed to agree with Scates who said he "had often heard of well regulated banks, but he never knew one of that character." His own state's experience with banks had been "fraught with ruin and disorder." However, these arguments were limited to neither exclusively state nor American experiences. In nearly every convention some reference

25 Cole, ed., Debates of 1847, pp. 251-2, 266, 274-76; Debates of Indiana, p. 202; Debates of Ohio, II, pp. 396, 404, 406, 525-33. These are examples of the argument. The use of the phrase "constitutional currency" occurs far too many times for citation.

to the Bank of the United States was made to bolster the argument from experience, and "Whig paper money" were likened to the assignats issued during the French Revolution and the "Continental" which depreciated during the Confederation period. In the Michigan convention A. H. Hanscom declared "all systems of banking are but modifications of the gigantic schemes for swindling, [that are revealed by] the history of the South Sea bubble, of John Law's Mississippi banking scheme, and the old bank of the United States...." Reemelin argued that republicanism and "hard money" went together in Europe as the example of Switzerland proved. He also concluded from his experience as a "merchant on two continents" that "those of our merchants who acted upon the hard money principles have been the most successful." He continued, "I know that our trade, our business, our wealth, our prosperity, our happiness and [that] of the generation after us, is jeopardized by the creation and use of paper money."²⁶

Generally the "standard authors on political economy" were appealed to in order to chastize bank monopoly and condemn all relation between the state and banking system. These authors were also sometimes called upon to attack paper money inflation. In general it was argued that paper lacking intrinsic value did not possess the

26 Debates of Ohio, I, p. 708; Cole, ed., Debates of 1847, pp. 88, 255-62, 268; Debates of Michigan, pp. 569-70; Debates of Ohio, II, pp. 795-800.

stability and uniformity necessary for a sound currency. In fact, it tended to drive sound currency out of circulation. Rather than to defend Democratic doctrine, these authorities were generally called upon to "explode" the "fallacies" that paper currency was convenient, that banks created capital, that an increased amount of currency stimulated productivity, and that there were inadequate supplies of gold and silver for a circulating medium. The Wisconsin Argus clearly enunciated the Democratic argument in defending total prohibition of bank currency,

But, says the advocate of bank paper, if you drive these ones and threes and fives from circulation, there will be just so much less money in circulation, and farmers cannot sell their wheat, no merchants their goods. Well, all we can at present say to this is that the objection betrays a most lamentable ignorance of the laws which regulate trade and currency. Drive paper money or any portion of it from circulation in Wisconsin, and an equal amount of specie would as certainly take its place as that water will seek its level; and a political economist would as soon think of objecting to the navigation of the ocean on the ground that water displaced by a ship on its course would never close up as to raise such an objection against the rejection of paper money.²⁷

Since it was clear to the Democrats that the "standard authorities" counseled the prohibition of banks of issue, they believed that those who advocated banks and paper money were either "blinded by interest or prejudice, or... superficial observers who looked only upon the surface of things, and never examine into the philosophical principles

27 Madison Wisconsin Argus, November 24, 1846, reprinted in Quaife, ed., The Struggle Over Ratification, pp. 155-56.

by which they are governed." Reemelin summed up the argument against the supposed value of banks:

"Regulate the currency," should read disorder the currency, -- "create capital" means destroy it, "bank facilities" should be bank difficulties, in fact short, banks bring about results directly the reverse of what is claimed for them... 28

While just who these authorities were, is not always clear at various times Democrats referred by name to Gallatin, Gouge, Cobbett, McCulloch, Say, Wayland, Macaulay and Smith. It is not, then, unusual that the opposition to banks should have been cast in laissez faire terms. Everywhere banks were seen as "a monopoly" repugnant to the teachings of classical economics. The chartering of banks and the ownership of bank stock by the state were just the kind of governmental interference that prevented the natural functioning of the laws of trade. In Illinois, Bosbyshell insisted that, "The regulation of currency and the regulation of credit are both affairs of trade. Men want no laws on the subject except for the punishment of fraud. They want no laws except such are necessary for the protection of equal rights." To him this meant the complete prohibition of all banks of issue and paper currency. Because of the existence of the State Bank of Indiana, the convention in that state involved a lengthy debate over the wisdom of the affiliation between the state government and the Bank. The most "radical" Democrats equated the relation

between the two with the "union of Church and State." As such it was a danger to republican society. But more important:

All the evils that have heretofore flowed from the business of banking may be traced to one source: that of governments interfering with the natural laws of trade, by selecting this business out from the ordinary occupations of mankind, and by charters placing it above competition with exclusive rights and immunities not allowed to any other business, and of becoming stock jobbers themselves. 29

Laissez-faire, anti-monopoly arguments led a few Democrats to advocate merely the destruction of special charters, and the implementation of general laws. In some cases such laws were to be a radical application of the principles of laissez-faire to business with the only checks on issue to be unlimited liability. One plan would have made banking free under general laws but allow the banks to issue notes on a dollar for dollar basis in relation to specie in their vaults. In Ohio and Indiana, some Democrats joined with the Whigs in advocating free banking on the model of New York. The arguments put forth in defense of these plans were anti-monopoly arguments that emphasized equal rights rather than the inflationary aspects of banking under general laws. 30

The most important aspect of these proposals was the violent denunciation they received from most Democrats. Universally Democrats

29 Cole, ed., Debates of 1847, p. 654; Debates of Indiana, p. 1481.

30 Debates of Ohio, I, pp. 260, 158-62; Debates of Indiana, pp. 1469-73, 1511-1517.

agreed that the true policy of their party was the elimination of all banks of issue be they established by special charter or general law. After G. Volney Dorsey, an Ohio Democrat from a Whig District proposed that the constitution embody the free banking principle, M. H. Mitchell, from strongly anti-bank Knox county, "rose to add a remark by way of protestation on behalf of the democracy, against the insidious and deceptive theory here put forth in the shape of a democratic theory." He did not think it was necessary for Mr. Dorsey to sustain the argument for "the gentlemen on the opposite side of the House." He later presented a petition signed by sixty-two of his constituents which stated:

We are aware that certain members of your body, elected under the hard money issue, are about to prove recreant to their constituents, or to their duty. We beg leave respectfully to remind those members of the fate of Judas, and the doom of Arnold.

In Illinois the proposal of Mr. Sherman, a Chicago mechanic for free banking met similar abuse. His plan was chastized as "wild, ambiguous, and dangerous" and "the most consummate system for swindling purposes that the ingenuity of the Convention could devise." Mr. Davis believed it would be better to keep the old system of special charters than "allowing the creation of these monsters all over the state, leaving its impress on the prosperity of the people forever." Faced with a defection to free banking within Democratic ranks during the Michigan convention, A. H. Hanscom attacked the New York system

of free banking as the worst and most dangerous system ever attempted; and he predicted it would end by "beggaring the people." Horace Carter told his colleagues in the Indiana convention that, "The main difference between free banking and any other system is that it only opens the door to let the 'stealings,' become general, to fifty or one hundred monopolies instead of fifteen or twenty."³¹

In making this argument that was heard in the other conventions, Carter revealed the reason why a significant number of Democrats in that state defended the State Bank's monopoly against free banking. The conservative policies of the State Bank, particularly its general policy of lending to farmers and produce and stock dealers instead of "merchants and speculators," and its limited expansion of note issue, appealed to many Democrats who feared the inflationary tendencies of free banking.³²

The Democracy was split on the banking issue, but the majority stood solidly opposed to banks in any form. In every convention the Democrats proposed the complete abolition of banks and paper money. Everywhere they charged that banks violated the basic republican principle of equal rights, corrupted the legislative process, conflicted with the Constitution, and stood in opposition to the dictates of experience and "true philosophical principles."

31 Debates of Ohio, I, p. 162, 475; Cole, ed., Debates of 1847, pp. 654-56, 327-28; Debates of Michigan, pp. 569-70; Debates of Indiana, p. 1442.

32 Ibid., pp. 1440-44.

On many issues in these conventions, the Whigs were not far separated from their opponents, but on the money question most of the party defended paper money and banks. Outnumbered in every convention, they were much less vocal than their opponents, and they tended to show much more unity on this question than the Democrats.

A portion of the Whig argument in favor of banks and paper money was defensive and designed to counter the arguments of their opponents. In the Ohio convention where the question of the constitutionality of banks of issue was discussed at length, John Green made a point by point refutation of Groesbeck's argument. At the same time Green represented a general Whig tendency to deny Democratic charges that the Whigs were the "bank party" and turn these on their opponents. A third aspect of the Whig argument that was directed at their opponents concerned the possibility of the elimination of paper currency. Here, Whigs argued that experience showed that specie moved to the financial centers through the course of trade leaving the western areas without any currency to carry on day to day affairs. Since some sort of currency would be necessary, the use of "foreign" notes of the least trustworthy character and private issues like "George Smith's money" would result. Prohibition could not work and would in fact be an abdication of the government responsibility to protect its citizens. ³³

33 Debates of Ohio, II, 539-45, I, 708-709. The latter includes the Whig "Minority Report on Currency and Banking.

This complaint about the possible consequences of Democratic policy signaled a difference between the parties concerning the proper function of the state. The Democrats tended to fear the state as a danger to individual freedom and they took a negative view of the functioning of the state. This was typified in their emphasis on the veto power. Within liberal thought there was a tendency toward anarchism which conceived of the state as a necessary evil at best. In political economy this tendency led toward a radical laissez faire that set itself against public education and even government ownership of the post office. The Democrats represented this tendency. However, within the bonds of liberal thought one might question an absolute faith in laissez faire as, in fact, Adam Smith and many of the early classical economists did.³⁴

In general, it was this tendency within liberal thought to which most of the liberal Whigs subscribed. There was no denying that governmental power represented a threat to liberty. In the Indiana convention William Dunn argued that such powers were dangerous, but all "useful powers" were dangerous in proportion to their value. These decisions must be left up to the people, otherwise the constitution would "deprive them of the exercise of their free will." Most

34 On classical political economy see the suggestive studies, Lionel Robbins, The Theory of Economic Policy in English Classical Political Economy (London: MacMillan and Co., Ltd., 1952) and Jacob Viner, "Adam Smith and Laissez Faire," in John Maurice Clark, et al., Adam Smith, 1776-1926 (Chicago: University of Chicago Press, 1928).

Whigs agreed with James Rariden that, "We must delegate power to guarantee individual rights and to protect public liberty." However, Rariden feared free banking and it was more typical of his party to see this idea as most compatible with free banking. Hiram Allen used almost exactly the same argument to defend free banking. It was the duty of the state government to protect the rights and privileges of the citizens through the passage of "direct and wholesome laws." Other than these few laws he would trust to individual enterprise. One of the leading Whig advocates of free banking in Indiana, John Niles, agreed that men should usually be permitted to follow their own interests, but "the business of issuing paper to circulate as money is of a widely different character, and must be governed [sic] by stringent rules." Such laws which would insure security to the bill holder were the "indispensable prerequisite to free competition." Except in its details this argument varies little from that of Adam Smith, and in one of the few Whig appeals to authority, Orthniel Clark argued that free banking was "demonstrated as the only true system of banking by Adam Smith, who was the first expounder of the true doctrines of political economy." Within the bounds of liberal thought the Whigs emphasized the more positive functions of the state in area where individual action would have been futile. To see them as Burkean conservatives or neo-mercantilists, or for that matter advocates of the modern welfare state is to misunderstand

them.³⁵

In line with these ideas, they were as violently opposed to monopoly as their opponents, but did not agree with the Democratic definition of a bank as a monopoly. The Whigs defended free banking as a republican system which rests on "our notions of free government and equal rights." Monopoly was seen as the source of fraud and oppression. "By making the system general," Allen stated, "and extending to all the same rights under it, we not only obviate this obvious odious feature, but we invite into the field the same salutary and wholesome competition in banking which now exists in all the other departments of trade and occupations of life." Niles explained his opposition to the State Bank of Indiana solely on the grounds that:

It does give to a few citizens exclusive privileges which are denied to others. Such monopolies should be created only on the ground of absolute necessity for they are inconsistent with the doctrine of equal rights. And if it can be shown that another system may combine the principle of free competition and equality of rights with safety and usefulness, that circumstance alone will be a strong argument in its favor.³⁶

35 Debates of Indiana, pp. 690, 648, 1474-78, 1647, 1436-40. Examples contrasting views of Whig policies are: Sidney Fine, Laissez Faire and the General-Welfare State (Ann Arbor, Michigan: The University of Michigan Press, 1956), pp. 3-25; Louis Hartz, The Liberal Tradition in America (New York: Harvest Books, 1955), pp. 89-142; and Dexter Perkins, "William H. Seward," New York History, XV (April, 1934), pp. 160-74.

36 Debates of Indiana, pp. 1475, 1646.

Accepting the need for a paper currency and the responsibility of the government to protect the rights of the citizens, the Whigs were faced with the decision of how to best provide a safe and adequate currency. For most Whigs the price of monopoly was too high to pay for security if any alternative existed. Most Whigs, along with Niles desired "to see [a system] established which shall combine the principles of free competition and of security to the bill holder." Free banking with stock collateral to secure the bill holder seemed to be such a system, and the example of New York showed that such a system might work.³⁷

Only in Indiana did any sizeable group of Whigs argue for the maintenance of a single institution and then on the grounds that this was the only way to provide a secure currency and control the "money power" in the public interest. In Indiana, James Rariden asserted, "I have no objection to allowing men of capital to associate their wealth for banking purposes but I do not want them to acquire a power paramount to the State."³⁸

The Whigs believed that this would be the result of Democratic policy. It was generally held by Whigs that under such a policy the "power" of money would rule unchecked and that prohibition of banks "would make the rich man more wealthy and the poor man poorer, and

37 Ibid., p. 1647.

38 Ibid., p. 647.

the debtor class would be entirely ruined." "Hard money" would mean low prices for the farmer and an economy in which the poor man, lacking the facilities of credit, could look only to continued existence in the lower strata of society. "In its way it would be like dispensing with labor saving machinery." The "money power" uncontrolled by the state would dominate the economy and make the people "serfs and tillers of the ground for the profit of others. . . ." ³⁹

Free banking seemed the best way to supply the currency and credit necessary for continued commercial growth and at the same time assure the bill holders against loss.

Fortunately the votes on various issues in these conventions can give us some idea of the relative size of factions in the two parties on this question and serve to underline the statements made concerning the position of the parties on this question. It is clear from the voting in the Wisconsin, Illinois and Ohio conventions that in these states nearly every Whig favored free banking, while a majority of the Democrats stood true to the party's "hard money" position. In Wisconsin the Democracy broke ranks only after the defeat of the first constitution at the polls. As it was, the bank article in the 1848 Constitution passed by a slim margin of five votes. The "hards" in the Illinois convention were referred to as the "fifty-eight." Fifty-three of these were Democrats, accounting for a little

39 Debates of Ohio, I, 709; Debates of Indiana, p. 1646, 1539.

less than 60% of the party. What is surprising in the light of generally held views is that of the remaining 40%, all but an insignificant number (less than 1% of the Democrats) were opposed to free banking. By the end of the convention two-thirds of this group were willing to join the "fifty-eight" original prohibitionists to send a "hard money" article separately to the voters. If they could hold their ranks together and maintain normal attendance, they could carry the issue. But this is just what they failed to do. The final attempt at prohibition was defeated by one vote, sixty-eight to sixty-nine. On the day of the vote ten of the "fifty-eight" were absent including some of the most vociferous anti-bank men in the convention such as Davis and Dement. The Whigs carried the day by holding their troops together and getting out the vote. Prohibition was defeated by the Whigs aided by a small group of Democrats who either favored free banks or wished to retain the special charter system. Among the Whigs 75% of the party voted for free banks with about two-thirds of the remainder favoring the old system, and a very small group (about 7.5% of the party) opposed to all banks. One of the most significant things about the Illinois vote was the degree to which "hard money" sentiment was confined to the southern and west central parts of the state. This had also been true of Wisconsin where the older areas settled by Southerners such as the "lead region" and the counties

on the Mississippi supported the true Jacksonian dogma.⁴⁰

The geographic pattern in Ohio is not at all clear, but the party positions are. Again a large majority of the Democrats stood for prohibition and were beaten by a combination of Whigs and "bank Democrats." Here, over 80% of the party voted to prohibit the chartering of banks of any kind and were beaten in a tie vote. The Whigs voted solidly (94%) for a proposal to allow the voters to choose between free banking and "no banks." The inflationary nature of the Whig concept of free banking can be seen in their unanimous opposition to a Democratic "free" banking proposal which prohibited bank notes of less denomination than the most valuable coin issued by the federal government and failed to provide any other security other than unlimited liability.⁴¹

The most complicated situation was in Indiana where the success of the State Bank confused the party alignments. Both parties were split by the issue. With one exception the Whigs stood for banking of some kind. Slightly more than half of the party seems to have preferred a State Bank with a sizeable minority (47%) advocating free banking. The Democrats were divided into three factions. About half

40 Quaife, ed., Convention of 1846, Appendix I, roll calls, 15, 17, and 19; Milo M. Quaife, ed., The Attainment of Statehood (Madison, Wisconsin: the State Historical Society, 1928), Appendix I, roll call, 108; Cole, ed., Debates of 1847, pp. 101-103, 808.

41 Debates of Ohio, II, 412-13, 423-24.

of the party opposed all banks at the outset. A smaller group, perhaps one-fourth of the party, favored a State Bank. As the convention progressed, the free banking element grew to number slightly less than a majority of the party. When it appeared that no one faction could carry its principles, a compromise was worked out permitting both free banking and a State Bank with branches providing that the state had no connection with it. The only opponents of the compromise were two "hard money" Democrats, and a dozen Whig advocates of a state owned State Bank. While the desire to produce a constitution led to the compromising of Jacksonian dogma, the early votes revealed a sectional split like that in Illinois. The area from the national road south--the oldest part of the state, settled mainly by Southerners--produced 80% of the "hard money" votes.⁴²

The positions taken by the parties on the banking question are usually explained as appeals to the class interests which formed the basis of the parties. The Democrats were "the party of the ordinary run of citizens" and in the West received support from "the frontiersmen and small farmers." Their opponents "tended to be townspeople of substance--bankers, lawyers and businessmen." Some variant of this division of the parties along class and occupational lines is accepted by practically everyone who has written on

42 Debates of Indiana, pp. 1446-47, 1524, and 1526.

the period and is used to explain the Whig adherence to banks and paper money.⁴³

On an occupational rather than strictly class basis there is an element of validity to this. Most businessmen were probably Whigs, particularly merchants, manufacturers and non-specialized entrepreneurs. But it is not so clear that this was true of bankers. While there is no reason to doubt that most bankers were Whigs, there is no good evidence that this was the case. No systematic study of the party allegiance of bankers has been done. At best, historians have repeated the charges from the partisan press which

43 The above descriptions of the economic and occupational base of the parties are from Van Deusen, The Jacksonian Era, pp. 92-93; and Emma Lou Thornbrough, Indiana in the Civil War Era 1850-1880, vol. III, The History of Indiana (Indianapolis, Indiana: Indiana Historical Bureau and Indiana Historical Society, 1965-), p. 43. Literally every book on the subject accepts this class explanation for party action, these examples are given to show the acceptance of this by the most recent scholarship. In all fairness to most authors, it must be said that they usually hedge. Alfred Holt says of the Whigs that they were "essentially conservative" and "generally men of wealth and standing in their communities." Except on the questions concerning Negro rights, they were the party of the "status quo." However, he also says, "But not all members of the Whig party were reactionary. A large portion consisted of farmers and day laborers, and the party in its appeal for support throughout the decade, had never lost sight of the needs of the common man." ("Party Politics in Ohio," XXXVII, pp. 589-90.)

must be doubted until verified.⁴⁴

The standard contention, originating in New York to explain Democratic losses in the late 1830's and accepted almost completely by historians, is that growing anti-bank attitudes of the Democracy drove the bankers from the party and accounted for Whig successes in 1840. Leaving aside the implicit admission that before 1847 bankers and their power were in the Democratic party and, by reverse logic, were responsible for the victory of Jackson and his followers, one can doubt the importance of this shift of the bankers. Certainly some bankers changed parties, but then, so did a great number of people of all classes and economic groups. Particularly in the west, party allegiances were just forming in the late thirties, replacing a personal politics and factionalism among Jackson backers who were not actually a party in the modern sense.

44 Lewis E. Atherton, "The Pioneer Merchant in Mid-America," The University of Missouri Studies, XIV (April 1, 1839), pp. 23-26; and Alexandra McCoy, "Political Affiliations of American Economic Elites: Wayne County Michigan, 1844, 1860, As a Test Case," (Unpublished Ph. D. Dissertation, Wayne State University, Detroit, 1965) are the only quantitative studies concerning the affiliations of businessmen. An examination of the lawyers in the constitutional conventions shows a slightly larger percentage of lawyers among Whigs, but the difference is too small to be at all meaningful. Further study might show that those lawyers who mainly dealt with businessmen tended to be Whigs while those who dealt with large land holders tended to be Democrats. A similar suggestion is made by Charles Sellers in "Who Were the Southern Whigs?" American Historical Review, LIX (January, 1954), pp. 335-46.

In contrast to this traditional interpretation, there is a good deal of impressionistic evidence to show that the Democrats who were involved in banking deserted neither their party nor their occupation. In Indiana after 1843 the control of the State Bank fell into the hands of the Democrats.

The only quantitative study to bear on this point tends to contradict the traditional hypothesis. Floyd Streeter's study of Michigan politics argues that the growing radicalism of the Michigan Democracy after 1837 alienated a large number of the state's "well-to-do" men." He quotes as evidence for this a letter from John R. Williams to William Woodbridge. The impression is left with the reader that bankers and wealthy men in general trooped into the Whig party and helped account for the Whig success of 1840. While this may have been true to some degree, banker Williams was not one of the defectors, and he remained loyal to the Democracy for the remainder of his life. Alexandra McCoy's study would indicate that this was also true of other bankers. In her study of the economic elite in 1844 she found more bankers among the Democrats in her sample than among the Whigs, and bankers made up a higher percentage of the sample of Democrats. It is important to note that in 1844 the Michigan Democracy was violently anti-bank.⁴⁵

45 Streeter, Political Parties in Michigan, p. 20; John R. Williams to Woodbridge, August [?], 1838, in the Woodbridge MSS; McCoy, "Political Affiliations of American Economic Elites," Chapter V, Chart 10, unfortunately her sample is extremely small.

In this entire discussion there is a certain amount of perspective needed. In the first place there were not very many bankers in the Old Northwest in the 1840's, and there is no good reason to believe that the Whig party was controlled by the bankers, even if it could be shown that all the bankers were Whigs. Among the party leadership there was little class and occupational difference between Democrats and Whigs. While the Whigs were less successful at the polls than their opponents, the base of their electoral strength was sufficiently broad and pluralistic to preclude the hypothesis of the domination of banker interests. In the United States as a whole, the Whigs and the splinter anti-slavery groups which were composed mainly of ex-Whigs received more popular votes than the Democrats in 1840, 1844, and 1848 (in this case the Whig element of the Free Soil party plus the Taylor vote made up a majority.) The national trend was mirrored in the Old Northwest. Taking individual states, one might cite Illinois as an example of a state without the "corrupting influence" of banks which retained its Democratic purity. Yet, he would still have to explain how the Whigs managed to attain 49% of the total vote in 1840 and 44% in 1844 in a state where there were no banks. He would also have to come to terms with the fact that Michigan, which was nearly denuded of banks in the depression and

had none sound enough to exert much of a "corrupting influence" reflected the national trend.⁴⁶

In the conventions both Democrats and Whigs appealed to the same economic groups. The Democrats echoed the old Jacksonian appeal to the "producing classes" who were the most hurt by depreciation of bank notes. However, they made explicit appeals to the merchants and businessmen on the grounds that a specie currency was the only proper basis for a sound economy. They violently opposed any kind of inflation and assured the farmer that his interests were best served by honest labor and beneficial effects of competition. For their part, the Whigs promised the farmers and the merchants higher prices and economic expansion. By providing adequate currency and inexpensive credit the banking system worked to the advantage of the farmer and the laborer as well as the businessman. The nature and scope of the Whig appeal can be seen in a series of rhetorical questions posed by the Milwaukee Sentinel and Gazette:

The agricultural interest is the great interest of Wisconsin and this is which is suffering and will

46 Lawrence Howard Sabbath, "Analysis of the Political Leadership in Wayne County Michigan, 1844," (Unpublished M. A. Thesis, Wayne State University, Detroit, 1965). There is a need for quantitative studies of the political leadership in all states. The conclusions of Sabbath's study conform with those of Lee Benson (Concept of Jacksonian Democracy, pp. 64-85) and Grady McWhiney ("Were the Whigs a Class Party in Alabama?" Journal of Southern History, XXIII /November, 1957/, pp. 510-22). The election returns are from W. Dean Burnham, Presidential Ballots, 1836-1892 (Baltimore: The Johns Hopkins University Press, 1955), pp. 246 and 248.

continue to suffer most by such "hard money" legislation as Mr. Ryan of Racine proposes to inflict upon us. How many settlers are there now in our territory who have been compelled to borrow money with which they bought their lands, at fifteen, twenty, twenty-five, aye fifty per cent interest? Do they think that money would command such exorbitant rates if we had good banking institutions here and the increase of capital which such institutions bring in their train? How many farmers are there who are now daily compelled to sell their wheat at three, five, and sometimes ten cents a bushel below its actual value because money is scarce and Wheat buyers in order to get it must pay ten, twelve, or fifteen per cent interest? Does the wheat buyer suffer by such a state of things? Not he; for whatever rate of usance he pays he takes good care to leave a wide margin in his dealings with the farmer. How many mechanics and workingmen are there in our territory who have to take pay for their work in trade or orders or who must put up with low wages because money is scarce and only to be obtained at high rates of interest? Is it the master builder, the manufacturer, the merchant, or the forwarder that suffers most from this circumstance? Not they; for whatever the rate they pay for the money which they must borrow from time to time to carry on their business, a proportionate reduction is made in the remuneration allowed to the men in their employ. Can it be necessary to multiply these illustrations to show that this pretended war against capital and currency is in fact a war upon labor? That however the money lender may profit by it, the mechanic, the farmer, and the laborer are equally and deeply injured? That is, in short, legislating for the rich at the expense and to the detriment of the poor? Is there anything just, wise, or democratic in such a policy? 47

47 Debates of Ohio, I, p. 709, and II, pp. 795-800; Cole, ed., Debates of 1847, pp. 270-72, 274, 280, 653; Debates of Michigan, pp. 560, 569, 575-76, 691-92, 734; Debates of Indiana, pp. 689, 694, 995, 1440, 1452-53, 1456, 1471, 1490, 1503, 1525; Milwaukee Sentinel and Gazette, October 17, 1846, reprinted in Quaife, ed., The Struggle Over Ratification, pp. 177-79.

It would seem clear that the parties made their appeal to the same economic groups; and the available studies of voting behavior indicate that ethno-religious factors rather than class were the prime determinents of party affiliation. However, it is also clear that the parties differed markedly on economic questions, particularly the banking issue. This difference is revealed by Glyndon Van Deusen:

In the Ohio Valley, the pushing, ambitious, go-ahead bankers and businessmen, canal promoters, land owning interests, lawyers with an eye to the main chance, and farmers anxious for internal improvements were more apt than not to be found in the Whig ranks.

The occupational groups described are unimportant since there is little evidence that Whigs dominated any group other than businessmen, and a great deal that "land owning interests" tended to be Democrats. The way in which they are described is important.⁴⁸

The Whigs were future oriented and appealed to those men who put their faith in economic progress, regardless of class. By this they meant the progress of commercialization of the society. To the Whigs the Good Society was an expanding commercial society in which agriculture, labor, and industry were alike benefited. No

48 Van Deusen, The Jacksonian Era, p. 96. The studies of Benson, McCoy, and Ron P. Formisano, "The Social Basis of American Voting Behavior: Wayne County, Michigan, 1837-1852, As a Test Case," (Unpublished Ph. D. Dissertation, Wayne State University, Detroit, 1966) clearly demonstrate the importance of ethno-religious factors.

better example of Whig commercial-mindedness than Thomas Corwin's complaint to William Green about Democratic opposition to internal improvements:

... as out Democracy prefers to pay money for blowing out brains, rather than for blowing up and getting around rocks, that impede the progress of the most efficient civilizer of our Barberous race--commerce--we must for the present submit. ⁴⁹

As Marvin Meyers has shown, the Jacksonians tended to be agrarian-minded, and they "wanted to preserve the virtues of a simple agrarian republic without sacrificing the rewards and conveniences of modern capitalism." To these agrarian-minded Democrats, the state was itself dangerous and was best limited to a minimum of police functions in order that society might develop in a "natural" manner. To this way of thinking commercial and urban society was by its nature corrupt. Banks were symbolic of the corruption of the virtuous agrarian republic by commercial development. The banking issue carried social and psychological inferences that transcended simple

49 Corwin to Greene, June 16, 1846, reprinted in L. B. Hamlin, ed., "Selections from the William Greene Papers I," Quarterly Publications of the Historical and Philosophical Society of Ohio, XIII (January-March, 1918), pp. 15-16. A similar argument is presented by Van Deusen in "Some Aspects of Whig Thought and Theory In the Jacksonian Period," American Historical Review, LXIII (January, 1958), pp. 305-22. The concepts of "commercial-mindedness" and "agrarian-mindedness" are developed by Lee Benson in Turner and Beard (Glencoe, Illinois: The Free Press, 1960), pp. 214-28. I have used them like Benson not to "denote classes, socioeconomic status groups, or occupations--/but/... ways of thinking" (p. 216).

economic interest. It became the focal point for grievances directed against the commercialization of American life. In a period of swift economic and social change, those groups least able to adapt to new conditions and, thus, most threatened by change could direct their animus toward the institutional symbols of the type of society which threatened their status.⁵⁰

The commercial-minded Whigs took a more positive attitude toward the function of the Good State in creating the Good Society. Government was conceived as a tool which the society might use to create the necessary conditions for commercial--and moral--progress. The banking issue was much more a real and less a symbolic issue for the Whigs. Banks were an economic necessity,

50 Meyers, Jacksonian Persuasion, p. vii. The conception of Jacksonian attitudes on economic affairs presented in this book is similar to what Richard Hofstadter calls "status politics," and suggests that rather than periods when "status politics" is dominant, certain issues may be "status issues" for one group and "interest issues" for another at the same time. On the concept of "status politics" see: Richard Hofstadter, The Paranoid Style in American Politics and Other Essays (New York: Alfred A. Knopf, 1965), and Daniel Bell, ed., The Radical Right (Garden City, New York: Doubleday and Company, Inc., 1963).

providing the lubrication for the wheels of commerce. At the state level, free banking was their key to economic progress and the creation of a commercial society.⁵¹

51. Since the Whig party was built on a Yankee-Protestant social base, it is quite possible that their willingness to have the government play a positive role in the economy grew out of the Puritan willingness to use the government positively in religious and moral affairs. Clifford S. Griffin, Their Brother's Keepers (New Brunswick, New Jersey: Rutgers University Press, 1960) sheds some light on this question.

CHAPTER V

FREE BANKING TRIUMPHANT, 1851-1852

In the early 1850's four of the states of the Old Northwest passed free banking laws. Economic expansion required credit and currency; and free banking was the way in which certain elements of the community attempted to answer these needs. In every state, it was the Whigs who took the initiative in the fight to establish these laws and solidly supported them. The main body of the Democracy opposed them in line with traditional Jacksonian opposition to all banks and paper money. However, a faction of the Democrats joined the Whigs and enabled the passage of these laws. Those Democrats who broke with party orthodoxy were generally from rapidly developing areas inhabited by settlers from New England and New York whose economic views conformed closely to those of the Whigs.

The period between the end of the severe depression of the late 1830's and early 1840's and the onset of economic troubles in 1857 was one of spectacular growth and expansion. With the exception of two temporary setbacks in 1847-48 and 1854, each year brought increases in production and trade. Although such rapid growth, particularly in the cities, created new social problems, the standard of living in the country was rising, and per capita real income was on the increase. A growing population, an improved transportation

and communications network, and a gerry-built credit system sparked this boom.¹

In the Old Northwest free banking became the predominant credit and currency arrangement. Despite its faults, it provided adequate facilities for an unprecedented boom. It is both futile and immaterial to speculate about what might have been had some other system been adopted. The American people of the mid-nineteenth century chose to place certain limitations on their institutional development in this area. Within these limits, Americans of the day struggled to establish institutions to answer the needs created by economic change.

Probably no other section experienced such rapid growth as the Northwest. Nationally this period was one of a great boom in railroad building. By 1850 there were about 8,500 miles of track in the United States. In only seven years this had grown to nearly 24,000, and investment in railroads had risen from \$372,000,000 to approximately \$1,000,000,000. The Old Northwest was the major area of

1 The general development of the American economy in this period is treated in Taylor, Transportation Revolution, pp. 345-351, and Douglass C. North, The Economic Growth of the United States, 1790-1860 (New York: W. W. Norton and Company, Inc., 1966), pp. 206-215. While Taylor (pp. 392-95) comments on "Wealth and Income," an extensive analysis is presented in Ralph Andreano, "Trends in Economic Welfare, 1790-1860," New Views on American Economic Development, ed., Ralph Andreano (Cambridge, Massachusetts: Schenkman Publishing Company, Inc., 1965), pp. 131-167.

this expansion. Although the less developed states in the area, Michigan and Wisconsin, ranked fourteenth and eleventh in miles of track in 1860, the older states Ohio, Illinois, and Indiana stood first, second, and fifth. In all cases the growth rate was phenomenal. Ohio which had thirty nine miles of track in 1840 had nearly 3,000 by 1860. The population of the area went from four and a half, to nearly seven million during the decade of the 1850's. In that time Illinois, which was a reasonably large state by 1850, more than doubled its population to become the fourth most populous state in the Union. By the end of the decade Illinois, Ohio, and Indiana were three of the top four corn producing states in the country. Again Illinois led this expansion with growth in output from 22, 634, 000 bushels in 1839 to 115, 174, 000 bushels in 1859.²

Even Michigan, a relatively backward state, made extensive advances. Its population grew from 212, 267 in 1840 to 397, 654 by 1850 and 749, 113 by 1860. During the decade of the fifties its railroad mileage increased from 349 to 779 miles. At mid-century Michigan farmers produced 5, 500, 000 bushels of corn and slightly less than

2 Taylor, Transportation Revolution, p. 79, a table on "Railroad and Canal Mileage by Decades, 1830-1860;" Paul W. Gates, The Farmer's Age, Vol. III of The Economic History of the United States, ed., Henry David, et. al. (10 vols.; New York: Holt Rinehart and Winston, 1945 -), pp. 156-199, and p. 171, the table on "Corn Production in Leading States;" North, The Economic Growth of the United States, pp. 135-156.

5,000,000 bushels of wheat. Oats, wool, potatoes, butter and cheese were all being exported in large quantities. During the next decade a copper mining boom, the fishing industry, and the beginnings of the lumber business led Michigan, as Willis Dunbar would have it, "Out of the Wilderness."³

Under these conditions, a ready supply of credit and currency was necessary to move crops and provide increased capital facilities. The "revulsion against banks" of the 1840's left the Old Northwest without adequate legal sources of currency and credit. Maurice Ross has compiled indices of the growth for capital stock, discounts, notes issue and has compared this with the growth of population, property evaluation, and improved acreage. These show quite clearly that in Indiana the legal circulating medium did not keep pace with the population growth and economic expansion. Much the same thing can be said for Ohio. Michigan represents an extreme example of the dearth of legal local currency. In 1850 the state's four banks had paid in capital of \$392,530, or about \$0.98 per capita for the state. At the same time the per capita share of bank capital in the whole nation was \$9.37. The same is true of both circulation and deposits. The per capita share of notes in Michigan was \$1.57 and of deposits was \$0.67, both figures only fractions of the national

3 Willis Dunbar, Michigan (Grand Rapids, Michigan: William B. Eerdmans Publishing Company, 1965), pp. 349-391.

averages. Illinois was completely without banks of issue.⁴

A variety of unauthorized and extra-legal issues filled the currency vacuum. Some of these, like "George Smith's money" which circulated throughout Illinois and Wisconsin on a par with specie, were sound; but too often they were of dubious value. These conditions gave rise to demands in all of the states of the Old Northwest for increased banking facilities that were legally controlled and to prohibition of unauthorized and foreign issues.

In the late forties Michigan had forced its few banks to supply bond security as collateral for their issue, but the earlier experience with free banking made Michigan legislators reluctant to enact similar legislation. The intractable John Barry was again governor, and his attitude regarding banks had not changed. He praised the new constitution for removing the monopoly status from banks and attempting to insure the security of their notes. However, he distrusted free banking as a scheme of the bankers who were biding their time until there would be a shift in public opinion in favor of banks. He continued to believe that paper money would only aid the bankers in their struggle to secure wealth without labor. The worst aspect of free banking for Barry was that it perpetuated public debt.

If banks, then, in the failure of all other schemes, can have no safe foundation, but in the evidence of

4 Ross, "Commercial Banking in the State of Indiana," pp. 57-58; Huntington, "History of Banking and Currency in Ohio," p. 346; Gantz, "A History of Banking Legislation," p. 74.

public misfortunes, traceable to their own pernicious effects, it affords at least presumptive evidence that the evils of the banking system are so far inherent and inseparable, that little hope can be entertained of results more favorable in the future. 5

There is evidence that the opposition to banking, even in Michigan, was weakening. In 1851 the House of Representatives considered a free banking bill, and enough Democrats joined with the Whigs to bring it within a single vote of passage. The "Old Jacksonians" were fighting a holding action. In Michigan they held off "progress," but this was not so in the other states of the Old Northwest. During the first two years of the decade Ohio, Indiana, Illinois, and Wisconsin established free banking laws. 6

While the Ohio constitutional convention was meeting, perhaps because it was believed that the convention might outlaw banks, the legislature enacted a free banking law on March 21, 1851. The law was a typical free banking act, but it included a provision for 30% specie reserve, and a unique compromise on the question of liability. If there were fewer than six stockholders, they were to be individually liable; in other cases liability was limited. This law was a product of the widespread demand for currency and credit, and it revealed the split among Democrats on the banking question. Although Jacksonians

5 Gantz, "A History of Banking Legislation," pp. 67-69; Fuller, Messages, II, pp. 180-206, the quotation is from p. 185.

6 Gantz, "A History of Banking Legislation," p. 85.

dominated the legislature, enough of that party voted with the Whig minority to secure passage of the bill. However, this was definitely a minority of the Democratic party. Most of the Democratic papers in the state opposed the law and denounced it in typical Jacksonian terms once it had passed. The Stark County Democratic Convention came out for general laws, but opposed any kind of bank currency. The Democrats who did not fight for a "Constitutional currency" were chastised along with the Whigs. The leading "loco-foco" in the state, Samuel Medary, would only accept free banking if it prohibited all notes under \$20. When it passed without the provision, he attacked it and assured his readers that if the people voted on the law, "they would have knocked it into a cocked hat."⁷

The success of the State Bank of Indiana did not keep that state from experiencing the free banking mania anymore than the Kelley law had held back Ohio. Even before the charter of the State Bank was to expire there was a widespread demand in the state for "a new shuffle and deal concerning banks." A free bank bill was introduced into the Senate on December 19, 1851; and a similar bill originating in the House finally passed. The committee reporting the bill freely admitted that it was based on the earlier New York law and was intended to provide adequate new facilities in the safest possible manner. In the debate on the bill R. N. Hudson, a Terre Haute Whig,

7 Huntington, "History of Banking and Currency in Ohio," pp. 436-38; Ohio Statesman, March 3, 4, and 22, 1851.

used Fillmore's Report to argue that free banking was the safest way to provide the sound, sufficient currency necessary to economic progress. Lack of such facilities, he believed, forced down prices and acted as a check on "growth and prosperity."⁸

While the bill was being considered, meetings in Cass County and Indianapolis called for a system of free banking to provide adequate sound currency, because the state was being flooded with unsound "foreign" paper. Many areas of the state not served by the State Bank were commercially held back. A free banking system would drive out spurious "foreign" notes, extend credit throughout the state, and draw active businessmen and capital to Indiana.⁹

Historians of Indiana have viewed this free banking law as a product of Jacksonian opposition to bank monopoly. A careful analysis leads to quite a different explanation of this law. The Democrats clearly placed themselves in favor of general laws. Among the eighteen Democratic principles set forth by the Indiana State Sentinel was: "No grants of exclusive charters and privileges by special legislation to banks." Also, the demands for additional currency were bipartisan. Alexander F. Morison, a Democratic merchant from Marion chaired the Indianapolis meeting of "businessmen and other citizens" to demand

8 Esarey, "State Banking in Indiana," pp. 278-281; Indiana Legislature. House Journal, 1851, I, pp. 303-308; Indiana Journal, February 27, 1852.

9 Indiana Journal, February 2 and 9, 1852.

a free banking law at which the secretary was John Defrees, the Whig editor of the Journal. The committee that reported the bill included ten Democrats and four Whigs. When the bill passed large numbers of Democrats voted for it. Finally, Democratic governor, Joseph Wright allowed the bill to become law.¹⁰

Yet, this hardly proves the contention that the bill was a product of anti-monopoly Democrats. In order to promote free banking, which after all did create banking corporations which issued paper currency based on government debt, Democrats had to violate two of the State Sentinel's "principles": "A gradual return from the paper credit system," and "No swindling corporations." It was Defrees who first introduced a free banking bill during the 1851-52 session, and his newspaper, the organ of the Indiana Whig party, was a consistent advocate of free banking. Also, the vote on the bill has been misinterpreted. Most historians have followed Logan Esarey who argued that the Senate vote showed a general tendency of Democrats to favor the bill and for Whigs to oppose it. Yet, he is less than half-right. A majority (twenty of thirty-four) of the Democrats did vote for the bill in the Senate, but contrary to Esarey, the woefully outnumbered Whigs did not oppose the bill. Six out of the nine

10 Esarey, "State Banking in Indiana," p. 281; Ross, "Commercial Banking in the State of Indiana," p. 59; and Roger Van Bolt, "Indiana in Political Transition, 1851-1853," Indiana Magazine of History, XLIX (June, 1953), p. 142; Indiana State Sentinel, February 2, 1850; Indiana Journal, February 9, 1852; Indiana Legislature. House Journal, 1851, I, p. 340, for committee, and II, p. 1058, for vote, and Indiana Legislature. Senate Journal, 1851, pp. 1018-19, for vote.

known Whigs voting favored the bill. The house vote, ignored by Esarey, directly conflicts with his view. There the final vote showed the Democrats splitting with twenty-two favoring and twenty-four opposing the bill. On the other hand twenty-five Whigs, or 86% of the Whigs voting, favored the bill. In the house where they had significant strength to reflect party attitudes the Whigs provided an absolute majority of the votes for free banking. The Indiana free banking bill was basically a Whig measure supported by a large number of Democrats in opposition to the party's general position on banking. The various arguments in favor of the law indicate that it was the product of a desire for an expanded supply of currency and credit with some guaranteed security rather than anti-monopoly agitation against the State Bank.¹¹

It is interesting to note that the Democrats who supported free banking tended to come from the northern and central counties of the state which were settled by Ohioans, New Yorkers and New Englanders and which were economically the most dynamic areas. Eighteen of the twenty-two Democratic votes for free banking came from this area while only nine of the twenty-four opposing votes did.

The demand for banks in the new state of Wisconsin also brought forth a free banking law that was overwhelmingly accepted by

11 Indiana State Sentinel, February 2, 1850; Indiana Legislature. Senate Journal, 1851, p. 320; Indiana Journal, January-April, includes a number of editorials and articles favorable to free banking.

the people in November, 1851, by a vote of 31, 289 to 9, 126. As in Indiana, the Democrats found that the old anti-bank position was now hurting them in the rapidly developing areas of the state newly settled by immigrants from the northern states. In 1852 a combination of bank Democrats and Whigs acted together to give that traditionally Democratic state a Whig governor.¹²

The struggle for a free banking law in Illinois clearly shows the Whig leadership of this movement and the nature of the coalition of Whigs and Democrats which brought success.

Following the constitutional convention, the Illinois Democrats showed no sign of altering their orthodoxy concerning banking although the convention revealed splits within their ranks. In 1848 they renominated Governor French, a known opponent of all banks. That year their platform declared "hostility" to all banks "authorized by either general or special laws." French set forth this position clearly in his message in January, 1849. He opposed flooding the state with bank paper and believed that a few "foreign" notes "viewed with prejudice" were a lesser evil. He echoed old Democratic fears that bank paper would drive out specie, and that banks would only aid the few. A state which was "mainly agricultural" did not need a paper currency based on credit. Experience had showed French that banks were "wrong in principle" and led only to disastrous fluctuations.

12 Wright, "Early Legislation Concerning Wisconsin Banks," p. 161; and Hilderman, National and State Banks, p. 109.

French concluded this Jacksonian tour de force in typical fashion:

A currency resting upon credit, upon mere promises to pay, while it is the most seductive, as holding out inducements to the idle, the cunning, and the profligate to enrich themselves without labor, is likewise the most uncertain fluctuating and fallacious ever devised to cheat the toiling industrious mass of mankind out of the fruits of their labor, and, next to the immediate interposition of Providence, to thwart the expectations of industry, the most to be shunned and deplored. 13

Although French represented the southern part of the state and its agricultural interests in contrast to the more commercial northern half, he was joined in his opposition to banks by the editor of the Chicago Democrat, John Wentworth. Between 1846 and 1851 Wentworth led the anti-monopoly, anti-bank agitation. Aside from banks he attacked grain "monopolists" and steamboat combinations. He was also in the forefront of the opposition to land monopoly in the early fifties. Like French he emphasized agriculture and exalted the producer classes. He identified his anti-monopoly position with the Democratic opposition to banks and associated banks and land monopolies with the Whigs. In March, 1848, Wentworth praised the Specie Circular, because, "It broke up the speculators, the land mongers, and drove them out of the country. Banks are made for speculators, and not for the industrial classes." By "industrial classes" Wentworth meant producers, not workers in industry. His

13 Illinois State Register, May 5, 1848; Illinois Legislature. House Journal, 1849, pp. 8-17 for French's message.

attacks on bankers, monopolists, speculators and businessmen as parasites and robbers resembled William Cobbett's opposition to industrial development in England. It was part of a romantic Jeffersonian assault on the developing industrial and commercial world. He bitterly attacked the rising cities and associated them with the Whig policies of banks, tariffs, and monopolies. As his biographer, Don E. Fehrenbacher, asserts that Wentworth believed, "Cities themselves, . . . were but Whig creations, where speculative classes conspired to enrich themselves at the expense of the countryside." Wentworth in the north, and French and his followers in the south represented a reactionary economic outlook that characterized the Democrats of the 1850's and was out of step with even their own interests.¹⁴

Many, including Democrats, did not accept this reactionary view. They believed that expanding currency and credit resources were necessary and, at the same time, saw their state as "overrun" with "foreign" issues of dubious quality. Private currency was supplemented by Ohio "red backs" and Indiana "shin-plasters." Nearly a

14 Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 67-76; Weekly Chicago Democrat, March 21, 1848 quoted in Ibid., p. 76; Fehrenbacher, Chicago Giant, pp. 73-74, the quotation is from p. 73. Neither Wentworth nor French was a poor man, and both were large land speculators. As Fehrenbacher notes (p. 112-113), "In the very period that the Democrat cried out most angrily against 'land monopoly', its editor was laying the foundation of a large fortune by purchasing land for speculative purposes."

half a million dollars issued by St. Louis banks circulated throughout Illinois in 1850. George Smith's wide flung interests led to the circulation of notes issued by his Georgia banks. To these men economic progress was being sacrificed to outdated "scruples about banking."¹⁵

As soon as the constitution had been ratified by the people, a committee of the Chicago Board of Trade set out to draft a free banking act in line with the requirements of the new constitution. On December 23, 1848, its suggestions were printed in the Chicago Daily Journal. The committee recommended a standard free banking law with provision for liability of the stockholders for all debts and a prohibition on the use of real estate as capital or as collateral for loans. A group of Chicago's leading businessmen petitioned the legislature at the same time for sound banking legislation.¹⁶

A free banking bill was introduced on January 9, 1849, but was defeated in the House. The vote revealed the same sort of split in the Democratic ranks that had appeared in the convention, a split that would widen in the next few years. The main backing for the law came from the Chicago Daily Journal and the business community of that city, although more conservative businessmen such as Walter Newberry feared the ideas of stock security and individual liability. When the bill was defeated, the Daily Journal charged

15 Cole, Era of the Civil War, pp. 94-95.

16 Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 77-79; Pierce, History of Chicago, II, pp. 118-19.

that the Democrats were standing in the way of letting the people vote on the bank issue. In the northern half of the state popular sentiment in favor of some kind of banking law worried Democratic leaders who hoped that the issue would not split their party. William Reddick wrote French explaining the predicament of the Democrats in that area. He claimed that the situation was more difficult than in the south because the largest part of the population was from states such as New York "where Banking is tolerated." For political reasons he believed the Democrats should at least allow this to be voted upon.

There is the Whig party in a body for Banks--the Abolitionists mostly and about one fourth of the Democrats and if the Whigs up here could place us as opposed to even permitting a vote to be taken on the bank question, I am sure we would be defeated. . . .¹⁷

Throughout 1850 the Chicago Daily Democrat and the Illinois State Register attacked all banking plans as unsuited to agricultural communities and charged with danger. One of these petitions to the legislature opposing such legislation argued,

We had thought our former experience in banking was sufficient to satisfy any citizen that banks were a curse to the Mechanic the Farmer and the Labouring Man and that Capitalist /sic/ needed no

¹⁷ Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 79-83; William Reddick to French, November 27, 1848, in French MSS.

special Privileges to bring them an Equality with the rest of the community. That money had sufficient influence to hide the most of the views of its possessor without banding them together in a soulless Corporation.¹⁸

However, many more petitions were received favoring a free banking law than opposing one. The leading Whig papers in the state pushed for a free banking law during 1850 as the election approached. The Rock Island Advertiser complained that, "The present system has driven capitalists from the state to invest their wealths elsewhere, and domestic enterprise hobbles about on crutches, being forced to pay the unlicensed usurer twenty and twenty-five per cent. interest, for the poor privilege of moving at a snail's pace." The Tazewell Mirror and the Illinois State Journal joined in the demand that Illinois be allowed to control circulation within its boundaries and that local capitalists be permitted to profit from it. The Whig convention to choose a candidate for state senator from Kane, Dekalb, Lee and Ogle counties in the northwest adapted a resolution favoring a free banking law. A similar Whig meeting for McHenry, Boone and Winnebago counties opposed "the wild destructive course" of the Democrats that had "cramped the energies of our industrious population, and driven capital into neighboring states." As a consequence

18 Illinois State Register, June 27, 1850, in particular; petition of W. C. Mathews and Theodore Grant quoted in Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 86-87, emphasis in the original.

they supported free banking in order to aid the "rapid growth and permanent welfare of our State" while providing adequate security to the bill holders. In calling for the election of legislators who favored a banking law the Free Soil Chicago Tribune summed up the argument for a free banking law:

It is a matter of deep regret, that while the Eastern cities have a good currency, and business men are supplied with temporary loans at a fair interest, to meet extraordinary emergencies, our city and State labor under the most biting stringency, have a currency composed of rags and shimplasters, from every part of the Union and Canada. We have heretofore adverted to this and pointed out the remedy in the organization of a Free Banking system in our State based on our State Stocks.¹⁹

The new legislature was dominated by the Democrats, and Governor French met the legislature with a standard anti-bank message charging that the use of bonds to secure the note issue was merely "show" to cover up the "odious features" of the system.

"... No good can follow the application of ill timed and unnatural stimulants which may serve to infuse into the spirit of trade a temporary, feverish impulse to be succeeded by a corresponding

19 Ibid., p. 86; Rock Island Advertiser in Illinois State Journal, January 3, 1850; Tazwell Mirror in the Illinois State Journal, October 12, 1850; Illinois State Journal, January 3, October 12, November 23, December 19, 1850; King, "Last Years of the Whig Party in Illinois," p. 128; Chicago Tribune in Illinois State Journal, October 12, 1850.

depression." Although he was in favor of general laws in most cases, his banking views remained unchanged.²⁰

Although the legislature had Democratic majorities in both houses, there were indications that those from the northern part of the state would yield to the demands for banks. The Peoria Democratic Press came out in favor of free banking in late December as the only "way to regulate the currency." The paper mainly emphasized the need for sound currency rather than an expansion of credit. Along with the Illinois State Journal, the Peoria Democratic Press attacked the governor's message. Even Wentworth's Daily Democrat came to the position that if any banking law had to be passed, it might best be based on the New York free banking act. E. Wilcox of Elgin wrote French that the Democrats were being "assailed at every corner" by people demanding a free banking law. In his opinion it would be best to let such a law go to the people if passed by the legislature so the Whigs could not say he was "interposing" himself between the people and the ballot box.²¹

The Illinois State Journal argued that the initiative lay with the Democrats since they controlled the legislature, and it was a group of Democrats who steered the free banking bill through. Early

20 Illinois Governor, 1846-1853.

21 Peoria Democratic Press in Illinois State Journal, January 3, January 17, February 22, and March 17, 1851; Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," p. 88; E. Wilcox to French, January 27, 1851, in French MSS.

in the session Thomas Dyer engineered the election of Sidney Breese as Speaker of the House and was rewarded with the chairmanship of the Committee on Banks and Incorporations. On January 14, 1851 he reported the bill from committee, and it was passed by the House on February 8 and the Senate five days later. However, the bill was returned to the legislature on February 15 with the governor's veto.²²

French offered five reasons for returning the bill: there was no specific specie reserve and thus gold and silver were "virtually dispensed with"; there was not adequate liability of stockholders; it offered no safeguard against speculation; no check was placed on foreign circulation; and no general election was to be held in November, 1851, so the bill could not comply with the constitution. He believed that in general free banking was a dangerous experiment, and had not been proved in New York.²³

With little change in the vote the bill was passed over the governor's veto on February 15. An analysis of the vote, particularly the House vote, on this bill shows two things. It was basically backed by Whigs; and it found its greatest support from legislators representing districts north of Sangamon County. When the bill was before

22 Illinois State Journal, January 10, April 21 and 24, 1851; Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 88-89; Illinois Legislature. House Journal, 1851, pp. 62, 292-93; Illinois Legislature. Senate Journal, 1851, pp. 330-31.

23 Illinois Legislature. House Journal, 1851, pp. 474-77.

the legislature, the Democratic organ, the Illinois State Register attacked the law and the Whig Illinois State Journal supported it.

The parties split rather evenly in the Senate, the Whigs in the House supplied a majority of the votes favoring the law with more than 80% of that party voting for free banking. The law passed because a large minority of the Democrats in the House and a slight majority in the Senate favored it. Looked at sectionally over 80% of the northerners favored, and nearly 70% of the southerners opposed the bill. Even avowedly anti-bank representatives from northern constituencies such as E. B. Ames and Peter Sweat supported the law because of the demands of their constituents and the belief that it was politically more expedient to set the question before the people than to allow it to divide the party.²⁴

The bill enacted was a broad free banking law allowing the use of any state or federal bonds with a discrimination against Illinois stocks, no personal liability, and no specific specie reserve. There was a bank commission and the banks were to publish quarterly statements. A provision which later caused some problems limited

24 Illinois Legislature. House Journal, 1851, pp. 478-79; Illinois Legislature. Senate Journal, 1851, p. 421; the exchange in late February and early March between the Illinois State Register and the Illinois State Journal; Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," p. 91; King, "Last Years of the Whig Party in Illinois," p. 129; E. B. Ames to French, April 12 and December 16, 1851, and Peter Sweat to French, December 22, 1851, in the French MSS.

interest to 7%.²⁵

The bill could not become law until voted on by the people; and as French pointed out, there was to be no general election in 1851. To solve this objection a bill was forced through the legislature removing all of the county treasurers and requiring an election to fill the vacancies on November 4, 1851.²⁶

During the summer and fall the banking question was violently debated in the partisan press with the Whigs carrying the fight for the law and the Democrats opposing it. Sectional splits complicated the situation. The Chicago Daily Democrat remained neutral. Wentworth explained that, "There is a perfect mania in this area for banks and the man who says a word against this is bound to be run over." There is some evidence that southern Whigs supported the law less ardently than their northern counterparts. The usually partisan Alton Telegraph remained neutral, and one of French's admittedly prejudiced correspondents asserted that in Belleville both parties opposed the bill. However, the opposition was basically partisan coming from "radical" Democrats north and south. Speeches against the bill were given by Sidney Breese, William H. Bissell, John Reynolds, Gustave Koerner, James Shields, and James C. Allen, all leading Democrats. Rallies damning the

25 Dowrie, "The Development of Banking in Illinois," pp. 135-38.

26 Ibid., p. 138.

bill were held in eleven southern, but staunchly Democratic, counties. The Peoria Democratic Press continued to back free banking, but other leading Democratic papers, the Illinois State Journal, the Joliet Signal, the Galena Jeffersonian, the Benton Standard, the Charleston Globe, and the Belleville Sun, remained violently anti-bank. The Rock Island Weekly Republican was formed to advocate a return to "a constitutional currency as the circulating medium."²⁷

In general these papers echoed the governor's veto and the traditional anti-bank arguments, asserting that all bank "schemes" inevitably led to "disastrous contractions." As usual the Democrats asserted that the passage of the bill was accomplished by fraud and engineered by "the Chicago money oligarchy," Uri Manly, a southern Democrat, chastised the Democrats of the north for devoting "themselves entirely to the service of the Mammon God." The Benton Standard added a new twist to the old arguments by connecting the free banking law with free soilism. It believed that the Democratic

27 Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 90-102; Chicago Daily Democrat, May 8, 1851, quoted in Ibid., p. 88, ftn. 66; Rock Island Weekly Republican, October 8, 1851, quoted in Ibid., p. 91; W. H. Woodward to French, May 7, 1851, in the French MSS. Aside from the Illinois State Register and other papers mentioned by Jones, articles from the Benton Standard, the Joliet Signal, and the Charleston Globe reprinted in the Illinois State Journal, March 10 and 21, 1851, show these papers opposed the law.

party should be divested of:

Those Bank Mongers who have so far been a curse to it, and... those who would destroy this glorious Union, for the purpose of severing the relation of master and servant in the Southern States, and we declare our increasing hostility to banks--to freesoilism and freesoil men, wherever and whenever they present themselves. 28

The argument, however, was basically old and familiar.

It was concisely stated by the Galena Jeffersonian on the eve of the election:

On the question to be submitted to the people at the next November election, 'Banks or no Banks,' we shall assume the old and safe Democratic ground, of opposition to the establishment of all moneyed corporations, having the power of loan and discount. Our reasons are those that have influenced us in the opposition we have carried on against such institutions for years past--reasons that now hold good against this particular form, nay all forms of banking, by legislative charter; and reasons, we think, that are impregnable. We are opposed to Banks as wrong in principle--as injurious to the interests of the masses--as favoring the accumulation of capital in a few hands, where it may be, and is, wielded for the oppression of the many. We oppose them as aristocratic and anti-republican, in their tendencies and purposes. They build up a favored and distinct class in the community. Those who compose it, without labor, live by legal, but not just privileges, off the sweat and toil of the unfavored many.

Banks add not a cent to the sum total of the productive industry of the country. --They produce no wheat, they dig no mineral--but furnish facilities to the speculator to live from the wheat and lead that others have reaped and dug.

28 Uri Manly to French, March 2, 1851 in the French MSS; Benton Standard in Illinois State Journal, March 10, 1851.

Banks derange the natural and universal currency of the world, by giving a fictitious value, or an unnatural depression, to the precious metals. By their expansions and contractions, they hold the property and labor of the country at their control.... They have no sympathies with the people. They are selfish, tyrannical, and soulless. Banks are a curse--a legacy that the aristocratic tendencies of a by-gone age has left, as a means to fill the place of baronial usurpation, and feudal exactions. They are the engine of a new form of oppression. They are the working machine of a new feudalism--a feudalism in which bank notes serve, instead of hired and mercenary cut-throats.... It is now the tyranny of capital over labor--a tyranny that the aggregation and multiplication of capital--its special immunities and exemptions--called banking, is striving to extend and perpetuate.

Civilization has too far advanced, for the continuance of the evil engendered and kept alive by this monstrous system. The Democratic party has fought it too long, not to recognize in the bill, now under discussion by the people an old and well known enemy....²⁹

The advocates of the free banking bill tried to picture the question as a non-partisan one. Judge William Thomas wrote to the Morgan Journal that no test of Whig principle was involved and the question was thus up to the Democrats. The Chicago Daily Journal reminded its readers that the bill was introduced by a "locofoco" committee and passed by a "locofoco" legislature. The Illinois

29 Galena Jeffersonian quoted in Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," p. 98, fn. 88, emphasis in the original.

State Journal referred to the law as the "Democratic Bank Law."³⁰

There even seems to have been some vocal Whig opposition. The Chicago Commercial Advertiser revealed a strain of Whig opposition to free banking that might be equated with the minority Whig view in Indiana that supported the State Bank. This view which does not seem to have been widely accepted, represented conservative distrust of a bond secured currency and the desire for a return to the old system of banking on capital with adequate checks against fraud.³¹

Yet, for all this it is clear that the main argument in favor of the law was carried by the Whigs. Judge Thomas, an old line Whig, was defending the bill when he insisted the Democrats would decide the question. If the Alton Telegraph remained neutral, main organs in the central and northern parts of the state, the Illinois State Journal and the Chicago Daily Journal, did not.³²

30 Judge William Thomas to the Morgan Journal in Illinois State Journal, February 22, 1851; Chicago Daily Journal in Illinois State Journal, April 21, 1851; Illinois State Journal, August 7, 1851.

31 Chicago Commercial Advertiser in Illinois State Journal, March 3, 1851.

32 Illinois State Journal, January-April and September-October, nearly every issue; two articles from the Chicago Journal in the Illinois State Journal, February 22 and April 21, 1851; two articles from the Morgan Journal in the Illinois State Journal, March 18 and 19, 1851.

The argument in favor of the law included the usual recriminations and charges of misrepresentation. French's veto message was rebutted, and the State Register was attacked for being unwilling to trust "the honest judgement of the people." The superior security of the bill and the fact that it gave local control over the currency were emphasized in all the papers. In the Illinois State Journal a familiar Whig theme appeared. The free banking law would lower interest rates by extending the supply of credit thus enabling mechanics to compete with wealthy men in business. Expanded credit and a reasonably sufficient money supply aided all classes by providing for increased business and "healthy and rapid growth." Illinois, the State Journal argued, had all the disadvantages of banks and none of their advantages. In particular it emphasized that free banking would make "the poor man equal to the rich, by putting the credit and enterprise of the one on par with the money bags of the man of wealth, (true democracy that)." A series of articles by "Mechanic" pointed out the evil effects of an inadequate currency and high interest rates which he believed would be alleviated by the free banking law. This led to an exchange with the editor of the Illinois State Register in which "Mechanic" argued that by stimulating the economy and making credit available, banks extended opportunity. In each of these articles the self-made man rising from his position as a poor but industrious mechanic

was eulogized. As the election came closer the State Journal took on a more non-partisan stand, and defended the bill as providing a sound, well secured currency.³³

Although a number of Democrats predicted the bill's defeat, and northern politicians assured their southern compatriots that they personally would vote against it, the free banking act was carried by a vote of 37, 573 to 31, 321. The northern Democrats who had broken with party orthodoxy seem to have represented the wishes of their constituents. Only four counties north of Sangamon turned in anti-bank majorities while in the southern part of the state the law was overwhelmingly opposed in all except traditionally Whig strongholds. French's correspondent in Chicago who assured him hardly anyone favored the "bank project" was indulging in wishful thinking, for that area turned in majorities from 85% to 95% in favor of the law. The Alton Telegraph explained the stand of the southern counties in terms of their sparse population devoted to agriculture "having little relish or aptitude for speculation or adventure" and not feeling the need "for banking facilities experienced by those men imbued with the spirit of 'go-aheaditiveness.'"³⁴

33 Illinois State Journal, February 24, April 9, 11, 16 and 19, September 11, 12, 13 and 18, 1851.

34 Cole, Era of the Civil War, pp. 96-97; Alton Tri-Weekly Telegraph, November 20, 1851, quoted in Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," p. 105.

Most leading Democrats from Stephen Douglas on down opposed the law, but there seems to have been a consensus among northerners that politically it was best that the question was out of the way. Ames and Sweat warned French that the Illinois Democracy had to be careful not to be defeated "purely by the cursed bank question," and pointed to the examples of Missouri and Wisconsin. Douglas believed that the combination of Whigs and "bank-Democrats" could pass any measure, and, thus, it was politically inexpedient to "carry the question into the next general election and enable the combination to carry not only that measure but the Legislature and the state Government."³⁵

By the end of 1852 Ohio, Indiana, Illinois, and Wisconsin had implemented free banking laws, and a similar measure was defeated in the Michigan House by a single vote. In each case these laws were carried by a coalition of Whigs and Democrats. While historians have generally noted this, they have overemphasized the part played by the anti-monopoly Democrats. The concept of "Agrarian Radicalism" which has served to connect the Jacksonians

35 Douglas to Charles H. Lanphier, December 30, 1851, in Johannsen, ed., Letters of Stephen A. Douglas, p. 235; J. McRoberts to Koerner, December 6, 1851, in Greene, ed., "Letters of Gustav Koerner," pp. 241-43; Elam Rust to French, November 27, 1851, E. B. Ames to French, December 2, and December 16, 1851, and Peter Sweat to French, December 22, 1851, in the French MSS.

with the currency reformers and opponents of monopoly in the late nineteenth century has confused the interpretation of ante-bellum monetary conflicts. Clearly, this is a misreading of the situation influenced by subsequent events.³⁶

No faction within the Democratic party in 1850 was demanding inflation to aid the debtor interests. The party and its leading spokesmen stood for quite the opposite and warned of the dangers of rising prices induced by inflated currency. The debtor was looked upon as morally suspect and a social consequence of banks and paper money. In their policy toward interest rates, the Democrats opposed "usury" laws which would set a legal rate of interest as vehemently as they opposed inflation and attacked the Whigs for advocating these policies.

The Democrats were split into two factions on the bank question. The majority of the party echoed the old Jacksonian

36 This is seen clearly in Ross, "Commercial Banking in the State of Indiana," p. 59. Typical examples of the use of some form of the "Agrarian Radicalism" concept to connect the Jacksonians with reform elements in the post war period are: Horace S. Merrill, Bourbon Democracy of the Middle West (Baton Rouge, Louisiana: Louisiana State University Press, 1953); Frank L. Klement, "Middle Western Copperheadism and the Genesis of the Granger Movement," Mississippi Valley Historical Review, XXXVIII (March, 1952), pp. 679-94; and Stanley L. Jones, "Agrarian Radicalism in the Illinois Constitutional Convention of 1862," Journal of the Illinois State Historical Society, XLVIII (Autumn, 1955), pp. 271-82. Chester McArthur Destler, American Radicalism, 1865-1901 (New York: Octagon Books, 1963 ed.), modifies this, but connects the Jacksonians with post war radicalism.

distrust of banks and paper money. Their fear of government debt further caused them to oppose free banking laws at the same time they favored free corporation laws in other areas. A minority group in the party split with the majority to back free banking laws as the safest way to supply a sound well secured currency. In general, this group represented the more newly settled areas of their states and those with the greatest economic potentiality. These areas in contrast to the older ones, harbored populations heavily from New England and New York; and the Democrats found it politically necessary to split with Jacksonian dogma concerning banks. Neither group took a very dynamic view of the economy, but a large number of the no bank group were "agrarian" reactionaries opposed to the industrialization, and commercialization of American life. This antipathy was neither complete nor ideological, but represented a carry over of traditional Jacksonian rhetoric and resentment of older areas that were being economically overshadowed.

The fight for free banking was carried on by the Whig press and most of the votes for the laws came from Whigs, but the bank question also split their ranks. Historians have generally implied that the Whigs, since they opposed the anti-monopoly Democrats, must have favored "monopoly." Yet, this was hardly the case. There was a conservative minority in the Whig party that opposed free banking as a danger to economic stability and preferred to establish some kind of State Bank or return to the old system of legislative charters.

In the parlance of the day this made them monopolists. What is important about this group was how small it was. While there is no reliable way to judge the size of this group among the rank and file, the votes in the state legislatures indicate that fewer than twenty per. cent. of the Whig politicians represented these views. This percentage was undoubtedly smaller among the rank and file. The vast majority of the party and the leading party organs in every state stood solidly opposed to "monopoly" and in favor of free banking. The views of this majority group were modernist and in tune with the economic changes taking place at the time. They conceived of the economy in dynamic, expansionist terms; and cast their appeal to the benefits to be derived for all groups from this expansion. The keynote of their policy was equality of economic opportunity. While they were not pure and simple inflationists, and emphasized the idea of convertability, it was this faction of the Whig party which advocated increasing economic activity and raising farm prices by expanding the money supply. On the question of interest this group usually advocated legal limits, and one powerful argument for free banking was that the competition of new banks would hold the rates down. From this all emerged a positive conception of the role of government that was in conflict with the views of most of their opponents.

CHAPTER VI

POLITICAL AND ECONOMIC ADJUSTMENTS, 1852-1857

The panic of 1854 caused the advocates of free banking to attempt, over the next several years, to reform the systems in order to alleviate the problems brought forward by that crisis. The attempts at such reform reveal a continuity between the Whigs and Republicans on the banking question. The new party continued Whig attempts to supply adequate credit and currency through the use of free banking. It also took over the Whig emphasis on the creation of opportunity through economic development. The Democrats continued their traditional opposition to banks of any kind.

The passage of the free banking laws brought neither the financial utopia envisioned by their friends nor the disaster foretold by their enemies. There were both successes and failures, but the dominant note of the period between 1852 and 1857 was experimentation as each state modified and altered its banking laws to meet its needs for credit and sound currency.

Entrepreneurs moved quickly to organize new banks under the free banking laws. Twelve new banks appeared in Ohio during 1851 and another was organized in early 1852 before the attorney general ruled that further organization would be of doubtful legality under the new constitution. Ninety-four free banks were organized in Indiana in the three years following the passage of the new law. To the west, the prospective bankers were slow to organize hoping that their state's law would be liberalized and the discrimination

against Illinois banks removed, but by the end of 1852 there were seventeen new banks in the state. Within two years this number had grown to thirty-one, ten of which were located in Chicago. With Wisconsin undergoing a similar expansion, it is not surprising that the years between 1852 and 1854 saw an increase in economic activity in the Old Northwest. A careful student of economic trends during this period, Thomas S. Berry, has written, "It is not inaccurate to say that capital was more abundant than any time on record." In a single year between 1853 and 1854 loans and discounts in the West increased 37%.¹

Unfortunately a great deal of currency and credit upon which the expansion came was from illegal and extra-legal sources. Private bankers and brokers continued in business, because of provisions concerning maximum interest rates embodied in the free banking laws. In line with Whig desire to hold down interest rates, Illinois free banks were limited to charging 7% and Ohio banks were limited to 6%. Neither figure coincided with the rates received by other institutions or the "natural" rate determined by the market. As a consequence the free banks did not usually go into the discount business and loaned their entire issue to private brokers who avoided the interest ceiling and taxes on discounts. In Ohio a law pushed through by the Democrats

1 Huntington, "A History of Banking and Currency in Ohio," p. 438; Hammond, Banks and Politics, pp. 617-622; James, Chicago Banks, I, pp. 215-218; and Berry, Western Prices, p. 510.

raised the maximum rate of interest on special contracts to 10%.

This law, designed to draw capital into the state, undermined the limitations established by the free banking laws, and led to an increase of private uncontrolled banks of discount. Although the branches of the State Bank could not be connected with these private bankers and brokers, this was not the case with the free bankers. By 1854 there were fifty three private banks in Ohio alone. The general result was to undermine a sound currency as these brokers searched for the cheapest money available to lend at high rates.²

In Michigan the need for added currency was met with a device which was used to a lesser degree in the states with free banking laws: the resuscitation of dormant institutions whose charters had not expired. Five of the old chartered banks that had gone down in the depression of the late 1830's reappeared amidst storms of protest in the 1850's. Thus brokers kept interest rates up and drew in questionable foreign notes while extra-legal and resurrected institutions supplied an adequate but hardly stable or secure currency. By 1854 the number of free banks had grown, but it was apparent that the condition of the currency had not measurably improved.³

Each state attempted to correct the problems of unauthorized banking and untrustworthy foreign notes. In Illinois a drastic measure

2 James, Chicago Banks, I, pp. 232-38; and Huntington, "A History of Banking and Currency in Ohio," pp. 443-446.

3 Gantz, "A History of Banking Legislation," pp. 79-82.

made it a felony to issue or receive on deposit any currency not issued by banks legally established in Illinois or some other state. Similar restrictions in Ohio were undermined by the 10% law, and attempts of Michigan to restrict unauthorized banking were flagrantly violated. Even less successful was the Ohio law of 1854 which forbade the circulation of all foreign notes under \$10. The advocates of free banking tended to support the laws against unauthorized banking while prohibition on small notes received the support of the Democrats and was opposed by the Whigs.⁴

Following the passage of the free banking laws, the Whigs defended the new system while the Democrats were either silent or sharply critical. Democrats from northern Illinois were generally happy to have the issue settled, but an active effort was made to revive the no-bank issue and repeal the free banking law. Joel Matteson received the nomination for governor in 1852 only after assurances that he was really opposed to banks. The following year the anti-bank Democrats pushed a repeal bill through the Senate, but

⁴ James, Chicago Banks, I, pp. 224-31; Huntington, "A History of Banking and Currency in Ohio," pp. 446-447; and Gantz, "A History of Banking Legislation," pp. 77-78.

it was lost in committee in the House.⁵

Indiana's Democrats were skeptical about free banking. Governor Wright predicted the law contained insufficient restrictions against abuse. He warned of the problems of inflation and of business fluctuations which aided speculators, but hurt the "producing classes." He believed that unless the law was modified, a sound currency could not be provided. He would limit the denominations to less than "five or ten dollars," create a bank commission and a special office to control currency, limit the security to Indiana stocks or real property, and require directors to be residents.⁶

The Democratic attorney general of Ohio undermined the state's free banking law in 1852 by ruling that the law was unconstitutional. During the same period the bank question became involved with the revision of the state's tax system. The Whigs had passed the Revenue Law of 1846 over Democratic opposition so that "every citizen [would pay] an equal share of the public burden in proportion to his

5 Elam Rust to French, November 27, 1851, E. B. Ames to French, December 2, 1851, and December 16, 1851, Peter Sweat to French, December 22, 1851, P. B. Wake (?) to French, December 27, 1851, Sidney Breese to French, January 5, 1852, and (?) to French, January 21, 1852 in the French MSS; Douglas to Charles H. Lanphier, December 30, 1851, in Johansen, ed., Letters of Stephen A. Douglas, p. 235; J. McRoberts to Koerner, December 6, 1851, in Greene, ed., "Letters to Gustav Koerner, 1837-1863," pp. 241-243; Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 121-124.

6 Indiana Legislature. Documentary Journal, 1852, Part I, Document 2 [mislabelled Part II, Document 1].

ability to sustain it...." The Whigs claimed it was a system of equal taxation while the Democrats saw it as aid to the banks which were based on state stocks. Mr. Egerton believed that state stocks should be allowed to depreciate "because the banks are based upon those stocks, and if the State stocks go down so must the banks."⁷

The Democrats continued to argue that the banks were being favored in relation to other forms of property, and in their convention in 1850, the party favored taxing the banks in the same way "the people" were taxed. In 1851 and 1852 Democratic tax laws were passed extending bank taxes to all forms of bank "property": notes issued, bills discounted or purchased at a profit, and average amounts of money loaned. The institutions were not allowed to deduct their debts from their assets. The banks took the issue to the courts where they were upheld, and the laws of 1851 and 1852 were declared unconstitutional. While this litigation was in progress, a final Democratic measure called the "Crow Bar Law" was enacted permitting county treasurers to break into the vaults of protesting banks and seize unpaid taxes plus penalties and incurred costs.⁸

Whigs, Free Democrats, and a few bank Democrats opposed these laws. They tended to view this as an attack on the banks rather

7 Bates, Alfred Kelley, pp. 143-171, Kelley is quoted on p. 153, and Egerton on p. 151, emphasis in the original.

8 Ohio Statesman, January 10, 1850; Huntington, "A History of Banking and Currency in Ohio," pp. 459-461; and Roseboom, The Civil War Era, pp. 136-137.

than as a system of "equal taxation." They did not oppose taxing the banks but merely the unconstitutional and overly-hard taxes imposed by the Democrats. In 1850 the Whigs and Free Soilers had strengthened the provisions of the 1846 law and provided for taxing banks on their capital and surplus. The new Republican administration in 1856 enacted the Kelley Bank Tax Law named for the author of the 1846 act who had gone into the new party. This taxed capital, surplus, contingent fund, and undivided profits.⁹

The free banking system received its first economic trial during the brief economic downturn of 1854. The upswing of the early years of the decade had featured an increased investment in railroad construction along with a general rise in prices. This was aided in 1853 by a crop failure and the outbreak of the Crimean War. However, the war proved a shock to foreign investment, and the sale of both railroad and state securities declined. Since the railroads badly needed construction capital, they entered the mid-western market causing interest rates to climb and a money stringency dampened business. A continual rise in the rates of New York exchange from 1853 until November of 1854 precipitated a run on the Ohio free banks in May that soon spread to Illinois and Indiana. At the same time, eastern bank notes, which still composed a large percentage of western currency, were being withdrawn leaving only the western currency,

9 Huntington, "A History of Banking and Currency in Ohio," pp. 458, 462; and Roseboom, The Civil War Era, p. 138.

which was being undermined by declining stock prices and the runs on the banks' coin supply. In August the Cincinnati banks refused to take Indiana free bank notes and confidence in the free banks was shattered. Indiana was severely hit with most of her new institutions failing. Ten of Ohio's banks and eight of Illinois's new banks also fell although the systems of the two states suffered the shock reasonably well.¹⁰

The Panic of 1854 was mainly financial and rather quickly gave way to a renewed boom from 1855 to 1857. This boom was particularly felt in the west and demands for currency increased amid a mild revival of anti-bank attitudes. In all of the states credit facilities had to be provided and alterations in the free banking systems had to be made in the light of the experience of 1854.

The year 1854 brought not only a break in economic expansion, but also a disruption of the party system which caused a realignment of political groups and interests. The new Republican party replaced the Whig party which soon completely disappeared from the scene. At the same time the Democratic coalition was altered. The process of party re-alignment was not an immediate but an on-going one during the mid-1850's. Some early leaders quickly fell away; others who would later become leaders held back.

10 Somers, "The Performance of the American Economy Before 1860," pp. 334-35; Margaret G. Myers, The New York Money Market: Origins and Development (New York: Columbia University Press, 1931), p. 140; and Berry, Western Prices, pp. 510-517.

The two issues most responsible for this political upheaval were the rise of nativism and the question of the expansion of slavery revived by the passage of the Kansas-Nebraska Act. While both parties were affected by both issues, it was nativism that "choked" the Whigs, and the Nebraska question that splintered the Democrats. The Whigs had been losing steadily to anti-slavery third parties which bit less deeply into the Democratic electorate. Traditionally the Whigs had been the party of native Protestants, and the strange combination of political reform and anti-foreignism which arose in the early fifties appealed to many members of the older party. This spirit increased after it appeared that the votes of immigrants were responsible for Pierce's victory of 1852.¹¹

In the Old Northwest nativism tended to be anti-Catholic rather than anti-foreign and, in this form, served to break some

11 Most suggestive on the rise of the Republican party are Andrew Wallace Crandall, The Early History of the Republican Party, 1854-1856 (Gloucester, Massachusetts: Peter Smith, 1960); Henry C. Hubbart, The Older Middle West, 1840-1880 (New York: Russell and Russell, Inc., 1963), pp. 1-29, 88-116; Streeter, Political Parties in Michigan, pp. 100-253; Roseboom, The Civil War Era, 255-312; Thornbrough, Indiana in the Civil War Era, pp. 1-84; Charles Zimmerman, "The Origin and Rise of the Republican Party in Indiana from 1854 to 1860," Indiana Magazine of History, XIII, (September and December, 1917), pp. 211-269, 349-412; a series of articles by Roger Van Bolt, "Indiana in Political Transition, 1851-1853," Indiana Magazine of History, XLIX (June, 1953), pp. 131-160, "Fusion out of Confusion," Ibid., XLIX (December, 1953), pp. 353-390, and "The Rise of the Republican Party in Indiana, 1855-1856," Ibid., LI (September, 1955), pp. 185-220; Cole, The Era of the Civil War, pp. 101-152; and Don E. Fehrenbacher, Prelude to Greatness: Lincoln in the 1850's (New York: McGraw-Hill Book Company, 1964), pp. 1-47.

Germans away from the Democrats. The nativist spirit was strongest in Indiana and weakest in Michigan and Wisconsin. A struggle developed within the movement between the "Jonathans" who were anti-Catholic and anti-slavery and the "Sams" who tended to avoid the slavery issue and were more anti-foreigner. While systematic studies have not been done, impressionistic evidence indicates that most of the "Jonathans" eventually went into the moderately nativist Republican party. The "Sams," who were financed and exploited-- in Illinois at least--by the Democrats, served as a refuge for conservative Whigs who eventually either joined their former opponents or dropped from the scene.¹²

The Nebraska question took its main toll among the Democrats who split with their traditional party for a variety of reasons. Some genuinely opposed slavery, but the majority were bothered most by the pro-southern aspects of the Kansas-Nebraska Act. Either they came from areas whose economic interests on issues of land and improvement legislation were being sacrificed by the "Doughface"

12 Aside from the above mentioned books, the issue of nativism is treated in detail in Sister M. Evangeline Thomas, Nativism in the Old Northwest (Washington, D. C. : Catholic University, 1936); Carl Fremont Brand, "The History of the Know Nothing Party In Indiana," Indiana Magazine of History, XVIII (1922), pp. 47-81, 177-206, 266-306; and John P. Senning, "The Know Nothing Movement in Illinois from 1854-56," Journal of the Illinois State Historical Society, VII (April, 1914), pp. 7-33. Don E. Fehrebacker's "Illinois Political Attitudes, 1854-1861" (Unpublished Ph. D. Dissertation, University of Chicago, 1951), is generally helpful, especially the pages on nativism, pp. 165-182.

Democracy or they merely resented the personal power and arrogance of the Southern politicians in their party. The Nebraska issue served as a rallying point for anti-Southernism in both parties.¹³

The bank question was not intimately connected to these issues, and it could be easily assumed that no continuities on this matter can be found. Certainly during the 1854-1857 period neither party talked much about the banking question. Both sides wished to play down old, divisive issues. The first Republican platform of Michigan favored "postponing and suspending all differences with regard to political economy." Similar sentiments were expressed in the other states as the Republicans attempted to draw away anti-slavery Democrats; and the party of Pierce, Douglas, and Buchanan tried to lure the more conservative elements of their former opponents. This strategy, further, seems to have confused the situation as anti-Nebraska Democrats--many of whom were anti-bank radicals--were given positions of power to draw support from their former followers. It would seem that any party that included Salmon Chase, Lyman Trumbull, John Wentworth, and Kinsley Bingham in major positions of power would also embody their opposition to banks.

13 The economic aspects of this question are emphasized in Madison Kuhn, "Economic Issues and the Rise of the Republican Party in the Northwest," (Unpublished Ph. D. dissertation, University of Chicago, 1940), pp. 1-132. The anti-southern rather than anti-slavery aspects of the Kansas-Nebraska Act are indicated by Fehrenbacher in his biography of John Wentworth as well as the two works cited in footnotes 11 and 12.

However, this was not the case. The new party took over the economic views, including free banking, of the more progressive Whigs. This is clearly revealed in the actions of the state legislatures in their attempts to cope with banking problems in the period of party transition.¹⁴

The nearly complete collapse of the free banking system in Indiana combined with the expiration of the charter of the State Bank in 1859 to make some sort of action imperative. This necessity eventually resulted in the chartering of a new, privately owned Bank of the State of Indiana and a reformation of the state's free banking system. While confused even more than usual by personal cupidity, these actions tend to reveal a continuity of opposition to banks among Democrats and an extension of Whig attitudes through the Fusion movement into the Republican party.

Indiana's new constitution prohibited recharter of the State Bank. Its directors were determined to wind up the Bank's affairs in line with the constitution, but a "syndicate" of politicians was determined to obtain a charter for a similar institution to take the place of the old State Bank. If Hugh McCulloch's memory is accurate, this "syndicate" began working for its end in 1854 before the panic undermined the free banking system.¹⁵

14 Randall, ed., "Gubernatorial Platforms," p. 113.

15 McCulloch, Men and Measures, pp. 127-28.

According to McCulloch the "syndicate" was made up of "a number of active and influential politicians of both parties." However, while there were a few important Whigs in this group, the "syndicate" was dominated by Democrats with Judge Thomas L. Smith as its moving spirit. Of the seven members of the "syndicate" serving in the legislature, five were Democrats. It appears that the "syndicate" made careful use of the situation and a few well placed "bribes." Very little effort was wasted on Fusionists who would probably have voted for an extension of currency and credit in any case. Of the thirteen "bribes" reported by Logan Esarey ten were offered to Democrats which accounts in part for the six representatives and one senator from that party who opposed free banks but favored the Bank of the State of Indiana. Otherwise the bill was supported almost entirely by Fusionists and opposed entirely by Democrats. Governor Wright vetoed the bill on the grounds that it was dangerous and unnecessary, as well as unconstitutional, but it was passed over his veto.

16

16 Ibid., p. 128; Esarey, "State Banking in Indiana," pp. 288-296, tries to unravel the question, but is unconcerned with the party affiliation of the men involved. The above conclusions resulted from a check of the party affiliations of those he names as part of the "syndicate" and his list of those to whom "bribes" were offered. Some of the "bribes" were merely promises of a branch for their district or an extension of an opportunity to purchase stock. Indiana Legislature. House Journal, 1855, p. 764, and Indiana Legislature. Senate Journal, 1855, p. 551, for the votes. Wright's veto is in the Senate Journal, pp. 713-716.

Clearly, this was a straight business deal on the part of the members of the "syndicate" who allowed neither ideology nor ethics to interfere with their course. Quickly the politicians cashed in by selling their newly acquired stock to the stockholders and directors of the old State Bank who assumed the management of the new institution. All in all the incident was a curious example of the workings of American politics and shows the degree to which politics itself can be a business. The members of the "syndicate" never intended to become bankers, and probably they had thought to do nothing more than "bend" the law, for they actually defrauded no one. In the long run their actions were easily justified, because the new bank continued the sound policies of its predecessor.¹⁷

The reformation of the free banking system demonstrates the continuity of ideas from the Whigs to the Republican party. Although the panic had seriously undermined confidence in free banking and even the Indiana Journal joined the State Sentinel in opposing the system, a revision of the old law was carried through the same Fusionist legislature which created the Bank of the State of Indiana.¹⁸

17 Esarey, "State Banking in Indiana," p. 297; and McCulloch, Men and Measures, pp. 128-130.

18 Indiana Journal, February 7 and 17, 1855, shows a shift against free banking that may have reflected the new publisher's attitudes rather than a shift in party principle.

After the onset of the panic, the state auditor called for reform of the system. He favored enforcing a permanent location for each bank and uniform banking hours. He explained that, "It is suggested, as to location, to prevent the practice of selecting remote and unknown situations, that no bank should be located at any point which does not contain from two to three thousand permanent citizens." He also suggested a specie reserve of 20% to 25% and a universal redemption center at the state capital.¹⁹

Most Democrats took the opportunity to express their opposition to free banking in principle and make their bows to traditional Democratic anti-bank rhetoric. The editor of the State Sentinel reaffirmed that as, "a democrat of the radical stripe we have always opposed Banking on any basis whatever." He reminded his readers that the State Sentinel had stood against free banking since the constitutional convention and had worked against the passage of the law. Governor Wright joined in the Democratic chorus of "I told you so," and warned:

We shall always have revulsions, expansions, contractions, and derangement in the whole business of the country, so long as we foster any system that makes promises to pay, money, instead of gold and silver. If the inferior circulation were this day withdrawn, I have no doubt we should find a sufficient amount of constitutional currency among our people for all ordinary purposes.

19 Indiana Legislature. Documentary Journal, 1854, Part I, Document 2, the quotation is from p. 84.

Yet, none of these Democrats was willing to do away with the system and all called for reform along the lines of the Auditor's suggestions.²⁰

The election of 1854 had produced a legislature with a House controlled by the Fusion party and a Senate evenly divided between the Democrats and the new group. As was so often the case, the Fusion party carried the fight for free banking. The ex-Whig advocate of free banking, R. N. Hudson, introduced a new version of the free banking law which provided for regular hours, a central redemption center in Indianapolis, and the establishment of banks in towns of 1000 inhabitants to eliminate "wildcats." It was easily carried through both houses of the legislature with opposition from the Democrats and a small group of Fusionists who preferred a State Bank.²¹

Wright decided that the bill did not conform to his suggestions; and he vetoed it. He combined his old criticisms of the law with his beliefs that free bank currency was less valuable than gold or silver, and that free banking systems in general had lost the confidence of the

20 Indiana State Sentinel, August 22, 1854; and Indiana Legislature. Documentary Journal, 1854, Part I, Document 5, the quotation is from p. 84.

21 Esarey, "State Banking in Indiana," pp. 286-287; Hammond, Banks and Politics, p. 621; Indiana Legislature. House Journal, 1855, pp. 230-231, for introduction of bill and p. 614 for vote, and Indiana Legislature. Senate Journal, 1855, p. 616, for the vote. In both houses twenty-one Democrats (40%) opposed banks of any sort and seven more opposed free banks but voted for the Bank of the State of Indiana. Among the Fusionists five (7%) opposed all banks and fourteen others opposed free banks and voted for the Bank of the State of Indiana.

people. Although Wright's argument moved seven Democratic senators to change their votes, the legislature passed the bill over his veto. Late in the session an attempt to repeal the free banking law failed. The vote revealed much more clearly than the earlier vote a Democratic tendency to oppose free banking. Seventeen Fusionists (80%) and nine Democrats (40%) favored free banking with four Fusionists and thirteen Democrats opposed.²²

Once the 1855 revision of the 1852 free bank law had been passed most Democrats accepted it. Even Governor Wright told the legislature in 1857 that he was convinced that the changes in the law amply secured the currency and entitled the bill to the people's confidence. Typically he found the freedom from monopoly the most noteworthy feature of the law.

Ohio Democrats held tenaciously to their anti-bank stand in the face of demands for increased banking facilities. Charles Reemelin's report to the governor on "The Condition of the Ohio Stock Banks" was basically a hard money, anti-bank document although it accepted the existence of the state's banks. It took a strong stand against all paper currency as "one of the two great social and political evils of the republic," and chastised the banks for failing to provide a sound currency. Reemelin's report opposed free banking and praised

22 Esarey, "State Banking in Indiana," pp. 286-287; Indiana Legislature. Senate Journal, 1855, pp. 721-24, for veto, and p. 720, for vote to table repeal of free banking. The party affiliations of two men opposed to free banking are not known.

the attorney general's opinion on the constitutionality of the 1851 law. He saw no need for more bank capital and the scarcity of currency could be attributed to bank paper which drove specie out of the country. The report concluded with twelve recommendations to patch up the laws. They included the traditional Democratic demand for prohibition of all notes under twenty dollars, and a recommendation that the interest laws be made realistic. Governor William Medill praised the Reemelin report in his message to the legislature in 1856 and warned that "the opinion was fast obtaining ground that neither commerce or credit is benefited by legislative interference."²³

The new Republican party did not turn its back on demands for increased banking facilities. Hidden beneath more volatile issues in the gubernatorial campaign of 1855 were Republican promises for better banking facilities. The new governor, Salmon P. Chase, had earlier favored "free principles, in land, currency, trade, & men." In his inaugural address he clarified his views. He believed the best currency would be one of coin and large bills, but that the variety of state laws made such a currency available only through Congressional action. To answer the public demand for increased facilities, he proposed a law that provided for convertible currency, guarded against abuses of power, and extended its benefits

23 Documents... of the State of Ohio, 1853-1854, Document 9, and Documents... of the State of Ohio, 1855-1856, Document 1.

to "all who will give the ample securities and guarantees which you will doubtless require." Chase made it clear that his position was closer to that of the former Whigs than the Democrats and insisted that he did not object to a convertible currency but "mere paper money systems." He favored free banking and a lowering of interest rates.²⁴

The Republican legislature provided a law similar to the Kelley law designed "to increase the number of banks," but it failed to receive a majority of votes cast in the election of 1856.²⁵

The problem of added banking facilities was alleviated by the State Supreme Court which ruled in 1856 that contrary to the earlier opinion of the attorney general, the new constitution did not abrogate the free banking act of 1851. This led Chase to recommend the use of the 1851 act rather than the passage of a new law. Again he argued that federal action was necessary and insisted that any banking law should offer the "most liberal extension of the franchise, with such restrictions upon its exercise as will effectively protect

24 Roseboom, The Civil War Era, p. 310; Chase to Mr. Sutliff, December 20, 1850, in "Diary and Correspondence of Salmon P. Chase," Annual Report of the American Historical Association for the Year 1902 (Washington: Government Printing Office, 1903), II, p. 226; Documents... of the State of Ohio, 1855-1856, Document 4.

25 Roseboom, The Civil War Era, p. 314; and Huntington, "A History of Banking and Currency in Ohio," p. 465.

the community against a mere paper money currency."²⁶

The need and desire for banking facilities in Michigan finally led to the passage of a new law in the original home of the "wildcats." The dearth of currency led to a variety of unauthorized banks and a resuscitation of a number of dormant institutions. An 1853 law limited unauthorized banking, but the problem of a currency composed of the issue of "foreign" banks over which Michigan had no control still plagued the state. The governor reported in 1853 that of the \$4,100,000 in circulation in the state \$3,000,000 was supplied by banks outside the state's jurisdiction. As in the other states of the Old Northwest, a bipartisan movement spearheaded by the Whig-Republican Daily Advertiser arose demanding a free bank law.²⁷

Democratic governor Robert McClelland made his bows to the anti-bank wing of his party in his message in 1853, but he did note that the constitution provided for a well secured general law. Perhaps such a law would be better than the "flood" of dubious "foreign" currency. He added that at least if local banks were established the state could tax them.²⁸

26 Ibid., pp. 465-66; and Documents... of the State of Ohio, 1856-1857, Document 10.

27 Gantz, "A History of Banking Legislation," pp. 77-78, 85; and Fuller, ed., Messages, II, pp. 238-39; Detroit Daily Advertiser, December 15 and 16, 1852, January 6, 1853, and January 1, 1855.

28 Fuller, ed., Messages, II, pp. 221-242.

Although a number of Democratic papers, including the Free Press, favored free banking, acting governor Andrew Parsons, who was serving out McClelland's term, gave notice in 1855 that anti-bank sentiment still dominated the party. In old Jacksonian rhetoric, he warned that experience showed that even stock secured currency was not entirely safe. The best suggestion he could offer to solve the state's problems was a prohibition of all notes under \$5 so that such worthless "trash" would not drive specie "beyond the reach of our producing classes." If all the states adopted such a provision, "over bank issues, expansions and contractions in the money market, would to a great extent be checked, and the raging and dangerous spirit of speculation so common to the people of our country, be much guarded against."²⁹

Many of the same sentiments were expressed in the inaugural of the new Republican governor Kinsley S. Bingham who had been a leading "loco-foco." Both past and present history argued Bingham, proved that banks were responsible for depreciation of the currency and wild fluctuations that bore most heavily on the laboring classes. Thusfar Michigan had luckily escaped the free banking mania which

29 Detroit Free Press, May 27, 1853 and April 25, 1854; Lansing Journal in the Detroit Free Press, April 30, 1854; Ionia Gazette in the Detroit Free Press, May 3, 1854; and Fuller, ed., Messages, II, pp. 281-301.

grasped Ohio, Indiana, Illinois, and Wisconsin and which had produced such disastrous results in Indiana. He too believed that specie would spread through the country if small notes were prohibited. Yet, the idea of a free banking law was not completely rejected by Bingham; and there were indications that a properly secured law would receive his approval.³⁰

Evidently the law passed by the 1855 legislature did not meet the governor's standards, and he vetoed it. At the time he did not write a veto message, but in his message to the legislature in 1855 he explained that he still worried that the establishment of banks in remote places and the possibilities of failure and fraud, endangered a sound currency. He suggested that banks be forced to pay out only their notes so that quick redemption was assured and circulation would be limited to the local area, and that small notes be prohibited. He believed that the California gold would make this possible. Under such a system the "poorer classes" would be protected from losses because of depreciated paper, and the business classes would secure the benefits of banks.³¹

During 1856 and early 1857 pressure mounted for a free banking law. The Marshall Statesman and the Monroe Commercial joined with the Daily Advertiser in demanding such legislation. The

30 Fuller, ed., Messages, II, pp. 281-301.

31 Gantz, "A History of Banking Legislation," pp. 85-86; and Fuller, ed., Messages, II, pp. 302-321.

new legislature was met with two petitions from Berrien County including seventy-nine names, and a monster petition sponsored by C. A. Trowbridge of Detroit which included three hundred and forty-six names. The main opposition to the law came from Democratic papers that feared a repetition of Michigan's previous experience with free banking.³²

Republicans J. B. Beebe and L. G. Berry sponsored another free banking bill in 1857 which was passed by the Republican legislature. The House votes showed 75% Republicans favoring the bill with a majority of Democrats opposing it. In the Senate an even larger percentage of the Republicans were joined by four of the six Democrats. Bingham signed this bill and later praised it as one of the important measures of his administration although it included neither a prohibition of small notes nor a provision forcing banks to pay out only their own notes. The people approved the bill by a vote of 41,006 to 19,865 in an unspirited contest. Although the vote does not lead to an easy party interpretation, heavily Republican counties such

32 Detroit Daily Advertiser, November 26, 1856; Monroe Commercial in the Detroit Daily Advertiser, December 22, 1856; Marshall Statesman in the Detroit Daily Advertiser, December 25, 1857; Michigan Legislature. Senate Documents Accompanying Journal, 1857, Documents #2, #15, and #16; Ann Arbor Argus in the Detroit Free Press, December 15, 27, 1856. While it cannot be called conclusive evidence a comparison of the names on the "monster" petition and the men listed in Mrs. McCoy's study yields the political affiliations (for 1860) of thirty-four of the signers: twenty-two Republicans, six Democrats, one Constitutional Union, and five no-party men.

as Branch, Calhoun, Hillsdale, Kalamazoo, Kent, Lenawee, St.

Joseph and Washtenaw voted for the bill with ratios similar to those seen in the vote for governor at the same election.³³

Illinois, whose free banking system survived the Panic of 1854, altered and perfected her system during these years. Following the Panic, the bank commissioner had suggested the abolition of the 7% ceiling on interest in order to draw more capital to the free banks and to discourage the unregulated brokerage houses which the provision had spawned. He also suggested that a specified specie reserve be required for redemption. Democratic governor Joel Matteson, busy organizing the largest banking chain in the state, praised the system and suggested that the legislature consider the commissioner's recommendations. Although two minor bills were passed during the session, there was no major revision of the system in 1855. In the following year the system was expanded to include sixty-one banks with a total circulation nearly twice that of two years

33 Michigan Legislature. House Journal, 1857, pp. 339, 512-13; Michigan Legislature. Senate Journal, 1857, pp. 25, 248; Fuller, ed., Messages, II, p. 340; and Gantz, "A History of Banking Legislation," pp. 142-143, lists the vote for governor and on the banking law. It should be noted that two Democratic counties, Genesee and Wayne, turned in large votes for the bill. Genesee was generally Whig and then Republican although it turned in a majority for Democrat Charles Stuart in 1858. Wayne was the most rapidly developing commercial area and became a Republican county in 1860. For the long run affiliations of the counties see: W. Dean Burnham, Presidential Ballots, 1836-1892 (Baltimore: The Johns Hopkins Press, 1955), pp. 191-193.

earlier.³⁴

The election of 1856 brought the new Republican party to power in the state. William Bissell, the new governor, was an anti-Nebraska Democrat who had opposed the free banking law when it was first passed. His new association had moderated his views, and his inaugural praised the law. At the same time he argued that amendment of the bill could strengthen the system and add to the security of the note holders. The Republican legislature complied with Bissell's request by a major revision of the law. To eliminate true "wildcats," the law provided that business could only be transacted at the office specified in the certificate of incorporation and that the office had to be in a community of over two hundred people. The act made provisions concerning capital and the redemption of notes more stringent and removed the prejudice against Illinois bonds. Finally, the maximum legal interest rate was raised to ten per cent. Each of these changes which mirrored suggestions in other states helped stabilize the free banking system, but further defects would be revealed in the years of economic chaos that preceded the Civil War.³⁵

34 James, Chicago Banks, I, pp. 238-39; Dowrie, "Illinois Banking," pp. 144-45; and Illinois. Governor, 1853-1857.

35 Illinois. Governor, 1857-1860; Dowrie, "Illinois Banking," pp. 148-149; and James, Chicago Banks, I, pp. 241-43.

The continuity of emphasis on credit and currency expansion, and, in particular, the advocacy of free banking from the Whigs to the Republicans can be explained easily. In the first place most people who had been Whigs became Republicans. Lincoln estimated in 1856 that, "Nine tenths of the anti-Nebraska votes have to come from old Whigs." Although historians have denied the validity of this estimate, an examination of voting percentage shifts tends to confirm Lincoln's estimate. Such an examination also shows that in the states of the Old Northwest 80% of the Whigs went into the Republican party in 1856 and that by 1860 well over 90% of the Whigs had joined the new party. Further, it appears that the most conservative members of the older party avoided the new organization unless their religious and ethnic background determined an interest in reformism. Lincoln saw this tendency in Illinois; and studies of Illinois, Indiana, and Ohio argue that the most conservative Whigs clung tightly to the Native American party in 1856 and either became politically inactive or joined their former opponents at the end of the decade. The systematic study of the economic elite of Wayne County, Michigan shows an increase in non-participation among this group. When Mrs. McCoy's findings are compared with general voting shifts, it is clear that the percentage of "elite" Whigs who went into the new party was somewhat lower than the percentage of former Whigs from

the entire voting population who joined the Republicans.³⁶

Examinations of the leadership of the new party also show continuity between the Whigs and the Republicans. In the formative years of the party the old Whigs took basically backstage roles making the most strategic use of the Democrats who joined the new organization to draw voters from the old party of Jackson. They consciously avoided controversial issues; but, as the party grew, played an increasingly dominant role in policy making. The policies instituted by the new party, particularly in its 1860 platform, were clearly an extension of the policies of the more progressive elements of the Whig party.³⁷

The Republican party in its support, its leadership, and its policies was much more a continuation of the Whig party than historians have been willing to admit. It found its greatest strength in economically dynamic areas and among the New England and New York

36 See: Appendix on "Voting in the 1850's."

37 See especially two essays by Mildred C. Stoler, "The Democratic Element in the Republican Party in Illinois," Papers in Illinois History and Transactions for the Year 1942 (Springfield, Illinois: Illinois State Historical Society, 1944), pp. 32-72, and "The Democratic Element in the New Republican Party in Indiana," Indiana Magazine of History, XXXVI (September, 1940), pp. 185-207; and Van Bolt, "The Rise of the Republican Party in Indiana," p. 209. Orth to Colfax, July 4, 1854, and Orth to Colfax, November [?] /, 1854, in J. Herman Shauinger, ed., "The letters of Godlove S. Orth, Hoosier American," Indiana Magazine of History, XL (March, 1944), pp. 54 and 56, give some insight into Whig attempts to remain in the background at first without giving up control.

"Yankees." Nearly every county in Illinois, Indiana, and Ohio which shifted from Democratic to Republican could be distinguished by its economic dynamism and the "Yankee" rather than Southern origins of its population. Quite the opposite was the case in the few Whig counties that became Democratic. In the fights for free banking it was the areas such as northern Illinois and central Indiana where Democrats were pushed behind these laws by their constituents. The "Yankee element gave to these areas an acceptance of commercialism and a quest for "improvement" that was less prevalent in the older areas dominated by Southerners. The Ohio State Journal believed "the most enlightened and enterprising" portion of the state backed the Republicans. Samuel Brimblecom of Ogle County in Northern Illinois wrote Elihu Washburn:

When we move into a territory and find people there from Penna., Indiana, Ohio, or New York, we find a class which joins us in making all the improvements of those states. We build school houses & churches, educate our children, build railroads and in a thousand things consult the comfort of all people, and soon draw around us society congenial to our habits and tastes. But what is our condition, if we find the working population Slaves, labouring under the taskmaster? The white population is so scarce that we cannot combine for the establishment of a general system of education, and make the various improvements necessary to our comfort and happiness; our society is limited;--perhaps we lie under the ban of society, being non-slaveholders; --our children grow up

in ignorance; and, from association with a race, degraded by force of unequal laws, and kept ignorant from policy, -- become vicious. 38

The contrast in the interest in "improvement" can be seen in the illiteracy rates for Indiana and Illinois that show these skills more widely spread in "Yankee" areas. It seems that these were the areas with "go-aheaditiveness."³⁹

The new Republican party was the party of reform as well as "improvement." It was, as its opponents said, the party of "isms," and one that should have been included was "boosterism." It took over the economic attitudes of the most progressive Whigs and accepted with them a dynamic conception of the economy. Key to this had been the notion of expanding economic opportunity and the promise of success. The symbolic center of their appeal was not the yeoman farmer but another kind of self-made man who worked his way from lowly origins to a position of power in the new commercial-industrial

38 Burnham, Presidential Ballots, pp. 176-80 and 208-10, on voting shifts of Indiana, Illinois, and Ohio counties; the Ohio State Journal, November 24, 1856; and Samuel A. Brimblecom to Elihu B. Washburn, January 24, 1860, quoted in Kuhn, "Economic Issues and the Rise of the Republican Party in the Northwest," p. 30.

39 Esarey, A History of Indiana, II, pp. 604-608, and Richard Lyle Power, Planting Corn Belt Culture (Indianapolis, Indiana: Indiana Historical Society, 1953), pp. 40-42, on literacy rates. The Power book which is subtitled, "The Impress of the Upland Southerner and Yankee in the Old Northwest," is extremely suggestive, but is marred by an unclear definition of "Yankee" and by the author's refusal to try to verify his impressions.

world. Henry Clay had originated the phrase "self-made" man, and his disciple, Abraham Lincoln exploited it to draw the laboring man into the Republican coalition. The idea of free banking continued to fit into this general frame of reference.⁴⁰

40 Griffin, Their Brother's Keepers, pp. 219-41, adds a dimension to understanding Republican attraction to the "isms." A most insightful essay by Richard Hofstadter, "Abraham Lincoln and the Self-Made Myth," in the American Political Tradition, pp. 93-136, has helped me formulate my interpretation of the Whigs and Republicans.

CHAPTER VII
CRISIS, 1857-1862

The period between 1857 and 1862 saw two economic crises which forced further revision of the free banking laws. The first of these was strictly financial. The second was precipitated by the political situation of 1860 and secession. The free banking systems of the Old Northwest weathered the storm of 1857 in much better fashion than most historians have supposed, but they collapsed during the 1860-61 crisis. The Democrats attempted to use these crises, particularly that of 1860-61, to reconstruct their party around the traditional Jacksonian issues and refused to participate in constructive reform. The Republicans continued to try to provide a sound and adequate currency through reform of the free banking laws and, after 1860, the establishment of state institutions like that of Indiana.

By 1857 the situation seemed to be stabilizing. Although Michigan's law still had to be ratified by the people, all of the states of the Old Northwest had accepted free banking as the solution to money and credit problems. The experience of 1854 had pointed out the needs for certain restrictions implemented by Illinois and Indiana who altered their laws to eliminate the "wildcat" element from free banking. Also the political situation was becoming clear. The Republicans emerged from the chaos of the mid-fifties as the opponents of the Democrats for state and national power. In the economic sphere the new party carried on in the Whig tradition supporting free banking while the Democrats remained split on the issue. However, the impression of stability that early 1857 seemed to convey proved

illusory, and the period from 1857 until 1862 was one of continued economic and political crisis.

The tremendous boom of the 1850's had been an international phenomenon spurred by the output of the California mines after 1849, and the depression that came in 1857 had international roots. The Crimean War adversely affected the French economy which, at the same time, suffered from the twin evils of over-population and low agricultural production. The situation forced the Bank of France to draw specie from the Bank of England, resulted in a high bank rate in London, and, in turn, adversely affected British investment in American securities. Frauds in railroad management and the failure of many roads to produce hoped for returns combined with the rising bank rate to bring about a reversal in the flow of British capital and a subsequent decline in the market for American stocks and bonds in 1856 and 1857. This decline undermined the assets of many American banks and financial institutions weakening their ability to withstand any strong shock. The entire banking system lacked overall policy and even primitive cooperation between banks. The dominant position of New York as the money market caused "county banks" to keep deposits in New York. These deposits represented the "county banks" reserves in case of emergency while the New York banks used this money in the call loan market. In good

times this was advantageous for all involved, but during the crisis of 1857 it proved extremely dangerous.¹

The seasonal drain of funds from New York precipitated the crisis. Without warning one of the nation's leading financial concerns, the Ohio Life Insurance and Trust Company, closed its doors on August 24. As the banks scrambled to fortify their position and securities prices plummeted, other failures followed. Continual runs on the banks eventually resulted in the suspension of specie payments in October. By this time commerce and industry were at a standstill, and unemployment mounted.

The financial crisis passed quickly, but the depression hung on. During this period which lasted in some areas until 1860, the Old Northwest was particularly hard hit. The suspension of navigation during the winter of 1856-57 led to a rise in the rate on Eastern exchange. Throughout 1857 the money market remained tight, and a continuous stream of specie flowed eastward. The flow of capital into the West which had supported the boom of the mid-fifties was reversed. According to Thomas S. Berry, "The backbone of speculation was broken in 1857, judging from the fact that prices of

1 Unless otherwise noted the material on the Panic of 1857 is from: George W. Van Vleck, The Panic of 1857 (New York: Columbia University Press, 1943); Charles Franklin Dunbar, Economic Essays, ed., O. M. W. Sprague (New York: The MacMillan Company, 1904), pp. 266-294; and Taylor, The Transportation Revolution, pp. 345-351.

commodities and securities failed to respond fully to the prevailing easiness of money and credit [after 1857].² The downturn of that year was preceded by extensive land speculation geared to the expansion of the supply of money and credit. With the drain of funds the land bubble burst. A western correspondent of the New York Herald wrote, "Nine-tenths of our people owe, and have no immediate way to pay. Everything in the shape of property is low."²

The farmers faced a combination of bad crops and extensive debt. Crops were poor in Michigan in 1856, and the severe winter of 1856-57 hit at the livestock. The three seasons from 1857-1859 brought crop failures throughout the whole Northwest. The weather oscillated between extremes. "Overabundant rainfall and rot in 1858, drouth and burning in 1859, winter killing and frost, blight and the army-worm, each made their contribution toward low yields which farmers experienced at the close of the decade." Still, in 1859, an Illinois paper could comment that "There is not grain enough in the country to pay debts contracted before the hard times commenced." Many farmers had overbought land, and tax sales increased during these years, but also many had speculated in railroad securities. The Washington County (Wisconsin) Democrat reported, "It is said that

2 Berry, Western Prices, pp. 517-529; Kuhn, "Economic Issues and the Rise of the Republican Party in the Northwest," pp. 133-154; and Streeter, Political Parties in Michigan, pp. 257-261, deal with the economic impact on the Old Northwest. The quotations are from Berry, p. 528; the New York Herald, January 4, 1858, quoted in Van Vleck, p. 84.

from 2,000 to 3,000 farms are thus mortgaged to railroads in Wisconsin, that the railroads cannot pay, and to release their farms will strip nine-tenths of them of the hard earnings of many years." In northern Michigan there were even cases of starvation reported.³

In the cities business failures and the decline in capital resources led to wide-spread unemployment. The Grand Rapids Enquirer and Herald reported that in Detroit "Most of the large establishments have discharged their employees, by which a larger number of persons are thrown out of employment than at any former time... the smaller mechanics have been compelled to reduce their force of operatives, and their merchants have cut down their force of clerks to the lowest possible number. At a low estimate there are five thousand persons out of employment in the city at the present time." In Chicago alone 204 failures were recorded in 1857. Only Cincinnati among the cities of the West seemed to escape the ravages of depression.⁴

In the face of this the performance of the banking system was better than might be expected or than historians have often believed.

3 Kuhn, "Economic Issues and the Rise of the Republican Party in the Northwest," p. 134; the Bureau County Republican, September, 15, 1859, quoted in Kuhn, p. 134; and the Washington County Democrat, December 20, 1857, quoted in Van Vleck, Panic of 1857, p. 84.

4 The Grand Rapids Enquirer and Herald, December 16, 1857, quoted in Streeter, Political Parties in Michigan, p. 260; and James, Chicago Banks, I, p. 207.

Bray Hammond's statement that the Indiana free banks were "choked off" by the Panic of 1857 is contradicted by the evidence of Governor Ashbel P. Willard who in 1859 praised the 1855 amendment to the free banking law which had permitted only one failure in four years. The Bank of the State of Indiana, of course, proved itself one of the nation's strongest banks during the crisis, and was one of the few not to suspend specie payments.⁵

A similar situation existed in Ohio where the failure of the Ohio Life Insurance and Trust Company had its greatest impact. That institution was so intimately connected with the state government and the State Bank that George W. Van Vleck calls it, "The nursing mother to all the financial institutions of Ohio." The collapse, precipitated by the embezzlement of nearly its entire assets by its New York cashier, staggered the State Bank and left it in a shaky condition in late 1857. However, the State Bank soon managed to stabilize itself, and throughout 1857 the banks of Ohio along with those of Indiana did not formally suspend specie payments during the crisis. Taken together only seven of Ohio's authorized banks including the Ohio Life Insurance and Trust Company closed their doors, and of those two failed before the panic and two had not been active since 1854. Governor Chase noted in his message of January 4, 1858, that Ohio

5 Hammond, Banks and Politics, p. 621; and Indiana Legislature. Documentary Journal, 1859, Part II, Document 5.

had fifty-four functioning banks.⁶

Although in late August the Illinois banks suspended specie payments to all but a few favored customers, the free banks of that state came through the crisis reasonably well. Six banks out of fifty-four failed and of these all but one fully redeemed their notes. The crisis was brief and recovery nearly complete by the opening of 1858. In January, 1859 the Bank Commissioners praised the free banking system for its performance during two years of financial crisis and depression. Governor Bissell joined in the praise of the system which had limited losses to "a mere trifle."⁷

The free banking systems of the Old Northwest had stood up fairly well during the Panic of 1857, and most of the failures were unauthorized private banks or old banks such as those of Michigan and the Ohio Life Insurance and Trust Company which existed under special charters passed before the free banking era.

If the crisis caused the failure of only a few banks it did reveal a serious weakness in the system's inability to maintain currency at par. In mid-1857 the notes of Indiana's free banks began

6 Van Vleck, Panic of 1857, pp. 64-66, the quotation is from p. 65; Huntington, "A History of Banking and Currency in Ohio," pp. 471-77; Documents... of the State of Ohio, 1857, Document 8.

7 Cole, Era of the Civil War, p. 100; Dowrie, "The Development of Banking in Illinois," pp. 151-54; Illinois Governor, 1857-1860.

to go at a discount, and the crisis accentuated their depreciation.

Illinois and Wisconsin experienced similar difficulties. The fundamental problem was the quality of securities. Nearly half of Illinois currency was secured by the bonds of the state of Missouri which declined after early 1857. The Wisconsin Bank Comptroller explained the predicament faced by the bankers which accounted for large holdings of the less safe securities:

It is obvious that the safest bonds, viz: of states that are in the most prosperous financial condition, and relatively the least encumbered with debt, do not secure the highest rate of interest, and if liberal interest is paid on them they can not be bought at low prices. No banker, therefore, buys U. S., New England or New York bonds as security for his circulation, but mainly such as are in fact more or less depreciated, confiding in his own good luck and in the future development of the resources of the States of which he has become the creditor. . . As the law stands we effectually encourage the bankers to buy as security the least safe class of bonds or stocks, and put obstacles in the way of purchasing the best.

This problem went unsolved in the period following the Panic of 1857, and remained the greatest weakness of the free banking systems of the Old Northwest.⁸

1860 was a very good year for the farmers of the Old Northwest and the economic situation began to right itself. The last years

8 Berry, Western Prices, p. 521; James, Chicago Banks, I, pp. 264-268; Wisconsin Bank Comptroller, Report, 1860, quoted in Merk, Economic History of Wisconsin, pp. 190-191; and Dunbar, Economic Essays, pp. 322-324.

of the 1850's had witnessed an increase in the number of banks and credit was easily available in most states. While Michigan's free bank law produced only one new bank, the West as a whole increased its banking facilities by twenty per cent. By 1860 Wisconsin had one hundred four banks. Its southern neighbor, Illinois had gone from thirty-nine banks in 1858 to seventy-four by 1860 and one hundred four by 1861. In the period between the Panic of 1857 and the economic crisis of 1861 the total circulation of Illinois doubled.⁹

In the states of the Old Northwest--particularly Illinois and Wisconsin--free banking made possible this increase in credit and circulation. The situation was, however, a dangerous one, because inadequate reform measures had been instituted concerning the quality of stocks which backed this currency.

The uneasy political situation paralyzed business and precipitated a decline in the value of southern securities which struck at the basis of free currency. Between July and December of 1860, the price of the bonds of several southern states declined 20 to 25%. Missouri bonds fell from eighty to sixty-one. During October the securities of Virginia, North Carolina, and Tennessee averaged an 8% drop. The bonds of these states were widely used in the Old Northwest to secure the free bank currency, and the decline in their value

9 Dowrie, "The Development of Banking in Illinois," p. 155; James, Chicago Banks, II, pp. 270-72, Tables V and VII, pp. 259-60; Gantz, "A History of Banking Legislation," p. 90; and Dunbar, Economic Essays, pp. 296-298, 316.

precipitated a banking crisis.¹⁰

In general, Ohio and Indiana suffered less than either Wisconsin or Illinois. Most of Ohio's banks were branches of the State Bank rather than free banks. The free banks of Indiana were forced to make good the loss through the Missouri and Louisiana bonds, and as a result a small number were forced to suspend, while sixteen withdrew their circulation entirely.

The situation in Illinois and Wisconsin was one of utter collapse. Two thirds of the bonds used by Illinois' banks to secure their currency were obligations of southern states. As prices began to sag, the Bank Commissioners called on the banks to deposit additional securities to support their note issues. In November a similar demand resulted in the liquidation of seventeen banks. Chicago bankers began to refuse country bank notes based on southern bonds. By 1861 faith in Illinois bank currency had cracked and the notes of only twenty-three banks were accepted at par. Hoarding of the good notes made the situation intolerable. In April, 1861 the Chicago banks refused to accept the notes of any country banks, precipitating a sectional fight among the bankers and merchants of the state. A month later an attempt was made by Chicago merchants to stabilize the situation by an agreement to accept at par all notes of banks on the list

10 "The Crisis of 1860" is discussed at length in Dunbar, Economic Essays, pp. 294-314.

drawn up by Chicago bankers. This and several other attempts failed. By the summer of 1861 the Bank Commissioner declared all but seventeen banks insolvent. Things got worse with the failure of Scammon's Marine Bank. The circulation of Illinois banks had fallen from \$12,000,000 to \$3,000,000 in October, 1861 and finally to \$566,163 by the end of 1862. The collapse of free banking in Illinois was complete and the state was left with hardly any currency.¹¹

Wisconsin faced many of the same problems. Of the \$5,133,565 of securities which supported the currency of Wisconsin's free banks, \$3,658,000 were in bonds of Missouri, Virginia, Tennessee, North Carolina, and Louisiana. Most of these were obligations of Missouri. As in Illinois, the bank comptroller had to forbid further deposit of these bonds as their prices fell in 1860. As the bonds depreciated the banks were forced to add new securities. By April 1861 three such levies had been made, and at that time thirteen banks were unable to comply. The value of Wisconsin currency was further hurt by the action of the Chicago bankers in April who refused to receive the notes of forty Wisconsin banks. Milwaukee soon followed suit resulting in discrediting \$1,000,000 of paper currency. Attempts by the Bankers's Association to stabilize the situation led to dropping eighteen additional banks and the discrediting of another \$1,000,000 of currency. For a time further decline

¹¹ James, Chicago Banks, I, pp. 277-85; and Cole, Era of the Civil War, pp. 361-62.

was forestalled by the action of the Banker's Association which supported seventy of the state's banks. However, another levy to replace stocks that continued to depreciate found eighteen of these unable to respond of which ten were in a state of complete insolvency. By midsummer the situation had so degenerated that Milwaukee became the scene of a bank riot by German laborers who were paid in depreciated notes. Free banking in the Old Northwest had reached its nadir.¹²

No one could argue that during these years the banking question again attained the prominent spot in the political arena which it held in the 1840's. More fundamental and important issues formed the main concern of the parties on the eve of the Civil War. Yet, the economic situation forced consideration of banking problems and the parties revealed distinctly different attitudes on this question.

The Panic of 1857 and the subsequent depression produced renewed criticism of banks and a reiteration by the Democrats of a Jacksonian stand. This return to the faith had perhaps more political than economic overtones. It began in the late fifties and gained momentum following the debacle of 1861. A small minority of Republicans--the most prominent of which was the old foe of banks, John Wentworth--joined in the renewed attacks on banks; and, like the Whigs of the late thirties, many became critics of the action of the

12 Merk, Economic History of Wisconsin, pp. 191-200.

banks. Even the more moderate Chicago Tribune said, in August, 1861, "We wash our hands of the whole business. If the farmer will sell a dollar's worth of his produce for the pictures of any bank whatsoever which does not redeem its issues at some convenient place in the State at par, he loses his share of his just earnings... all banks of issue are a curse to the community."¹³

The main thrust against banks came again from the Democrats. While they had won the presidency in 1856, it was clear that in the Old Northwest the party of Jackson was in danger of losing its majority status. Enough votes were being drawn away by the new coalition to shift the scales in this traditional Democratic stronghold. The Lecompton question and the economic policy of the Buchanan Administration further complicated the problems of the Democrats. It was hoped that a return to the old issue could pull the feuding factions together and draw recent converts to Republicanism back to the fold. At the same time attempts to pacify the South were mixed with appeals to the conservative business interests. The widely read New York Herald told its readers to forget "Nigger Agitation" and rally the government to the relief of business. Once the war came,

13 The Chicago Tribune, August 8, 1861. The Tribune, as will be seen in Chapter VIII, was in the vanguard of demands for a national banking system and had little use for the state banks. Yet, on January 30, 1862, it called on the Illinois constitutional convention to construct a sound banking system for the state "by which labor can avail itself of the immense assistance of accumulated capital."

anti-bank agitation increased and was tied with the highly emotional "peace" issue.¹⁴

Unfortunately for the student of the period, the Democratic position was neither universally held nor without ambiguity and can best be described as a "central tendency." The ambiguity of the position is clearly revealed in Buchanan's Message to Congress in late 1857. The President opened that message with a lengthy discussion of the banking question. The passage begins, ends and is dominated by Jacksonian orthodoxy. His interpretation of the nature of economic "revulsions" had not been altered in two decades.

It is apparent that our existing misfortunes have proceeded solely from our extravagant and vicious system of paper currency and bank credits, exciting the people to wild speculations and gambling in stocks.

He also attacked wild speculations, paper inflated prices that varied from "true values," and extravagant importations. There were also intimations of the neo-orthodoxy of Benton and James Guthrie who had advocated in the mid-fifties that Congress tax all of the state bank notes out of existence in order to bring the currency of the country to a true specie basis.

If experience shall prove it to be impossible to enjoy the facilities which well-regulated banks

14 The general reaction to the Panic of 1857 is analyzed in Van Vleck, Panic of 1857, pp. 80-104, and Samuel Rezneck, "The Influence of Depression Upon American Opinion, 1857-1859," The Journal of Economic History, II (May, 1942), pp. 1-23, the quotations from the New York Herald are in Rezneck, p. 5.

might afford without at the same time suffering the calamities which the excesses of the banks have hitherto inflicted upon the country, it would then be far the lesser evil to deprive them altogether of the power to issue paper currency and confine them to the functions of banks of deposit and discount. 15

Yet, 1857 was not 1837 and there were also tinges of heresy in Buchanan's message. He accepted "the existence of banks and the circulation of bank paper... as so identified with the habits of our people that they can not at this day be suddenly abolished without much immediate injury to the country." He seemed to condone specie paying banks; and he even gave a very limited endorsement to stock backed currency as "doubtless wise... but no adequate security against overissues... and it may be perverted to inflate the currency." 16

The revival of anti-bank sentiment of which the Buchanan speech was a part, was injected into the politics of Ohio and Illinois in late 1857 as demands for control of state issues by the federal government spread. Such demands were distinctly negative supporting Benton's suggestions of a tax on paper money that would bring a

15 Richardson, ed., Messages and Papers of the Presidents, V, pp. 436-441, the quotations are from pp. 437 and 441.

16 Ibid., pp. 441 and 438. Interestingly enough Buchanan also praised a policy of the Bank of England, that of keeping a special reserve of one-third of liabilities (p. 438). Any favorable mention of the Bank of England twenty years earlier would have cast in doubt the sincerity of Buchanan's "Democracy."

return to an exclusively "constitutional currency." This however smacked of central authority and led many "radicals" in the Old Northwest to advocate state action.¹⁷

Although such action was spoken of in Illinois, only in Ohio did the opposition to banks produce any tangible results. In 1857 the Ohio Statesman again led the fight against banks and paper money and drew the traditional Jacksonian moral lessons from the panic. Referring to the law prohibiting the circulation of "foreign" notes under \$10, the Statesman wrote, "While the law was in force, there was specie enough in use to answer every demand. But the Black Republicans repealed this law, and in less than thirty days, the State was flooded with petty rags, many of them on banks the location of which it was impossible to trace out on any map yet published." In line with the suggestions of Howell Cobb, Buchanan's Secretary of the Treasury, the Democrats called for a State sub-treasury plan. The failure of the Ohio Trust and Life Insurance Company which had been a depository made this idea popular; and the state treasury scandal seemed to give substance to Democratic connection of the free banking system and financial instability. To complicate the situation and add to the Democratic advantage, the Republicans were sponsoring a bill for extension of banking facilities. Both the bank question and its sponsors were defeated and the legis-

17 Illinois State Register, November 2, 1857; and Jones, "Anti-bank and Anti-monopoly Movements in Illinois," pp. 132-133.

lature fell into the hands of the Democrats, although Chase managed to hold on to the Governor's chair.¹⁸

With the tacit agreement of Chase this legislature enacted a state sub-treasury law and displayed its anti-bank nature by reviving the severe tax measures of the early fifties which had been declared unconstitutional. The following year they revived the old "Crow Bar Law." According to the Statesman the Democrats hoped in this way to seek a reversal of the earlier decisions. In the platform the state sub-treasury and bank taxation were featured parts of the Democratic program.¹⁹

The Indiana Democracy, which controlled the government in the Hoosier State, and which had aided in establishing the free banking system, chose not to rock the boat with an anti-bank attack that might alienate some of the conservative Whigs who had been drawn into their party. In 1859 Governor Willard praised both the free banking system and the Bank of the State of Indiana as "highly beneficial" to the interests of the state. But with a nod toward Jacksonian orthodoxy he qualified his remarks:

If the rule could be uniform throughout the United States, it would perhaps be better that no paper

18 Ohio Statesman, August-October, 1857; the quotation is from October 10, 1857; and Roseboom, Civil War Era, pp. 325-29.

19 Roseboom, Civil War Era, pp. 139-140; Huntington, "A History of Banking and Currency in Ohio," pp. 462-63; and Ohio Statesman, February 11 and 14, 1859, and May 27, 1859.

currency was circulated. But, inasmuch as that uniformity is practically impossible, I think Indiana has established as safe systems of banking as any other State in the Union, giving her people as high security for redemption of the notes of the banks as any other State.²⁰

During the campaign of 1860 the Democracy warned against views on banking and tariff of the "fanatical abolitionized, canting, hypocritical New England States." Following the political defeat and the commercial crisis, Abram Hammond, who served out Willard's term, attacked the free banking system and called on the state to establish a "sub-treasury system" and deal only in specie.²¹

The most extensive revival of anti-bank thought took place in Illinois where these sentiments culminated in the proposed constitutional prohibition of banks in 1862.

The panic of 1857 caused demands in Illinois for the prohibition of all banks or implementation of the Benton-Guthrie plan. However, such journals of "radical" Democracy as the Illinois State Register refused to follow the centralizing tendencies of the latter plan, and the main thrust was in the direction of local prohibition.

20 Indiana Legislature. Documentary Journal, 1859, Part II, Document 5.

21 Kenneth M. Stamp, Indiana Politics During the Civil War (Indianapolis, Indiana: Indiana Historical Bureau, 1949), pp. 31-67; the quotation is from the New Albany Weekly Ledger, November 28, 1860, quoted in Stamp, p. 54; and Indiana Legislature. Documentary Journal, 1860, Part I, Document 3. This can be followed in the Indianapolis Daily State Sentinel from July, 1860 to March, 1861, but especially October 17, 1860.

The Republican opposition was by no means stabilized when the economic crisis of 1857 hit, and Illinois Democrats hoped to revive their declining popularity by reverting to orthodox positions on banks, tariffs, and corporations in order to take advantage of disunity among the Republicans. Hopefully, if they were forced to deal with these questions the dominant ex-Whig element would force on the new party pro-tariff and bank views that would alienate the former Democrats in their ranks.

In this fight the Democrats received aid from one of the most outspoken opponents of banks, John Wentworth, who had gone over to the new party. He and a number of ex-Democrats were unhappy with the dominance of former Whigs in the new party and feared they might graft their economic views on the Republican platform. He wrote in the Daily Democrat in mid-1860:

We see great efforts to turn this Republican party which is founded altogether on opposition to slavery, into a second edition of old blue-light federalism and Whiggery. We see efforts made to lug high protective doctrines into it; to ring in a lot of old fossil know-nothings and old whigs into it by bribery of good fat officers, and influential positions, while old free soilers are left shivering out in the cold. Bye and bye, we may expect to see efforts made to have a national bank plank added to the platform, and then the party will have emerged from its chrysalis condition into a full blown federal, whig party. If this is the intention of some of our so called Republicans they may count us out.

About six months later immediately after the reform of the free banking system passed through the legislature, Wentworth complained, "Men

who were sound on the banking question were rotten on the negro question, and men who were sound on the negro position were rotten on the banking question."²²

Wentworth's attacks on the bankers increased with the crisis of 1860-61. In traditional Jacksonian rhetoric he called on the laboring classes to "arouse" against the "Wild Cat aristocracy of Chicago." While Wentworth led the way most other Democratic papers, including the two major party organs the Illinois State Register and the Chicago Times took up the old Jacksonian stand. As 1861 wore on and the final collapse of the free banking system was clear, this became a widely held position. The leading student of anti-bank thought in Illinois, Stanley Jones, has concluded that "by 1862 a majority of the Democratic party was again pledged to a program to wipe out the banking system of Illinois and to drive paper money of all kinds from the state."²³

The Democrats got the opportunity to implement their views on the currency question in the constitutional convention which convened in early 1862. The growth of the state had rendered the 1848 document obsolete and in the election of 1860 the votes decided in

22 Fehrenbacher, Chicago Giant, pp. 188-95, the quotations are from the Chicago Daily Democrat, July 2, 1860 and the Chicago Post, February 20, 1861, quoted in Fehrenbacher, pp. 191-92 and 193.

23 Jones, "Anti-bank and Anti-monopoly Movements in Illinois," pp. 161-176, the quotation is from p. 176.

favor of calling convention with the northern sections of the state yielding the largest majorities. While in its origins this was a non-partisan movement, by 1861 the Democrats saw the convention as an opportunity for reviving their party by building on discontent with the war and the economic crisis. The Urbana Weekly Democrat advised its readers:

Unless we revive our party on issues as far as regards state and local elections, it may be expected that we will have to witness in silence the overthrow... of Democratic principles.

Throughout the summer the Illinois State Register made clear that a revival of "Democratic principles" meant a return to orthodox Jacksonian dogma including a "constitutional currency."²⁴

While the leading Republican papers agreed that there should be reform to eliminate "Wild Cats," they generally paid little attention to the election and called for the election of non-partisan candidates. In a light turnout the Democrats won an overwhelming victory completely controlling the convention. Forty-five of the candidates were Democrats and ten were Union Democrats who voted with the Democrats on economic questions. Of the twenty Republicans, John Wentworth

24 O. M. Dickerson, "The Illinois Constitutional Convention of 1862," University Studies: University of Illinois, I, #9 (1905), pp. 3-6; the Urbana Weekly Democrat, August 24, 1861, quoted in Dickerson, p. 6; and Illinois State Register, July 20, 27, August 13, 16, October 3, and November 17, 1861.

and Alexander Campbell were ardent opponents of banks.²⁵

With the aid of the Republican Wentworth, the Democrats wrote a thoroughly Jacksonian document which in its banking provisions prohibited the creation of any banks in the state and provided for the complete elimination of paper circulation. In this as other questions the Democrats voted solidly as a party, and defended their actions on thoroughly Jacksonian grounds.²⁶

25 Illinois State Journal, November 23, 1861; Dickerson, "The Illinois Constitutional Convention of 1862," pp. 7-9; Cole, Era of the Civil War, pp. 266-67; and Stanley L. Jones, "Agrarian Radicalism in Illinois' Constitutional Convention of 1862," Journal of the Illinois State Historical Society, XLVIII (Autumn, 1955), pp. 274-75; While Wentworth represented an old Jacksonian attitude toward banks, this is not the case with Campbell. He was an old Whig and from the small minority of that party which favored a national currency and opposed the financial interests which robbed the workingman through charging interest. These men advocated a flexible, paper currency issued by a national agency. Campbell's ideas are expressed in his "Report on Treasury Notes" in Journal of the Constitutional Convention of the State of Illinois Convened at Springfield, January 7, 1862 (Springfield, Illinois: H. Lanphier, Printer, 1862), pp. 181-187. Although there is no doubt that he opposed local banks (see vote in Ibid., p. 355), he neither voted on the bank article in the constitution (see votes in Ibid., pp. 662-63, 938) nor signed the final document (see vote to accept in Ibid., pp. 1114-15).

26 Dickerson, "The Illinois Constitutional Convention of 1862," pp. 15-17, 41-48; Cole, Era of the Civil War, pp. 268-69; New Constitution of the State of Illinois... With an Address to the People of Illinois (Springfield, Illinois: Charles Lanphier, Printer, 1862), pp. 23, 27-28, 53-54; and Journal of the Constitutional Convention... 1862, pp. 10, 143, 662-63, and 938. Wentworth was on Committee on Banks and Corporations (Ibid., p. 45), and generally agreed with article. However, he did submit a minority report arguing that issue should be submitted to the people and if they are in favor of banks a guarded free banking system should be provided for (Ibid., pp. 144-146).

The partisanship of the convention, in particular the apportionment arrangement, and the quasi-legislative functions it attempted to perform led to a bitter attack on the new constitution by the Republicans. The Illinois State Journal which had earlier praised the delegates as "able" men, later described the convention as "revolutionary" and "a mere machine for resuscitating and re-organizing the Democratic party of the State." From this latter basically accurate appraisal, the Republicans moved to attacking it as the "Copper Head Convention" and charging its members with disloyalty.²⁷

Most of the attacks on the document took this tack, and emphasized the apportionment question. However, this was easily connected to economic questions. "Shall the manufacturing, agricultural and commercial interests of northern Illinois be put into Egyptian bondage?" asked the Aurora Beacon. The whole of the state's economic progress seemed to be challenged by the new document. The Chicago Post stated the Republican position on the economic questions posed by the constitution:

We are a great commercial State. This Constitution fetters commerce; cuts off the avenues of trade; blocks up the channels of communication with other states; discourages the investment of capital; drives

27 Cole, Era of the Civil War, pp. 269-70; Dickerson, "The Illinois Constitutional Convention of 1862," pp. 48-52; and the Illinois State Journal, January 7, and 14, 1862.

away manufacturing; stops internal improvements; paralyzes enterprise, turns away from us the tide of immigration, and scandalizes us before the world. 28

While this was hardly the case, the banking provisions were impractical and reactionary. Some Democratic papers recognized this, but most of them chose, as Jones well expresses it, to "play on new frustrations with old formulas." In this Wentworth took the lead in the northern part of the state contributing articles to the Chicago Times and attacking the banking system at Democratic mass meetings. In the south the Illinois State Register defended the constitution as the product of a "People's Convention," and a bulwark in defense of the people's interest against the intrusion of corporate privilege. The Peoria Union argued:

Well it may be called the "poor man's constitution," for it protects him against chartered monopolies and monied aristocracies, chartered privileges and special legislation, speculations and plundering; it puts all men upon an equal footing... By it the mechanic is secured for his labor, the poor man his homestead and all their just rights allowing no one special privileges to the exclusion of others. 29

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- 28 Illinois State Journal, March 27, 1862; the Havana Battle Axe in the Illinois State Journal, April 4, 1862; the Aurora Beacon, April 24, 1862, in Cole, Era of the Civil War, p. 269; and Chicago Post in the Illinois State Journal, June 16, 1862.
- 29 Dickerson, "The Illinois Constitutional Convention of 1862," p. 17; Jones, "Anti-bank and Anti-monopoly Movements in Illinois," p. 177; Fehrenbacher, Chicago Giant, p. 195; Cole, Era of the Civil War, p. 70; the Illinois State Register, May 8, 1862; and the Peoria Union in the Illinois State Register, May 16, 1862.

This was old Jacksonian fare, but it still had appeal. While the banking provision, which was voted on separately, was defeated, it was by a narrow margin. The voting pattern was not nearly so sectional as it had been earlier. In Cook county which had strongly been for free banking, businessmen, farmers, and laborers combined to vote against "Stumptail" currency. By 1862 the issue of Greenbacks by the federal government had completely altered the currency question.³⁰

In the four years after 1856 the Republicans gained strength but as the state elections of 1858 showed, they were still a minority party. They depended for the victories they had and what future victories they might obtain on the Democratic element of their party. Yet, during these years the old Whigs openly took control of the new party as can be seen by comparing the former affiliations of the governors nominated in 1860 with those of 1856, when Republican Governors were all former Democrats. Four years later all the nominees were former Whigs, and their presidential candidate was a long-time Whig politician. In some areas this meant a slightly more conservative outlook,

30 Dickerson, "The Illinois Constitutional Convention of 1862," pp. 23-24; Cole, Era of the Civil War, p. 271; Jones, "Agrarian Radicalism in Illinois' Constitutional Convention of 1862," pp. 281-82. Although it is just a guess, the shifts in voting in traditionally anti-bank areas might be accounted for by the changes in growth fostered by the railroad which altered the pattern of population and wealth. See North, Economic Growth of the United States, pp. 135-155, especially the maps on pp. 147 and 149.

and everywhere an open reversion to Whig economic ideas. In the lake districts and the northern parts of the Old Northwest, this position on economic questions served to draw a few Democrats, disgusted with Buchanan's pro-southern economic policies and eager for government protection of their interests, into the Republican fold. However, banking was still a highly emotional issue, and the new party had to handle it gingerly. Basically, they moved in the direction of reform of the free banking systems which fit well in their general economic thinking. The crisis of 1860-61 forced them to act more vigorously and the position they assumed was not unlike that of the Whigs during the post-Jackson economic crisis. Their main goals seem to have been a safe currency and adequate credit. Their first attempts were to try to secure these through a reform of the free banking systems.

Immediately following the Panic of 1857 Ohio's governor Chase called upon a Democratic legislature to reform the free banking system in order "to secure the interests of the masses of the people." He praised the general working of the system but believed that specie reserve requirements should be raised, the rates of securities to circulation should be increased, and only Ohio and United States bonds should be accepted as collateral. These reforms seemed dictated by the western experience with free banking and were typical of the direction in which Republican thought was moving. Each

of these would have been a constructive alteration in the law, but none was enacted by the succeeding Democratic legislatures.³¹

Wisconsin's Republican governor, Alexander Randall was somewhat more successful in obtaining his suggested reforms. In 1858 he complained of the lax requirements concerning paid in capital and the establishment of banks in often remote and inaccessible places. Since banks located in large cities were apt to have their notes presented constantly for redemption, the major cities often found their bank facilities languishing while the number of banks in general was on the rise. In 1860 Eau Claire, Wisconsin, isolated in the lumber region, had banks with a total circulation of \$536,764. At the same time the circulation of Milwaukee banks was only \$86,521. The legislature acted that year in a half-hearted manner to remedy the latter problem by forbidding banks in towns with fewer than two hundred inhabitants.³²

In 1860 the governor again complained about the problem of redemption and the bank comptroller introduced the problem of the quality of securities on which the currency was based. Finally, under the prodding of the secession crisis, Wisconsin's Republican legislature passed an adequate bank reform law in April, 1861. This new

31 Documents... of the State of Ohio, 1857, Document 8. Chase also called for a Democratic reform, the elimination of small notes.

32 Merk, Economic History of Wisconsin, pp. 188-90.

law attempted to solve the problems that all free banking systems faced by limiting securities to those of Wisconsin and the United States insisting on a bona fide cash capital of \$15,000, limiting note issue to three times the paid in capital, and requiring every bank to maintain a central redemption office in Milwaukee or Madison.³³

A similar pattern of reform evolved in Illinois. The reform of 1857 had made the free banking law in that state one of the best, but there were still major flaws in the system. The slump of 1857 revealed that some attention should be paid to the quality of bonds on which the currency was based. While the earlier reform tried to eliminate banks in inaccessible places, nearly all of the banks created in the expansion after 1857 were in small towns and none was established in Chicago. Finally, the specie reserves of Illinois banks were lower than any others in the country. As a consequence Illinois currency circulated at a discount outside the state. In 1859 Governor Bissell praised the system, but pointed to some of these problems and suggested the legislature consider reforming the system. The only specific recommendation he made was that some central redemption center be established. The Bank Commissioners further asked that Illinois bonds be given in preference, and that their power to enforce small note provisions be increased. The legislature which

33 Ibid., p. 209.

was dominated by Democrats refused to act on these proposals.³⁴

Pressure to reform the system came from the Chicago Tribune early in 1860 before the secession crisis occurred. Chicago had only one commercial bank, and the paper felt reform was necessary to obtain satisfactory currency. As bond prices slackened and the threat of secession increased, the Tribune's demands, and the demands of Chicago's business leaders for reform increased. John Wood, a staunch Republican who served out Bissell's term called for reform in early 1861. He suggested a limitation of security to stocks of Illinois and the United States. In this way he believed the legislature could best carry out the system favored by the people.³⁵

The elections of 1860 resulted in a resounding Republican triumph that carried Richard Yates to the governorship with a solidly Republican legislature to support him. While the banking crisis was not the most important problem before the new governor, he faced it squarely and called vigorously for reform of the system. He saw it as a "troublesome question," and showed a general disgust for "speculators, stock brokers, and panic makers." In general, he favored the free banking system which had performed well; and he

34 James, Chicago Banks, I, p. 272-74; Illinois Governor, 1857-1860; and Dowrie, "The Development of Banking in Illinois," pp. 150-53, 158-60.

35 James, Chicago Banks, I, pp. 274-75; Pierce, History of Chicago, II, pp. 127-129; and Illinois Governor, 1860-61.

cautioned against radical change that would do more harm than good. However, he made five specific suggestions: stabilization of the system through a central redemption agency; limitation of security to the stocks of Illinois and the United States; quarterly or semi-annual examinations of the quality of securities; tighter restrictions on transfers and removals of bonds; and explicit personal liability.³⁶

The legislature which had been petitioned to reform the free banking system acted reasonably quickly on the governor's request. An old Whig advocate of free banking, Mr. Hurlbut, from strongly Republican Boone county, introduced the bill and wrote a special report to the legislature which echoed Yates' suggestions. The result was an excellent bill which met little opposition in either house. It limited securities to those of Illinois or the United States. Redemption centers were established in Springfield and Chicago. The bill limited circulation to three times capital, and gave the Auditor further power to check the actual paid in capital. Finally, no bank was to be established in a town of less than one thousand inhabitants. The only major reform not included concerned a minimum on specie reserves. Unfortunately reform in Illinois came too late, and the banking situation deteriorated before the reforms could be

36 Cole, Era of the Civil War, p. 200; and Illinois Legislature. House Journal, 1861, pp. 84-103.

implemented.³⁷

The crisis of 1860-61 had made some sort of banking reform necessary and not all Republicans were convinced that reform of free banking would be adequate. At the same time that these reforms were being implemented other alternatives were being considered. During the crisis of 1860-61, while the free banking systems of Indiana, Illinois and Wisconsin were crumbling, the Bank of the State of Indiana stood solidly as an example of sound, conservative banking. This example was not lost on the other states of the Old Northwest.

Ohio's State Bank had shown itself to be strong during the crisis, and was one of the last banks to suspend specie payments. Efforts had been made in the mid-fifties to increase the capital of the State Bank and extend its corporate life. In January, 1861, Republican Governor William Dennison praised the State Bank and renewed suggestions that its capital should be increased and its charter--which was to expire in 1865--be renewed. Banking capital in the state, he believed, was insufficient; and "so long as the supply of circulating notes issued by our banks, is insufficient for the transaction of business of the State, it will...be in vain to attempt, by

37 Illinois Legislature. House Journal, 1861, pp. 115, 371, 473-79, and 536; Illinois Legislature. Senate Journal, 1861, p. 383; and Dowrie, "Development of Banking in Illinois," pp. 164-65. The vote was 21-4 in the Senate and 59-12 in the House.

legislative enactment, to expel the issues of foreign banks." The following year Dennison again brought the State Bank before the legislature. The crisis had shown the weakness of free banking and the use of state bonds as security for note issue. To his mind the Ohio system, which provided that branches of the State Bank be mutually liable for all issues and accept the notes of all other branches at par, had proved the best way to secure the value of paper currency. However, Dennison was leaving office, and the new governor, David Tod, the old anti-bank Jacksonian, counseled the legislature to wait on the question until the federal government had acted on Chase's suggestions for a national banking system.³⁸

In Michigan, desperation as much as anything else led to the attempt to establish a State Bank. The free banking law had not succeeded in the hoped for expansion of credit and currency. Believing that the liability provisions established by the constitution held back banking development, the 1859 Republican legislature proposed an amendment to the Constitution limiting liability to the extent of the individual's stock holding which was accepted by the voters in the election of 1860. Although the Republicans continued to try to reform the free banking system to assure a safe abundant currency, they did not limit themselves to any single method in achieving this goal.

38 Documents... of the State of Ohio, 1860, Part I, Document 39;
and Documents... of the State of Ohio, 1861, Part I, Documents
26 and 35.

The onset of the war dampened the impact of these changes, and early in 1861 a movement to relieve the state's financial problems through the establishment of a State Bank similar to those in Indiana and Ohio was begun by the Detroit Daily Advertiser. This required an alteration in the constitution which limited the legislature to the creation of banks by general laws. In the Senate, the Committee on Banks and Incorporations reported favorably on the establishment of a State Bank and the legislature asked the people to amend the constitution in order to make this possible in the election of 1862. While this was passed, a State Bank never became a reality because of the creation of the national banking system.³⁹

The same session of the Illinois legislature which reformed the free banking law in 1861 also created the Union Bank of Illinois which was to be a State Bank of thirty branches with a total capital of \$10,000,000. Only in the Senate did this receive much opposition. There the opposition was predominately from Democrats some of whom had voted for reform of the free banking system.⁴⁰

39 Gantz, "A History of Banking Legislation," pp. 91-92; Fuller, ed., Messages, II, pp. 403 and 430-31; Detroit Daily Advertiser, February 7 and 8, 1861; and Michigan Legislature. Senate Documents Accompanying Journal, 1861, Documents 8 and 18.

40 Dowrie, "Development of Banking in Illinois," pp. 165-66; Illinois Legislature. House Journal, 1861, p. 543; and Illinois Legislature. Senate Journal, 1861, p. 478. The vote was 15-9 in the Senate and 58-7 in the House.

According to the Illinois constitution the bill for the Union Bank of Illinois had to be ratified by the people at the November, 1861, election. By that time the complete collapse of the free banking system had increased anti-bank feeling. At the same time the constitutional convention was about to meet. Under these conditions the Union Bank bill was defeated by a large majority.

While a State Bank, as such, was not established in Wisconsin the government of that state became thoroughly enmeshed with its banking system after the crisis of 1860-61. In the summer of 1861 the Wisconsin banking system was in a chaotic state. The constructive reform of the free banking system passed by the Republican legislature in April would not go into effect until it was acted upon by the voters in the November election. It seemed like the Illinois reform: too little, too late. The crisis had revived sagging anti-bank feeling. Mass anti-bank meetings were held and agitation for the repeal of the free banking law increased. The situation was complicated by the state's inability to float a war loan in the New York money market. The congruence of the two problems suggested a single solution for both. In mid-May Alexander Mitchell, a Milwaukee financier, proposed just such a solution to Governor Randall. Over the opposition of the Democrats, arrangements were made between the state and the bankers. The bankers would purchase \$800,000 of Wisconsin bonds and deposit these with the comptroller to take the

place of the depreciated bonds which he held. The bankers were also to work to keep Wisconsin money at par and redeem the notes of a number of discredited banks. This connection with the state, the reform of the free banking law which was accepted by the people at the election in 1861, and the responsible action of the Wisconsin Bankers Association combined to give the state a sound banking system throughout the war years.⁴¹

By 1862 all of the states in the Old Northwest were troubled, in varying degrees, by inadequate credit facilities and a fluctuating, unstable currency. Wisconsin had moved a long way toward solving her problems, and the State Banks in Indiana and Ohio were basically sound institutions, but the situation in Illinois and Michigan was chaotic.

The period from 1857 through the crisis of 1861 saw a general tendency on the part of the Democrats to revert to the old Jacksonian formula of no banks and a "Constitutional currency." The Republicans were responsible for the alteration of the free banking laws limiting banks to towns of a certain size, tightening capital requirements, restricting the quality of securities used, and insisting on central redemption centers in order to avoid the excesses of the "wildcats." Experience had taught that these limitations on the freedom

⁴¹ Merk, Economic History of Wisconsin, pp. 200-211.

of action might be necessary in order to insure security under an open system. The Republicans, basically, were searching for ways to provide a sound and adequate currency and to expand the supply of money and credit; and they were not tied wholly to the free banking idea. The same Republican legislatures that attempted to reform the free banking laws often encouraged the establishment of State Banks similar to that of Indiana. There is no good reason to believe that most Republicans differed from Governor Dennison of Ohio who told the Legislature in 1861:

The subjects of banking and currency, address themselves with equal force and directness to the people of the State. Whatever theories we may entertain on these subjects; whatever ingenious and beautiful visions of a people without banks and gold and silver their only currency, the political realities are before us: --We have banks; we have paper money. 42

The real question was what system would best provide adequate credit and a sound secure currency. In the face of the experience with depreciating stocks in the crisis of 1860-61 one might wonder not that proposals to follow the successful model of Indiana were entertained, but that the idea of free banking held on so tenaciously and reform was attempted in the face of the Democratic demand for complete abolition of the systems.

42 Documents... of the State of Ohio, 1860, Part I, Document 39,
p. 548.

Basically the attitudes on the banking systems shown by the two contesting parties during these years represent a continuation of views formed in the party struggles following the destruction of the Bank of the United States. As such, these were differences about state policy in the absence of federal action.

The Democrats in 1862 held the same ground they had occupied twenty years earlier fighting for "hard money," simple government, and constitutional purity. They stood solidly against centralism; and even at the state level, feared positive government action. Growing out of the Whig tradition, the Republicans were committed to securing an adequate and sound currency. They feared neither banks nor government activity and were willing to use both to secure their ends.

For over two decades the money question had been a local issue. The Civil War changed this, and elevated it once again to the national stage. The violence of the debates and the way it had become woven into the fabric of party conflict dictated that the old arguments and attitudes would be carried into the new arena.

CHAPTER VIII

THE WEST AND THE NATIONALIZATION OF FREE BANKING

The Civil War made federal action on the money question necessary. On the one hand secession precipitated an economic crisis which severely undermined the existing system. On the other hand, the expenses of war caused a financial crisis within the government itself. In 1862 and 1863, the Thirty Seventh Congress authorized the issue of the legal tender notes called Greenbacks and took the first step toward the establishment of the national banking system. Western Republicans played key roles in the enactment of this legislation; and both the Greenbacks and the national banking system received their solid support. In contrast, the western Democracy unanimously opposed both measures. These Democrats continued to mouth Jacksonian rhetoric and offer little in the way of constructive answers to the problems facing the government and the economy. The Republicans showed a willingness to employ the government in a positive fashion to solve these problems. The Greenbacks were an emergency measure, but the national banking system was conceived as a fundamental reform of the nation's currency system. It was built on the model of the free banking systems which had been erected in New York and the western states, and embodied the types of restrictions which westerners had found necessary in their experience with free banking at the state level. In order to implement this system, Secretary Chase, the western Republicans, and their allies had to overcome the opposition of the eastern bankers as well as that of the western Democrats.

When the new Lincoln administration assumed office in 1861, it faced not only a rebellion, but also a hopelessly garbled financial situation. Secession had disrupted the interregional balance of trade and had precipitated a wave of commercial failures in the East which assumed greater proportions than the Panic of 1857. Over \$300,000,000 owed by the people of the South to Northern merchants was a total loss.

In the West the currency based on the bonds of southern states depreciated rapidly, leaving the whole area of the Old Northwest with hardly any means of exchange. In addition government credit was in such a shaky state that Buchanan's last Secretary of the Treasury was forced to negotiate \$15,000,000 in loans at the rates of 10% and 12%.¹

The magnitude of these problems dictated a radical shift in the nation's financial policy. Since the time of Jackson, currency and banking matters had been decentralized and the powers of the federal government limited. Faced with the necessities of war a nationalist administration reversed this policy. With the passage of the legal tender acts and the establishment of the national banking system, the process of nationalization was extended to the nation's currency.

The Old Northwest played a significant role in this legislation and one that can be misunderstood if the debates of the post war decades are read back into the wartime situation. The conflict over this legislation is much clearer if viewed as culmination of the monetary debate begun by Jackson's veto of the Bank of the United States.

1 Dunbar, "The Crisis of 1860;" Emerson D. Fite, Social and Industrial Conditions in the North During the Civil War (New York: Frederick Ungar Publishing Co., 1963 ed.), pp. 105-14.

The new Secretary of the Treasury, more responsible than any other man for these alterations, was a westerner, Salmon P. Chase. He was from the Democratic element of the Republican party and appointed to the Cabinet for political reasons. He had little experience in financial matters and was hesitant to take the job because he had been chosen as Senator from Ohio. When he decided to accept the Cabinet post, he wrote to Governor Denison:

... the President has thought fit to call me to another sphere of duty, more laborious more arduous and fuller far of perplexing responsibilities. I sought to avoid it, and would gladly now decline it if I might. I find it impossible to do so, however, without seeming to shrink from cares and labors for the common good, which cannot be honorably shunned.²

Chase, like most men in 1861, underestimated the cost and length of the war. At first he hoped that an increase in the tariff and an issue of Treasury notes could finance suppression of the rebellion. In 1860 he wrote to Henry Wilson: "It is clear that some measure must be adopted to revive the sinking credit of the nation; and this bill [the Morrill Tariff] will certainly contribute to that result. A Treasury note bill without a Tariff bill is a dangerous experiment. The two together may answer a good purpose."³

2 Chase to William Denison, March 6, 1861, reprinted in J. W. Schuckers, The Life and Public Services of Salmon Portland Chase... (New York: D. Appleton and Company, 1874), pp. 207-208.

3 Chase to Henry Wilson, December 13, 1860, reprinted in "Diary and Correspondence of Salmon P. Chase," pp. 293-95.

The Morrill bill was passed and included an authorization for the Secretary of the Treasury to issue \$10,000,000 in bonds and Treasury notes. When revenues lagged behind Chase's expectations, he made use of this power and an earlier authorization to borrow the necessary money to finance the war. In July, Chase requested the power to borrow an additional \$240,000,000 to cover the increasing expenses of the war. He still seemed to believe that tariff revenues would increase, and he was hesitant to institute an adequate program of taxation because of the "temporarily deranged" economic conditions.⁴

In July and August, Congress authorized the Secretary to borrow, through the use of various kinds of securities, \$250,000,000. The largest portion of this was in the form of Treasury notes which were sold with the aid of the banks of Boston, New York, and Philadelphia. However, as the year continued revenues lagged and expenses rapidly increased. At the same time, the currency situation in the West worsened. It was clear to Chase that some more

⁴ Senate Executive Documents, 37th Congress, 1st Session, No. 2. This is summarized briefly in Robert P. Sharkey, Money, Class, and Party: An Economic Study of the Civil War and Reconstruction (Baltimore: The Johns Hopkins Press, 1959), pp. 16-20; and Edward C. Kirkland, Industry Comes of Age, Vol. VI of The Economic History of the United States, ed., Henry David, et. al. (10 vols., New York: Holt Rinehart and Winston, 1945--), pp. 13-15; and in somewhat more detail in Wesley C. Mitchell, A History of the Greenbacks with Special Reference to the Economic Consequence of Their Issue (Chicago: University of Chicago Press, 1903), pp. 3-43.

permanent reform of the currency was necessary.⁵

During the 1840's two plans for a national currency had appeared which were discussed at that time and then revived after the Panic of 1857. Both were penned by Whigs, and received their greatest support in that party.

The plan which stirred the most interest was that proposed by Millard Fillmore in his widely read report as New York State Comptroller in which he suggested that if Congress would authorize the state bank notes "secured by the stocks of the United States to be received for public dues to the national treasury, this would give such notes a universal credit, coextensive with the United States, and leave nothing further desired in the shape of a national currency." In essence this would be a national free banking scheme based on the existing state banks, but Western Democrats looked on it as a "Federalist scheme."⁶

Edward Kellogg advanced a more radical plan which proposed a kind of national land bank in which the government established

5 The handling of these loans is treated in detail in Redlich, American Banking, II, pp. 85-95.

6 Frank H. Severance, ed., "Millard Fillmore Papers, Volume One," Publications of the Buffalo Historical Society, X (1907), p. 282; Illinois State Register, October 30, 1849. The relation between the Fillmore report and the national banking system is given in greatest detail in Redlich, American Banking, II, pp. 101-102. On the reception of this plan in Illinois, Jones, "Anti-Bank and Anti-Monopoly Movements in Illinois," pp. 80-81.

branches of a national institution in each state to lend government created legal tender on real estate mortgages. The details of Kellogg's plan are less important than his insistence on the idea that the interest charged by bankers and money lenders robbed labor of its product. He contended that this could be alleviated by a national currency issued on the credit of the nation.⁷

Kellogg did not receive the hearing accorded to Fillmore, although an editorial in the Racine Wisconsin Advocate probably represents the view of contemporary Democrats. The article described Kellogg's Currency: The Evil and the Remedy as an example of the "currency tinkering [which] seems to be the besetting mania of a portion of the people of this country...." His plan was a wild idea which would do "injustice somewhere and in the end everywhere." "To us it seems evident that no panacea will ever again find favor in this country. The precious metals must sooner or later become the currency and exchanges be made by mercantile enterprise and depended upon mercantile credit for the credit of

7 The most complete presentation of Kellogg's ideas is Edward Kellogg, A New Monetary System, ed. Mary Kellogg Putnam (New York: Rudd and Carleton, 1861) which is a later edition of his Labor and Other Capital which first appeared in 1849. His plan is discussed in reference to post war agitation in: Chester McA. Destler, American Radicalism, 1865-1901 (New York: Octagon Books, Inc., 1963), pp. 50-77; Irwin Unger, The Greenback Era: A Social and Political History of American Finance, 1865-1879 (Princeton, New Jersey: Princeton University Press, 1964), pp. 95-97; and Sharkey, Money, Class, and Party, pp. 187-91.

paper." The article repeated the standard Democratic argument that usury laws were wrong in principle. "We still think that if the currency were once regulated by not being regulated at all, the protection against usury would be much less needed, if it were needed at all."⁸

As governor of Ohio, Chase had asked Congress to regulate the currency, but he had not formulated any distinct plan. Rather he worked to reform the free banking system in his own state. He was mainly opposed to bank monopolies and supported a convertible currency, but he was not--as usually noted--a radical opponent of all paper money.⁹

8 Racine Advocate, July 21, 1846, reprinted in Quaife, ed., The Movement for Statehood, pp. 286-89; the book under review was Godek Gardwell /Kellogg/, Currency: The Evil and the Remedy (New York: 1844). Although the Advocate certainly represents a position in line with standard Democratic orthodoxy, some Democrats may have been interested in this plan. See: a letter from Don Eaton to Augustus C. French, January, 1851, in the French MSS, which requests French to sign a petition similar to those circulating in other western states to have Congress establish a national paper currency based on the credit of the United States. Eaton's political affiliation remains a mystery to me and from internal evidence he could be either a Whig or a Democrat. Interestingly, Eaton refers for authority not to Kellogg but "Alison the historian." This is a reference to Archibald Alison, the Scottish historian of the French Revolution, whom Unger connects with the ideas of Henry Carey (The Greenback Era, p. 51, ftn. 42).

9 Documents... of the State of Ohio, 1855-56, Document 4. See above Chapter VI. He was hardly a "primitive bullionist Democrat" as Unger describes him in The Greenback Era, p. 14.

In 1861 Chase received suggestions recommending both these plans. After Kellogg died in 1858, Alexander Campbell, the Whig-Republican mayor of La Salle, Illinois, took up the Kellogg plan with some important modifications. He suggested to Chase in June that the government issue noninterest-bearing Treasury notes in denominations from \$5 to \$500 to replace the state bank currency which had degenerated to "worthless trash." Other Westerners appraised Chase of the necessity of some currency in that area. Wisconsin Senator James Doolittle proposed that all bank notes under \$20 be taxed out of existence and replaced by Treasury notes. Joseph Medill, whose Chicago Tribune strongly favored a national bank currency, offered a similar solution.¹⁰

Chase seems to have been more impressed by a plan submitted to him in August by Orlando B. Potter. Essentially a revival of the Fillmore suggestion, it would:

Allow the banks, and bankers duly authorized in the loyal states, to secure their bills by depositing with a superintendent appointed by the Govern-

10 Andrew McFarland Davis, The Origin of the National Banking System (Washington: Government Printing Office, 1910) pp. 44-51, gives summaries of numerous letters in the Chase papers. On Campbell's influence, see: Sharkey, Money, Class, and Party, pp. 191-95; Destler, American Radicalism, pp. 8-9, 60, 61, 76. Unger, The Greenback Era, pp. 97-101. For his ideas at this time see: Journal of the Constitutional Convention of the State of Illinois...1862, pp. 51, 131-137. While he clearly opposed Chase's suggestion of a national banking system, his main interest was to defend the issue of legal tenders as a better method of financing the war than the Gallitin plan put forth by the bankers of Boston, New York and Philadelphia.

ment United States stocks at their par value in the same way that the banks and bankers in New York secure their circulation by depositing New York State and United States stock with the State, thus making the stocks of the United States a basis of banking on which alone a national circulation can be secured.¹¹

Chase's annual report, issued December 9, 1861 considered the entire problem at length. After reporting his negotiations with the bankers concerning the loans and a dismal review of the revenues and expenses of the government, the Secretary outlined the problems of the currency. He called on Congress to assert its authority in this area to rationalize the chaotic situation of more than 1600 banks chartered under a variety of inconsistent state laws.

Under such a system, or rather lack of system, great fluctuations, and heavy losses in discounts and exchanges, are inevitable; and not infrequently through failures of the issuing institutions, considerable portions of the circulation become suddenly worthless in the hands of the people. The recent experience of several States in the valley of the Mississippi painfully illustrates the justice of these observations; and enforces the most cogent practical arguments the duty of protecting commerce and industry against recurrence of such disorders.¹²

He offered two plans for the consideration of the Congress.

The first followed Campbell's suggestion to withdraw the bank issues

11 O. B. Potter to Chase, August 19, 1861, reprinted in Davis, Origin of the National Banking System, pp. 45-48.

12 Report of the Secretary of the Treasury on the State of Finances for the Year Ending June 30, 1861 (Washington: 1861), pp. 7-29, the quotation is from pp. 17-18.

of the nation and replace them with Treasury notes. A tax on bank notes would insure their withdrawal. The people would have the advantage of a uniform national currency and the government would have a loan without the burden of interest. Chase believed that is such currency could be kept in line with the "real needs of the people" and at par with specie this would be a good plan. However, he feared inflation and a depreciating currency; and to his mind, "these possible disasters... far outweigh the probable benefits of the plan."¹³

The Secretary much preferred a second plan suggested by Potter. The circulation of notes would be placed under a common authority which would hold United State's stocks as security against notes issued. This plan would make use of the already existing state banks, which would also be required to hold specie reserves adequate for prompt redemption of their issue. In this way the people could be given a uniform national currency effectively safeguarded against depreciation and loss to the noteholder. This method would also help facilitate government loans, and aid the general business conditions by lowering interest charges "without risking the perils of a great money monopoly." Chase reminded his readers that the plan was one that had been tested in New York and other states "and has been found practical and useful."¹⁴

13 Ibid., p. 18.

14 Ibid., p. 19.

Designed to strengthen the Union by increasing the common interest in its preservation, this plan had nationalistic overtones. It was more than an emergency war measure. Chase also argued that it would aid the war effort, but he made it clear that he was advocating a basic reform of the entire money and banking structure of the nation in such a way as to combine safe circulation and convenience.¹⁵

The House referred Chase's report to a subcommittee of the Ways and Means Committee under the direction of Buffalo banker Elbridge Gerry Spaulding. When he discovered that Chase had not drawn up a bill, Spaulding drafted one based on the New York Free Banking Law. While writing the bill he "came to the conclusion, that it could not be passed and made available quick enough to meet the crisis pressing upon the Government for money to sustain the Army and the Navy." As a consequence he added to the bank bill a section providing for the "issuing of legal tender notes direct from the Treasury while the bank bill was put in operation throughout the country." Thus, as originally conceived the "Greenbacks" and the national bank notes were to be complementary with the legal tenders providing for immediate necessities and the basic reform to

15 Ibid., pp. 13-19; Chase to Jesse Baldwin, May 18, 1864, reprinted in Robert B. Warden, An Account of the Private Life and Public Services of Salmon Portland Chase (Cincinnati, Ohio: Wilstack, Baldwin and Co., 1874), pp. 409-10.

be in the form of an altered banking system.¹⁶

The economic situation changed drastically in late December and forced an alteration of these plans. During the summer and fall the banks of the major seaboard cities had acted in essence as underwriters for \$150,000,000 in government loans. They had hoped that Chase would make use of an alteration in the Sub-Treasury Act to use them as government depositories, but the Secretary chose to construe this act rigidly and demand specie from the banks. While this was probably a blunder, the flow of specie was sufficient to enable the banks to handle the three payments to the government. However, this cycle of borrowing depended on continued confidence in the government. This confidence was shaken in December by the Secretary's gloomy report which showed revenues lagging behind his July estimates and expenditures increasing at a more rapid pace. At about the same time the Trent Affair threatened to erupt into a war with Britain and specie went into hiding. With their reserves falling precipitously, the New York banks decided to suspend specie payments on December 28. The situation was grim. As Spaulding put it:

No more gold could be loaned to the Government, except in small and wholly inadequate amounts, because it was not to be had. State bank bills could still be obtained, but the banks having suspended specie payments, this currency was

16 E. G. Spaulding, History of the Legal Tender Paper Money Issued During the Great Rebellion . Being a Loan Without Interest and a National Currency (Buffalo, New York: Express Printing Company, 1869), pp. 1-12.

depreciated, and had only a local character and credit--not being much known out of the States where the banks were located. Hesitancy and delay, with the expenses of the war running at an average of \$2,000,000 per day, would be fatal.¹⁷

Since Spaulding had been warned that the bank bill would meet with opposition he made the legal tender section into a separate bill to answer the needs of the crisis. With the only alternative being a plan advocated by James Gallatin and supported by the leading bankers of New York, Boston and Philadelphia which did not provide for any kind of national banking system. Chase reluctantly backed the legal tender measure.¹⁸

While prominent roles were played by Spaulding and Samuel Hooper of Massachusetts, Congressmen from the Old Northwest took an active part in the debate. Among the westerners who spoke in the debate there was a division along party lines with Democrats bitterly opposing the bill and Republicans generally advocating its

17 Ibid., p. 14, Concerning Chase's decision to demand specie, Redlich (pp. 92-93) tends to defend the Secretary, while he is condemned by Bray Hammond in Banks and Politics, pp. 720-721, and "The North's Empty Purse, 1861-1862," American Historical Review, LXVII (October, 1961), pp. 1-18. Sharkey (pp. 21-23) is closer to Redlich than Hammond.

18 Spaulding, History of the Legal Tender Paper Money, 12-13, 18-21, 27. Among the several letters reprinted herein is one from Chase to Spaulding, January 22, 1862 expressing his views. See also Chase to W. C. Bryant, February 4, 1862, reprinted in Warden, Life of Chase; and the Report of the Secretary of the Treasury on the State of Finances for the Year Ending June 30, 1862 (Washington: 1863), p. 8.

passage.

Although eastern Republicans like Roscoe Conkling and Justin Morrill opposed the bill, the main opposition came from those doyens of the western "Progressive" Democracy, Clement Vallandigham and George Hunt Pendleton. They made standard "hard money" arguments based on a strict construction of the Constitution. Pendleton argued it would impair the obligation of contracts. Vallandigham was willing to support an issue of Treasury notes, but denied "the right of the Federal Government to provide a paper currency intended primarily to circulate as money...." Essentially he would resort to Treasury notes, sanctioned by Jacksonian experience, but opposed the legal tender provision which would "banish gold and silver from circulation." If this were accepted, "there would be no end to the legion of paper devils which shall pour forth from the loins of the Secretary."¹⁹

In the House three western Republicans spoke against the bill showing fears of its constitutionality and the danger of an inconvertible currency. However, the main body of western Republicans who spoke advocated the bill's passage. John Bingham of Ohio, William Kellogg of Illinois, Harrison Blake of Ohio, and Samuel Shellabarger of Ohio all spoke in favor of the bill. The debate in the

19 Congressional Globe, 37th Congress, 2nd Session, pp. 630-31 (Morrill), 633-36 (Conkling), 614-15 and Appendix 42-46 (Vallandigham); and 549-51 (Pendleton).

Senate was dominated by westerners led by John Sherman; and to a man the Republicans urged passage of the legal tender provision.²⁰

The basic argument presented was that of necessity.

Sherman told his fellow Senators, "I am authorized--nay required--to vote for all laws necessary and proper for executing these high powers [to uphold the Government]... This is not the time when I would limit those powers. Rather than yield to revolutionary force, I would use revolutionary force."²¹

Aside from the argument from necessity there was expressed a great deal of anti-bank sentiment in these speeches. Bingham protested that:

I cannot keep silent when I see efforts made... to lay the power of the American people to control their currency--a power essential to their interests--at the feet of brokers and of city bankers, who have not a title of authority, save by the assent or forbearance of the people, to deal in their paper issued as money.

I am here today to assert the rightful authority of the American people, as a nationality, sovereignty, under and by virtue of their Constitution.

The Speaker, Kellogg, attacked those who would send six hundred thousand young men to war and then say "the great interests of capital,

20 Congressional Globe, 37th Congress, 2nd Session, pp. 663-665 (Horton, Ohio), 684-85 (Riddle, Ohio), 691 (Lovejoy, Illinois), 636-40 (Bingham), 679-81 (Kellogg), 685-86 (Blake), 690 (Shellabarger), 771-75 (Sherman), 774 (Chandler, Michigan), 796-97 (Howard, Michigan), Appendix, 51-56 (Howe, Wisconsin), and Appendix, 56-58 (Doolittle, Wisconsin).

21 Congressional Globe, 37th Congress, 2nd Session, p. 775.

of currency, must not be touched." "We are not legislating for the money-shavers who oppose this bill," argued Harrison Blake, "but for the people, the soldiers, and the laboring classes."²²

With the aid of Chase's endorsement, the bill was finally brought to a vote, and the crucial legal tender provision narrowly passed the Senate, 22-17. In the House this was passed by a wider margin, 95-55. The bill in its final form gained the votes of ninety-three representatives and thirty senators.²³

An analysis of the bill on a national level shows most Democrats voting against it, with most Republicans favoring it although a sizeable segment of the party joined the opposition. The votes of the congressmen of the Old Northwest show a greater unanimity. In the Senate, the only Democrat from this area, Jesse Bright of Indiana did not vote, nor did the two Republican Senators from Illinois. The other seven Republican Senators all voted for the bill. The House vote is even more revealing. Of the thirteen Democrats from the Old Northwest who voted, everyone opposed the legal tender act, while among the Republicans from this area twenty-six favored the

²² Ibid., pp. 636, 679, and 686.

²³ Ibid., pp. 695, 800.

bill and three opposed it.²⁴

While Chase was forced to ask for an additional issue of legal tenders, he had not given up on his plan for permanent banking reform. It seems that, while they supported Chase's demands, most western Republicans continued to look toward a fundamental change in the banking structure. Most of them probably agreed with Samuel Hooper who, urging passage of the first legal tender act, admitted "the proper inauguration of the new banking scheme... will require time." Certainly in the minds of men like Sherman and Zachariah Chandler of Michigan the legal tenders were a stop-gap measure until real reform could be completed.²⁵

Throughout the debate on legal tenders Chase continued to urge action on a banking system. He was upset that his allies were not pushing hard enough for it. He wrote to Spaulding that he attached much more importance to "the Banking as a measure of relief" than

24 There was no change among western senators on the two votes. The House figures are on the final vote. Riddle who spoke against the bill voted for it on the final vote. An Indiana Democrat, Knapp, voted for retaining the legal tender provision and against the bill. Sharkey (p. 42) seems to have miscounted the western votes in his analysis.

25 Spaulding, History of the Legal Tender Paper Money, pp. 154-63; Congressional Globe, 37th Congress, 2nd Session, p. 617; John Sherman, Recollections of Forty Years in the House, Senate and Cabinet (New York: The Werner Company, 1895), I, pp. 282-85; Wilmer C. Harris, Public Life of Zachariah Chandler, 1851-1875 (Lansing, Michigan: The Michigan Historical Commission, 1917), p. 71. Sherman voted against the increase in Greenbacks. Chandler spoke against it, but ended up voting for it. Both actively championed the national banking system.

did the New Yorker. Later in the year he recorded in his diary his unhappiness with the use of legal tenders and the seeming refusal of "the President and his counsellors" to contemplate reform. In October he explained to John Bigelow in Paris the advantages of his plan:

The adoption of this system will furnish all the money that is needed at reasonable rates, and insure an early return to specie payments without and serious business convulsion. Even should the war be unhappily protracted beyond the current financial year, the adoption of this system, by uniting the capital of the country with the credit of the government, will probably avert great disasters otherwise to be apprehended. 26

Hooper had introduced a banking bill in 1862, but it was tied up in committee by Thaddeus Stevens. Chase saw this as a sign that, "A majority of both House and Senate Financial Committees were incredulous or hostile," but he was encouraged by the support of Hooper and Robert J. Walker, the ex-Secretary of the Treasury. 27

In December, Chase received the support of the nation's most powerful western Republican, the President. Lincoln praised the legal tender acts for answering "the long-felt want of an uniform

26 Chase to Spaulding, January 30, 1862, reprinted in Spaulding, History of the Legal Tender Paper Money, p. 46; "Diary and Correspondence of Salmon P. Chase," p. 76; and Chase to Bigelow, October 7, 1862, reprinted in Warden, Life of Chase, pp. 501-504.

27 Davis, Origin of the National Banking System, pp. 56-57; Chase to Trowbridge, reprinted in Schuckers, Life of Chase, p. 292.

circulating medium, saving thereby to the people immense sums in discounts and exchanges." However, he doubted that such a currency could "be permanently, usefully, and safely maintained." To secure "the great advantages of a safe and uniform currency," he suggested "the organization of banking associations under a general act of Congress, well guarded in its provisions." Such a system would offer numerous advantages to the government and "protect labor against the evils of a vicious currency."²⁸

Several days later Chase reviewed the financial legislation of 1862 and again suggested a national banking system. It was his belief that the suspension of specie payments created an emergency situation that left the government a choice between state bank currency and legal tenders. He preferred the national currency and on the whole thought it had performed well. He worried about inflation which he ascribed to the increase of state bank issued, and he proposed a moderate tax on these notes. He also feared that the legal tenders would become the permanent currency of the nation and to avoid this he urged a national banking system to establish "one sound uniform circulation, of equal values throughout the country, upon the foundation of national credit with private capital." He also assured the legislators that his was not a "mere paper money scheme," and it would facilitate the return to specie payments.²⁹

28 Richardson, ed., Messages and Papers of the Presidents, VI, pp. 129-30.

29 Report of the Secretary of the Treasury... 1862, pp. 1-30.

Although Stevens still was hostile toward the Hooper bill, he reported it out of committee. When it hit rough sledding in the House, the initiative on the banking bill shifted to the Senate. On January 7, Chase appealed to the Finance Committee of the Senate:

No measure, in my judgement, will meet the necessities of the occasion, and prove adequate to the provision of the great sums required for the suppression of the rebellion, which does not include a firm support to public credit through the establishment of a uniform national circulation, secured by bonds of the United States.³⁰

Ten days later Lincoln sent a special message to Congress urging a tax on state bank circulation in order to curb inflation, and the establishment of a uniform currency through a national banking system.³¹

The man who took charge of the bill in the Senate, and to whom "more than any other person Mr. Chase owed successful passage of the bill" was John Sherman. Chase sent Henry Cooke, Jay's brother, to influence Sherman to take up the bill. There seems little reason to doubt that since his entrance into Congress Sherman had desired a reform of the currency system. However, he wanted to alter Chase's plan by "restricting the charter (which at

30 Chase to Fessenden, January 7, 1863, reprinted in Spaulding, History of the Legal Tender Paper Money, p. 182.

31 Richardson, ed., Messages and Papers of the Presidents, VI pp. 149-50.

present is perpetual) to twenty years, and to prevent inflation by limiting the amount of circulation to be issued and apportion it among the States." ³²

On January 26 he introduced the plan with modifications and stoutly defended it with a "powerful and effective" speech. Sherman presented arguments detailing the advantages to the government and the people. On the first count he echoed Chase that the bill would furnish a uniform currency, create a market for bonds, furnish depositories for public funds, and supply a means for payment of public dues. With much more vigor than the Secretary, Sherman extolled the nationalistic aspects of the plan. Some years later he wrote, "The policy of this country ought to be to make everything national as far as possible. If we were dependent upon the United States for a currency and a medium of exchange, we would have a broader more prosperous nationality." The want of such nationality was responsible for the rebellion. ³³

32 Davis, Origin of the National Banking System, pp. 75-81. The letters which Davis quotes from Henry Cooke to Jay Cooke, January 23 and February 12, 1863, are reprinted in Ellis Paxson Oberholtzer, Jay Cooke, Financier of the Civil War (Philadelphia: George W. Jacobs and Company, 1907), I, pp. 332-33. Sherman's actions in 1862 give no reason to discount his explanation in Sherman, Recollections, I, p. 284.

33 Congressional Globe, 37th Congress, 3rd Session, pp. 504, 820-26, 840-46, 874-77; Sherman, Recollections, I, 298.

Sherman directed the other half of his argument toward the advantages of a national currency over state bank issues. Like Chase he decried the system of 1,642 banks chartered by twenty-eight different states whose "laws were as diverse... as the human countenance." This multiplicity of banks made a national currency impossible. He called for a common regulator to control them and harmonize their actions in order to secure a sound currency to all areas of the country. He also made some distinctly western complaints about the New England currency in that section and the loss "of exchange from west to east on local currency." These arguments, along with the idea that the new currency would be less easily counterfeited, appealed to westerners, but were less readily accepted in the eastern and middle states "where their banking system had been so improved that bank failures were rare, and bank bills were protected by mutual guarantees." Chandler supported Sherman, appealing to western needs:

In my judgement very little demand will arise in the eastern States for this circulating medium. It will be different in the West. In the West, our circulation having been destroyed virtually, as it was based upon southern bonds, at the commencement of the war, there will be some demand.

The bill, he believed, would provide a better currency with better security than local banks. James Doolittle of Wisconsin added that the system would have none of the objections of earlier national banks

because it did not create a monopoly.³⁴

In these debates fewer people spoke than the year before, and two western Republicans who had voted for the legal tenders joined Justin Morrill and Jacob Collamer the leading Republican opponents of the bill. John Gurley of Illinois defended the Greenbacks and cautioned against further experimentation particularly with a type of banking that had failed in the west "most disastrously for all classes." Richard Harrison of Ohio joined in these fears that the new system would be a recreation of the western "wildcats."³⁵

In the debate on the legal tenders Vallandigham had attacked Chase's proposal for a national banking system as a "magnificent National Paper Mill." While only one western Democrat spoke in the debate on the national banking act, he echoed Vallandigham and predicted that "like all great paper money schemes, it is fraught with many evils."³⁶

The vote on Sherman's bill, which was very close in both houses showed the bill to be a Republican measure, but with a sizeable

34 Congressional Globe, 37th Congress, 3rd Session, pp. 840-46 (Sherman), 877 (Chandler), and 881-82 (Doolittle).

35 Ibid., pp. 296-97 (Morrill), 869-74 (Collamer), 341-42 (Gurley), 1117 (Harrison).

36 Congressional Globe, 37th Congress, 2nd Session, Appendix, p. 43; Congressional Globe, 37th Congress, 3rd Session, p. 1143, emphasis in the original.

number of that party joining the Democrats in opposing the bill. However, the party division among westerners was much clearer than the debate would indicate. Lyman Trumbull, who also opposed the legal tenders, was the only western Republican to vote against Sherman's bill. In the House all thirteen western Democrats opposed the bill, and Daniel Voorhees who was absent noted he would have voted with them. Twenty-three of twenty-seven western Republicans voted for the bill.³⁷

In line with the prediction of Chandler, the West showed a greater tendency to join the new system during its first year. In the first report of the Comptroller of the Currency seventy-three of the one hundred and thirty-four banks in the new system were located in the Old Northwest. Ohio with thirty-eight such banks had almost twice as many as any other state in the Union. The comptroller, Indiana banker Hugh McCulloch who later became Secretary of the Treasury, commented:

The rapidity with which national banks are being organized in the western states, and the high

37 Ibid., pp. 897, 1148. Trumbull didn't vote on the first legal tender act, but voted against the second. Either his Jacksonian background or increased pressure from Illinois Democrats who had just replaced Orville H. Browning with Democrat William A. Richardson must have influenced him. Unfortunately his latest biographer (Krug, Lyman Trumbull) doesn't deal with his attitudes on the financing of the war.

character of most of the stockholders thereof, indicate the popularity of the system in that part of the Union. 38

Certainly this popularity is not hard to explain. The free banking systems of Illinois and Indiana were discredited, and the charter of the Ohio State Bank was about to expire. The small number of new banks in Wisconsin and Michigan can be explained by the new state system in the former and a conflict concerning legal interest requirements in the latter. In the Comptroller's report of 1864 there were one hundred and eighty-four national banks in this area, and Michigan and Wisconsin each had fifteen.³⁹

At the end of 1863 Chase, Lincoln, and McCulloch all praised the new system, but the opposition from eastern bankers kept it from fulfilling expectations. McCulloch, who had gone to Washington as a state banker to oppose the system, became convinced that a national currency was an absolute necessity and accepted Chase's appointment as comptroller. In his first report he suggested a revision of the law to make the banks as well as the currency truly national. Chase incorporated his suggestions into his report and a new national banking act was passed by Congress June 3, 1864.

38 "Report of the Comptroller of the Currency," in Report of the Secretary of the Treasury...1863, pp. 49-61.

39 Redlich, American Banking, II, p. 108; Merk, Economic History of Wisconsin, pp. 213-214; "Report of the Comptroller of the Currency /November 25, 1864/" in Report of the Secretary of the Treasury...1864, pp. 46-55.

This added a large number of new banks to the system, but it was not until the prohibitive tax on state bank notes, long urged by westerners, was passed in March, 1865, that the new national bank notes along with the Greenbacks gave the United States a totally national currency.⁴⁰

Although there was hesitancy in some areas, the western Republicans solidly supported the currency legislation of the Civil War years. Aside from the nearly unanimous action of Republican congressmen from this area, the leading party organs such as the Chicago Tribune and the Detroit Daily Advertiser, advocated and encouraged Chase's policies. In 1862 the legal tenders were defended, and a year later, when the first national banking bill was passed, it received enthusiastic support. Although a tax on state bank notes was not enacted until 1865, this policy had been constantly agitated both in and out of Congress by western Republicans. Everywhere the Republican press praised the legislation that was

40 Report of the Secretary of the Treasury...1863, pp. 1-27; Richardson, ed., Messages and Papers of the Presidents, VI, p. 183; "Report of the Comptroller of the Currency /November 28, 1863/"; McCulloch, Men and Measures of a Half Century, pp. 163-70; Davis, Origins of the National Banking System, pp. 88-104.

the basis for "the universal prosperity of all classes."⁴¹

These policies were in line with western economic needs, particularly the desire for a sound uniform currency. Since the destruction of the Bank of the United States, the Whigs and Republicans had maintained the goal of a sound currency adequate to business needs. The nationalization of the currency finally allowed them, at least momentarily, to achieve that goal. In the end they fought against the state bankers who they so often supported and who formed a powerful lobby against the national banking system. Both the legal tender acts and the national banking acts were moves to reassert some degree of national control over the currency of the country, and they represented a new era of economic nationalism.⁴²

In line with their arguments of three decades the Democrats of the West stood solidly against such "centralizing" tendencies and monetary heresies. Even before the first legal tender bill was enacted the Chicago Times charged that the Republicans were failing

41 Ibid., pp. 17-18, 25-26, 44-53, 63-66, 69-70, 98; James, Chicago Banks, I, pp. 307, 315, 329, 338-367; Joanna Elizabeth Schneider, "The Reaction of Michigan Republicans To Civil War Financial Legislation," (Unpublished M. A. Thesis, Wayne State University, Detroit, 1963), pp. 55-71; the Chicago Tribune, January 2 and February 8, 1862, and February 7 and 13, 1863; Indianapolis Daily Journal, February 9, 1864.

42 Illinois Governor, 1861-1865 (for Yates' message of January 5, 1863); McCulloch, Men and Measures of Half a Century, pp. 167-70; Detroit Advertiser and Tribune, January 10, 1863; Sherman, Recollections, I, pp. 289-90, 298-300.

in their single duty to preserve the credit of the nation. The same paper predicted "that they will substantially fail in the performance of this duty, and that they will aggravate the failure by legislation which will be as wicked as it is injurious." Subsequently, as each new measure was enacted, Democratic organs like the Indianapolis State Sentinel, the Detroit Free Press, and Samuel Medary's The Crisis detailed its wickedness and prophesied irreparable injury to the republic.⁴³

Although eventually many western Democrats would stand for "God and Pendleton's plan," the original issues of Greenbacks were met with Democratic hostility. The Detroit Free Press attacked them as worse than the "wild-cat" currency, and predicted that they would "embarrass [t]he government and . . . beggar the people." The Indianapolis State Sentinel attacked the legal tenders as "An Irredeemable Paper Currency--The High Road to Financial Ruin." Aside from the usual arguments that irredeemable paper would bring a wave of speculation followed by a depression, the Sentinel charged that creditors would be unjustly injured. Democratic Judge Samuel E. Perkins ruled that legal tender legislation should

43 Chicago Times, in the Indianapolis State Sentinel, January 11, 1862; Stamp, Indiana Politics During the Civil War, pp. 189-91, 266-68; Thornbrough, Indiana in the Civil War Era, pp. 194-96; Frank L. Klement, The Copperheads in the Middle West (Chicago: University of Chicago Press, 1960), pp. 73, 83-84.

be invalidated because it "operated as a fraud on the public creditors" and amounted to confiscation of private property without compensation. Such a paper money system stood in contrast to all the Jacksonian Democrats had struggled for in the past two decades.⁴⁴

However, if the legal tenders seemed a departure from the tested ways of sound finance the national banking system became "a symbol of the complete abandonment of Democratic doctrines."

The Cincinnati Enquirer told its readers:

The enormity of this bill is sufficient to make General Jackson who killed the old Bank of the United States, turn in his coffin. . . the design is to destroy the fixed institutions of the States, and build up a central moneyed despotism.⁴⁵

The new system was nothing more than a return of the old "money monopoly" and would give rise to an aristocracy ten times worse than the "slavocracy" which would "domineer over white men." Particularly Medary emphasized the argument that the "monstrous Bank Bill" subverted the interests of the western farmer to those of

44 The Detroit Free Press, January 11, 1862; Indianapolis State Sentinel, January 30, 1862; Perkins is quoted in Thornbrough, Indiana in the Civil War Era, p. 195. The Detroit Free Press, February 8, 1862, did insist that the legal tender clause was necessary to keep the county from being "surrendered, bound hand and foot, to the money speculators."

45 Stamp, Indiana Politics During the Civil War, p. 190; Cincinnati Daily Enquirer, February 24, 1863, quoted in Klement, Copperheads in the Middle West, p. 84.

the eastern capitalist. To Democrats who had cut their political teeth on the opposition to the "Biddle centralizers" this new nationalism of monetary affairs clearly undermined the purity of the Constitution. In 1865 the Indianapolis State Sentinel expressed doubt that "the old standard orthodoxy" of the Constitution could ever be regained.⁴⁶

The Civil War brought to a close the debate over banking begun in the wake of the Panic of 1837. The necessities of war had forced the Republicans to innovate on a wide scale in matters of finance. To solve the pressing needs of the government the Greenbacks were issued as an emergency measure in 1862. The following year the national banking system was created on the model of the free banking systems of the states and embodying restrictions which the lessons of experience dictated. While these changes bore a distinct relation to the past, the institutional structures which grew out of the war ushered in a new era of monetary debate in the Old Northwest and the nation as a whole. The old issues concerning state banking which had occupied the political arena for thirty years were no longer relevant, and the concepts and clichés used by the parties had to be transformed to deal with new economic and political situations.

46 The Indianapolis State Sentinel, October 27, 1863, and May 12, 1865; The Crisis, March 4 and 18, 1863, and July 6, 1864; the Detroit Free Press, January 11, 14, and 17, 1863; the Milwaukee Daily News, in the Indianapolis State Sentinel, April 29, 1863.

APPENDIX A

Voting in the 1850's

The belief that the Democrats formed a numerous and dynamic element of the Republican party in the 1850's is defended by William O. Lynch in his article, "The Convergence of Lincoln and Douglas," in which he made a pioneering attempt to measure the number of ex-Democrats and ex-Whigs in the new party. He uses only the elections of 1852 and 1856 and makes no effort to divide up the "Free Soil" vote of 1852 into ex-Whigs and ex-Democrats. I have used the same method which Lynch employed but over a longer period. I have assumed that the total Liberty vote came from the Whigs, the total American vote came from ex-Whigs, and the total Breckinridge vote came from Democrats.

The Old Northwest

	<u>1844</u>		<u>1848</u>		<u>1852</u>	
Dem.	306,029	49%	330,998	46.5%	418,579	50%
W-R	293,073	47%	299,503	42%	353,073	42%
Other	17,239	4%	80,190	11.5%	64,422	8%
	<u>616,341</u>		<u>710,691</u>		<u>836,074</u>	
	<u>1856</u>		<u>1860</u>			
Dem.	500,054	45%	593,085	43.5%		
W-R	515,889	46.6%	717,473	52.6%		
Other	90,361	8.4%	27,726	2.1%		
			24,068	1.8%		
	<u>1,106,304</u>		<u>1,362,352</u>			

The statements about the economic elite are drawn from a comparison of the total vote of Wayne County, Michigan, using the above assumptions and Lynch's method, and the data given by Alexandra McCoy in her dissertation.

Wayne County, Michigan

	<u>1844</u>		<u>1848</u>		<u>1852</u>	
Dem.	2,736	52%	3,305	52.7%	4,680	55.3%
W-R	2,346	44.4%	2,540	40.5%	3,402	40.2%
Other	192	2.6%	421	6.8%	368	4.5%
	<u>5,247</u>		<u>6,266</u>		<u>8,450</u>	

	<u>1856</u>		<u>1860</u>	
Dem.	5,777	52.4%	6,701	47%
W-R	5,250	46.8%	7,325	51.3%
Other	205	.8%	102	.8%
			<u>139</u>	.9%
	<u>11,232</u>		<u>14,267</u>	

The Economic Elite of Wayne County

	<u>1844</u>		<u>1860</u>	
Dem.	28	29%	48	35.5%
W-R	60	62%	58	43%
Other	5	5%	4	3%
No	4	4%	25	18.5%
	<u>97</u>		<u>135</u>	

The general figures for the elections come from Burnham, Presidential Ballots. Those for the section as a whole are on p. 248 and those for Wayne County are on p. 532.

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A Bibliographical Note

In recent years there has been a great deal of interest in the political aspects of monetary questions and a number of excellent books have appeared. The older classic studies of Ralph Catterall on the Second Bank of the United States and Wesley Mitchell on the Greenbacks have been supplemented by the works of Walter Smith, Arthur Schlesinger, Jr., Thomas Govan, Robert Sharkey, and Irwin Unger. Smith has unwound the complicated economic affairs of the Bank. Schlesinger has presented the Democratic view of that institution; and Govan has ably defended Nicholas Biddle. Sharkey and Unger, although they differ slightly, have brought a fresh perspective to the financing of the Civil War and the monetary problems which followed it which completely revises the traditional views defended by Howard Beale and Mathew Josephson. Two excellent studies of banking by Bray Hammond and Fritz Redlich have added immeasurably to our understanding of American monetary history in the nineteenth century. However, these mainly concentrate on the Bank War and the post Civil War period leaving the interim relatively untouched. Thus, there is a gap in banking history of about twenty-five years.

The decentralized nature of the problem in these years has made it difficult to study and has rendered generalizations dangerous. Most historians have unfortunately used interpretative frames derived

from either the Jacksonian struggle with the Bank or the so called "Agrarian Crusade" of the late nineteenth century to structure their analyses.

Our understanding of the reaction to monetary questions in the states is weak even for the years in which national policy is well covered. This weakness shows up clearly in the period when the national government was quiescent. The best studies of the political aspects of banking in a state are those on free banking in New York by Redlich, Hammond, and Lee Benson in his book on New York politics. Allusion is made to the extension of free banking into the west, but only Michigan receives much attention. Here nearly every author leans heavily on the nineteenth century articles by Thomas Cooley and Alpheus Felch. Individual states are treated in the older studies by William Graham Sumner and John Jay Knox, and in the comprehensive little book by Leonard Helderman. Unfortunately, Sumner and Knox are both unreliable and rather apolitical; and Helderman, while reliable, is very sketchy. Much more detail is given in the studies of state banking by Logan Esarey, C. C. Huntington, George Dowrie, Maurice Ross, and F. Cyril James. The book on Chicago banks is a model study relating local questions to the larger national and international situation. William Harding's old essay on the State Bank of Indiana is also excellent. The other state studies, while useful, tend to be pedestrian and to press events

into interpretations derived from national politics. The confusion this causes is seen clearly in Ross's dissertation.

These state studies form the basis for political histories of the states and histories of the region. The studies of Francis Weisenburger, Eugene Roseboom, Alfred Holt, Theodore Pease and Charles Cole are all helpful in placing monetary problems in the proper political context and add to the above state banking studies. The region is excellently treated by Frederick Jackson Turner and R. Carlyle Buley, but both books are weak on monetary questions. The best attempts at synthesis are the chapter in George Rogers Taylor's economic history of the period and Hammond's article on western banking which lays down an outline for the study of the question at variance with the view developed in this study. One of the best studies of banking in the Old Northwest or any section is Carter Golembe's dissertation, but it covers only the period from 1830 to 1844 and concerns mainly the functions of banks. It serves to dispel a great number of illusions and provided this study with some of its basic assumptions.

One final book that should be mentioned is Marvin Meyers' study of Jacksonian thought. It is not a study of banking, but clearly deliniates the symbolic nature of the monetary issue and thus effected this study measurably.

AUTOBIOGRAPHICAL STATEMENT

Born in Detroit, in 1939, William Gerald Shade received his primary and secondary education in the school system of East Grand Rapids, Michigan, where his family had moved in 1944. After graduating from high school in 1957, he spent five years at Brown University in Providence, Rhode Island. He earned a bachelor's degree in 1961 and a master's degree in 1962. While working on his master's degree, Mr. Shade taught at Cranston High School in Cranston, Rhode Island. From 1962 to 1965, he attended Wayne State University in Detroit working toward a doctor's degree which he received in 1966.

A scholarship from Brown University in 1961-62 and a teaching fellowship at Wayne State University from 1962-65 aided Mr. Shade's graduate education. In 1964 he received a research grant from the Society of Colonial Dames.

Aside from teaching at Wayne State University, Mr. Shade has taught at Temple University in Philadelphia and is, at present, an Instructor in the History Department of Lehigh University in Bethlehem, Pennsylvania. He is married and has one child.

