THE WESTERN STATES' REACTION TO THE FINANCIAL POLICY OF THE UNITED STATES FROM 1816-1826

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PREFACE

I have attempted to show the reaction of the Western states to the financial policy of the United States through the years 1816-1826. In this treatise I have given particular attention to the reaction of Kentucky and Ohio to the Second United States Bank which was established in 1817. The reaction was that of the debtor class to the unusual financial conditions attributed to the creditor class.

The bitter fight to drive the hated branches of the United States Bank from the states was carried on in several ways. The constitutional right to establish such corporations was contested in Congress. Two state constitutions prohibited the establishment of such branches within their borders. Other states tried to drive the branches out by taxing them, only to be prevented by the decisions of the Supreme Court of the United States. "Replevin" and "stay" laws were passed by the states' legislatures. Ohio tried to outlaw the branches. In every attempt the legislative action was checked by the courts. Eventually, the creditor class won, and under its leadership western opposition to the banks momentarily disappeared.

I wish to express my appreciation for the timely assistance of my adviser, Dr. Glenn B. Hawkins, in the preparation of this treatise. I wish also to express my appreciation to Mrs. James Campbell and Mr. Frank Kavanaugh of Frankfort, Kentucky; Miss Esther N. McNitt of Indianapolis, Indiana; Miss Elizabeth Johnston of Cincinnati, Ohio; and Mrs. Charles F. Norton, Transylvania Library of Lexington, Kentucky, for the many courtesies extended to me while collecting the material for this treatise.

A. S.

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CHAPTER I.

Why Should There be a Second United States Bank?

A clear explanation of the question--Why should there be a second United States Bank?--cannot be made without first examining the previous banking facilities of the United States. During the colonial days of the American colonies many crude experiments in banking and currency issues were tried. Most of them were projects for the issue of paper money rather than the creation of commercial banks. The history of banking in the United States, therefore, may be said to have begun actually with the foundation of the Bank of Pennsylvania in 1780.[1] This bank, largely sponsored by Robert Morris,[2] was organized for the purpose of securing resources which could be used in obtaining supplies for the Continental Army.[3] It was only an experiment to be used through the trying years of the war and, for that purpose, was successful. The subscribers protected themselves by holding the bills, drawn by Congress on the envoys abroad, as collateral security until

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1 Horace White, Money and Banking, Boston and New York, 1911, p. 242.

2 Morris was a merchant and a trader in Philadelphia. In 1781 he was made superintendent of finance in the United States. As president of the Bank of Pennsylvania he often was charged with gainseeking for mercantile ends, but he did endeavor to create a national revenue on a specie basis and to obtain foreign loans, especially from the Dutch. David Rich Dewey, Financial History of the United States, New York and London, 1924, pp. 54-54.

3 White, op. cit., p. 244.

the supplies were purchased.

The following year Mr. Morris submitted a plan in which a bank with real commercial functions should be incorporated.[4] This institution was called the Bank of North America and when, on January 7, 1782, it began operating it took over the stock of the Bank of Pennsylvania. The special advantage of this institution to the government lay in the advancing of loans to the treasury in anticipation of expected revenues. Congress incorporated the bank, May 26, 1781, with a capital stock of $10,000,000. Private subscribers could raise of this sum only $70,000, for very little actual specie was available in America at this time.[5] Capitalists still depended upon European specie to promote their pet enterprises and since most of it was already tied up in local and public improvement, little was available for stock purchase.

The Federal government, to save the bank and to encourage industry and prosperity, subscribed $200,000 in specie which it had borrowed from France,[6] hence government funds actually financed the bank, but the managing officials were selected privately. Ere long when Federal levies were ignored by the states the government received much needed loans direct from the bank; thus it became a source of security because it

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4 Ibid., p. 244.

5 Added to this was a fear of paper inflation as in the Continental days. Ibid., p. 244.

6 Dewey, op. cit., p. 55. Benjamin Franklin was the instigator of the loan. White, op. cit., p. 244.

could be depended upon for the immediate necessities. It also could take up the notes that individuals held against the government. Because of Morris and other wealthy men connected with the institution, the nation's finances were strengthened at home and abroad.

After the war the bank was in disfavor with those who opposed centralization of financial power in the hands of a few.[7] In 1787 the bank officials secured a charter from the State of Pennsylvania and the institution which had done so much to bolster the Federal government during its critical days under the Articles of Confederation passed from national supervision.[8] As a state bank, it continued successfully for a long time.

Until the formation of the Constitution of the United States, only three banks were doing business in the nation--[9] the Bank of North America, the Bank of New York, for which Alexander Hamilton drafted the charter,[10] and the Bank of Massachusetts. These banks did much good work during their first eight years toward restoring order to the chaotic finances of American Federation days by loaning the Federal government $1,249,975. This exhibition of faith in the

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7 *Ibid*., p. 245.

8 Dewey, *op. cit*., p. 56.

9 John Bach McMaster, *A History of the People of the United States from the Revolution to the Civil War*, New York and London, 1927, II, 29; White, *op. cit*., p. 248.

10 Dewey, *op. cit*., p. 98.

soundness of the nation's finances, and in the ability of the governmental agencies to repay its debts, helped to stabilize the government during the first trying years. These last two banks were always private organizations, but nevertheless they were beneficial to the Federal government while they were sponsored by men of wealth for personal financial gains, they were also a good source of credit to others.

It was not until the flush times of 1791 that the banking systems took root and began to flourish. The adoption and establishment of a strong federal government with power to coin money, issue paper, and fund its debts, restored the confidence of credit.[11] When credit was then made secure, hundreds of thousands of dollars, which had long been hidden in the attic or old stockings, came out to be invested. The funding of the Revolutionary debt loosed an enormous opportunity for investment, and the eagerness of people to invest their surplus funds in a sound concern was shown by the eager purchase of stock, offered in July, 1791, by the Bank of the United States. Within half an hour after the subscription books were opened, every penny of the eight million dollars of stock offered to the public was taken.[12]

The first Bank of the United States was established under a plan of Alexander Hamilton. He believed it would be

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11 McMaster, op. cit., IV, 281; White, op. cit., p. 247.

12 McMaster, op. cit., II, 37.

a great institution for the Federal government in as much as the resources of the country would be thus rapidly transferred from producer to consumer and be made available for governmental enterprises, private industry, and international settlements. This would be accomplished by an enlargement of the notes in circulation, by providing greater use of individual notes on hand, and by gathering up individual deposits. This plan would make it easier for the individual to pay his taxes to the government since he would have a greater opportunity to borrow money. Circulation of money would increase and with it would go the necessary stimulant to revive commerce from its comatose condition.[13] These arguments of Hamilton were not refuted, but long debates were carried on in Congress over the constitutionality of creating such an institution.[14] Charges were repeatedly made that such an institution would be a monopoly.

The great majority of the members of Congress were for the bill, and on December 12, 1791, the parent bank was established at Philadelphia.[15] Its charter, granted for a period of twenty years, would expire in 1811 unless it was renewed. It had a capital stock of $10,000,000, one-fifth of which was to be subscribed by the government and the

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[13] Dewey, _op_. _cit_., p. 99; White, _op_. _cit_., p. 254.

[14] Complete House Debate found in _Annals of Congress_, 1 Cong., 1789-1791, II, 1891-1960.

[15] Dewey, _op_. _cit_., p. 100.

remainder was subject to public subscriptions. One-fourth of the capital stock was to be paid in specie and three-fourths in government paper bearing 6% interest. The value of notes floated by the bank was limited by the provision that all debts should not exceed the deposit by more than $10,000,000.[16] The establishment of branch banks was authorized to be made according to the desire of the directors.

Soon after the establishment of the parent bank branches, eight in all, were established in Boston, New York, Baltimore, Washington, Norfolk, Charleston, Savanna, and New Orleans.[17]

The guarantee of a sound specie encouraged and popularized investments which in turn created a desire for speculation. The cities abounded with prospectors of canal, turnpike, and state bank projects. Within twelve months, eight new state banks were chartered, and by 1800 there were twenty eight banks doing business in the United States with a capital stock of $21,300,000.[18] Five years later, thirty-eight other banks had been established.[19] But, as the frontiers were expanded westward, and new communities developed it was only natural to expect that there should

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16 *Ibid*., p. 99.

17 Albert S. Bolles, *The Financial History of the United States from 1789-1816*, New York, 1894, p. 24.

18 Dewey, *op. cit*., p. 127.

19 McMaster, *op. cit*., IV, 282.

come from the frontier settlers many demands for financial institutions.

With the settlement of the western half of the seaboard states during the later part of the eighteenth century, and the organization of Ohio,[20] and the admission of Kentucky[21] into the Union, the necessity for money became so pressing that many banks were chartered to meet the local needs. But, since the center of population was moving westward, the state banks were drawn in that direction. By 1811 banks were found in the frontier settlements in the Mohawk Valley, in central Pennsylvania, in western Maryland, in eastern Ohio (at Steubenville, Marietta, Cincinnati and Chillocothe), in Kentucky, in Tennessee, and in New Orleans.[22] In all there were eighty-eight such banks doing business by the time the charter of the Bank of the United States expired.[23] These local banks were usually jealous of the Federal institution, which was favored, and toward which, it was argued, the members of Congress leaned and listened. This Federal bank and its branches were, according to the frontier parvenus, a severe check on their circulation and prospects for investment. In their argument they were encouraged by other interests who wanted the nation's finances more evenly distributed. So

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20 The territory northwest of the Ohio was organized in 1787.

21 Kentucky was admitted in 1791.

22 McMaster, *op. cit.*, IV, 283.

23 Dewey, *op. cit.*, p. 127.

when the time came for the renewal of the charter of the bank, dissention was so intense that it occasioned long debates in the Congress.[24]

During the second session of the eleventh Congress (1810) many attempts were made to get the bill passed for the renewal of the bank's charter, only to be met with failure. When the third session met in December, 1810 the demands were so great that a committee was appointed to consider the special plea of the president and directors of the Bank of the United States. The committee met from December 18, 1810 until February 5, 1811.[25] To get a better opinion of the case they sought the advice of the Secretary of the Treasury who advised them that the bank was needed and the charter should be renewed.[26] On February 5 Mr. Crawford of Georgia, chairman of the committee, reported the bill "to amend and continue the charter of the Bank of the United States as passed in 1791." The committee presented fourteen proposed amendments to the original charter. Their proposed renewal of the charter was based on the pleas from various organizations in all localities but especial attention was given to those that emanated in the Eastern states.

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24 Annals of Congress, 11 Cong., 3 sess., 1810-1811. The bill was debated and advice was sought by different classes, all of which is recorded on pp. 132-346 in the Senate Debates, and pp. 580-826, House Debates.

25 Ibid., p. 122.

26 Ibid., p. 30.

√ From the Chamber of Commerce of Philadelphia,[27] the president and directors of the Bank of New York,[28] some 860 citizens in Philadelphia,[29] and the Columbia Insurance Company in New York[30] came pleas for renewal, urging that the discontinuation of the bank would mean their financial ruin. From the Philadelphia Manufacturers and Mechanics Masters came similar pleas in order to save their business.[31] They spoke of the necessity of dismissing more than half of their laborers, thus causing many people to be without work, unless they could be assured that the bank would continue.

On the other hand, the committee reported, there came from other groups pleas to stop the bank. From Pittsburg came a plea from a number of citizens that the charter should not be renewed.[32] Several state legislatures sent petitions to their congressmen to vote against renewal. The committee of the whole assembled in both houses and debated the bill. Those favoring the renewal of the charter argued that it was a safe and easy means of distributing money; it guaranteed uniformity and rapidity in circulation; and it increased

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27 *Ibid*., p. 31.

28 *Ibid*., p. 88.

29 *Ibid*., p. 89.

30 *Ibid*., p. 116.

31 *Ibid*., pp. 118-121.
Quotation from Mr. Leib's speech.

32 *Ibid*., p. 118.

the prestige of the government abroad.[33] If the charter were discontinued, they argued, that the $7,000,000 deposited by foreign countries would be withdrawn and the specie left in the country would then be so small that bankruptcy and business failures would occur on every hand. They answered their opponents who argued that the bank was unconstitutional, by saying that it was constitutional, because it was a necessity; and Congress had the right to pass any law that was necessary to carry out its delegated powers.

The failure to renew the charter on the constitutionality argument was, according to Mr. Pope of Kentucky, to sacrifice the interest and welfare of the people. He asserted that the opponents of recharter were only selfishly interested in getting a monopoly of the nation's finances for their own states; and if the bank were removed, then the Secretary of the Treasury would certainly be given unusual despotic powers, for he would have the sole right to determine where the public money should be deposited.[34]

Congressmen opposing renewal contested every argument

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[33] The strongest defenders of the bank were Mr. Crawford from Georgia, Mr. Lloyd from Massachusetts, Mr. Pope from Kentucky, Mr. Pickering from Massachusetts, and Mr. Brent from Virginia.

[34] It is of interest to note that Mr. Pope and Mr. Clay, both Senators from Kentucky are on opposite sides of the question; Mr. Pope being for the renewal of the bank's charter and Mr. Clay opposing renewal. Still more interesting is the fact that Mr. Clay is a strong advocator of a Second United States Bank and Mr. Pope then opposes such an organization. J. Stoddard Johnston, Memorial History of Louisville, Chicago, 1896, I, 128.

presented by their opponents.[35] One of the most vehement speakers against the bank was Mr. Clay of Kentucky who spoke on February 15 before the Senate. He contended that the bank was a monopoly favoring foreign moneyed interests; that it endangered the nation's safety in allowing foreigners, especially Englishmen, to hold large shares (about 7/10) of the capital stock. Others said the bank was unconstitutional and unnecessary for if it were constitutional and necessary, Congress would have assumed direct control. But since such control had not been exercised, why should people fear one under the direct supervision of the individual states?[36]

The opposers argued that the foreign capital now invested would not leave the United States, for English capitalists could make far more profit in America than in Europe. It, therefore, would be to their interest to reinvest this capital in local banks in the different states.

The Bank of the United States was called by some of its opponents a chartered company and the danger of such a company was shown. Mr. Clay recalled the great calamities

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[35] The gentlemen against renewal of the bill were: Clay (Ky.), Anderson and Whiteside (Tenn.), Smith (Md.), Leib (Pa.), and Giles (Va.). In the House the principal opponent was Desha (Ky.), who declared that the bank was controlled by foreign capitalists with some $7,000,000 invested who were working to overthrow the civil liberty of the people. He had no doubt that George III was a principal stockholder and would authorize his agents in this country to bid millions for a renewal of the charter.

[36] From Mr. Leib's speech, February 12, Annals of Congress, 11 Cong., op. cit., pp. 152-155.

resulting from the chartering of the East India Company, South Sea Company, and the Mississippi Company. The bank, he believed, was such a company and thus risked the loss of all the nation's credit should the "bubble" burst. If the money were distributed among several banks, then a total loss would not be risked at one time. The Federal money was believed to be safe, in state banks, because their officials would fear that the Secretary of the Treasury would remove the deposits unless a sound financial position was maintained.

The Committee of the Whole in the Senate continued to debate the question until February 20, when a vote indicated seventeen for and seventeen against removal of the charter.[37] The vice-president then voted, stating as his reasons for casting the deciding vote against renewal, that Congress had no right to create a corporate body which was not a part of the government nor otherwise dependent upon it, except by charter restrictions. He believed Congress had no right to grant such an organization privileges, immunities and exemptions not recognized by laws of the states, nor enjoyed by the citizens generally. In the House of Representatives, the vote was just as close, sixty-five opposed and sixty-four favored renewal.[38]

The failure to renew the charter of the Federal bank

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[37] Annals of Congress, 11 Cong., op. cit., p. 346.

[38] Ibid., pp. 346-347.

was wildly received by state banking organizations and private capitalists, who wanted to reap the supposed profits of such an enterprise.[39] Every where there was a wild mania for banking establishments and cheap money. The field was now free for state banking and the opportunity was eagerly seized. Between 1811 and 1816, the number of such institutions rose from 88 to 246.[40] Many of them were organized with almost no restrictions as to the number or value of notes they could issue, or the amount of specie they must maintain to protect outstanding notes.[41]

In the absence of any regular medium of exchange the government accepted state bank notes in payment of public obligations; hence the bank note circulation increased from $45,000,000 in 1812 to $100,000,000 in 1817.[42]

This tremendous increase in the amount of paper money in use tended to depreciate its value and drive the specie from circulation. As a result both the bankers and their creditors presently suffered since shortly after the closure of the Bank of the United States the War of 1812 came on the horizon.[43] Even before the war got well under

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39 The government was on the verge of war at this time and was forced to depend upon state banks for the enormous demands needed during a war.

40 Dewey, *op. cit.*, p. 144.

41 See following chapter for developments.

42 Dewey, *op. cit.*, p. 144.

43 *Ibid.*, p. 145.

way, English investors withdrew the specie they had invested in the United States banks. While this was a serious blow, the financing of military campaigns exposed the inadequate condition of the financial policy of the state banks. As a result, paper money depreciated while specie increased in value. Soon the banks of the Middle West and southern states were drained of gold and silver coins and when Washington was captured in 1814, all the banks except those in New England were forced to suspend specie payments.[44] For more than the duration of the war this financial strangulation remained. Eventually Congressmen, merchants, capitalists, and others, saw the only real solution to economic and financial security in the reestablishment of the Bank of the United States.

In 1814 the Ways and Means Committee reported to the House of Representatives on the financial condition of the United States and indicated that taxes, loans and treasury-notes were the only means at hand for meeting the cost of war. Since taxes were too slow and loans could no longer be relied upon, more treasury-notes were the only solution.[45] While additional taxes were the logical solution, social unrest, business stagnation, paucity of liquid resources, and political forebodings augured against an increase. Private loans had proved unreliable and non-appealing to the

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[44] White, op. cit., p. 267.

[45] Annals of Congress, 13 Cong., 1 sess., 1813-1814, I, 1199.

people of wealth; for the United States treasury officials, when the quarterly payment loaned the Federal Treasury was due, refused to pay more than $100 to a person. While this action seemed justifiable from Secretary Gallatin's point of view, it was, in the eyes of the bondholders, unwarranted. Secretary Gallatin well knew that if the specie were ever disposed of, further hoarding and governmental embarrassment would increase. Such a stern policy, however, created a popular dislike for government loans, and the individuals, who under ordinary circumstances, would have favored such measures were not inclined to accept them without hesitation.

In February, 1811, Secretary Gallatin selected state banks as public depositories. The only condition required of them in the beginning was that in making discounts preference should be given to those having customhouse obligations to discharge. The reason was very just for the closing of the Bank of the United States and its branches would doubtless cause pressure on other banking institutions which might cause the government to suffer from the sudden dissolution of the parent bank.

Since specie had been suspended, very few banks would accept notes from other banks, thus checking the free circulation of treasury-notes. This tended to stifle business. The state bank notes then in circulation were not acceptable outside of the state in which they were issued.[46] These

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[46] Bolles, <u>op. cit.</u>, p. 19. As late as 1817 only one-ninth of their money was in specie.

banks had thus stopped the transmission of money. Banks that had not suspended specie payment were not inclined to circulate their specie or to accept the notes of non-specie banks because of the very great risk of receiving under-valued notes. Local banking institutions in the states did not trust one another. In fact, business firms would frequently decline to accept payments from another firm except in specie. This stagnation of finance and business of all kinds could have been, to a great degree, prevented had there been provided a sound means of circulation.

In view of all these strained conditions it was not surprising that the new Secretary of the Treasury, Alexander J. Dallas, suggested October 17, 1814, in his plans for financing the country three things: first, that a permanent annual revenue of $21,000,000 should be raised by taxes, duties, imports and excises; second, that there should be a temporary war revenue of $21,000,000 raised yearly by doubling the direct tax, the rates of postage, the old taxes on licenses, the old taxes on auction sales, the tax on carriages, and by levying new taxes on snuff and tobacco; and, third, that there should be a National Bank to supply a national circulating medium to facilitate exchange.[47] These suggestions of Secretary Dallas augmented by those of the Ways and Means Committee were put into the form of a bill for a new United

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47 American State Papers, Finance, II, No. 425, Washington, 1814-1815, pp. 868-869.

States bank. The location of the new bank was to be in Philadelphia. The capital was to be $50,000,000, of which three-fifths was to be subscribed by companies, corporations, or individuals, while two-fifths was to be subscribed by the Federal government. The capital thus arranged was to consist of: United States stock $20,000,000, subscriptions by companies and individuals in treasury-notes $6,000,000, subscriptions by companies and individuals in United States stock $18,000,000, and specie $6,000,000.[48]

On June 30, 1815, when the bill was presented for President Madison to sign, he vetoed it, and stated as his reason that the bank would fail to provide a reliable circulating medium, or furnish loans to the government in return for its franchise.[49]

Although the bill was lost it did not stop the agitation for a United States Bank. In December, 1815, Secretary Dallas again placed the subject before the Congress with some modifications of his previous propositions. He now recommended a bank with a capital stock of $35,000,000, to consist of three-fourths of government stock, and one-fourth specie, the bank was to pay a bonus of $1,500,000 in three installments to the government in return for the benefit of its charter; and no opportunity was to be given

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48 *Ibid.*, 1815-1822, III, 57-58.

49 James D. Richardson, *A Compilation of the Messages and Papers of the Presidents, 1789-1908*, Washington, 1909, I, 555.

for a suspension of specie payments in case of emergency. A bill incorporating his ideas was introduced in Congress in 1816,[50] strongly supported by Mr. Calhoun (South Carolina), Mr. Smith (Maryland), and Mr. Clay (Kentucky). Mr. Clay, speaker of the House, had previously, when a member of the Senate, opposed renewal of the first bank's charter. He now stated as his reasons for changing his attitude: first, he had been instructed to oppose the charter by his legislature; second, the old bank had abused its power in the interest of a political party; and third, he had previously doubted the constitutional authority of Congress to establish the bank. The situation he considered now was changed and the bank was justifiable.

Finally on March 14, 1816, the new bill was passed by the House with a vote of 80 to 71. To this bill the Senate acquiesced and the President signed it April 10, 1816.[51] The bank, thus organized, was to most authorities the only solution for a safe road over a very serious period. In January, 1817, the bank was opened. Had its first few years been properly supervised, it would never have won such sudden hatred by so many people. During its early years it was shamefully mismanaged and narrowly escaped destruction,

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[50] <u>Annals of Congress</u>, 14 Cong., 1 sess., 1815-1816, p. 53.

[51] <u>Public Statutes At Large of the United States of America, 1789-1845</u>, Boston, 1846, III, Chapter XLIV, 266.

but it was restored to a sound and prosperous condition in 1819.[52] The charter was for the most part a copy of the one granted to its predecessor. The money possessed or collected by the government at places where the bank or its branches existed was to be deposited therein subject to removal by the Secretary of the Treasury.[53]

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52 White, *op. cit.*, p. 275. *Niles Register* through the years 1817-1818 carried accusation after accusation from many leading newspapers condemning the officers of the bank and their management of the same. *Niles Weekly Register*, XIV.

53 This last provision later proved the final blow to the bank during Andrew Jackson's term as President of the United States. Dewey, *op. cit.*, pp. 203-204.

CHAPTER II.

Western Lands and Banks

The earliest colonial settlers along the Atlantic seaboard of what is today the United States realized the great advantage which might be derived from private ownership of some of the free lands along the coast and inland. After the coastlands were acquired and settled there arose from the colonists more and more demands for western lands.[1]

These demands for western expansion on the part of the colonists led to the formation of several land companies. Of these the Ohio Land Company, chartered in 1749 by several influential Virginians and Englishmen, obtained the right to settle a grant of about 200,000 acres, which they might locate south of the Ohio between the Monongahela and Kanawha

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1 As early as 1716, Governor Alexander Spotswood of Virginia led a scouting party of noblemen on horseback over the Blue Ridge mountains from Williamsburg. They took along slaves and provisions, consisting chiefly of cold meats and choice drinks. After thirty-six days of mountain climbing they reached the top. Governor Spotswood looked down into the valley to the west, and wrote on the back of an old letter, "I, Alexander Spotswood, Governor of Virginia, do hereby take possession of all this land in the name of his majesty, George the first, King of England." He then put the paper in a bottle, fastened on the cork, and buried it on the banks of the Shenandoah. The party then returned to Virginia where Governor Spotswood organized his followers into the "Knight of the Golden Horseshoe." He sent to England and got for each member a small gold shoe studded with jewels. King George honored the leader of this exploration by making him "Sir Alexander Spotswood." Fanning Cassiday Duncan, _When Kentucky Was Young_, Louisville, 1928, p. 6.

rivers.[2] About the same time the Loyal Company was granted 800,000 acres of land in the same section somewhat farther to the west.[3] These companies ere long sent out surveyors to select their exact claims and lay plans necessary for colonization. Other attempts at westward expansion were made before the 1760's only to be checked in their developments by the overlapping claims of French-Canadians to the same region.[4]

The outcome of the contested claims for the western country by French and English was the French and Indian War. The war retarded westward expansion for a time; but with the return of peace, the interest was speedily renewed, only to be thwarted by the Royal Proclamation of 1763.[5] Among other things this proclamation forbade white settlements beyond the watershed of the Appalachian mountains. While this decree kept out many ambitious pioneers, the idea of free lands, fertile fields and green pastures

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[2] They were to settle one-hundred families there within seven years and to build and maintain a fort. Christopher Gist was placed in charge of the fort. Duncan, *op. cit.*, p. 15.

[3] Edward Channing, *A History of the United States*, 1761-1789, III, 541.

[4] *Ibid.*, p. 542.

[5] The principal objects of the proclamation were, to provide for the government of the British Possession in America which had been acquired by the Treaty of Paris, to define certain interior boundaries, and to regulate trade and intercourse with the Indians. William MacDonald, *Documentary Source Book of American History from 1606-1913*, New York, 1917, pp. 113-116.

proved too magnetic to restrain the more adventurous pioneers, who were willing to risk the dangers of barbaric Indians. Presently sporadic settlements were found in the Ohio, Tennessee and Monongahela river valleys.[6] Nevertheless, with open insurrection in the coastal cities against the stern, rigorous, unwarranted policy of George III and his henchmen, and the threatening, if not actual Indian warfare on the frontier, little westward expansion of a permanent nature was made before England and her Indian allies were chastised.

After the American colonies had won their independence in the treaty of Paris in 1783, all the British lands east of the Mississippi and Iberville rivers and south of the Great Lakes became the property of the thirteen colonies and subject to their jurisdiction. This did not mean that the land could or would be immediately thrown open to white settlers; for the Royal Proclamation of 1763 had also provided that the lands west of the watershed of the Appalachians were to be preserved as reservations for Indian tribes.[7] It was necessary, therefore, to make treaties of removal with all these tribes before the right of permanent occupation could be maintained. The demands for the right to

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[6] In 1769 Watagua settlement was made, on the boundary between the western land claimed by Virginia and North Carolina, by John Sevier and James Robertson. In 1779 Robertson led a group of emigrants and settled on the Cumberland. In 1784 Sevier formed a short-lived State of Franklin in the eastern part of what is today Tennessee.

[7] MacDonald, _op_. _cit_., pp. 115-116.

expand became so pressing that treaties were soon made by agents of the United States government whereby the various Indian tribes gave up their lands on the upper Ohio river.[8]

By the Land Act of 1785, this territory was made ready for settlement by white people.[9] According to this act as small a holding as 640 acres could be purchased at the rate of two dollars an acre. Between 1785 and 1796 there were three large areas of land sold to three companies whose members proposed to settle colonists in the West. The Ohio Company of Associates actually bought 822,900 acres along the Ohio river in April, 1792.[10] On May 5, 1792 the John Cleve Symms Company bought 248,500 acres between the Great and Little Miami rivers,[11] near the present site of Cincinnati; and the State of Pennsylvania purchased 202,187 acres along Lake Erie.[12] By large purchases, rosy promises, and much political wire pulling, these companies acquired the land at a reduced price. They were allowed to pay for it in

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8 In 1775 the treaty of Fort Pitt was made with the Mingoes, Ottawas, Wyandottes, Senecas, Shawnees, and Delawares. In 1778 the treaty of Pittsburg was made with the Delawares after the tribes had broken the treaty of 1775. In 1784 the treaty of Fort Stanwix with the sachems of six nations was made. The treaty of Fort McIntosh was made in 1785 with the Wyandottes, Delawares, Chippewas, Ottawas. Ibid., pp. 185-186.

9 Thomas Donaldson, Public Domain With Statistics, Washington, 1884, p. 178.

10 Ibid., pp. 169, 197.

11 Ibid., pp. 164, 198.

12 Ibid., p. 198.

continental currency at a discount of 33 1/3% for swamp or otherwise useless lands.[13] These sales were made at a time when the treasury of the United States was empty and no other source of revenue could bring in the needed funds. These companies could thus provide land to settlers at a price lower than the stipulated government price. Prospective settlers could buy land from the Symms Company for fifty cents an acre with a two years credit on one-half of that amount, whereas they would have to pay one dollar an acre on land secured from the government with only three months credit.[14] Moreover, Symms would sell land in amounts less than 640 acres, which was a great advantage to the prospective settler who had little ready cash. In 1796 the land law was altered, providing that land might be paid for over a period of four years, but the purchaser must pay two dollars an acre.[15] This brought very little money into the treasury,[16] for people who wanted to move West could not get money enough to buy this amount of la nd and keep up their payments.

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13 Actually in hard specie they paid about nine or ten cents an acre.

14 The land law of the United States had been altered in 1787 allowing three months in which to pay for the 640 acres. This was the beginning of a credit system that was later to cause much grief to the government.

15 Donaldson, op. cit., p. 202.

16 Only a little over $112 had been brought in within three years, 1796-1799.

By the end of the eighteenth century there were enough people living in the district west of Pennsylvania and north of the Ohio to organize the territory known as Ohio. After this step in their political development, conditions began to look better for the West and William Henry Harrison came to Congress in 1799 as its first territorial congressman. Through the influence of Harrison the New Land Act of 1800 was passed. This act permitted as small a sale as 320 acres of land at a cash price of $1.84 an acre or at $2.00 an acre with payments spread over four years.[17]

This system brought many settlers into the West, some of whom had only money enough to meet the first payment. But they were ambitious people and hoped to be able to make the amount for the second payment off of their land or to borrow the money from some local source until they could place the acreage on a profitable basis.

Here banks enter the history of the settlement of the West. The early settlers in this territory needed money for three reasons: to meet the necessary expenses of the down payments on their land; to finance their trip to their new home and to keep them going until their farm was able to pay for itself.[18] The speed, or lack of it, in developing

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[17] They were allowed to pay one-twentieth of the price down and enough to make one-fourth of the sale price within forty days; then the second fourth within a year, and the third fourth at the end of the next year and so on until it was all paid. Donaldson, *op. cit.*, p. 201.

[18] Frederic L. Paxson, *History of the American Frontier, 1763-1893*, Boston and New York, 1924, p. 226.

the West depended upon the amount of capital that could be obtained for these first three necessities. The people of the United States, at that time, had little surplus capital. The merchant of the eastern cities could not afford to advance the settlers with the necessary means to provide food, farm implements, and supplies for as long a period of time as these western farmers would need it. A loan for three years at least was necessary, which meant, to the eastern banker, that his funds would be tied up too long. Western banks, manned by westerners, were, therefore, the only source upon which they might rely for an extended loan. Although the western banks later proved a menace to these same settlers, by demanding payments on their loans during pressing times, yet they made it possible for them to bear the first expenses of westward expansion which would not have been possible without them.

While the banks played the leading role in financing the western frontier settlements, their notes were not used as a medium of exchange by the westerner until early in the nineteenth century.[19] The people of the western states during their territorial and early statehood days depended upon barter for most of their business transactions. They

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[19] C. C. Huntington, "A History of Banking and Currency in Ohio Before the Civil War," Ohio Archaeological and Historical Publication, Columbus, Ohio, 1915, p. 255.

exchanged blankets, beads, cloth, and rum for furs and pelts.[20] There was, in fact, an early prejudice against paper money. Kentucky and Ohio settlers remembered the old Continental money and hesitated to possess it and similar issues.[21] During the early pioneer days in the West, residents were not seriously affected by fluctuating prices as were their eastern cousins, for most of their business transactions were carried on up and down the Ohio and Mississippi rivers to and from New Orleans where commodities were readily accepted in lieu of specie.[22]

But as trade increased along these rivers, the need for some sort of commercial protection became greater. In most instances, the merchants who traded along the rivers, had their business on the boats. They could not afford to risk its being destroyed by storm or stolen on the road to market. In order to insure protection to these merchants, insurance companies were chartered. In Kentucky, the Kentucky Insurance Company of Lexington was chartered in 1802,[23] and in Ohio the Miami Exporting Company of Cincinnati was chartered

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20 Peltries soon became the standard of value. A rabbit skin was worth about 6¼¢; a coon skin 12½¢; a fox skin 25¢; a deer skin 50¢. Robert McNutt McElRoy, Kentucky, in the Nation's History, New York, 1909, pp. 377-378; Reverend Charles Frederic Goss, Cincinnati, The Queen City, Chicago and Cincinnati, 1912, p. 171.

21 Shaler, op. cit., p. 172.

22 Ibid., p. 149; McElRoy, op. cit., p. 379.

23 William Littell, The Statute Law of Kentucky, II, 25-31.

the following year.[24] While the first aims of these institutions were to promote trade up and down the rivers, there was also inserted a very unusual clause in their charters, which allowed the companies the right to issue paper money. The Kentucky Insurance Company was authorized to hold and incorporate property to the value of $150,000, and to issue $100,000 in stock. It could give and take bonds, bills, and notes, and receive and pass them by assignment. In the twentieth section of its charter were these words, "And such of the notes as are payable to bearer shall be negotiable and assignable by delivery only." The company, finding it could use and pass many of these notes comprehended the tremendous possibilities of adequate paper for all those who desired it. To satisfy this new demand, modification of its charter was procured on December 19, 1804 which allowed a great increase in its circulation. At the same time the legislature promised not to charter any other insurance company until 1818 while this one operated. Thus the Kentucky Insurance Company was given broad privileges, a monopoly, on both insurance and banking. While this company was denounced by a later Kentucky legislature as a monied aristocracy and its charter mutilated, its notes and warrants had furnished Kentuckians with a large portion of its currency through the early years of the nineteenth

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[24] Goss, op. cit., p. 172.

century.[25]

The Miami Exporting Company was organized as the result of an effort on the part of Baum and Perry, and the Riddle, Bechtle Company, two firms which handled most of the river trade, to facilitate the navigation of the Ohio river.[26] They united with Jess Hunt, an important merchant, in forming a company in 1803. This company received a charter from the first General Assembly of Ohio to organize and promote trade up and down the Ohio river for a period of forty years. The charter granted them the privilege of engaging in ship-building, trading and banking. But since the capital came in very slowly and trade was too slow to make great and frequent turnovers, the company soon abandoned its trading and shipbuilding enterprises and specialized in banking. From this single business far more profit by loaning paper money to other merchants and traders was hoped to be made.[27] Not only traders and merchants needed loans but pioneer farmers were rapidly increasing in number.[28] Even then

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[25] The company was charged with expending credit to Aaron Burr and with favoritism in granting loans. Its capital stock was also largely owned by British subjects. W. E. Connelly and E. M. Coulter, History of Kentucky, edited by Judge Charles Kerr, Chicago and New York, 1922, II, 512.

[26] Goss, op. cit., p. 172.

[27] William L. Clark, Greater Cincinnati and Its People, A History, New York and Cincinnati, 1927, pp. 244-245.

[28] According to this law as little as one-hundred-sixty acres of land might be purchased in the west at $1.64 an acre for cash payment, or at $2.00 an acre extending over a period of four years; Donaldson, op. cit., pp. 203-204.

many people could not meet their second payments on their land and were forced to default.[29] A panacea of one kind or another was needed to relieve this financial strain and to encourage further expirations. More banks were, therefore, advocated so that more loans could be made. More lands could be bought and more people could be assured of economic and financial relief.[30] Between 1803 and 1811 banks appeared in one form or another in most of the frontier regions.[31] Of the many such institutions our attention is directed to the Bank of Kentucky, the Nashville Bank and the Miami Bank of Cincinnati. The charters of these three banks were all very similar. They were all allegedly sound institutions and not of the type that incited a craze for paper money. Their capital ranged from $100,000 to $2,000,000. The Bank of Kentucky established in 1806, had a capital stock of $1,000,000, half of which was reserved to the state, and the state was to name the president and was to name six of the twelve directors. Under the charter the Legislature might at any time double the number of directors. It was also allowed to establish thirteen branches, one for each of the thirteen judicial

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29 Between 1804 and 1806 there were 309 such defaults. Ibid., p. 204.

30 Although stay laws were passed by the government, postponing the payments on land, they did not serve to tide the people safely over those trying times.

31 A short-lived one was chartered in Michigan Territory in 1806.

districts.[32] The power which the legislature reserved over the bank was a dangerous one, for this made it a political rather than a financial institution. This political supervision helped bring about its failure; and at its failure, the creditors and customers of the institution were so rudely handled that an attitude of suspicion was engendered in the minds of those who suffered leading them to distrust and oppose any bank subject to politician's whims. In a short time, the notes issued by the Bank of Kentucky were a considerable part of the circulating medium; and the bank apparently became a strong financial institution.

The Nashville Bank established in 1806 was especially interesting and until its suspension during the panic of 1819 was among the most famous in the West. Its president was Mr. H. L. White who, when the bank was chartered, was sent East to learn the principles of financing. He must have learned them well for the bank remained solvent until 1827.[33]

In 1807, the Miami Exporting Company became the Bank of Miami.[34] It had a capital of $150,000 and its notes were soon in circulation, thus greatly augmenting trade and

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[32] One important function of the bank was to issue notes which circulated by delivery only. The amount that might be issued was limited to three times the capital stock. If this amount were exceeded the directors who permitted such action should stand liable individually for such losses as might occur. Connelly, *op. cit.*, p. 514.

[33] Paxson, *op. cit.*, p. 231.

[34] *Goss*, op. cit., p. 173.

business.

One probable reason for the sound basis upon which these banks rested was the influence of the Bank of the United States. This institution, as long as it existed, held a sort of control over all other banking institutions. Being the largest financial organization in the country, it had occasion daily to do business with the notes of nearly all of the eighty-eight other banks. Each of these banks was constantly being pressed to extend its notes beyond the safety zone by people who wanted to borrow. Many of the weaker banks took the chance of failure and extended their notes beyond the amount of currency they might be able to secure for redemption purposes, should the holder of such paper demand their redemption. The Bank of the United States was always a large holder of such notes, and when it demanded that they be redeemed, the weaker institutions were threatened with destruction. Hence, when borrowers came to obtain excess loans, the banker would inform them that it was the restricted policy of the Bank of the United States that kept them from making new loans.[35] This development stirred up agitation among the citizenry in the various states which in turn appealed to their Congressmen for aid. To the pioneer, who depended upon obtaining bank notes when needed to meet the necessary expenses of his establishing and

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[35] The Western Citizen, Paris, Kentucky, March 2, 1810; The Western Monitor, Lexington, Kentucky, January, 1809.

supporting himself and family in a new country, this was an entirely unnecessary restraint instituted by the parent bank. As was shown in Chapter I, Congress in the face of this agitation failed to re-charter the United States Bank when its charter expired in 1811.

The failure to re-issue the United States Banks a charter coupled with the enforcement of the Embargo and non-intercourse acts, and followed by the War of 1812, led to many social changes in America. In New England the States were transformed from commercial into manufacturing states, since they could no longer depend on Europe to supply their needs in manufactured goods.[36] Kentucky and other western states likewise introduced many new industries. But, of the western states, Kentucky was probably the most prosperous because it had two important moneyed crops, tobacco and hemp, to help bring in specie.[37] Although the trade along the Atlantic seaboard states during this period was at a standstill, trade up and down the Ohio and Mississippi rivers prospered.[38]

After the expiration of the Bank of the United States' charter, there was even less bank supervision than before. The believed large business and profits developed by this bank became a lure to tempt new ventures into the field;

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[36] <u>Niles Weekly Register</u>, Baltimore, January 2, 1815, XII, 312.

[37] <u>Ibid</u>., p. 313.

[38] <u>Ibid</u>., p. 313.

soon rapid speculation and wildcat banking establishments were found everywhere. All that was needed to start such a bank was a room and a supply of engraved notes. As a rule these banks received no deposits, and remained open one full day or two half-days every week. The banker used every known means to get his notes in circulation even to selling or loaning them at one-half their face value. If business prospered, he would remain and redeem his notes; if not, he packed his grip with the remaining notes and sought a more favorable field.[39]

Many honest groups of people put their capital together and opened up banking firms not only to make a profit but to try to satisfy the insatiable demand for bills of credit. In October, 1811, the Farmers and Merchants Bank of Cincinnati, Ohio was incorporated with a capital of $200,000,[40] about one-half of which was quickly subscribed and paid. The bank directors represented all the classes interested, one-third being farmers, one-third mechanics, and one-third selected as representative of capital. The Bank of Cincinnati

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39 There were a number of such wildcat banks in Indiana at this time willing to take any risks to make loans on farmers' land. Niles Register, XXVIII, 81. The Vincennes Bank and Farmers and Mechanics Bank in Indiana were sound, however. The Bank of Vincennes was established by the State Legislature in 1814 and was backed by the officers of the land office. The Merchants Bank had John Paul, hero of George Rogers Clark's campaign, behind it, as well as the land office. Their charters ran for twenty years and all notes issued were to be paid in hard money. Logan Esarly, A History of Indiana, Fort Wayne, Indiana, 1924, p. 267.

40 Goss, op. cit., p. 173.

opened business in 1814. It had a paid-up capital of $140,000. By the fall of 1814 these two banks together with the Miami Bank had issued thousands of dollars in notes with little specie as collateral.[41]

In most cases no attempt was made to regulate the banks of the western states. The man on the frontier, anxious to complete his payments for his land and make improvements was prone to accept the cheap notes gladly, and ask few questions. But, as paper became plentiful, specie became scarce since eastern bankers withdrew it from circulation.[42] Specie was even more scarce after the $7,000,000 stock of European capitalists invested in the United States Bank was withdrawn. The national government in distress for money at the time and at the mercy of the banks gave tacit consent to the suspension of specie payment which, it was said, was to continue only during the war.[43] The disturbed conditions in Europe as a result of the Napoleonic Wars aggravated the situation and forced all banks except those in New England and a few others into a similar condition.[44]

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41 A notice was published in the Liberty Hall and Cincinnati Gazette on December 26, 1814, from the three presidents of these banks stating that they would have to discount their notes if paid in specie because of existing conditions. Liberty Hall and Cincinnati Gazette, Cincinnati, Ohio, December 26, 1814.

42 White, *op. cit.*, p. 363.

43 *Ibid.*, p. 365.

44 The banks of Cincinnati, Ohio and Lexington, Kentucky continued to maintain specie payment until January, 1815. The Nashville Bank paid specie until July or August, 1815.

Since specie payments did not return at the close of the war, speculation was expanded.[45] The years 1815 and 1816 have been called "the jubilee of swindlers." During this period non-specie payment banks sprang up everywhere, New England excepted, with state charters and little, if any, supervision. The people in the frontier region, far removed from the eastern cities, understood little of the complex financial problems associated with banking. At times when speculation momentarily abated "hard times" usually reappeared. Such developments led the frontier man to the conclusion that to have constant prosperity there should be an abundance of banks with unlimited circulating notes. To them all that was needed were corporate seals, paper mills, printing presses and offices conveniently located. In 1815 the Legislature of Kentucky increased the capital of the Bank of Kentucky from $1,000,000 to $3,000,000.[46] This bank, which had always been conservative in its note circulation, now became a tool for the whims of the Legislature. When debtors found they could not yet meet their obligations, the Legislature passed a law in 1815 requiring creditors to take the suspended notes of the Bank of Kentucky as pay for the debt.[47] The result was a wild increase in prices based on the paper money.

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45 White, op. cit., p. 363.

46 Kerr, op. cit., II, 381.

47 Ibid., II, 381.

Land in Kentucky worth on an average of $38 an acre in 1809 increased in value to $150 per acre by 1815.[48]

High prices were no problem however, for anyone could get money and loans of unreasonable amounts. Besides, if prices kept up they could borrow money and make big turn-overs through speculation in land and merchandise.

One cause for speculation at the close of the War of 1812 was the unloading of the English surplus manufactured products. These products had been accumulating through the days of the embargo on the unprotected American market. American merchants were soon overstocked with cheap English-made goods. They forgot their own factories in favor of this cheap produce. Hezekiah Niles spoke of this mania for English-made goods. He told of thousands of persons who forsook their farms and workshops and became merchants. Everyone that could get hold of a few hundred dollars in cash sent it to the East along with all the credit they could borrow, to purchase foreign goods. People no longer, he said, spun their own cloth by the fireside, for they could purchase their cloth at a store.[49]

The mania for speculation in land was encouraged by

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[48] Farm produce prior to the panic of 1819 sold at 50¢ a pound, hemp at $80 a ton, and flax at $15 for 100 pounds. Town lots sold in Lexington, Kentucky at prices nearly as high as those in larger cities of the East. Even in Louisville, a smaller town, lots sold for as much as $30,000 an acre during the wave of speculation. Connelly, _op. cit._, II, 593-594.

[49] _Nile Register_, XXVIII, 81.

the credit system of the United States. By the Land Acts of 1800 and 1804 it will be remembered land sold on the installment plan. Speculators would buy up the western lands and re-sell them to immigrants at a big profit.[50] But these speculators, to get loans, to buy up English goods and cheap land, had to send their specie to the East. The better business man saw the danger of this, for with all specie drained from their country, they would be bankrupt should the paper notes be called in. Gradually jealousy of the eastern financiers increased and came to a climax when the Second United States Bank began to call in specie and demand a uniform currency.

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[50] Donaldson, *op. cit.*, p. 283.

CHAPTER III.

Western Defiance

Pressure on the local banks became more and more severe when the second United States Bank and its branches actually began to function. Especially was this pressure felt when the Secretary of the Treasury of the United States announced that after February 20, 1817, all dues to the government must be paid in:--

> ...legal currency treasury notes, notes of the Bank of the United States and in notes of banks which are payable in the said currency of the United States.[1]

This left about ten months for the state banks to arrange their finances.

The bubble of inflated paper was thus exploded. Liquidation was inevitable, and the indebted speculators were ruined. But the banks and the speculators were not alone in feeling the fangs of the new regulation. Many others could no longer meet their land payments since specie was unobtainable.

As a sequel, prices began to fall rapidly. Land was sold in Lexington and Frankfort for one-sixth of the price it had brought a few years earlier. Town lots which had sold for fabulous prices in villages like Shepherdsville

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[1] Dewey, *op. cit.*, p. 151.

and Carrollton, became unsalable;[2] slaves sold for almost nothing; laborers were thrown out of employment; and forced sales were repeatedly advertised in the papers of western cities. Manufacturing interests suffered so severely that industries were ruined, especially in the more recently settled parts of the country. These hard times forced thousands of white laborers to leave their homes and to migrate into Kentucky, Ohio, Indiana, and Missouri where greater opportunities appeared.[3] John Bradford, editor of the Lexington Gazette, described people of Kentucky as "writhing under agonies of the severest pressure." He asserted their produce was commanding but a mere nominal price abroad; their property would command less than one-third of its intrinsic value; and a few monied speculators were reaping the benefits of the re-adjustment, whilst other investors who would give a fair, honorable price, owing to the peculiar situation of the country, could not raise the necessary funds to retain a valuable estate. He charged that the specie was being constantly drained from the hands of the farmers, who had brought it into the West, and was being hoarded in the pockets of the Eastern bankers.[4] The disorder of

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[2] John Mason Brown, _The Old Court and New Court_, Durrett M. S. p. 22; a paper read before the Kentucky Bar Association, June 22, 1882.

[3] Connelly, _op. cit._, II, 597-602.

[4] _Kentucky Gazette_, Lexington, Kentucky, May 29, 1819.

currency did not check the establishing of banks. In the very face of the decree of the president of the United States Bank, more and more banks were established until, by 1818, three hundred and ninety-two were doing business in the country.[5]

From the very beginning the second United States Bank and its branches met with opposition from state and state bank officials. In the western states, especially, drastic measures were attempted to keep or to drive the branches of the Federal bank from their confines. Thus, they hoped to prevent in the future severe curtailment of paper circulation, so much needed in the West to expedite intercourse. The pressure of the banks brought up the old question of state-rights versus national supremacy. Again this issue was to be fought out over the bank question.

The first years of the bank's existence afforded many excuses for opposition to such an organization. The president and directors practiced many questionable policies. For example, dividends were actually delivered to a few shareholders who had not yet paid for the amount of original stock they had contracted to buy, thus keeping the stock lower than was originally planned. Added to this, certain speculative stock subscribers drew out of the bank in loans the coin paid in by other subscribers in order to

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[5] Pennsylvania and Kentucky were leading with fifty-nine each. Ohio had twenty-eight; Indiana, three; Tennessee, three. McMaster, op. cit., IV, 486-487; Connelly, op. cit., 596-597.

pay it into the bank again on subsequent installments on their shares.[6] Very little business paper was in the bank for the directors preferred their own stock notes. This procedure promoted the business interest of the directors but caused distrust on the part of the business man who also wanted to invest his surplus. An investigation of the financial stability of the bank showed that most of the shares were actually owned by a few men. George Williams, a director appointed by the government, owned 1172 shares in as many different names. In this particular case one man, acting as the attorney for all these different names, cast their votes.[7] When facts similar to these became known, the opponents of the bank enjoyed their opportunity of declaring that such an institution never could be anything but a dangerous instrument in

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6 William Horace Brown, The Story of a Bank, Boston, 1912, p. 54; one leading western paper commenting on such practices by the directors charged them with being one cause for the depression, and that no relief would be forthcoming until they were forced to sacrifice some of their interests to the public good. Public Advertiser, Louisville, Kentucky, August 4, 1818.

7 Ibid., p. 55. This entire information was learned as the result of an investigation held by a committee of the House of Representatives for that purpose. Their report is given in full in Annals of Congress, 15 Cong., 2 sess., 1818-1819, p. 335, ff. The Aurora carried an article when the wicked practices of the bank directors were learned, in which it asked how could a little rogue who forges a $5 note be punished when the nation allows such enormous forgery. The Aurora, Frankfort, Kentucky, April 20, 1819.

the hands of the wicked.[8] It cannot be questioned that political favoritism had much to do with the trouble that was brought upon the bank soon after its organization. But the worst and most objectionable features in the operation of the bank were removed soon after Langdon Cheves was made its president. He was strictly conservative and soon brought the bank's financial set-up into a sound condition.

The loose practices of the bank's administrators in the early years afforded a wonderful opportunity for state and state bank representatives to oppose openly such an organization. In 1816, when the residents of Indiana drew up their first constitution an article was included which prohibited the establishment of a branch of any bank chartered outside of the state.[9] A similar restriction was included in the Illinois constitution the following year.

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8 The Frankfort Argus carried an article describing the bank directors as a group of government swindlers, sweeping up the people's money; The Frankfort Argus, Frankfort, Kentucky, January 17, 1819. The National Advocate and the New York Evening Post were quoted as saying "a neat job of shameful stock-jobbing" had been practiced on the people by the directors. Liberty Hall and Cincinnati Gazette, February 16, 1819.

9 Nevertheless the banks of Indiana were soon to feel the restraining influences of the national bank for in 1817 the United States government refused to accept in payment for land, anything but legal currency, which was interpreted to mean coin, national bank notes, treasury notes and notes of specie-paying banks. Charles Roll, Indiana--One Hundred and Fifty Years of American Development, Chicago and New York, 1931, I, 393.

Attempts to drive out branches of alien banks through exorbitant taxes were made in one state after another. Maryland led off in February, 1817, with $15,000 on the Baltimore branch of the United States Bank. Cognizance of this levy was taken by Federal officials and when the collection of the tax was attempted the case of McCulloch vs. the State of Maryland was instituted. The questions discussed when the hearing was held before the United States Supreme Court were: has Congress power to incorporate a bank; has the bank, when incorporated, a right on its own authority to open branches in the several states; and, have the states power to tax such branches? The opinion of the court handed down by Chief Justice John Marshall, was, "Yes", to every question.[10]

Before this decision was reached, however, other states had levied similar taxes. In November, 1817, Tennessee placed a $50,000 tax on a branch of the United States Bank; and, in December, 1817, Georgia levied a tax of $31.25 on every $100 of bank stock employed within the state.[11] In December, 1818, North Carolina laid a yearly tax of $5000 upon a branch at Fayetteville. Then, in January, 1819, Kentucky employed the tax as a method of driving the national branches from Lexington and Louisville which already had placed loans of $2,500,000 to their clients.

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10 McMaster, *op. cit.*, IV, 497, 498.

11 *Niles Register*, 1818-1819, XV, 362.

When the notes held by these branch banks were due in November, 1819, the president of the bank refused to accept anything but specie.[12] Bank paper was refused because the capital of the Bank of Kentucky, a rival institution, had been trebled in the interim; thus the value of all local paper was endangered. To meet this demand of specie caused a great reduction in the amount in circulation; consequently business failures occurred all over the state.[13] Farmers who had borrowed money to pay for their land were foreclosed when they could not pay their obligations in specie. Even the government officials were charged with conspiring against them. Since many of the bank directors held government offices, the debtors believed they had been deliberately swindled by a collusion of Federal officials who were anxious to enrich themselves at the expense of the poor farmer.[14] Thus, through forced sales the banks and their officials soon owned most of the public land in Kentucky. It was estimated that three-fifths of the farms in the neighborhood of the

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[12] A Kentucky paper was quoted as saying that all the paper in the branches of the Bank of the United States and the Bank of Kentucky, and the specie combined, would not be enough to pay their debts to these branches; Niles Register, 1818-1819, XV, 385.

[13] Cotton bagging factories in Lexington had reduced from eight to one; and it did a small business. A Lexington factory, manufacturing bridle bits, plated stirrups, etc., reduced its employees to four men, and its capital to $2000, because of foreign importations of species. Ibid., p. 418.

[14] Ibid., XVII, 10-11.

banks went through the "sheriffs mill."[15] To the people of Kentucky, and others, these foreclosures were unnecessary and would never have occurred if the branch banks had not been in their state. The hated branches had not served Kentuckians at all. On the contrary they had gathered up large quantities of state bank notes and presented them for payment at a time when specie was scarce.

Kentucky's open hostility first took form when the Legislature met in December, 1818. The members of the Legislature voted a tax of $400 on each of the two branches of the parent bank within the state. Later in the same year the members of the Legislature, seeming aggrieved at its earlier leniency in view of the havoc everywhere created, passed a law January, 1819, to levy a monthly tax of $5000 on each branch.[16] They furthermore ordered the state auditor to instruct the Sergeant at Arms of the state to collect the tax by force if necessary. It was evident that friends of the local banks in the Legislature, harassed by hard times,

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15 The Aurora, a western newspaper, was quoted as saying the sheriff was the only westerner making any money in Kentucky, and he had such a steady business he was becoming wealthy. Ibid., XV, 60.

16 Kendall and Russell, Laws of Kentucky, 27th Assembly, 1 sess., 1818-1819, Frankfort, Kentucky, CCCXLIII, 637-639. In Governor Slaughter's message to the Legislature December 8, 1818, he had urged that immediate attention be made to the finances of the state and the problem of taxing the bank. He said he was not hostile to the bank but was personally against the system. Kentucky State Executive Journal, Frankfort, Kentucky, December, 1818, p. 525.

were determined to drive the hated Federal institution from the Commonwealth. When word of the last hostile act of the Legislature reached Washington, representative Timble of Kentucky, introduced a resolution to annul the charter of the United States Bank.[17]

When the time came to collect the first monthly tax the Federal branch officials refused to remit to the sergeant-at-arms. Even before the first installment was due the United States district attorney applied to the Federal judges for an injunction to stop the execution of the law. The application was made on behalf of the United States government, as a stockholder in the Federal bank, and the president of the branch bank at Lexington. The reason given for such a request was that Kentucky had violated the act of Congress incorporating the bank; that her law did not lay a tax, but imposed pains and penalties, for no other purpose than to drive the branches out of the state.[18] The court refused to consider the constitutionality of the Kentucky statute, as the United States Supreme Court was soon expected to hand down a decision covering this point.[19]

The Supreme Court rendered its decision March 6, 1819, in

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17 Annals of Congress, 15 Cong., 2 sess., 1818-1819, III, 395.

18 This was admitted by the more conservative Kentucky citizens.

19 It did grant a temporary injunction restraining the state from collecting the tax and required the bank to give security to the amount of $40,000 that it would not take its funds out of the state until the question was settled.

the case of McCulloch vs. the State of Maryland. In the face of this decision the Kentucky Court of Appeals unanimously sustained the state tax on the ground that the bank was unconstitutional. Two judges thought that they must yield to the Supreme Court, but the third, Mr. Rowan, thought that they ought to stand out and force further trial in the interest of state rights. The actions of the courts served to inflame the bank question again. The Kentucky Herald railed at the tyranny that saddled Kentucky "with a monster of iniquity." It declared the bank had been taken from the poor and handed to the rich; that it had paralyzed manufactures, brought in foreign luxuries, transported specie across the mountains, and driven the state banks into practices that were ruining the state. The state, it argued, had better give up her Constitution and become a territory again.[20]

Meanwhile, Ohio was attempting the same thing that Kentucky did. As early as December, 1817, a resolution was introduced into the Ohio legislature calling for a report on the expediency of taxing branches of the United States Bank within the state.[21] Bad feeling had been aroused toward the bank and its branches throughout the state because of their action in the spring of 1817. The federal branch had opened an office of discount and deposit at Cincinnati and caused much jealousy on the part of the local bank there.

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[20] McMaster, _op. cit._, IV, 504-505.

[21] _Cincinnati Gazette_, January 3, 1818.

Reasons for and against taxation were discussed in the state legislature, which finally declared that the branch banks of the United States were subject to a tax just as any corporate body would be if acting under the authority of that state.[22] In January, 1818, a resolution was drawn up in the lower house of the state legislature which stated, among other things, that the states in the union were independent and sovereign; that Congress has the right to establish a bank, but no law was given which conferred upon the corporation so organized, exemption from taxation, either by the State or the United States; that, if Congress had power to exempt this corporation, it had power to exempt any corporation it chose;[23] and, furthermore, the absolute control of the United States government over these banks would endanger the private business man, for it could easily control the public market and monopolize commerce. Final action on the bill was postponed until the next session of the legislature which met in December, 1818.[24] Meanwhile, the bank directors instead of heeding the warning and leaving the state, increased hostility against it by opening another office at Chillicothe in the spring of 1818.[25] In July of that year the parent bank ordered that the Cincinnati bank collect the balance due

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[22] McMaster, _op_. _cit_., IV, 506-507.

[23] _Cincinnati Gazette_, January 19, 1818.

[24] _Ibid_., p. 308.

[25] Goss, _op_. _cit_., p. 316.

from the local banks at the rate of 20% a month, and the land agent was instructed to take nothing but United States notes and specie in payment of land sales.[26] When these things were known, the local banks were forced to suspend specie payment, November, 1818.[27] A committee of the bank presidents of the local banks reported as their reasons for suspending specie payments that the circulating medium was withdrawn from the country since the branch bank had been erected in their district; that the balance of trade had always been against the western country for its imports are more than its exports; and that since their paper notes would no longer be accepted in the eastern cities, it was to the interest of the West to stop this draining of the specie from their banks. The committee believed the branch banks did not need the added specie but that their purpose was to drain the specie from the West to increase the power of the parent bank. This parent bank needed specie to meet the demands of the eastern merchants, who did an enormous business with the East Indies, where only specie was accepted as payment for goods.[28]

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26 _The Western Spy_, Cincinnati, Ohio, July 20, 1818.

27 The state banks suspension was instantly followed by those at Dayton, Lebanon, Urbana, Zanesville; and at the meeting of bank delegates from middle and western Ohio, it was agreed to petition the Legislature to take back their charters and repeal their bonus law. _The Western Spy_, November 7, 1818; _Liberty Hall and Cincinnati Gazette_, November 17, 1818; McMaster, _op. cit._, IV, 487.

28 _Liberty Hall and Cincinnati Gazette_, November 17, 1818.

Newspapers bristled with opposition to the United States Bank and branches because of this practice of draining the West of its specie for the East.[29] A demand was written to Secretary of the Treasury, Mr. Crawford, asking him to explain the action of the bank and its branches. The bank was charged with draining the specie out of the state banks, when it had not added one dollar to the state, and shipping it East so that eastern cities could carry on their East India trade.[30]

The state treasury's refusal to accept many Ohio banks' notes as payment of taxes, and the foreclosures and mortgages on every hand did not help the feeling toward the bank's branches. As a result, when the Ohio legislature met in December, 1818, hostility was intense. The main political issues of the state election that year had been the opposition to the bank. Governor Brown was elected to his office on the platform of taxation of the United States branches located in his state.[31] In his message, December 16, 1818, to the

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29 Ibid., November 10, 1818; Chillicothe Supporter, November 3, 1818. When $120,000 of specie was loaded in two wagons and hauled from Chillicothe to Philadelphia, one writer said, "So the specie goes from our western country! Such are the blessed effects of our mammoth bank." On January 5, 1819, a large amount of specie left Louisville for Philadelphia. February 23, 1819, the steamboat Perseverance left Cincinnati for Philadelphia with thirty passengers and $400,000 specie.

30 The article was signed, "The people of the Western Country" and appeared in the Liberty Hall and Cincinnati Gazette, Cincinnati, Ohio, December 1, 1818.

31 Eugene Hallaway Rosenboon, History of Ohio, New York, 1934. p. 130.

legislature, he said that even the constitutionality of the bank was dubious; that the main source of revenue in the state was stopped since the land tax must be paid in specie. Consequently he argued that, while it was not advisable to oppose the branch banks yet, there was no evident reason why these branches should be exempt from taxation and the state banks taxed.[32] After much deliberation in the legislature, a tax was levied, February 8, 1819, that fixed the amount to be paid by each branch at $50,000 a year.[33] On September 15, the state auditor was required by the law to collect this amount. Should the amount be refused the tax collector, appointed by the auditor, was to take any specie, bank-notes, goods or chattels he might find in the bank. He might even open the vault, closet, drawer, or box, and seize whatever they contained until the amount of the tax was secured.[34] A few weeks after this law was passed the decision of the Supreme Court was handed down in the case of McCulloch vs. Maryland.[35] In view of this decision, the branch banks continued operation in Ohio. But the state auditor, Ralph Osborn, was obliged to carry out the mandates of the state. Since the legislature had not been in session since the Supreme Court's decision was passed, he had no instructions

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[32] Niles Register, XV, supplement 92.

[33] Laws of Ohio, 1819, XVII, 190.

[34] Ibid., p. 191, ff.

[35] See above chapter.

from that body to stop his carrying out the collection of the tax. The bank president at Chillicothe had petitioned the United States Circuit Court, which was sitting at Chillicothe then, asking for an injunction against the collection of the tax, and in September, Osborn was notified of the granting of the injunction. At the same time he was presented with a subpoena to appear before the court to answer the petition.[36] But, it was argued, Ohio passed her law taxing the bank before the Supreme Court pronounced its celebrated opinion. Then Ohio could not be charged with rebellion against the court decision, and Osborn should collect the tax.[37] So, on September 15, the state auditor was instructed to make out the warrant for the tax.[38] Osborn issued a warrant for the collection of the tax to John L. Harper. Harper was assisted by Thomas Orr and some mounted guards who were to guard the wagons after the money was secured. On the evening of September 17, just before the bank closed its doors, Harper and his helpers appeared and presented the warrant. The money being refused, he entered the vault, seized the specie and bank-notes he found, loaded them on the wagon and carried them to the Bank of Chillicothe for

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36 McMaster, op. cit., p. 499.

37 Liberty Hall and Cincinnati Gazette, November 2, 1819.

38 Even the auditor would have refrained from levying the tax, had an injunction been regularly served upon him. He waited until the papers that were served upon him were submitted to the state council, who decided that they did not amount to an injunction. Ibid., November 2, 1819.

the night.[39] In his haste he took an excess of the $100,000 which was demanded.[40] The next day he secured the money, and accompanied by Orr, started in a wagon to Columbus to pay the money over to the State Treasurer. On the way, they were presented with a second writ restraining them from paying the money over to the state auditor or making a report to the legislature. Harper disregarded the writ and paid the money over to the State Treasury. The agents of the auditor were finally arrested for trespassing with violence, and being unable to furnish bail were placed in prison, but were finally released on a technicality.[41] The Bank of the United States then made a second demand on the Franklin Bank at Columbus to return the money, and again was refused. A second bill in chancery was filed against Osborn, the State Treasurer, Harper, Orr, the Bank of Chillicothe, the Bank of Franklin, and the persons who acted as guards to Harper. This suit was later dismissed.

The newspapers were full of the Ohio tax question. One writer argued that Ohio had not disregarded the Supreme Court since the tax was levied before the decision was

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39 McMaster, op.cit., p. 499; Cincinnati Gazette, September 23, 1819; also, Niles Register, XVII, September 24, 1819.

40 This he hastened to return the next day, but was refused admittance to the bank. Cincinnati Gazette, September 23, 1819. The exact amount he removed was $120,425. The excess amount was returned on the fifth day and accepted.

41 It was shown they were arrested by a person acting as special bailiff. The court held that the marshall could not make a special bailiff, so the arrest was pronounced illegal. McMaster, op. cit., p. 499.

pronounced.[42] Another said the branches were located in the state in opposition to a law which forbade the United States banks, but Ohio thought it more to the interest of the state to collect the tax than enforce the law. He was of the opinion that the tax would be removed if the banks would agree to move. He said Ohio did not want to collide with the government of the United States, but that the state knew how and where to draw a distinction between the government and a pack of "shavers and money changers."[43] Another writer said he believed it was the right of the state to interpose, at all times when anything stopped the progress of its people.[44] Still another writer was quoted as saying that local sentiment was so strong in opposition to the Federal bank that it was becoming a political issue and every candidate in order to secure votes would have to pledge to support the people against it.[45]

The governor disapproved of the performance, and declared he was ashamed it happened in Ohio, but he could not have the money restored.[46] The _Inquisitor_ and _Cincinnati_ Advertiser of October 19, 1819 printed numerous extracts from other papers regretting that Ohio had defied the United

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42 _Liberty Hall and Cincinnati Gazette_, November 2, 1819.

43 _Ibid._, November 2, 1819.

44 _Ibid._, November 2, 1819.

45 _Niles Register_, XV, 1818-1819, August 28, 1818.

46 Brown, _op. cit._, p. 68.

States Courts. About the same time the Liberty Hall remarked:

> It appears to have created as much consternation as if it had been an overt act of treason or rebellion,"

and added,

> If the general government can create a monied institution in the very bosom of the state, paramount to their laws, then indeed is state sovereignty a mere name, full of sound and fury, and signifying nothing.[47]

In general, public opinion in Ohio at the time supported the state officials for enforcing the state law against the bank.[48]

The Ohio elections in the fall of 1819 were influenced by the bank fight. One candidate for the state senate and one for the house came forth with a parody entitled the "Declaration of Independence against the United States Bank," in which the bank was charged with having "quartered large bodies of armed brokers among them," and stated that all connections between the people of Ohio and branch banks aught to be dissolved and that as a free and independent state they had full power to levy a tax upon all banks within the jurisdiction of whatsoever denomination and by whomsoever established.[49] General Harrison, candidate for state senate from Cincinnati district was elected principally because he declared he was an enemy to banks in general and especially

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47 Liberty Hall and Cincinnati Gazette, October 5, 1819.

48 Ohio Archaeological and Historical Publication, op. cit., p. 321.

49 Ibid., p. 320.

the United States Bank which he considered was an immense political engine used to strengthen the aim of the United States government to break down the state governments.[50]

When the legislature of Ohio met, it passed an act outlawing the bank,[51] but the Supreme Court of the United States overruled it, and the act was repealed. On February 2, 1821, the legislature passed an act providing that the state would return $98,000 of the tax collected[52] and the branches continued in the state.

The attempt to get the branch banks out of the states through taxation having failed, the states attempted other drastic measures to obtain relief from the monster. The continued distress and gloom that pervaded the country from 1819 to 1821 inclusive, caused many cries for aid and stays in paying public debts. State legislatures appealed to the parent bank to remove the branches from their state; and state delegates to Congress were instructed to vote to repeal the charter of the bank.[53] The credit system then prevailing in the sales of public lands caused a debt due

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[50] Niles Register, October 30, 1819, p. 139.

[51] Brown, *op. cit.*, p. 69.

[52] Brown, *op. cit.*, p. 68.

[53] Niles Register, XV, 385.

the government of $22,000,000.[54] The situation was desperate. When Congress opened in 1820 charges were made on every hand that the United States Bank and its branches had made the people debtors and it was the duty of the government to remedy matters. References to the financial conditions were made in President Monroe's message.[55] Most of the western Congressmen brought similar petitions from their states[56] praying that buyers might be permitted to apply the payments already made to such portions of their entries as such payments would cover, at two dollars an acre, and that the residue might revert to the United States.[57] A bill to that effect was presented to Mr. Williams of Tennessee and Mr. Thomas of Illinois, and was passed by both houses and signed by the president in 1820. The same year, a new law (sponsored by Thomas Hart Benton) which allowed as little as eighty acres of land to be purchased at the rate of $1.25 an acre cash, was passed by

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54 Donaldson, op. cit., p. 203. The gross quantity sold under this system was 19,399,158.04 acres for $47,689,563.09. More than half of it then was still due. The government and people were having a default. The Kentucky Reporter speaking of the speculation in public lands charged the banks with conspiring with the government to encourage it by allowing it to be sold on credit; quotation from Niles Register, XVII, September 4, 1819.

55 Richardson, op. cit., I, 78.

56 Among the petitioners were Mr. Johnston of Kentucky, Mr. Walker of Alabama, Mr. Noble of Indiana, Mr. Ruggles of Ohio, Mr. Timble of Ohio, Mr. Thomas of Illinois, and Mr. Williams of Tennessee.

57 Annals of Congress.

Congress. No longer was land to be sold on credit.[58]

Many states passed relief laws; Kentucky, Illinois, Missouri and Tennessee. In Kentucky where most of the people were in the debtor class, there was no improvement in economic conditions. As the creditors pressed their debtors, cries for relief came to the legislature. The encroachments of the United States Bank and its branches, the continual shrinkage of paper money, the pitiless forced sales and daily dispossessions of small farmers because of their debts, made relief the chief issue in the annual elections.[59] In 1819, all questions except relief were ignored. The relief party wanted to help to escape the consequences of its debts, some unavoidable and legitimate, others the results of unbridled speculation in the days when cheap money ruled.[60] The anti-relief party contained the creditors who wanted nothing done that would endanger their securities. They were classed by their opponents with the

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[58] Donaldson, op. cit., p. 205.

[59] Kentucky Gazette, December 3, 1819.

[60] Niles Register spoke of the times when people had nothing to do but order money and they had it. This easy money set them wild. They built stately houses, furnished them with expensive furniture; had coaches and coachmen, banquets and teas. The old farmhouse became the kitchen to the new mansion. Wine cost $8.00 to $10.00 a gallon, bonnets cost $50.00. The sober and discreet were called vulgar folk. The borrower of $100,000 was a gentleman of rank. They spent money on things that could not be replaced. He said in the words of Mr. Franklin that now the people were "paying very dear for the whistle." Niles Register, XVI, 257-258, January 12, 1819.

banker element and were charged with bringing on the depression since they helped curtail prices by enforcing specie payment. Naturally, the relief party won the election, obtaining a majority in both houses of the legislature and electing a relief governor.

In every section of Kentucky, meetings were being called to see what could be done to stop the depression. A meeting of Kentucky citizens at Frankfort, county seat, was held May 14, 1819. Charges were made that the banks were responsible for the depression and should bear their part of the burden. Demands were made for an immediate session of the legislature to force, by law, the banks to suspend specie payment.[61] On the other hand, Mason County Kentucky citizens held a meeting on June 2, 1819,[62] blaming the branch banks of the United States in Kentucky with pressing conditions, not charging, however, that the paper money needed to be increased. These citizens believed the chartering of the forty-six new banks in Kentucky had increased the hard times rather than helped; that the rage of speculation had originated in the same towns that wanted to increase the banks which had disregarded economy. This cry, the citizens charged, was that of the speculator and not that of the

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61 Ibid., supplement, 16-17.

62 Ibid., supplement, 17; an article quoted from The Union published at Washington, Kentucky.

distressed.[63]

Other such meetings and numerous newspaper articles so stirred up feeling that Governor Slaughter issued a statement, October 1, 1819, in the Frankfort August to the effect that if the majority of the members of the state legislature deemed it necessary, he would call a special session of the legislature to meet the first or second week in November, to see what could be done to relieve the distressed.[64] As a result, meetings were held, or inquiries were made by most of the legislators of the state. In most instances the legislators informed the governor that the people in their section of the country deemed a special session necessary.[65] The governor then issued the call. In December that session of the legislature passed a relief law which suspended sales under execution for sixty days if the debtor promised to pay at the end of that time.[66] Bills affording every

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63 In commenting on these meetings and others like them held in other counties, one writer contrasted the type of people that attended each. He said the Frankfort meeting was accompanied by much riotous drinking and hubbub, and that beer was plentiful whether money was or not. As a contrast the Mason County citizens were a conservative sober folk who opened their meeting with prayer and an appeal to God to guide them in their decisions. Niles Register, XX, 36-37.

64 Frankfort Argus, October 1, 1819.

65 Information found in a collection, labeled Miscellaneous Papers, in the Kentucky State Historical Library in Frankfort in a packet called Eighth Governor of Kentucky, Gabriel Slaughter, Section I.

66 National Intelligencer, Washington, D. C., January 1, 1820; Kerr, op. cit., p. 607.

sort of aid came before the legislature during the session and a number became laws.[67]

Owing to pressure on debtors from the two branch banks, from the thirteen branches of the Bank of Kentucky, and from the forty-six independent banks, failures among the people were inevitable. The "Forty Thieves," as the independent banks were called, had been in bad repute from the beginning and early began closing their doors. Every one refused the notes it had issued.[68] In February, 1820 the charters of the independent banks were repealed.[69] The Bank of Kentucky was in good standing until the legislature increased their paper circulation and until the "Forty Thieves" crippled it. Its charter was finally repealed in 1822, but it was allowed time to wind up its affairs.[70] The two national branches now had the whole banking business of the state under control.

Very soon after the legislature repealed the charters of the banks it continued its work of relief by extending the power of replevying judgments from three months to

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[67] Kentucky Gazette, January 3, 1820.

[68] Merchants, butchers, cab drivers, carpenters, etc., refused their notes. Even the counterfeiters ceased to imitate them. Ibid., July 16, 1819.

[69] Lewis Collins, History of Kentucky, enlarged by his son Richard H. Collins, Covington, Kentucky, 1882, I, 29; Kendall and Russell, op. cit., DXXXVIII, 908-911. Wilson, op. cit., p. 124.

[70] Ibid., p. 30.

twelve months.[71] If the creditor refused the notes of the Bank of Kentucky in discharge of their debts, the debtor could replevy for two years.[72] These relief measures encouraged to debtors to feel that the legislature could further protect them from the consequences of his rashness if men of the right type could be elected. The politicians at once saw the political power that lay in the campaign cry--Relief. As a result, a majority of the legislature after the election of August, 1820, stood pledged to relief measures. Governor John Adair was elected the Relief Governor by a small margin.[73]

In response to the demands of the populace in Kentucky for cheap money, the legislature, November 29, 1820, created the Bank of the Commonwealth.[74] The new bank, having a capital stock of $2,000,000 was to belong exclusively to the state, and was issued a charter for twenty years.[75] The law allowed the paper of this bank to be payable and

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[71] Ibid., p. 31.

[72] The Kentucky Gazette, January 31, 1820. Wilson, op. cit., p. 125.

[73] Collins, op. cit., I, 29; Smith, op. cit., p. 508.

[74] Kerr, op. cit., p. 609.

[75] Its president and twelve directors were chosen by ballot, annually, by both houses of the legislature. The main bank was to be at Frankfort and it might have a branch in each of the judicial districts. The notes turned out of the bank were virtually a legal tender for all debts, and were never required to be redeemed in specie. McElRoy, op. cit., p. 486.

receivable for all public debts, taxes and certain lands owned by the state. The creditor was required to receive this bank paper in payment of his debts, but should he refuse to accept this paper in payment then the debtor might replevy the debt for two years.[76] If the creditor accepted the notes of the bank, then the stay could only be three months. To accept payment in the paper of this bank meant only to receive half the value of the debt. The creditor naturally objected and the gulf between the creditor and debtor class became even greater. Under their new names, Relief and Anti-Relief, they continued the old fight.

The creditor class began to appeal to the courts to protect their property. The decisions rendered by these courts caused them to become involved in the struggle. A popular case that tested the court's position was that of Williams vs. Blair which was tried in the Bourbon County Circuit Court, August, 1821. In this case, Mr. Williams brought suit against Mr. Blair for $219.67½ plus the cost of the suit. Blair, by the stop-collection law, replevied the debt for two years. Judge Clark, before whom the case was tried, reserved his opinion until May 13, 1822 when, after considerable hesitancy, he declared the repleven law

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[76] William Graham Sumner, Andrew Jackson, Cambridge, 1924, p. 161; McElRoy, op. cit., p. 386.

of December, 1820 null and void.[77] He gave in detail his reasons stating that the law was a violation of the state and Federal Constitutions because it impaired the obligation of a contract. He seemed to imply that the act establishing the Bank of the Commonwealth was unconstitutional. To the debtor class, this decision meant that the courts were alligned against them and the hatred for the courts grew as had the hatred for the banks. This decision of the court was soon followed by other such decisions concerning replevin laws. Hostility increased. Every debtor declared that such judges were their enemies, that they were not interested in the needs and welfare of the people and therefore should be removed from their position.[78]

When the delegates to the state legislature met in May, 1822, they called Judge Clark before them to account for his decision in the case. He made a scholarly reply charging the legislature to repeal the replevin laws and explained clearly the reasons for his decision.[79] Kentucky had a law that allowed judges to hold their office during good behavior, subject to removal on impeachment grounds by

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77 Niles Register, XXII, supplement, 153-155, gives Mr. Clark's whole decision. William Littell, Esq., <u>Reports of Cases at Common Law and in Chancery decided by the Court of Appeals of the Commonwealth of Kentucky</u>, Frankfort, IV, 1823, 34-46.

78 <u>The Argus of Western America</u>, April 20, 1822.

79 <u>Niles Register</u>, XXIII, supplement, 518.

the governor and a two-third vote of both houses.[80] After a spirited debate on the question, a vote was taken but the necessary two-thirds was not received to remove him from office.

Meanwhile the Supreme Court of the United States handed down some decisions that were contrary to the will of the relief advocates. The United States Circuit Court declared the replevin laws of Kentucky unconstitutional. A short time afterward the United States district court of the state had decreed that every judgment it issued in execution of a debt should be paid in gold or silver instead of Kentucky paper. Money and that no replevin for more than three months should be allowed.[81] In these cases and many others tried in the various courts, the Relief Party usually lost the decision.

The Supreme Court's decisions in these cases caused it to be branded as not only hostile to relief for the poor debtors, but an ally of the hated Bank of the United States aiding it in defrauding the settlers of their property.[82]

Probably one of the strongest relief supporters was Amos Kendall, editor of the newspaper, *The Frankfort Argus of Western America*. He was an able lawyer, a director in the Bank of Commonwealth, a bitter enemy to the Bank of the United States, and a crooked politician who used his news-

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80 Richard H. Stanton, *The Revised Statutes of Kentucky*, Cincinnati, 1860, I, 85a-85r.

81 McMaster, *op. cit.*, p. 415.

82 *Kentucky Gazette*, March 28, 1822.

paper to fight the banks.[83] He spoke of the powerful corporation composed exclusively of the wealthy aristocrats of America, rich aliens and residents of foreign countries. He said it was these people that were urging the court to crush the laws of the states.[84] Men like Kendall and his friend Frances P. Blair carried on the Relief War in Kentucky for a much longer period than in most states. The appeal for relief was a popular one and Kendall used it to his advantage to keep his business interests going.

The election year again hinged around the question of relief; but, now the parties received new names. The Relief party opposed the old courts and advocated the establishing of new courts; hence they took the name New-Court Party. The Anti-Relief party became the Old-Court Party.

In 1823 Governor Adair's message to the legislature approved the relief system, and denounced the courts in deciding the replevin laws unconstitutional. The decisions of the courts, he said, were a usurpation of power.[85] Again the legislature tried to remove the judges of the Circuit

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83 Sumner, Andrew Jackson, p. 183.

84 Argus of Western America, Frankfort, Kentucky, March 12, 1824. This paper, for several years, was published principally as a means of fighting anti-relief, the United States Bank, and Old Court delegates.

85 After Governor Adair's term as governor expired, he petitioned for redress, on account of the payment of his salary in depreciated paper. Sumner, op. cit., p. 164.

Courts from office only to fail to obtain the necessary two-thirds vote favoring removal.

Since all attempts at removal had failed, the legislature sought another remedy. On December 24, 1824, it passed a law repealing the laws under which the Court of Appeals was organized, at the same time passing a bill under which a new court was organized.[86] The Old Court denied the constitutionality, both of the Repeal Act and the New Court Act, and continued in existence. The state now had two courts of the same jurisdiction holding court at the same time.

The New Court and Old Court continued to be the main parties in the year 1825.[87] The Old Court Party was gaining ground probably because financial conditions were beginning to adjust themselves. They won a majority of the delegates in the House, and in 1826 a majority in the Senate.[88] When the legislature met they abolished the New Court and restored the Old Court to its former position.[89] Financial conditions of the people were becoming adjusted to the new conditions.

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86 Kendall and Russell, *op. cit.*, 1824, p. 44-56.

87 *Niles Register*, XXVIII, 277; Kerr, op. cit., p. 610.

88 *Ibid.*, p. 612.

89 *The Argus of Western America*, July 5, 1826. Amos Kendall made a futile appeal to the people to defend the stay and replevin laws.

CHAPTER IV.

Financial Stability

Beginning with the year 1822 the treasury of the United States settled down to a long term of prosperity. With the exception of the year 1824 an annual surplus was turned into the treasury. Thus, until the panic of 1837, public finances were in excellent order. The receipts from customs were fairly constant in volume after 1825, and this, together with the steady growth in receipts from sales of public lands wiped out the public debt by 1835.[1]

By 1826 the agitation against the United States Bank and its branches had practically vanished. The people had begun to realize that they had been benefited by a safe banking system; for, while the bank was discredited during its early years, these mistakes were corrected under the supervision of Langdon Cheves's and Nicholas Biddle's conservative policies of banking. During the period of their presidencies the central banking system so well regulated the currency that its purchasing and debt-paying power was practically stable and uniform. The bank was prompt in redeeming its paper and provided a safe depository for public moneys, which it transferred at little or no cost.[2] It greatly diminished the cost of domestic exchange, and,

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1 Dewey, _op_. _cit_., p. 168.

2 White, _op_. _cit_.

by means of its branches and uniform laws, tended to equalize interest and discount its notes. Under the benefits of this bank the people were beginning to experience for the first time the blessings of a stable currency. The political opposition to the bank, as a corrupt monopoly aiming to destroy the sovereignty of the states, had been subdued. The people had suffered no panics but on the other hand, had experienced a period of unusual prosperity. It is true there was an incipient panic in 1825 which caused a slight opposition to the bank, but, due to Cheves's good management, the people lost nothing, and the faith of the bank as a financial organization was increased.[3]

Every year the population of the west was growing, especially after the Land Act of 1820 which cut the size and price of farms to a reasonable level. Eastern cities interested in western trade encouraged and financed western settlements. Canals were being dug, roads improved, and steamboats were plying the western rivers. In 1825 the Erie Canal, promoted by New York City, was opened.[4] The canal was a help to the east and west alike, for it gave the west an opportunity to get its produce to market and gave the east that much needed produce for its factories. The Cumberland Road, long since needing repair, had afforded a means of much westward expansion. By 1825

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[3] Brown, op. cit., p. 203.

[4] Paxon, op. cit., p. 263.

appropriations were being made in Congress to pay for the extension of that highway to the Mississippi.[5] Pennsylvania and Maryland had begun to play for western trade by developing the Pennsylvania system, which was a series of canals and railroad tracks connecting Pittsburg with Philadelphia.[6] In 1827 the Ohio Railroad Company's charter was granted.[7] That same year South Carolina chartered a railroad between Charleston and Hamburg.[8] Congressmen from these various states were being urged to get appropriations to help finance these projects. Thus a closer relation was growing up between the eastern and western sections.

The increase in the production of raw textiles in the western states changed their political alliances. Kentucky and Ohio became interested in protection for their raw hemp and wool. These needs brought Henry Clay to the fore again with a system to combine protective and internal improvement issues.[9] By passing a protective tariff he hoped to satisfy the manufacturer as well as the west, and by passing a law to spend money on internal improvements he again hoped to interest both sections.

In Ohio other interests caused them to cease their

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[5] *Ibid.*, p. 258.

[6] *Ibid.*, p. 264.

[7] *Ibid.*, p. 266.

[8] *Ibid.*, p. 267.

[9] McMaster, *op. cit.*, V, 166.

opposition to the financial policy of the United States. They wanted to promote a series of canals and needed eastern finance to back their projects. The security of good roads and canals seemed to be a factor upon which the future prosperity of the state depended.[10] The wild mania for banks and cheap money was dying out. The Osborn tax case had ceased to interest many people, for the good sense of the plain people had prevailed and they had decided to abide by the Supreme Court decision. In 1826 the law making the United States Bank an outlaw was erased from the statutes. The revival of prosperity, the reduction in the price of lands, the increasing importance of sectionalism and the development of a more nationalistic viewpoint had gradually led to a marked change in public opinion.[11]

In Kentucky with the triumph of what were called "correct principles" the former prosperity of the state returned. The notes of the Bank of the Commonwealth were gradually paid off. By successive acts of the legislature the paper was directed to be gradually burned instead of re-issuing them.[12] In a few years its paper disappeared from circulation and was replaced by the issue of the United States Bank branches. The citizens of Kentucky ceased to clamor for so much relief. Law and order took the place of anarchy, and once more Kentucky joined the

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[10] Roseboom, op. cit., p. 135.

[11] Ibid., p. 136.

[12] Smith, op. cit., p. 519.

march of progress along with her sister states. Steamboats plied her rivers. Cities developed rapidly. Louisville gave employment to forty-two steamers making one-hundred-forty trips and carrying 28,000 tons of freight.[13] The bitter jealousy of the banks was pushed into the background. Even Amos Kendall was noted as having ceased his sarcastic remarks in his paper.[14] He no longer used the epitaphs rags, trash, etc., so liberally in reference to the banks. The Relief advocates of Kentucky were interested in the national political campaign. They were willing to cease their fight against the Old Court Party in order to sweep the whole state in a united force for Andrew Jackson as president. From June to August, 1828, Amos Kendall's Argus was full of articles pleading for a union of the New and Old Court parties as friends of Andrew Jackson for president.

Bitter experience had taught the westerner that the safest coin was the hard coin. The honest farmer realized that cheap speculative money only meant more debts for them and only benefited the speculator who could turn the money over before it depreciated.

Outwardly the fight on the nation's financial policy was over in the west. The fight had been the fight of the speculator who wanted to get rich quick unrestrained by

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[13] McMaster, op. cit., V, 166.

[14] Kentucky Gazette, June 23, 1825.

sound common sense and unmindful of the effect of such a policy on his successors. It was the opposition of that class that opposed sound currency because it slowed up returns. That it had a political reaction was inevitable, for in a Republic where every man is born "free and equal" it is very easy, through the use of a silver tongue and a well padded press to make the class of people untrained in finance, slaves to the idea that certain corporations are working for their financial ruination. The opposition to the Second United States Bank was centralized in the west because of the urgent need for money to develop their new country, improve their living conditions, pay for their farms and cope with their hated rivals (creditors) in the east. Added to these difficulties must be placed the War which always unbalances finance. With large amounts of public land being let loose on a credit basis, cheap British manufactured goods flooding the market, and the War of 1812 driving hundreds west, prices were kept in a turmoil. Added to this were the unrestrained banks on every hand after the failure of the First United States Bank to recharter. The result was a class of people who became spoiled by "get rich quick" ideas. The westerner always liked freedom, and the taste of a new freedom caused by the cheap paper money left him entirely unprepared for the conservative measures that were sure to press down on him eventually.

The bitter fight on the United States Bank thus momentarily was over. The next fight was not led by the western states but was carried on by politicians in the Federal government.

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