THE STATE AND NATIONAL *Banking Eras*

A CHAPTER IN THE HISTORY OF CENTRAL BANKING

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The State and National Banking Eras

A Chapter in the History of Central Banking

After the second Bank of the United States closed its doors in 1836, the United States went through a period of approximately 76 years during which it had no ***central bank***.[1] Instead, the U.S. banking system during this time is generally divided into two periods: the state, or free, banking era, which ran approximately from 1837 to 1863, and the national banking era, which lasted roughly from 1863 to 1913.

Also, the United States still had no uniform national currency. State-chartered banks issued their own ***banknotes***, and some nonfinancial companies issued notes that also circulated as currency. For example, railroads issued notes to fund construction projects, and other companies such as the New Hope Delaware Bridge Company were allowed to issue notes as well. Both the railroad and bridge company notes were used as currency.[2]

Yet another problem facing the United States was a market crash in 1837 that resulted in a severe depression. In fact, during the period from 1837 to 1907, U.S. banks weathered—or not—a storm of runs and panics, and the nation's economy underwent several periods of recession and depression. (See *Panics, Recessions, and Banking Crises,* pages 4–5.)

No central bank. No uniform currency. An economic depression. How would the country's economy continue to function?

Background

Second Bank's Role

Although the Second Bank did not officially set monetary policy or regulate other banks, its prominence and broad geographic reach through its many branches allowed it to exert a stabilizing influence on the economy.[3] The bank's notes, backed by substantial gold reserves, gave the country a more stable national currency. In the course of business, the Second Bank would accumulate the notes of the state banks and hold them in its vault. When it wanted to slow the growth of money and credit, it would present the notes for collection in gold or silver, thereby reducing state banks' reserves and putting

In addition to state-chartered banks, some companies issued notes that circulated as currency, such as this $1 note from the New Hope Delaware Bridge Company in Lambertville, New Jersey.

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the brakes on state banks' ability to circulate new banknotes. To speed up the growth of money and credit, the Second Bank would hold on to the state banks' notes, thereby increasing state banks' reserves and allowing them to issue more banknotes through their loan-making process. But with the closing of the Second Bank, this restraining hand disappeared.

No Uniform Currency

Allowing each state bank to issue its own banknotes created its own set of problems. For one thing, such a profusion of currency—with different sizes and different designs—could be confusing. For another thing—and perhaps more important—banknotes exchanged at a discount, meaning that they did not necessarily trade at face value. For example, in 1842, a $1 note from a Tennessee bank exchanged for 80 cents in Philadelphia; likewise, a $1 note from an Illinois bank exchanged for just 50 cents. The amount of the discount sometimes depended on the distance between the issuing bank and the paying bank and sometimes on perceptions of how sound the issuing bank was.

In fact, discounts were so common that printers started publishing lists, called banknote reporters, so that bankers, merchants, and consumers would know how much they could expect a particular note to be worth in a particular location. This situation made it hard to judge the relative value of goods and services in terms of state banks' notes.

Panic of 1837

Although the U.S. economy was expanding in the early 1830s, a fall in the price of cotton mid-decade, demand for payment in ***specie*** by foreign creditors that drained the specie reserves of U.S. banks, and other factors caused financial stress in the United States.[4] As a result, banks had to suspend redeeming their notes for specie because of a lack of gold and silver. Consequently, many banks were illiquid, and many failed. This crisis was fueled in part by a lack of confidence in the nation's paper currency. It would take the country six years to recover from this economic downturn.

State, or Free, Banking Era

In the period between the closing of the Second Bank and the start of the Civil War, the regulation of banks was in the hands of the individual states. Without the Second Bank and its branch system, which, among other things, helped to finance the country's western expansion, states wanted to create more banks in order to help farmers, settlers on the frontier, and others who needed credit.[5] Therefore, demand for bank charters increased, as did the number of banks, and state banks issued more and more notes.

Generally, commercial banks in the United States had to obtain charters from state governments, usually through a special act of the legislature. However, the increase in the demand for banks and, hence, bank charters led to concerns about corruption. On one side of the process, petitioners who wanted to open a bank would bribe state legislators in order to get a charter. On the other side, owners of existing banks pressured legislators to not issue charters, since the banks already in operation feared competition from the new banks.[6]

To try to lessen the potential for corruption and to make the process of opening a bank easier, many states enacted free banking laws. The term generally means that almost anyone could open a bank provided that person (or group of persons) met certain criteria, such as complying with minimum capital requirements and depositing bonds or other types of ***securities*** with the state government to back the notes issued by the bank. Michigan passed the first free banking law in 1837, followed by New York in 1838.[7]

Some state banks had great success under free banking laws, and others encountered problems. For example, although these laws worked well in New York, Michigan did not fare so well under them.

This $5 state bank note was issued by the Central Bank of Pennsylvania in Hollidaysburg.

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The New York law centralized the issuance of notes in Albany. Someone who wanted to start a bank would deposit bonds with the comptroller in the state capital.[8] Once the comptroller's office accepted the bonds, the bank received an equivalent

This $1 state bank note was issued in 1861 by the Beverly Bank, in Beverly, New Jersey.

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amount of notes. These notes were redeemable in specie on demand at the issuing bank. If, for some reason, the bank couldn't redeem the notes, the bank had to pay the note holder interest on the face value of the note. Ultimately, the note holder could file a complaint. If the bank still didn't redeem the notes, the comptroller would sell the bank's bonds and use the proceeds to pay off the note holders.

Meanwhile, in Michigan, free banking ran into trouble. Unlike New York, Michigan was a state that was still developing, its growth facilitated by the opening of the Erie Canal in 1825. Under free banking laws in Michigan, prospective bankers had to pay 30 percent of banks' capital into a safety fund. But banks were allowed to operate even before the full 30 percent had been paid and could issue notes against the full amount of their capital.

Panics, Recessions, AND *Banking Crises*

1837 See text, page 2.

1857 The collapse of the Ohio Life Insurance and Trust Company and a bank panic in the fall of 1857 led to an economic crisis. More than 5,000 businesses failed during the first year of the panic.

1873 The collapse of Jay Cooke and Co., the largest bank in the U.S. at that time, in September 1873 triggered a panic on the stock exchange. Cooke's bank was the exclusive agent for the sale of Northern Pacific Railroad bonds. When the firm could not sell a sufficient number of railroad bonds to investors to cover its obligations, the stock market reacted negatively, and runs on several other large financial institutions led to their failure. The Coinage Act of 1873 depressed the price of silver, hurting the interests of U.S. silver mines and further contributing to the country's economic problems. This economic crisis led to a recession that lasted until 1879.

1882-85 The recession of these years was mostly due to the end of the railroad construction boom. The end of the boom affected other industries, particularly iron and steel.

So the safety fund's growth couldn't keep pace with the number of banknotes issued. Furthermore, banknotes were often backed by mortgages, a risky security in a place where land speculation was rampant and land often greatly overvalued.[9]

Wildcat Banks

Free banking laws sometimes gave rise to wildcat banks. Basically, these were banks that issued more notes than they could reasonably hope to redeem. Reasons for the name wildcat vary.[10] One explanation is that these banks were set up in very rural areas—places where only wildcats would go. These places were so remote that note holders couldn't find them in order to redeem their notes. Hence, many unscrupulous people set up banks under the free banking laws, only to dupe the public by issuing notes and then running off with the gold and silver.

Another explanation stems from the time when Missouri placed a bounty on the killing of certain animals, and the going rate for wildcats was 50 cents for each one killed. When a hunter brought his catch to the county office, the county treasurer would issue a certificate in the amount of the bounty. Recipients of these certificates, which came to be known as "wildcat certificates," could not trade them for specie but could use them to pay county taxes. So the certificates often circulated as currency, and the term wildcat was soon applied to other currencies—particularly the paper notes issued by wildcat banks—that could not be redeemed for gold or silver.

1884 Coming in the midst of the 1882–85 recession, this panic occurred when European gold reserves were depleted and banks called in loans.

1893 The Sherman Silver Purchase Act, which was passed in 1890, increased the amount of silver the federal government had to purchase each month. The act was intended to lessen the fears of many farmers who were in debt and couldn't pay off those debts because of deflation. They wanted the government to, in effect, cause inflation so that they could pay off their debts with cheaper dollars. The act also responded to mining interests; mining companies had extracted a large quantity of silver from mines in the West. Furthermore, the failure of a major railroad and the withdrawal of European investment led to a stock market crash, a banking collapse, and a run on the U.S. gold supply.

1907 The failure of the Knickerbocker Trust Company in New York led to runs on other trust companies. A general panic ensued. The panic triggered hundreds of bank failures, a significant decrease in the money supply, and a deep recession. Financier J.P. Morgan formed a syndicate with his fellow bankers, who were able to put sufficient liquidity into the economy to quell the panic. This panic led to the creation of a federal commission to study the economy and ways to quell its many crises and panics. The findings of this commission eventually led to the creation of the Federal Reserve System in 1913.

Sources: Kindleberger and Aliber; Glasner; Bordo and Haubrich

Several states—even some more established eastern states—had instances of wildcat banking. But for the most part, when it came to wildcat banking, local banks "took advantage of lax state laws" and issued an excessive amount of banknotes, "particularly in the rural Middle West."[11] Michigan, in particular, seemed prone to the formation of wildcat banks.

Concerns About Federal Money in State Banks

In 1833, President Andrew Jackson had ordered that federal money be pulled from the second Bank of the United States and deposited in state banks. Given the general banking conditions during the free banking era, some lawmakers and other government officials expressed concern about the safety of holding government money in state banks. Congress responded to these concerns by establishing the Independent Treasury System (see next page).

Summary

By 1860, 18 states had enacted free banking laws. Note that free banking does not necessarily imply failure or that all banks created under free banking laws were wildcat banks. Some state banks flourished and others foundered under free banking laws. But by 1860 other problems loomed on the horizon, and state banks soon had competition from an entirely new source.

National Banking Era

Paying for the Civil War

By April 1861, the nation found itself with a new set of troubles. Several southern states had seceded from the Union, and, shortly thereafter, war broke out between the North and the South. As at other times in the nation's history, the federal government in Washington had to figure out how to pay for a war.

First, Congress passed an act in July 1861 that authorized Secretary of the Treasury Salmon P. Chase to borrow money on behalf of the federal government and to issue Treasury notes as collateral for any such loans. So Chase arranged for an initial loan of $50,000,000 from several different banks in Boston, New York, and Philadelphia.[12]

Secretary of the Treasury Salmon P. Chase helped to establish the U.S. national bank system.

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That same month, Congress authorized the Treasury to issue non-interest-bearing notes called demand notes, which could be redeemed in specie "on demand." They were also called greenbacks because the reverse side of the notes was printed in green ink. The following year, Congress passed the Legal Tender Act, which authorized the Treasury to issue another type of paper currency called ***legal tender***, or U.S., ***notes***.[13] These notes were not backed by gold or silver but were acceptable for all debts, public and private (although they could not be used to pay ***tariffs***). They too were called greenbacks.

In another attempt to raise money for the war, Chase proposed the creation of a national

The Independent Treasury System

After Andrew Jackson pulled federal deposits from the second Bank of the United States in 1833, he ordered that government money be kept in state-chartered banks. However, several of these banks ultimately failed, causing some concern in Washington about the safety of public money. To offset these concerns, Congress established the Independent Treasury System (ITS) in 1846. These depositories, also called sub-Treasury offices, collected, transferred, and disbursed public revenues. The idea was to protect government money from the risks of the banking system. Offices were initially set up in Washington, Philadelphia, New Orleans, New York, Boston, Charleston, and St. Louis; eventually, Baltimore, Chicago, Cincinnati, and San Francisco were added to the list.

This was not the nation's first attempt to make the government's money more secure. President Martin Van Buren had suggested an ITS in 1837. He kept his idea before Congress for several years, and Congress finally passed a bill establishing an ITS in 1840. However, this first system lasted only until 1841 when the ***Whigs***, who had gained power in Washington, repealed the law. So the government's funds remained on deposit in state banks until 1846, when the Democrats returned to power and a new ITS was created.

The sub-Treasury system continued in existence until the early 20th century. However, with the creation of the national banking system in 1863, the ITS became less important. One reason is that the new national banks also became depositories for federal government funds. Although the decision seems to go against the idea of separating government funds from the banking system, many people felt that federally regulated banks were a safer place for federal funds than state-regulated banks.

Passage of the Federal Reserve Act in 1913 provided the final blow to the sub-Treasury system. The new legislation said that the money held in the Treasury accounts should be deposited in the Reserve Banks and that the Reserve Banks would act as fiscal agents for the government.

To ensure an orderly transition, the removal of money from the ITS to the Federal Reserve was carried out gradually. Sub-Treasury offices started closing in October 1920, and the last office—in Cincinnati—closed in 1921.

TIMELINE FOR THE STATE AND NATIONAL BANKING ERAS

1836
The second Bank of the United States closes its door when its charter expires.

1837
Several banks experience runs, and a general panic and severe economic depression ensue.

1837–38
Michigan and New York pass the first free banking laws.

1846
The Independent Treasury System is established.

1857
Another financial panic hits the country.

1861
The Civil War begins.

1862
The Treasury issues the first national paper currency since the Revolutionary War.

1830 | 1840 | 1850 | 1860 | 1870

banking system. After a failed attempt to get a national banking law passed in 1861, Chase was more successful in 1863 when Congress passed the National Bank Act. Under the provisions of this law, banks could apply for a national charter. Once a bank was approved, it had to buy interest-bearing U.S. government bonds in the amount of one-third of its ***paid-in capital***.[14] In this way, the Treasury raised money to help finance the Civil War.

Many banks switched from a state to a national charter. In fact, soon after the law was passed, national banks far outnumbered state banks. By 1865, there were 349 state and 1,294 national banks in the United States. Twenty years later, the numbers were 1,015 state and 2,689 national banks. By 1892, the numbers started to even out: 3,733 state and 3,759 national banks.[15]

Moving Toward a More Uniform Currency

The law also called for the creation of national bank notes. These notes bore the name of the issuing bank and the signatures of the bank's

U.S. notes issued by Congress to finance the Civil War were called greenbacks. Shown is a $5 greenback issued in 1861.

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1863
Congress passes the National Bank Act.

1873
The collapse of a large bank leads to a recession; the country undergoes repeated financial crises through the rest of the century.

1908
Congress sets up the National Monetary Commission to look into the country's financial system.

1880 | 1890 | 1900 | 1910 | 1920

1865
The Civil War ends, and the nation has a dual banking system.

1907
A run on several New York City banks and turmoil on the stock exchange bring yet another panic and financial crisis.

1913
The Federal Reserve Act establishes a new central bank for the nation—the Federal Reserve System.

officers, but they were otherwise identical in design, size, and color. In addition, the holder could redeem the notes for silver or gold at the issuing bank. If the issuing bank couldn't redeem the notes, the government could sell the bank's bonds and pay off the note holders. Therefore, national notes were seen as having very low risk, which led to greater public confidence in these notes and in a national currency system.[16] Furthermore, national bank notes could be used to pay all federal taxes except ***customs duties***, a fact that also fostered wide acceptance of these notes.[17]

This $50 note was issued by the Metropolitan National Bank of New York and was backed by U.S. Treasury bonds. The words National Currency appear at the top. Also, beginning in 1877, all national banks' notes were printed by the Treasury's Bureau of Engraving and Printing, which still prints our currency today.

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However, although the introduction of national bank notes pushed the U.S. toward a more uniform and stable currency, many other forms of currency still circulated at the time of the Civil War. For example, gold certificates and company-issued notes and certificates were used as currency. And, of course, at the same time, the Confederate States of America—the South—was also trying to come up with ways to pay for the war and was also issuing its own currency. (See *A Brief History of the Confederate Financial System*, pages 10–11.)

A Brief History of the CONFEDERATE FINANCIAL SYSTEM

Confederate Treasury Secretaries

Christopher Memminger was the first Confederate Secretary of the Treasury. Memminger was a lawyer from Charleston who had no solid understanding of economic theory or financial practice. His lack of ability is evident in the number of desperate steps that he took. In his defense, it can be said that, given the nature of the Confederacy, he was presented with a truly hopeless task.[a] He resigned in 1864 and was replaced by George Trenholm, who was replaced toward the end of the war by John Reagan.

Two Classic Causes of Inflation in the Confederacy

Prices soared in the Confederacy because of (1) an oversupply of various forms of money and (2) a scarcity of goods.

Oversupply and Lack of Uniformity in Money

At the beginning of the war, Virginia was issuing its own currency, as were other southern states. To deal with this, the Confederate Congress issued bonds at 8 percent, hoping that these bonds would soak up the excess currency.[b]

The Confederate Congress also authorized huge amounts of unsecured bills (Confederate money). To protect against counterfeiting, Congress ruled that each bill must be signed and numbered by a Treasury clerk, thus keeping battalions of women Treasury employees busy.[c]

[a] Donald, Baker, Holt, p. 255; also Reinfeld
[b] Furgurson, p. 190
[c] Furgurson, p. 190

Although the Confederacy took possession of the U.S. mints at New Orleans, Charlotte, and Dahlonega, Georgia, these mints had only small stockpiles of bullion that were soon exhausted. Thus, the Confederacy was unable to mint coins, so making change was difficult.[d] Although the Confederate post office took to selling stamps as currency, it couldn't keep up with the demand. Therefore, states, cities, railroads, merchants, taverns, and even some individuals began issuing their own paper bills in small denominations of from 2 to 50 cents. (These bills were called shinplasters.[e]) As a result, more "money" flooded into the Confederate economy. Memminger made no attempts to outlaw these shinplasters, and so the Confederacy was initially plagued by a lack of uniform currency.[f]

Scarcity of Goods

The other cause of inflation, scarcity of goods, was exacerbated by the Union blockade of Confederate ports, which also prevented the South from shipping its chief export, cotton, to overseas markets. So the inflation caused by too much money (and too many forms of money) was worsened by that money chasing too few goods. The Confederacy responded by simply printing more currency. However, the more paper money the Confederacy printed, the more prices rose. And the more prices rose, the more paper money the Confederacy printed. By the end of the Civil War, the Confederacy experienced an inflation rate of about 9,000 percent![g] Even obtaining the paper needed to print paper money was a challenge. A large amount of paper had to be shipped from England.[h]

[d] Reinfeld
[e] Furgurson, p. 190
[f] Donald, Baker, Holt, p. 259
[g] Markham, p. 238

Financing the War

The Confederacy attempted to finance a costly war without much gold and silver, without a strong financial plan, without a popular commitment to taxation, and with a Treasury Secretary who did not understand economic theory or financial practice.[i]

The long southern opposition to taxes, combined with the U.S. naval blockade that limited southern imports and exports, resulted in the Confederacy raising only $17,500,000 in 1861–62, at a time when its annual budget was over $160 million.[j] In fact, the Confederacy raised only about 1 percent of its revenue in taxes.[k] Memminger also attempted to finance the war through loans. Although the Confederacy did raise some revenue this way, there was not enough gold or silver in the South to serve as collateral.

With little success in raising revenue through taxes or loans, the Confederate treasury turned to the printing press and printed nearly $1.5 billion in paper money backed only by the promise of postwar redemption in gold and silver. The Confederacy became a money factory that fueled a rate of inflation that undermined its economy and demoralized its citizens.

As inflation rose and Confederate money continued to lose value, the government in Richmond promised to pay a specified amount to the bearer two years after a peace treaty was signed. Jefferson Davis, president of the Confederacy, and Memminger resisted the arguments of several Confederate congressmen to make Confederate currency legal tender.[l]

By the war's end, the Confederacy had issued $1.554 billion in paper money.[m] By early 1865, Confederate currency was worth only 1.7 cents on the dollar. By the end of the war, flour sold for $1,000 a barrel in Richmond.[n] The Confederacy had only $85,000 in gold, $36,000 in silver coin, and $700,000 in Confederate paper money, which people often used as fuel.[o] Writing in 1875 and recalling the privations of December 1864 in Richmond, Cornelia Peake McDonald recorded: "I generally went all day with a cup of coffee and a roll." She records spending $100 in Confederate money for "a pound of fat bacon, three candles…and a pound of bad butter."[p] In Richmond, Davis recommended that people consider eating rats.[q]

Like its counterpart in Washington, D.C., the Confederate government in Richmond was issuing currency, such as this $100 note from 1864, to help pay for war materials for the South.

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[h] Markham, p. 226
[i] Donald, Baker, Holt, p. 255
[j] Donald, Baker, Holt, p. 256
[k] This figure of 1 percent is from Donald, Baker, Holt, p. 257, citing E. Merton Coulter, *The Confederate States of America, 1861–1865*. Baton Rouge: Louisiana State University Press, 1950, p. 182; however, Markham, p. 226, puts this figure at 5 percent, still a small amount.

[l] Donald, Baker, Holt, pp. 258–59
[m] Donald, Baker, Holt, p. 259
[n] Donald, Baker, Holt, p. 260
[o] Reinfeld
[p] McDonald, p. 222
[q] Furgurson, p. 260

Fractional currency notes such as these were used to make change during the Civil War. These notes were necessary because coins were being hoarded. Sometimes even postage stamps were used to make change (lower right).

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Hoarding, Shortages, and Fractional Currency

Wars also make people more fearful, and the Civil War was no exception. Fears of what types of economic woes (and other problems) the war might bring led people to hoard gold and silver coins because of their value. Furthermore, gold and silver were in short supply because of the war. This combination of hoarding and a general shortage of metal for minting coins made it harder to make change for financial transactions. To deal with this problem, the government issued "fractional currency," that is, paper currency whose face value was denominated in cents. For example, the U.S. Treasury issued paper notes worth 3, 5, 10, 15, 25, and 50 cents. Even postage stamps were pressed into service for making change.

Summary

Ultimately, the establishment of a national bank system, and the revenue it produced, helped pay for the Civil War in the short term. However, the government hoped that, in the long run, national banks would eliminate state and private banks. In an effort to accomplish this goal, in 1865, the government imposed a 10 percent tax on the issuance of all state bank notes. Having to pay this tax made it unprofitable for state-chartered banks to issue notes. Although this tax did not drive state banks out of business, it did put a halt to their issuance of banknotes. Thus, national bank notes gained ground as the nation's primary currency. In light of the heavy tax imposed on the issuance of banknotes, state banks turned to other types of banking business — accepting deposits and making loans. (Initially, national banks were prohibited from making loans.) This dual banking system of both state-chartered and nationally chartered banks continues today.

Moving Toward a New Central Bank

By the end of the Civil War in spring 1865, both state and national banks existed side-by-side. After the war, the nation's economy and its dual banking system lurched along, experiencing a series of bank panics and runs and several recessions and depressions. Finally, in 1907, turmoil in the stock market and runs on several New York City banks led to an episode in October and November known as the Panic of 1907.

Shortly thereafter, in 1908, Congress set up the National Monetary Commission to look into ways of stabilizing the monetary system. The commission's report noted that U.S. currency was "inelastic"—the supply of money could not quickly adjust to changes in the demand for money.

In an attempt to deal with this issue, the commission came up with a plan for a National Reserve Association of the United States. Although this plan was never enacted, the debate it generated led ultimately to the creation of a bill that proposed a new decentralized central bank for the United States—the Federal Reserve System. The Federal Reserve Act was passed in December 1913. Today, the Fed remains the central bank of the United States.[18]

Federal Reserve building in Washington, D.C.

ENDNOTES

[1] Explanations of terms in bold italics can be found in the Glossary on page 14. Also, brief biographies of people mentioned in the text can be found starting on page 15.
[2] See Wright, p. 371.
[3] For more information, see the booklet about the Second Bank published by the Federal Reserve Bank of Philadelphia. The Philadelphia Fed has also published a book on the first Bank of the United States.
[4] See pages 1–10 of Leonard Helderman's book for more on the causes of the Panic of 1837.
[5] See the thesis by Patricia McShane, pp. 54–55.
[6] See Hendrickson, pp. 24–25.
[7] Some new states, for example, California, Arkansas, and Texas, banned banking in their original constitutions. Ultimately, of course, these states changed their constitutions to allow banking.
[8] The discussion about New York and Michigan in the next two paragraphs draws heavily on the discussion in Helderman, pp. 21–24.
[9] See Helderman, pp. 26–27.
[10] See Patricia McShane, pp. 3–4, for a discussion of the origin of the term wildcat as it relates to banking. Note that wildcat banking and free banking are not synonymous terms.
[11] See McShane, p. 3.
[12] See the book by Wesley Clair Mitchell.
[13] See the website of the Bureau of Engraving and Printing (BEP) for more information on the history of currency. In July 1862, Congress authorized the Treasury Department to engrave and print notes, which was the origin of the BEP. In 1877, the BEP became the exclusive producer of all U.S. currency and still prints our money today.
[14] The National Bank Act also created the Office of the Comptroller of the Currency (OCC). The OCC was charged with overseeing nationally chartered banks and establishing a more uniform currency. The OCC still regulates nationally chartered banks today.
[15] Numbers are from the Federal Deposit Insurance Corporation's Learning Bank website.
[16] These were eventually replaced by Federal Reserve notes, which are obligations of the government, not obligations of the individual banks. Federal Reserve notes are the paper currency we use today.
[17] See Helderman, p. 143.
[18] The essay by Verle Johnston offers more detail on the National Monetary Commission and the founding of the Federal Reserve System.

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GLOSSARY

BANKNOTE
A negotiable instrument; a promissory note (promise to pay) that is used as money.

CENTRAL BANK
A governmental institution responsible for issuing currency and establishing monetary policy, which involves the overall growth of money and credit and the level of short-term interest rates. The Federal Reserve is now the central bank of the United States.

CUSTOMS DUTIES
A form of tax levied on goods traded internationally.

LEGAL TENDER NOTE
Legally valid currency that may be offered in payment of a debt and that a creditor must accept.

PAID-IN CAPITAL
The funds raised by a corporation from issuing stock in the primary market.

SECURITY(IES)
A financial instrument, such as a stock or a bond, which, among other things, can be used as collateral for loans. In the early banking history of the United States, securities were often held as collateral against the issuance of banknotes.

SPECIE
Money in the form of gold or silver. In the colonial period and in the early years of the United States, specie usually referred to gold or silver coins.

TARIFF
Similar to customs duties, except tariff more commonly refers to a tax on goods imported into a nation.

WHIG PARTY
A political party that existed in the United States roughly from the 1830s to the 1850s. Party members generally opposed the policies of Andrew Jackson and the Democratic Party. Unlike Jackson and the Democrats, Whigs believed that Congress should be a stronger force in the government than the president.

Biographical Sketches

THE LIBRARY COMPANY OF PHILADELPHIA

Salmon P. Chase

(1808-1873)

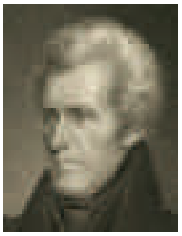
Born in New Hampshire, Salmon P. Chase, after the death of his father, was sent to live with an uncle in Ohio. He graduated from Dartmouth College in 1826 and studied law in Washington under the guidance of the U.S. attorney general. Chase set up a law practice in Cincinnati, defending runaway slaves and those who helped them. He served in the U.S. Senate from 1849 to 1855, was elected governor of Ohio in 1855, and then returned to the Senate from his adopted home state in 1861. However, his second term in the Senate was short; he resigned from his office to accept the post of Secretary of the Treasury in President Abraham Lincoln's cabinet. Chase resigned from his Treasury office in 1864 and at the end of that year was appointed Chief Justice of the United States. He died in New York City in 1873.

LIBRARY OF CONGRESS

Jefferson Davis

(1803-1889)

Jefferson Davis was born in Kentucky, graduated from West Point in 1828, and eventually moved to Mississippi. Although he left the military in 1835, he had a second brief military career when he led a volunteer regiment in the Mexican-American War. In 1847, the governor of Mississippi appointed Davis to the U.S. Senate to complete the term of a senator who had died; he was subsequently re-elected to a full term. He then served as Secretary of War under President Franklin Pierce, leaving that position in 1857 and returning to the Senate. When southern states started to secede from the Union, Davis resigned his Senate seat and returned to Mississippi in January 1861. Just one month later, he was elected president of the Confederate States of America. He died in New Orleans in 1889.



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Andrew Jackson

(1767-1845)

Andrew Jackson was born in 1767 on the border between North and South Carolina, the third son of Irish immigrants. Although his family was not wealthy, Jackson eventually became a licensed attorney and, at age 21, made his way to the territory that would become Tennessee. In 1828, Jackson was elected to the presidency. Often portrayed as "King Andrew" in political cartoons of the day, Jackson freely used his veto power and often would not concede to Congress on matters of policy. Re-elected to a second term in 1832, Jackson began a battle to defeat the second Bank of the United States. Through a series of maneuvers designed to destroy the bank, Jackson ultimately won the fight. Jackson died at his Tennessee mansion, the Hermitage, in June 1845.

Cornelia Peake McDonald

(1822-1909)

The diarist Cornelia Peake McDonald was born in Alexandria, Virginia, to Dr. Humphrey Peake and his wife, Annie. The family moved around a lot during McDonald's childhood, eventually ending up in Hannibal, Missouri. There, she met and married Angus McDonald, and the couple moved back to Virginia. After the outbreak of war, her husband became a colonel in the Confederate army and died during the war. She recorded her experiences during the war in her diary, which was later published under the title *A Diary with Reminiscences of the War and Refugee Life in the Shenandoah Valley, 1860–1865*. The diary offers a first-hand look at a Southerner's daily circumstances in the upheaval of the Civil War, especially the scarcity of goods and the declining value of Confederate currency. McDonald died in 1909 and is buried in Richmond, Virginia.

Biographical Sketches

Christopher Memminger
(1803-1888)

Born in Germany, Christopher Memminger was brought to Charleston, South Carolina, by his widowed mother as a very young child. Shortly after arriving in the U.S., his mother died of yellow fever and Memminger was sent to an orphanage. A future governor of South Carolina took an interest in the boy and sent him to South Carolina College, from which Memminger graduated at age 16. He then studied law and set up a successful practice in Charleston. After southern secession, he helped to draft the constitution of the Confederate States of America. He was appointed Secretary of the Confederate Treasury and served in that post from 1861 to 1864. After the war, he served in the South Carolina state legislature. He died in Charleston in 1888.

George Trenholm
(1807-1876)

George Trenholm was born in Charleston, South Carolina. Although he had to leave school when his father died, he eventually became head of a cotton brokerage and by the time of the Civil War was one of the wealthiest men in the country. His financial interests encompassed hotels, banks, railroads, and steamships, among others. When war between the North and South broke out, Trenholm's cotton company made major contributions to the Confederacy's war effort. In 1864, he succeeded Christopher Memminger as Secretary of the Treasury for the Confederate states. He served in that post until 1865. After the war he returned to Charleston, where he died in 1876. Many people believe that Margaret Mitchell used Trenholm as her model for the character of Rhett Butler in *Gone with the Wind*.

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John Reagan
(1818-1905)

John Reagan was born in Tennessee but left the state at age 19 to work as a surveyor and then a farmer in Texas. Reagan taught himself law, obtained a license to practice, and opened an office in the towns of Buffalo and Palestine, Texas. He served in the state House of Representatives for two years and was elected to the U.S. House, where he served from 1857 to 1861. He resigned his Senate seat and returned to Texas as the possibility of war between North and South became more and more likely. He served as Postmaster General of the Confederate States of America from 1861 to 1865. Jefferson Davis appointed him Secretary of the Treasury, a post in which he served for two weeks until he and Davis were captured by Union troops in Georgia. Imprisoned in Boston for almost six months after the war, Reagan returned to Texas and to public life, serving again in Congress for 12 years. He died at his home in Palestine, Texas, in 1905.

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Martin Van Buren
(1782-1862)

Born in the village of Kinderhook, New York, near Albany, Martin Van Buren became involved in politics as a young lawyer. He was elected to the U.S. Senate in 1821. An organizer of the Democratic Party and a supporter of Andrew Jackson, Van Buren was appointed Jackson's Secretary of State, was elected vice president on Jackson's ticket in 1832, and succeeded Jackson in the White House in 1836. He was inaugurated in March 1837, and it was his bad luck that the Panic of 1837 occurred soon after. As president, he managed to get Congress to create an Independent Treasury System (see page 7), but the system lasted only a year. A more successful system was established several years later during the administration of President James Polk. A one-term president, Van Buren died in 1862.

Pictured on the cover is the second U.S. Mint building in Philadelphia. This structure, which stood on the corner of Chestnut and Juniper streets, was the home of the Mint from 1833 to 1901. (Image from the Library Company of Philadelphia)

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