THE HISTORY OF STATE BANKING
IN ILLINOIS

BY

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HISTORY of STATE BANKING in ILLINOIS.

The establishment of a strong national government under the Federal Constitution and the restoration of credit as a result of Alexander' Hamilton's vigorous and salutary financial measures brought out either from hoards or from its retreat abroad, a large amount of capital seeking investment. Especially did the funding of all forms of revolutionary indebtedness at its face value create an enormous fund whose holders were eager for investment. When on the 4th of July, 1791, the books of the National Bank were opened in Philadelphia, within half an hour all of the $8,000,000 of stock offered to the public was taken. The times were ripe for an era of speculation. At once corporations sprang up on every hand and all sorts of schemes and projects ran riot. Eight banks were chartered within a year and the period of state banks may be said to have commenced.

The banks were at first confined chiefly to the seacoast states, but in a few years they had followed the course of immigration into the West. At the expiration of the charter of the United States Bank in 1811, state banks existed in Ohio, Kentucky, Tennessee, and the Territory of New Orleans. It was expected that, upon the discontinuance of the National Bank, state banks would become more plentiful and their notes would fully supply the place left vacant by those of the retiring National Bank. In the Senate sometime after the bill to recharter had been defeated gratification was expressed at the fact that state banks were becoming
numerous and inflation was well under way.

The increase of banks was certainly as rapid as any could have wished. Mr. Gallatin says: "From the first of January 1813, to the first of January, 1815, not less than 120 new banks went into operation, adding nearly $30,000,000 to the banking capital of the country." A banking mania had seized the whole nation.

The bank was regarded as a new machine for creating capital and all that seemed necessary was to work it to the utmost.

The following table shows the status of state banks at different periods from 1813 to 1840.

<table>
<thead>
<tr>
<th>Years</th>
<th>No. Banks</th>
<th>Capital</th>
<th>Loans</th>
<th>Deposits</th>
<th>Circulation</th>
<th>Specie</th>
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<tr>
<td>1813</td>
<td>36</td>
<td>$5260160</td>
<td>loans</td>
<td></td>
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<tr>
<td>1815</td>
<td>263</td>
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<td></td>
<td></td>
<td>45500000</td>
<td>1700000</td>
</tr>
<tr>
<td>1816</td>
<td>246</td>
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<td></td>
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<tr>
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<tr>
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<td>329</td>
<td>14512236</td>
<td>200451214</td>
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</tr>
<tr>
<td>1834</td>
<td>506</td>
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<td>43937625</td>
</tr>
<tr>
<td>1835</td>
<td>704</td>
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<td>36518383</td>
<td>8308156</td>
<td>103692495</td>
<td>43937625</td>
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<tr>
<td>1836</td>
<td>713</td>
<td>251875292</td>
<td>4573065030</td>
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<tr>
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</tr>
<tr>
<td>1840</td>
<td>901</td>
<td>359442692</td>
<td>462896523</td>
<td>75568572</td>
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<td>33105155</td>
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</table>

Banking during the "teens" was of the kind later known as "wild cat". In respect to it Comptroller Knox says: "In 1814 thirty seven banks went into operation in Pennsylvania, with an aggregate capital of $17,000,000, consisting chiefly of notes given by the stockholders for the amount of their shares." Wild Cat Banking in the "Teens" J. B. McMaster Atlantic Monthly Vol. 72 Rep. Compt. Cur. 1876, page 33. Rep. Compt. Cur., 1876, p. 44.
these thirty seven banks fifteen failed within four years from the date of their organization. The amount of currency issued was frequently twice and in many instances three times the amount of nominal capital of such banks.®

But the state banks utterly failed "in the trial to which the exigencies of the War of 1812 subjected them". In 1814 all south of New England suspended specie payments. Then, being no longer required to redeem their notes, they rapidly expanded their issues, "which were, according to Mr. Crawford, as follows; In 1813 from 62,000,000 to $70,000,000; in 1815, from 99,000,000 to $110,000,000; and in 1819, from $45,000,000 to $53,000,000". During the year 1816 the banks continued to issue largely, and in addition to this floods of unchartered currency were poured out in notes of all denominations from six cents upward.®

In October, 1816, bank notes were depreciated 16 per cent in New York and 21 1/2 per cent in Baltimore, but in 1817 most of the banks resumed specie payments. The failure of the state banks began in 1818 and caused the falling off in bank issues as seen in Mr. Crawford's estimate for that year. The period from 1812 to 1818 has been called the "golden age" of paper money in the United States. The excesses of the state banks caused a reaction in favor of a national bank® and in 1816 the second Bank of the United States was chartered, being favored by many public men who

had opposed it in ISII. It not only failed to check the spread of state banks, but for a time, on account of bad management, itself had a hard struggle for existence. The credit of the nation fell so low during this period that six per cent twelve year government stocks sold at fifteen per cent discount, and the money received for them was at a heavy discount in specie. Business distress and a wretched condition of the financial affairs of the country existed until 1820, when a more prosperous era both for the Government and the industries of the people began.

First Banks in Illinois.

Before the War of IS12 there was scarcely any money in Illinois. The French communistic settlements of the territory supplied all their own wants at home, carried on no commerce, and had but little intercourse with the outside world. Among themselves the skins of the deer and 'coon passed current.

At the close of the war, emigrants from the old states began to come in. These brought some money and possessions with them and introduced some changes among the French settlers. Also some of the money which had been paid to the militia during the war began to come in and "gave the people new ideas and aspirations". Most of the new settlers were from Kentucky and Ohio—the majority from Kentucky, and settled in the southern part of the territory. They firmly believed that all that was needed to develop the new community into which they had come was capital and that this could

be most conveniently supplied by means of banks. Their home states of Ohio and Kentucky each had an abundance of banks, forty having been incorporated in Kentucky during the year 1817, and the settlers, being very patriotic and ambitious for their new territory so rapidly approaching statehood, did not wish to be behind their Eastern relatives in state affairs.

A bank had been started at Shawneetown in 1813, when the population of the territory was but fifteen hundred souls. It was incorporated in 1816 as the "President, Directors and Company of the Bank of Illinois at Shawneetown" and began business under that name on January 1st, 1817, with a charter extending for twenty years. A few months prior to the admission of the state into the Union three more banks were chartered; one at Edwardsville, one at Kaskaskia, and one at Cairo. The Shawneetown bank was modeled after banks of some of the older states and is in some respects very similar to the "people's banks" of Pennsylvania. Its charter will be given somewhat in detail as it was in turn the pattern for the first three or four banking schemes which followed in this state. Several of these early schemes, however, never materialized and consequently are of but slight importance.

The Bank of Illinois at Shawneetown was to have a capital stock not to exceed $300,000, to be divided into shares of $100 each, one-third being open to be subscribed by the territory which should receive a share in the dividends in proportion to the amount of stock subscribed. As soon as fifty thousand
dollars should be subscribed and ten thousand should be actually
paid in, the bank might commence business and issue notes. In order to secure a just distribution of its stock, for the first ten
days after opening the subscriptions not more than ten shares could
be subscribed on the same account in a single day. Ten dollars
in gold or silver on each share subscribed for were to be paid at
the time of subscription, the remainder to be paid in such install­
ments as the bank directors might determine, save that no install­
ment should exceed twenty-five per cent or be demanded without
sixty days notice. If a subscriber failed to make the second pay­
ment, the sum previously paid was forfeited. The affairs of the
bank were to be managed by a board of twelve directors elected
annually by the stockholders, each stockholder being allowed votes
according to the number of shares held by him, but with the ratio
of votes to shares decreasing as the number of shares increased.
This provision was intended for the benefit of the small stock
holders and distributed the votes as follows: for one share and not
more than two, one vote; for every two shares above two and not
exceeding ten, one vote; for every four shares above ten and not
exceeding thirty, one vote; for every six shares above thirty and not
exceeding sixty, one vote; for every eight shares above sixty and not
exceeding one hundred, one vote; and for every ten shares
above one hundred, one vote. The bank could not lawfully hold any
The directors were to elect one of their number president. The
governor of the territory was empowered to act as agent for the
legislature and to cast the votes which the territory should be entitled to in the meetings of the stockholders. No one but a bona fide stockholder being a resident citizen of the territory could be a director. The pay of the president was fixed by the directors and of the directors by the stockholders. Any number of stockholders not less than fifteen who owned not less than fifty shares could appoint three of their number a committee to examine into the state and condition of the bank and the manner in which its affairs had been conducted. The bank could not lawfully hold any real property except what was necessary for business accommodations or such as might be conveyed to it in satisfaction of debts. It was never at any time to owe more than twice the amount of its paid up capital stock exclusive of deposits, and in case its debts were allowed to exceed that amount the directors who permitted such excess, were to be liable in their private capacities for the same. The bank was not to deal in anything except bills of exchange, gold or silver or goods which it had been compelled to accept on debts. The rate of loans and discounts charged should never exceed six per cent per annum. The notes issued by the bank payable to bearer were to be assignable and negotiable by delivery. Half-yearly dividends were to be declared of so much of the profits of the bank as should be deemed expedient and proper. Once in three years the directors were to lay before the a general meeting of the stockholders an exact statement of the debts of long standing due the bank and of the surplus of profit, after
deducting losses and dividends. The bank was never at any time to
suspend or refuse payment on demand of its obligations in gold and
silver, and in case of such refusal the holder of the obligation
should be entitled to recover interest on it at the rate of twelve
per cent per annum from the time of the demand until the obliga-
tion was paid. Finally, the bank should transact no business after
the expiration of its charter except to wind up its affairs.

On January 9, 1818, the acts incorporating the Bank of
Edwardsville, the Bank of Kaskaskia, and the City and Bank of Cairo
were approved by the Governor.

The Edwardsville bank was to have a capital stock of
$300,000, one third to be subscribed by the territory. In all
essential features its organization was to be the same as that of
the Shawnee town bank.

The Kaskaskia bank was to have a capital stock of
$500,000, and all payments of subscriptions were to be in gold and
silver. No provision was made for the territory to subscribe for
stock. In other respects, its organization, also, was to be
practically the same as that of the Shawnee town bank. This bank is
of little consequence as it was never brought into actual existence
and never transacted any business. It issued no notes and therefore
"can not be said to have defrauded any man." Doubtless the require-
ment that subscriptions for its stock should be paid in gold and
silver kept subscribers away, for investors would not care to

//Judge Sheldon. The People vs Lowenthal. 93 Illinois Repts.
subscribe for such stock when the stock of the other banks was open only ten per cent of which need be paid in gold and silver, while the remainder might be paid in the plentiful notes of the Ohio and Kentucky banks.

The scheme for the organization of the City and Bank of Cairo was unique. It is typical of that sanguine and confident Western spirit which has produced so many Utopias — which has given birth to so many morally certain plans for the development of future great and populous cities. The preamble of the act incorporating the city and bank sets forth its glowing terms the great natural advantages for a metropolis at the junction of the Ohio and the Mississippi rivers. By the provisions of the act certain individuals, proprietors of the land on which the proposed city was to be built, to gather with all who should buy lots in the same were to constitute a banking corporation, to exist for thirty years under the name of the "President Directors and Company of the Bank of Cairo." The city, within nine months, was to be laid off into two thousand lots of a certain specified size, and their price was fixed at one hundred dollars each, fifty dollars of which was to go to the city improvement fund, and one hundred to the stock of the bank. This latter sum was to be divided into two shares of fifty dollars each, one to go to the purchaser, and one to the original owner of the land. No person could subscribe to more than ten lots, those subscribed for being determined to the subscribers by lottery. The proprietors of the land were empowered to appoint
a commissioner to sell the lots. Every purchaser was to make a
deposit to the credit of the Bank of Cairo in the Bank of the
United States or its branch in the town where the commissioner
resided, or if no such branch existed there, in any convenient char­
tered bank. One-third of the price of the lots purchased was to be
paid down, one-third in three months and one-third in six months.

As soon as five hundred lots had been taken, thirteen directors
were to be elected at a public meeting of the purchasers. These
directors were to be given the usual powers of such officers and
were instructed to appoint commissioners to carry out the city
improvements. They might also increase the capital stock of the
bank, not exceeding $500,000. The debts of the corporation were
never at any time to exceed twice the amount of the capital stock
actually paid in, over and above the amount of money deposited in
the bank for safe keeping, the directors being liable for any
excess. In other respects the bank was to be similar to those at
Edwardsville and Shawneetown.

Both the city and the bank thus elaborately planned out
existed for several years only on paper. No part of the scheme
pertaining to the city was ever carried out, though in the course
of time the City of Cairo appeared. The men who were forwarding
the scheme even failed to make their payments on the land they
purchased as a site for the proposed city and it was finally for­
feited, returning to the Government.
The Cairo Bank had a somewhat mythical existence until 1836 at which time it was brought into actual life for speculative purposes, issued its full quota of paper money, flourished for a time, and finally succumbed to the rough financial storms of the times.

The Edwardsville and Shawneetown banks became reputable institutions and did business for several years. In 1819, the Shawneetown bank complained bitterly of the action of the Kaskaskia land office in trying to break down its credit by receiving bills one day and rejecting them the next. Nor was the action of the State Bank of Missouri, which had been made strong and influential by immense deposits of public money, very sisterly. The President of the Shawneetown bank said: "Whenever she thinks proper to take our notes it is with a view alone of making a run on our specie, as proof of this I need only mention that she has lately paid us a visit and carried off $12,000 of our specie."

Both the Edwardsville and Shawneetown banks through the efforts of Ninian Edwards, then congressman from Illinois, became banks of deposit and as such received the public money arising from the sale of public lands within the state. These funds they applied to their own use. In 1820, amid the general crash of banking institutions all over the Union following the period of inflation and speculation which had culminated in the crisis of 1819, the Edwardsville bank failed owing large sums to depositors. The

[A. T. Andreas, Hist. of Chicago, p. 524.]
United States afterward obtained a judgment against it for $54,000 the amount of public money held by it at the time of failure, but no part of this sum was ever collected. The loss to individuals, depositors and stockholders, is not known exactly but is probably quite large.

The Shawneetown bank had better success being under more skillful management. "By the aid of government depositors (it) acquired an extensive credit; issued and redeemed its bills for several years, and paid specie as late as August, 1821 — a considerable time after the Kentucky banks had failed." It was finally forced to close in 1823, but managed to settle up or compound both its public and private debts and thus save its charter. For the next dozen years it remained inactive, appearing again in 1835.

The condition of banks in 1819 is shown from the following table.

<table>
<thead>
<tr>
<th>Resources</th>
<th>Liabilities</th>
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<tbody>
<tr>
<td>Loans and discounts $206,694.32</td>
<td>Capital $140,910.00</td>
</tr>
<tr>
<td>Specie 7,475.51</td>
<td>Circulation 5,202.01</td>
</tr>
<tr>
<td>Stocks and miscellaneous effects 6,614.00</td>
<td>Public Deposits 11,903.92</td>
</tr>
<tr>
<td>Due by other Banks 59,332.18</td>
<td>Private Deposits 32,563.60</td>
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<tr>
<td>Real Estate 175.00</td>
<td>Undivided Profits 2,994.49</td>
</tr>
<tr>
<td><strong>Total</strong> 847,531.01</td>
<td><strong>Total</strong> 347,531.01</td>
</tr>
</tbody>
</table>

These banks had been as successful, perhaps, and as useful to the community as any banking institution could have been at that
time. The state had in fact very little need of banks as yet. The population of the state at the time the Edwardsville and Kaskaskia banks were chartered was only thirty thousand. The capital necessary for banking could not be found at home, but had to come from abroad. There existed no commerce worthy the name, no enterprises worthy the name of importance, and no developed system of business, hence there was but little occasion for the exercise of the banking functions of exchange, deposit and discount, and credit. The business of banking consisted almost wholly in issuing and loaning notes. Besides the Illinois, Ohio, and Kentucky banks two Missouri banks, located in St. Louis, were also issuing notes and putting a very large part of them in circulation in Illinois. But inasmuch as there were no great business enterprises either of manufacture or commerce to absorb these notes or carry them out of the country they tended to produce a local inflation. Money was plentiful and more was constantly being brought in from other States by emigrants. It had to be employed in some way and as there was no legitimate business use to which it could be put, houses were built and lands purchased with it which were in no wise needed by the country, but which the owners expected soon to sell to immigrants at a handsome profit. Every one was in a "rage for speculating in lands and town lots" a business which was called "developing the infant resources of a new country". Public lands were then selling at two dollars an acre, one fourth cash the remainder on five years time. Every one who had or could get eighty dollars...
bought a quarter section of land, expecting to sell it again at a profit before the remaining payments fell due. Almost all the bank notes in circulation were good at the land offices. The abundance of money also made credit easy to get. Merchants imported quantities of goods either from New Orleans by way of the Mississippi or from Pittsburg by way of the Ohio and the people bought liberally from the stores on credit confidently expecting that payment would be very easy as soon as the country became settled up a little more. All were to get rich out of the future emigrant. "The speculator was to sell him houses and lands, and the farmer was to sell him everything he wanted to begin with and to live upon until he could supply himself. Towns were laid out all over the country and lots were purchased by every one on a credit; the town maker received no money for his lots but he received notes of hand which he considered to be as good as cash; and he lived and embarked in other ventures as if they had been cash in truth. In this mode by the year 1820, nearly the whole people were irrecoverably involved in debt." 

These were halcyon days for the speculator, but their end was close at hand. The time of reckoning came at last upon the general crash of state banks throughout the Union during 1819-20. The Kentucky and Ohio banks failed in succession, leaving the people of those states overwhelmed with debts and no means by which to pay them. The Illinois and St Louis banks ceased to do business. /Ford's History of Illinois, P. 44.
Prices went with a drop and the people of Illinois saw ruin and bankruptcy staring them in the face. The great tide of immigrants from abroad which had been looked for by every one failed to come. Real estate was unsalable; the lands purchased of the United States were unpaid for and likely to be forfeited. Bank notes had driven out specie, and when these became worthless, there was no money of any description left in the country. And there was absolutely no commerce by means of which a currency could be restored. ### The people began to sue one another for their debts; and as there was absolutely no money in the country, it was evident that scarcely any amount of property would pay the indebtedness. The newspapers of the times are full of accounts of frauds, riots, and robberies; and a House committee near the close of the year 1819 speaks of the "change of the moral character of many of our citizens by the presence of distress". Contracts which had been entered into when prices were booming now began to mature when property was almost unsalable. A cow and a calf might bring five dollars. Corn was worth ten cents a bushel and wheat thirty five. Real estate could not be sold. Distress everywhere prevailed; and especially was hardship felt in the payment of taxes, for while a small sum of money by circulating rapidly could pay a great many ordinary debts, the taxes being demandable all at once required that each individual be provided with the amount he owed, which amount was upon payment removed from circulation for the time being; so that

`Ford's Hist. of Ill., P. 44.`
whan the medium in which the taxes were paid became insufficient or at least unobtainable, serious distress followed. And this medium already scant was being diminished by a constant drain of specie in payment for public lands. Also, many commodities had to be brought in from other states and, there being almost no article of export, money had to go out in payment. The taxes were and had been constantly higher than those of any other Western state. This tended to retard immigration and naturally caused much dissatisfaction among citizens. Thus in 1821 every one was clamoring for relief "from the pressure of the times", which as usual under such circumstances the government was expected to furnish. Urged on every hand to in some way ameliorate the hard times, the legislature of 1821 conceived the idea of creating a State Bank based wholly on the credit of the state.

SECOND PERIOD OF STATE BANKS; 1819.-1831.

The bank was incorporated as the "President, Directors and Company of the State Bank of Illinois. Its notes were expected to furnish citizens with a ready means of paying their debts and taxes while at the same time the taxes themselves would be lessened by the profits of the bank accruing to the state treasury. This was, in fact, the second attempt to create a state bank.

The Constitution of 1818 declared that; "There shall be no other banks or monied institutions in this state than those already provided by law, except a state bank and its branches, which
may be established and regulated by the general assembly of the state as they may think proper.

In accordance with this provision the Legislature, feeling some premonitory tremblings of the coming convulsion and wishing to provide against disaster, incorporated the "President, Directors, and Company of the State Bank of Illinois", by an act approved March 22, 1819. This bank was to be a monster concern with a capital stock of $4,000,000. One half of this sum was to be subscribed by individuals, and the remainder by the State at the pleasure of the Legislature. Ten per cent on the subscriptions made was to be paid down in specia or convertible bank notes; and operations were to begin as soon as $15,000 had been paid in. Ten branch banks could be established. Six directors were to be elected by the stockholders and six, together with the President, by the Senate and House of Representatives on joint ballot. The Edwardsville and Shawneetown banks had mingled somewhat in politics of the state, so a provision was incorporated in this charter to the effect that no member of the General Assembly nor any judge of the Supreme Court or Circuit Court could be a director. The lesser details of its charter were almost identical with those of the Shawneetown Bank's charter.

Books were opened for subscriptions in various towns throughout the state, but the people either had no capital to invest or found better investments elsewhere, for not a dollar of stock was ever subscribed and the mighty institution perished at
its birth. Even the amendment to its charter passed soon afterward and making State warrants payable on subscriptions the same as specie, failed to draw subscribers, and so in 1821 the act incorporating it was repealed and the bank previously mentioned was chartered. This bank was to be owned, operated, and backed by the State, the legislators apparently having become convinced that inasmuch as the Edwardsville and Shawneetown banks had both suspended payment, nothing but State influence and credit could sustain any banking institution.

It was to be located at Vandalia, the seat of government at that time, was to have a capital of $500,000 and continue for ten years. It was empowered to receive and hold for the use of the State any kind of property whatsoever, to an amount not exceeding double the amount of capital stock, and to convey the same under the control and by the authority of the General Assembly. The State was divided into five districts and branch banks were to be established as follows; one at Edwardsville in Madison county in the first district, including the counties of Pike, Sangamon, Green, Mason, St. Clair, Monroe, and Madison; one at Brownsville in Jackson county in the second district, including the counties of Jackson, Randolph, Union, Alexander and Johnson; one at Shawneetown in Gallatin county in the third district including the counties of Pope, Franklin and Gallatin; one at the seat of justice in Edwards county (established at Palmyra) in the fourth district, including the
The counties of Clarke, Crawford, Laurence, Edwards, Wayne, and White; and the principal bank at Vandalia in the fifth district, including the counties of Jefferson, Bond and Washington. The president and directors were to be elected biennially by the Senate and House of Representatives on joint ballot, six directors being chosen for the principal bank and five for each of the branches. The cashiers were to be appointed by the directors. In the choice of directors for the branches at least one director was to be chosen from each of the counties composing the respective districts, unless the number of counties in the district exceeded the number of directors to which each branch was entitled in which case the oldest counties had the preference. Two thousand dollars were appropriated from the treasury to purchase the necessary plates. Three hundred thousand dollars in notes were to be issued in denominations not exceeding twenty dollars nor less than one. These notes were to bear interest at the rate of two per cent per annum and were receivable for all debts due the bank, State, or any county, and the salaries of state officers were payable in this paper. And for the equilization and fair distribution of the capital stock hereby created, to the presidents and directors of the branches in the several districts in proportion to the inhabitants of each district respectively. The bank had absolutely no capital save the two thousand dollars appropriated to set it up. As soon as the branch banks received their portion of the notes they were to loan the same as fast as applied for, distributing the loans among the
inhabitants as nearly as possible according to population. All
loans above one hundred dollars were to be secured by mortgage on
real estate double in value the amount loaned. For sums of one
hundred dollars or under approved personal security would be taken.
No person was to be entitled to receive a greater loan than one
thousand dollars, nor from any bank but the one located in the
district in which he resided. All loans were to draw interest at
six per cent and be renewable annually on payment of ten per cent
of the principal. The board of directors of any bank might from
time to time examine into the situation of debts due it and were
to require additional security or protest all notes considered
insecure. The branch banks were to report half-yearly to the prin-
cipal bank and the latter biennially to the legislature by which
also a permanent committee was to be appointed with the duty of
examining into the condition of the principal bank or branches when-
ever it thought necessary. As a compensation for their services
the president of the principal bank was to have a standing accom-
mmodation of two thousand dollars at the rate of two per cent per
annum, the president of each branch bank one thousand dollars, and
the directors seven hundred and fifty dollars each, in addition to
what they were entitled to as individuals. The cashiers were to
receive a salary not to exceed eight hundred dollars each. Besides
loaning notes the banks were to transact no other business, "except
that they may receive in exchange for their own bills, and notes,
land office paper of the district in which the bank may be located,
or gold and silver coins; all which exchanges shall not be made otherwise than at par. They were to receive, keep, and pay out deposits without compensation. One tenth of the notes were to be retired annually. All lands, funds, and revenues, present and future, of the State, its faith and credit were irrevocably pledged for the redemption of the bank's notes within ten years. The bank should not issue notes in excess of its capital stock. All executions on judgments then in force were stayed for nine months and might be replevied for three years thereafter unless the plaintiff would endorse on the back of the execution that the notes or bills of the State Bank of Illinois or of either of its branches will be received in discharge of this execution. Judgments for certain contracts for money entered into after three months from the passage of the act were to be "found due and assessed payable in the notes or bills of the State Bank of Illinois." By these two provisions the notes were made a semi-legal tender. The Treasurer of the State was to keep all State funds deposited in the bank and make his payments by checks on this deposit. Likewise all moneys accruing to the State from the United States for school purposes together with all specie or land office money that should come into the treasury were to be turned over to the principal bank which was authorized to issue notes to double the amount of money so deposited. These were always to be redeemable in gold or silver coins at the principal bank. All specie received at the branch banks was to be forwarded to the principal bank. Finally the bank should no
transact any business after the expiration of its charter save to wind up its affairs.

A supplement to the above act, making some slight changes in the bank's government and enacting stricter stay laws for the collection of debts, was passed about a week later. In fact, during its entire existence the bank was a prolific source of legislation since at almost every session of the General Assembly either the bank or bank debtors prayed relief, while difficulties in the bank's operation and defects in its charter were constantly appearing.

The bank project did indeed meet with some strong opposition from the start. By the constitution of the State at that time the Governor did not have a veto on legislation, but together with the Judges of the Supreme Court constituted a Council of Revision whose duty it was to examine all bills passed by the Legislature and approve them or, if any bill was objectionable, to return it with the objections in writing to the house whence it originated. When the bank bill passed the Legislature, it was returned by this council with very urgent objections. In the opinion of the council the act violated the tenth section of the Constitution of the United States which declares that, "No state shall emit bills of credit; make anything but gold and silver a tender in payment of debts, etc." The bank was certainly a state institution, officered by the legislature and backed by the State's credit and resources. Through the medium of the bank "the State by virtue of its
sovereignty, and upon the faith of its credit" was to "emit paper money, redeemable by the state, at a future day". This the council maintained was emitting bills of credit in the sense in which it was forbidden to the states by the Constitution. At any rate these bank notes proposed to be issued would produce all the evil effects which the Constitution, by forbidding the issuance of bills of credit by the states, was designed to prevent. Nor did they believe that the notes would furnish the citizens of the state "with the means of communication and intercourse with other States". They even feared that the citizens themselves could not be forced to take the bank paper. The argument that like measures had been resorted to in other States would not justify either the constitutionality or expediency of this measure; and they believed that the "embarrassments of the people" could be relieved without resort to it.

These objections were replied to very fully by the special committee to which they were referred by the House, yet there is more of assurance than logic in the committee's logic argument.

They declared that the proposed notes were not bills of credit, but were rather bank notes or promissory notes; that these were not made a legal tender but could be received or not at pleasure; that the right to bank was reserved by the State by the constitution of 1819 "which had been discussed and passed upon by the Federal Congress"; and that a similar measure to the one in question, passed in 1819, had met with much approbation. Besides the redemption of these notes was sure - "depending on no contingency whatever", while the notes of private banking institutions were
ever insecure and most frequently turned out worthless in the end. And if the notes would not circulate in other States, so much the better, for then they would remain at home, answer all the needs of the people, and, when redeemed, the money paid out would go to citizens of the State.

The speaker of the House of Representatives at that time was John McLean, a very able man, an eloquent debater, and a strong opponent of the bank. In order to prevent him from taking part in the debate on the bank bill the bank party, being in the majority, refused to go into committee of the whole, whereupon McLean incensed at such action resigned his office and in a powerful speech foretold the evil results to the State and the people which the bank would produce.

But in spite of McLean's eloquence and the objections of the council the bill was passed by the constitutional majority. Whereupon four members of the House who voted in the negative entered a protest on the Journal by way of justifying their action. This protest contains many sound objections to the bank and is very interesting as it shows some of the ideas then current in regard to the power and influence of banks in determining a state's prosperity and the extreme prejudice against all banking institutions which the reckless "wild cat banking in the teens" had produced in the minds of intelligent, sober men.

The protesters, after recounting the constitutional objections to the scheme, further declared that "all banking institu-
tions, even when founded upon a specie capital, are, in our opinion
dangerous to civil liberty - the public and private morals of our
citizens". They believed that this bank, would place a power in the
hands of ambitious and desperate men which would "endanger the
existence of our political union". The morals of the citizens would
be corrupted by putting "a means into their hands whereby they
will have a quick and easy access to every luxury and vice". The
idea that a bank such as the State Bank of Illinois, based wholly
on faith and paper, could exist ten years and maintain its own and
the state's credit without depreciation, appeared to them to be "an
idle calculation, a visionary phantom, the acme of legislative
folly, calculated to deceive the credulous, honest and industrious
part of the community".

The currency of the bank would tend to further the schem
es of the speculator, the bankrupt, and the ambitious politician,
while the bank itself would be a "hobby horse by which some politi-
cal demagogue will ride into power - # # # a curtain behind which
the more artful but less daring politicians will act by means of
his duces and tools without detection". The present embarrassments
of the country have been in a great degree caused by banks which
"ought to teach us a sad lesson of their imprudence". And fur-
ther "No part of our citizens either commercial, manufacturing or
agricultural require any such currency".
While that part of the opposition to the bank expressed in this protest which declares that all banking institutions are dangerous and productive only of evil and that the one proposed in this instance would threaten the very existence of the Union is certainly of a captious nature and wholly unwarrantable yet the part predicting the depreciation of the bank's paper and with it the credit of the state and the use to which the bank would be put in serving the ends of politicians became fulfilled prophecy.

The unconstitutionality of notes such as the bank proposed to issue was determined sometime afterward by the Supreme Court of the United States in the case of Craig against the State of Missouri. Although the Supreme Court of Illinois had previously, in 1826, ruled that they were constitutional.

Aside from the question of constitutionality the issuance of inconvertible notes was very objectionable as a matter of policy, yet the worst feature of the whole bank measure was that which required a creditor to take these notes at par for his debt or suffer it to be reprieved for three years by the debtor. And this feature was reenacted repeatedly in the form of "stay laws" and "stop laws" throughout the lifetime of the bank.

At first the bank was very popular. There was of course no difficulty in putting it in operation since no capital was required. It was generally believed that its notes would be or ought to be, accepted at the land offices the same as specie. The General Assembly passed a joint resolution instructing the Senators and
Congressmen from Illinois to use their best endeavors to get the notes of the bank receivable at the land offices in the State and directing the Governor to forward copies of the resolution and of the banking act to the President, Secretary of the Treasury, and Commissioners of the General Land Office. Yet some doubted that the notes would be made land office money, for, when the resolution was upon its passage in the Senate, the French Lieutenant-Governor, Col. Menard, presiding over that body, put the motion as follows:

"Gentlemen of the Senate, it is moved and seconded that the notes of the bank be made land office money. All in favor of that motion, say aye; all against it say no. It is decided in the affirmative. And now, gentlemen, I bet you one hundred dollar he never be made land office money! And it never was. Most of the people expected the bank to bring prosperity and affluence to the state. Not only did its opponents believe that it would put a means into the hands of the people whereby they will have a quick and easy access to every luxury and vice, but, judging from the dishonesty that afterward developed toward it, some of its advocates thought the same and preferred luxurious vice to destitute morality. Great, indeed, were the expectations resting on the bank when it went into operation in the summer of 1821.

Its officers being elected by the legislature, the bank naturally fell into the hands of politicians who combined ignorance and viciousness in its management. Three hundred thousand dollars in notes were issued and at once loaned with little care as to

/Ford's History of Illinois, p. 46.
security or certainty of repayment. "Every man who could get an endorser borrowed his hundred dollars". All the directors "either were then or expected to be candidates for office. Lending to everybody and refusing none was the surest road to popularity". By the mode of compensation fixed by the charter the bank officers had the right to become the largest borrowers, the twenty-six officials being entitled to receive $61350, or over one sixth of all the bank's notes, and they either borrowed, "or transferred their right to borrow, to the full limit of the law, and thus became more interested than any other class in the community, in impairing the credit of the institution, and depreciating its notes, as the means of facilitating the discharge of the debts they had contracted with it. And hence # # # those gentlemen # # # have been generally, if not universally, found among the warmest advocates for depreciating those notes; scaling bank debts, and various other expedients whose inevitable effect would be, the revolting injustice of requiring the balance of the community to be taxed for the payment of their debts". With such management it is not surprising that the bank brought only distress and disaster to the state.

No specie of consequence was ever received by the bank. One branch received only two dollars in specie, both of which were kept as curiosities. The notes fell to seventy cents, then fifty,

1 Ford's Hist. of Ill. p. 111
2 Ibid.
3 Gov's. Message, 1826.
than twenty-five, and then ceased to circulate. No more than $300,000 was ever issued. The notes of the Ohio and Kentucky banks had previously driven all the specie out of the country and these notes kept it out. The people had to cut the new bills in pieces to make small change. "For about four years there was no other kind of money but this uncurrenent State Bank paper. In the meantime, very few persons pretended to pay their debts to the bank. More than half of those who had borrowed, considered what they had gotten from it as so much clear gain, and never intended to pay it from the first."

But aside from the bad debts the state was a loser in another way. In December, 1820, the Governor, in his message had remarked upon the "flourishing condition of the treasury". He declared that a reduction of the taxes would be justified, as the funds in the treasury greatly exceeded the demands against it. In 1823 the "funds" in the treasury consisted of State Bank paper worth about fifty cents on the dollar. The State Auditor in a report to the Legislature of that year says: "The subject of your currency will undoubtedly occupy a portion of your deliberations, and you in your wisdom will devise some system by amending your bank charter whereby this currency may rise to such a standard of value that those who have judgments against the State may receive them without a loss in many instances of half their claims. It is true that an extraordinary change in the times imposed upon the

/Ford's Hist. of Ill. p. 47.
last Legislature the necessity of the adoption of some proper expedient as a substitute for a more substantial currency to guard a portion of our citizens from the impending ruin which at that time appeared to await them. It must now clearly be the policy of the Legislature to devise some means whereby their public servants should not bear the burden of this depreciated currency.

It must be obvious to the most of your body that a measure must be pursued to enhance the value of the paper and restore public confidence in the currency, for it is notorious that while the public servants are required to take this paper at par and pass it for the necessaries of life at less than two for one, the non-resident is liquidating his debt to the state for less than one half of the substantial demand the State may have against him. By providing for sinking this paper it would reduce the quantity in circulation, and thereby make the demand greater, and consequently advance its worth, and it will no doubt be observed that a further issue would not increase the amount of substantial capital afloat.

The Legislature responded by doubling the pay of its members and that of some other officials. This soon emptied the treasury and Auditor's warrants were issued in excess of the means to pay them. By 1825 the bank notes and Auditor's warrants alike had depreciated still further, $6000 of the paper having been disposed of by the Canal Commissioners at the rate of 27 1/2 cents, and the Legislature made it the duty of the Auditor, Treasurer, Secretary of State, and cashier of the principal bank to determine every
month the current value of the paper of the State bank, and this
value was to be the rate at which the paper should be paid out at
the treasury for the succeeding month. Until these officers had
fixed such a value the Auditor was to rate the notes of the bank at
three dollars for one in specie. Both the notes and warrants being
receivable for taxes and debts due the state, the result was to
treble the state expenses without increasing the revenues. These
expenses at that time were about $30,000 annually, so that $90,000
in warrants and paper were required to pay them, thus entailing
an annual loss to the state of $60,000 while these conditions last-
ed. In 1825 $407,732 were in this way paid out in auditor's warrants,
while the state's expenses in good money for that period would not
have exceeded $35,000 at the outside. Moreover the state's revenue
arose almost exclusively from the tax on lands of non-residents,
the resident land tax going to the counties, hence this virtual
decrease in the revenue was a relief not to the citizens but to
the non-residents. These latter bought up great quantities of the
paper when it was cheapest, and kept it to pay taxes with, so that
for several years the whole, and for a longer period the larger part
of the state's revenue was in this paper. But, though the action of
the Legislature in authorizing the paper to be paid out at three
dollars for one tended strongly to fix its depreciation at that
figure, as the time for its redemption drew nearer it began to
rise in value and by 1829 was worth seventy cents.

The bank was from the start an important element in state
public policy and legislation. In 1824 Gov. Coles spoke of the
bank as "another error committed from the same impatient desire to
relieve the community from what was called the pressure of the ex
times, but which was chiefly produced by the excessive issue of
paper currency." "This", he added, "like most other expedients of
the kind has had the effect to increase the evil it was intended to
relieve". He alluded to the injury done by the bank both to the
business of the community and the credit of the state, and recom-
mended that the bank be thoroughly investigated and some measure
taken to restore the credit of its paper.

An investigation was made accordingly and it was found
that up to the 10th of January 1825 "the current expenses of the
principal bank had exceeded the discounts $2403.90." The Palmyra
and Edwardsville branches each showed a fair profit and the Browns-
ville branch a loss. The Shawneetown had had its concerns "loosely
and irregularly conducted" and its papers and accounts were in a
"deranged position". There appeared to be a defalcation of $4800.76
on the part of the cashier and $3750.00 had been loaned in the
previous Oct. "without taking any security therefor".

No attempt was made at the time to punish the officers
of the Shawneetown branch for their culpable negligence.

The Legislature enacted a law staying executions on judg-
ments and requiring courts to render judgments on contracts and
issue executions payable in bank paper. It was made the duty of the
cashier of the principal bank to burn all notes on hand and not
needed for expenses, on the public square in Vandalia in the presence of the Governor and certain other officers. Notes received at the Treasury and again paid out were to be stamped "Reissued" and cease bearing interest. Auditor's warrants were made receivable for bank debts. The bank was forbidden longer to receive deposits from individuals and such deposits already received were to be withdrawn by the depositors. The presidents and directors of the branch banks were done away with and their management entrusted solely to the cashiers whom were to be appointed by the Governor.

The object of this legislation was to reduce the functions of the bank as nearly as possible to the collection of its debts and to restore the credit of its currency. In both his subsequent messages Gov. Coles again recommended this policy and, in Dec. 1826, advised "retrenching the expenditures of the Bank and winding it up with as little ultimate loss as possible to the State.

Of the $300,000 issued by the bank $100,000 had been burned prior to January 1st, 1826, leaving $200,000, exclusive of interest accrued still outstanding. Gov. Edwards in his inaugural message in 1826 strongly attacked the entire banking system, and especially the management of the Shawneetown branch, alleging that the report of the investigating committee showed that there had been the "clearest moral perjury" on the part of that branch's officers. In subsequent messages he charged specific acts of corruption upon the officers of the Edwardsville branch, and particularly upon Judge Smith, the cashier, who, the Governor claimed, had violated every
provision of the bank's charter in regard to making loans and had been guilty of culpable negligence in their collection. In a later message the Governor made nine distinct charges of maladministration against the cashier of the principal bank at Vandalia and added a charge against Judge Smith to the effect that he had appropriated to his own use and still held a large amount of the bank's funds.

The men attacked were all adroit politicians, prominent and influential in the Whig party, while the Governor was a Democrat. They formed a combination to resist the attack, rallied all their friends and the friends and employees of the bank to their support, raised the cry of persecution and denounced the charges as political spite work. The Whig party had a majority in the Legislature which was another aid to them.

The charges were referred to a special committee which Gov. Ford says was "packed". This committee upon investigation found that some of the charges were not born out by the facts; and the Governor retracted others. Yet much irregularity in the conduct and management of the bank was brought to light. Nevertheless the committee passed a resolution acquitting the bank officers of any willful misconduct.

The legislation of the next three General Assemblies was aimed chiefly to facilitate the collection of bank debts. The expedients resorted to and the inducements offered in this connection emphasize the laxity and general indifference on the part of
the people toward paying their debts which was apparently common at that time and which the bank had aided greatly in producing. The Legislature of 1826 began by enacting another stay law, staying executions on judgments for three months. All defaulters in payments on bank debts were given the right to make new notes and renew their loans, and if a judgment had been rendered it was to be marked as satisfied, on receipt of the debtor's note for the amount of the judgment. Sheriffs and clerks were to be credited at the bank with their fees for collecting bank debts. The pay of the cashiers of the principal bank and branches was reduced, and that of the president and directors of the principal was withdrawn.

In 1829 it was enacted that all public officers in arrears with the payments on their debts to the bank should not be paid their salaries until such payments had been met. Defaulters to the bank were to be allowed to pay up in three annual installments by executing new notes, one for each installment, the old notes being destroyed. The new notes were also to be accepted in satisfaction of judgments already obtained. The cashier of the principal bank was abolished and his duties transferred to the state treasurer. Debtors to the bank who would pay up before the 1st of July, 1830, were to be released from all interest on their bonds and those who would pay before Sept. 1st, 1829, were to be allowed ten per cent discount with the interest. The Attorney General and the State's Attorneys were to be allowed two and one half per cent of
their collections on bank debts. The governor was directed to borrow all the specie of the school and seminary fund with which to meet the current expenses of the government for the last three quarters of the year 1830. Warrants on this sum were to be issued at their specie value and those for paper at seventy cents on the dollar.

In his report for 1830 the Treasurer of the State recommended that the state paper be funded into certificates of stock bearing legal interest and that a loan be negotiated sufficient to pay the government expenses for the next two years so that the revenue during that time could be applied to the payment of interest and the principal debts. He estimated the amount of fundable state paper at $120,000 including interest from which it would seem that the previous efforts to call in the paper had not been very successful.

It devolved upon the Legislature of 1830-1831 to take measures for winding up the bank and to make provision for the redemption of its notes which were to fall due in the course of the following summer. The redemption of these notes meant high taxes and indebtedness and was sure to raise a storm of popular dissatisfaction. Every previous Legislature had shunned the question as they would the plague, but now it could be postponed no longer. In accordance with the recommendation of the Treasurer it was provided that holders of state paper might have the same funded into certificates of stock bearing six per cent interest payable semi-
annually at the State Treasury. The stock was receivable for debts due the State and was redeemable in the order issued at the pleasure of the State by giving three weeks notice. The Governor was authorized to negotiate a loan of $100,000 to be applied to current expenses and the redemption of state paper. The Treasurer and Auditor were to issue stock for the loan, $50,000 of which was to be paid in specie or United States Bank notes and $50,000 in specie funds, state paper or Auditor's warrants. On the 12th of February, 1831, the Governor, Auditor, Secretary of State and the Treasurer were to burn all the State paper in the Treasury whether belonging to the bank or State and in like manner to burn all on hand the end of every quarter. In order to offset in some measure the disagreeableness of the loan defaulters and bank debtors were allowed to the 1st day of May, 1832, to pay their debts by executing new notes; and if these notes should be punctually paid, interest on them was to be remitted; and if paid before December 1st, 1831, six per cent discount with the interest was to be allowed. All of the debts due the bank were to be turned over for collection to the Attorney General and the State's Attorneys before the 4th of July, 1832, and the Attorney General was authorized to sell all the bank property. In 1833 another act, supplementary to the preceding, was passed which directed that if the Circuit Court should become convinced that the collection of the debt of a deceased bank debtor would distress his widow or orphan children, the debt was to be cancelled. And, also, all bank debtors
were to be allowed to pay their debts in three installments, one per year, the interest and twenty-five percent of the principal having been remitted. The leniency toward bank debtors displayed by the Legislature throughout the entire period of the bank's existence proved to be very shortsighted statesmanship. It not only caused heavy loss in the collection of bank debts, but also greatly lowered the standard of honesty of the community and lessened the feeling of obligation on the part of the debtors generally, so that by 1830 perhaps the majority of bank debtors had no intention of paying their loans if they could avoid it. The leniency, however, may be explained in part by the fact that in every case the legislators were among the largest bank debtors.

The loan, authorized in 1831, was secured from a citizen of Cincinnati named Wiggins. Demagogues spread the rumour throughout the state that it had been sold to Wiggins and succeeded in kindling the wrath of the people against the members of the Legislature which had authorized the loan, so that the most of them were politically killed and buried. Gov. Ford says: "The honor of the State was saved and the Legislature forever damned".

The loss to the State during the ten years regime of State Bank paper has been estimated at $300,000 in receiving and paying out the paper at the Treasury, and $100,000 from loans which were never repaid and had to be made good by the State, besides the injury to its credit and the loss from the extensive issue of depreciated auditor's warrants for which the bank legislation was
responsible. Another authority places the total loss at $500,000.

The loss to the people and the damage to business cannot be estimated. Specie was gone; credit, public and private, broken down; enterprise stagnated; and business morals corrupted.

THIRD PERIOD OF STATE BANKS; 1835 - 1842.

From 1831 to 1835 Illinois had no banks. Indeed, during that period the Legislature was always careful to insert in all charters granted to corporations for business purposes that no banking functions whatever should be exercised by the corporation. But by 1835 the reaction against banks had about spent its force, while at the same time some events had recently occurred which seemed to make a bank desirable for the State. In the "war" between President Jackson and the Bank of the United States, the President had come out victorious. In July, 1832, he had vetoed the bill for renewal of the Bank's charter, and in September, 1833, he had stopped the depositing of public funds with it and selected certain state banks as depositories of the revenues. The Secretary of the Treasury, Mr. Taney, in his report for 1833 declared that the notes of state banks would furnish a circulating medium (in lieu of the notes of the Bank of the United States which would be withdrawn upon the expiration of that institution's charter) which would probably be more uniform in value than that afforded by the Bank of the United States, and he advised a gradual increase of state bank issues. In his report for 1834, the Secretary of the Treasury, Mr.
Woodbury, remarked that the $10,000,000 of public deposits were enabling the selected state banks "to discount freely, and to support a sound paper currency in their own neighborhood". Some of the people of Illinois began to think it unfortunate that their State was not in time a position to obtain a share of the benefits to be derived from the use of the public funds.

In his message to the Legislature in December, 1834, acting Governor Wm. Lee A. Ewing said, "Permit me to present to the consideration of your honorable body, the subject of the establishment of a State Bank. Public opinion seems to have been pronounced against the recharter of the present Bank of the United States, in such unequivocal language as to enervate the establishment of such an institution in an absolute necessity. I, therefore, in my capacity as Senator, propose to offer for your consideration a project for a State Bank, which, under the administration of judicious management, will annually defray the expenses of the civil administration of the State Government - pay off the interest and principal of the State loan - reproduce the annihilated school fund, and bring it back into being - cover all contingent defalcations - create a fund for the ultimate payment of the loan necessary to be made upon which to found the Bank, as also, the annual payment of the interest thereof. And in addition to all these desiderata, afford to our country at this time almost wholly destitute of a monetary medium, a safe and approvable currency. # # # The bills of the United States Bank, withdrawn from circulation, as they nec-
essarily will be, in order to a final close of its concerns, our State will be left without a known good or bad currency. Hence I propose the establishment of State Bank, founded not upon the baseless impalpable fabric of a vision - but upon a gold and silver reality.

In his inaugural address at the same session Gov. Duncan said: "Banks may be made exceedingly useful in society, not only by affording an opportunity to the widow the orphan and the aged, who possess capital without the capacity of employing it in trade or any ordinary business, to invest it in such stocks; but by its use the young and enterprising mechanic, merchant and tradesman may be enabled more successfully to carry on his business and improve the country. But unfortunately, banks are too often established to benefit the rich speculator, with no reference to the interest and convenience of the industries of the poor, which has justly excited a jealousy among the people against all banks, and should admonish us to be exceedingly careful in the first permanent introduction of them into our State."

Perhaps the majority of the people of the State wished to be as cautious as Gov. Duncan, but some, according to Gov. Ford, were anxious that the speculations prevalent farther east should commence in Illinois. The mania for sudden riches, which, and not currency inflation primarily, is, according to MR. Sumner, the chief cause of periods of speculative madness, had already got possession of the people in the Northern and Eastern parts of the State.
nation. It was due in great part to the enlargement of the Erie Canal in 1835, which was expected to do wonders for the development of the territory bordering on the lakes. Speculation in Illinois had just begun and was as yet confined entirely to Chicago. The Whigs as a party were supposed to be favorable towards banks, state and national, and many Democrats argued that President Jackson, though he destroyed the Bank of the United States and denounced it as a "permanent electioneering machine", showed by that act that he was really in favor of state and local banks.

These various considerations led to an effort, which proved successful, in the Legislature of 1835 to establish a State bank. The question of the bank had not been an issue in the campaign and at the time the Legislature was elected, no one had dreamed of a State bank. Their sad experience with the old State Bank had made a deep impression upon the people, and the bank project met with strong opposition in the House where it passed by a majority of one vote - 27 to 26. This vote was obtained by the bank party from a member, opposed to the bank in principle, in consideration of his election as State's attorney. "So that," says Gov. Ford, "it may be said that the making of a State's attorney made a State Bank". In the Senate also a vote was obtained from a senator, likewise opposed to banks, in consideration of the passage of a bill to tax the lands of non-residents in the military tract at a high rate for road purposes. By such means as these the bank measure was got

1 Sumner, Hist. of AM. Cur. p. 118.
2 Ford's Hist. of Ill., p. 172.
3 Ford's Hist Ill. . of Ill., p. 170.
through the Legislature; and the Council of Revision approved it, though the Governor objected. It was not passed as a party measure, both Democrats and Whigs voting for it upon grounds of public utility and expediency, though it proved to be the first of a series of legislative acts which brought the most disastrous results upon the State.

The Charter, incorporating the "President, Directors, and Company of the State Bank of Illinois", and approved by the Governor February 12, 1835, was a much better and wiser instrument than the one for the Old State Bank had been. The Bank's capital was to be $1,500,000 which might be increased by individual subscriptions to an amount not exceeding $1,000,000. The stock was divided into one hundred dollar shares; $1,400,000 of it was to be subscribed by individuals and $100,000 by the State whenever the Legislature might deem proper and the condition of the Treasury might justify it. According to its charter the bank was to continue to the 1st of January, 1860. It was empowered to carry on the business of banking by discounting bills, notes, and other evidences of debt, by receiving deposits and making contracts, including those for interest for the use of money, by buying and selling gold and silver bullion, foreign coins, and bills of exchange, by issuing bills notes or other evidences of debt, and by exercising such other incidental powers as shall be necessary to carry on all such business; it could hold only such real estate as should be necessary for business accommodations, or had been mortgaged to it by way of
security on loans, or had been conveyed to it or acquired in good faith in the satisfaction of debts. It was prohibited from dealing in any goods, wares, or merchandise, or commodities whatever. The principal bank was to be at Springfield with an office of deposit and discount at Vandalia; and the president and directors were empowered to establish other offices of discount and deposit, not exceeding six, at such places and under such management as they saw fit. Ten dollars in specie or notes of the Bank of the United States or certificates of deposit in any of the deposit banks of the United States in New York or Philadelphia were to be paid down on each subscription, and the remainder in such installments as the directors might determine, but no installment could be demanded without eight weeks notice. It was considered desirable that the stock be distributed as widely as possible among the citizens of the State, accordingly the charter provided that the subscription books should be opened twenty days earlier within the State than elsewhere and that if upon closing them it was found that more than $1,400,000 had been subscribed, the excess was to be taken first from such as resided outside the State, then from corporations, then if an excess still remained, proportionately from all subscriptions over $1,000, and then from all equally until the amount subscribed was reduced to $1,400,000. The bank was to be managed by nine directors, citizens of the State and holding stock to the amount of at least ten shares each, who were to be elected by the stockholders in annual meeting at Springfield. As in the earlier banks small
stockholders were to have proportionately more votes than larger ones, and no person could have more than one hundred votes. As a matter of fact all the provisions intended to restrict non resident and extensive stockholding failed utterly in their purpose. In order to gain both the advantages offered to citizens in the way of subscriptions and those offered to small stockholders in the way of voting, the large investors, some of whom lived without the State, "procured, through numberless agents scattered over the State, powers of attorney from any person disposed to make them, empowering them respectively to subscribe bank stock for them and to absolutely manage it subsequently. Thus there were many thousands of such subscriptions made by persons whom it never cost a cent to own bank stock, and who remained, perhaps ignorant of the fact that they ever were bankers. In all bank elections the votes might be given by proxy, but no bank officers could vote at any election for directors as proxy for any stockholder. Remembering the political jobbery, intrigue, and corruption in which the former bank had been associated and which had wrought such disaster both in bank and State affairs, and regarding the action of the Bank of the United States during the "bank war" as an object lesson of the tendency of governmental institutions to attempt to wield a political influence, the Legislature, in order to completely divorce the bank from politics, incorporated the following provisions in the charter:

"No president, cashier, or director of the Bank shall.
during the term, of his office, be eligible to a seat in either branch of the General Assembly of this State.

"And if the Bank shall abuse any of its corporate powers by interfering in any of the elections of this State, other than that of its own officers, the said bank and branches shall forfeit its charter and cease to exist." The directors were to elect one of their number president; to appoint a cashier and all subordinate officers, fix their compensation, define their powers and prescribe their duties; and to report the condition of the bank to the stockholders annually. The corporation was given power to borrow any sum of money not exceeding $1,000,000 and loan it on real estate double in value the amount loaned, for a term not exceeding five years at a rate not higher than ten per cent. As soon as $250,000 in specie had been paid to the corporation, the Governor, being notified by the directors, was to appoint a committee to count the money paid in on the capital stock and actually in the possession of the bank, and to ascertain by the oath of the president and cashier that this money had been paid in, bona fide, by stockholders in payment of their installments and for no other purpose whatever; and upon the favorable report of this committee the Governor was to authorize the bank to commence business. Six per cent interest could be charged on loans for six months or under, and eight per cent on loans for over six months and under twelve. The bank could issue notes to two and one half times its capital stock paid in and possessed, exclusive of deposits, and could loan and discount to
three times the amount of such stock, the directors being liable in their private capacity for any excess. If it should refuse for ten days to redeem any of its notes in specie its charter was to be forfeited and damages assessed to the holder of the note at the rate of ten per cent from the time the note was presented until paid. When the $100,000 of stock reserved to the State had been subscribed for, the Governor was to appoint two directors to represent the State in the corporation. The directors were to make such half yearly dividends of the surplus profits of the bank as they deemed advisable. As a safeguard against the repetition of the "stay laws" and "stop laws" of the period of the former bank, it was provided that: "The Legislature of this State shall never pass any law retarding, obstructing, staying, protracting or in any wise suspending the collection of any debt or debts due the bank". Under penalty of forfeiting its charter the bank was not to issue notes of a less denomination than five dollars, and the Legislature might, after fifteen years, restrict it from issuing notes of a denomination less than ten dollars. It was to pay into the State Treasury annually one-half per cent on the capital stock paid in by individuals, in lieu of all other taxes and impositions.

The same causes which had led to the establishment of the State Bank brought about a revival of the Bank of Illinois at Shawneetown which had remained dormant since its suspension in 1821. On February 12, 1835, an act was passed extending its charter for twenty years from January 1st, 1837. The directors were to issue a
call for an installment on its stock and all stockholders who failed to make the payments in pursuance of the regular calls were to forfeit their stock. It was made the duty of the Governor to sell the $100,000 of stock, reserved by the charter to be subscribed by the State, on the first day of the following May to the highest bidder in lots of not less than ten nor more than fifty shares. The amount of any premium which this stock might bring was to go into the Treasury and if the stock were not sold as provided for, it was to remain open on the books of the bank for subscription. The bank was authorized to charge six per cent interest on all loans for six months or under, and eight per cent on loans for over six months. It was to pay into the Treasury annually one-half per cent on its capital stock actually paid in, in consideration of which it was to be exempt from further taxation.

The case against the advisability of banks at this stage is strongly presented by Gov. Ford, who says: "These were brought into existence in violation of the plainest principles of political economy. The State was young. There was no social or business organization upon any settled principles. A large crowd of strangers, as it were, had met here for adventure. Our most sagacious citizens were of this sort. We had no cities, nor trade, no manufactures, and no punctuality in the payment of debts. We exported little or nothing. We had no surplus capital, and consequently the capital for banking must come from abroad. Some few then foresaw, what proved true, that it would be difficult to find
directors and officers for two banks and numerous branches, who, from their known integrity, and financial knowledge, would be entitled to the public confidence. The stockholders would (as they did) reside abroad in other states. They could not supervise the conduct of the directory in person. It was probable that many improvident loans would be made, and that the banks would be greatly troubled in making their collection.

The stock of the bank was readily, even greedily, taken; the subscriptions greatly exceeding the amount of stock open. Immediately upon the passage of the bank act, John Tillson of Hillsbore, Thomas Mather of Kaskaskia, Godfrey Gilman & Co., of Alton, T. W. Smith, a judge of the Supreme Court and formerly cashier of the Edwardsville branch of the Old State Bank, and Samuel Wiggins, a citizen of Cincinnati, negotiated for large loans in the eastern cities to invest in this stock. Their method of circumventing the provisions of the charter which conferred special privileges upon the citizen small stockholder has already been described. When the commissioners met to award the stock, a contest for the control of the bank arose between Judge Smith, on the one side and the other men named on the other. A motion was made that subscriptions for the use of citizens of the State should be preferred to subscriptions made for the use of non-residents, and that holders of proxies should be required to make oath as to the actual residence of the principals. This motion was favored by Smith who, it was said,

/Ford's Hist. of Ill., p. 173.
stood ready to take such an oath, and to swear that he had in good
faith paid for all his proxies out of his own money. The others
could not thus swear; and therefore they defeated the resolution.
These men, also, united in the management of the bank, and elected a
directory in their interest with Mather as president. The majority
of the directors were Whigs; and the control of the bank was in the
hands of that party, though it did not become a partisan institu-
tion until some years later.

The new bank went into operation in 1835. At that time
a strong desire to build up a commercial emporium within the State
was felt by many citizens; and Alton was looked upon as the place
most likely to fulfill that desire. As yet, however, nearly the whole
trade of Illinois, Wisconsin, and of the Upper Mississippi, was con-
centrated at St. Louis. All the export and import trade of the regi-
on was carried on by St. Louis merchants, and exchange on the
East could be purchased only in St. Louis. The Alton interest in
the bank was sufficient, in case of division, to control its manage-
ment. Accordingly the bank loaned its aid toward building up Alton
and diverting the trade of the North and West thither. Godfrey Gil-
man & Co. were supplied with $300,000 with which to get control of
the immense lead trade of the mines on Fever River and about Galena.
Immediately the price of lead rose, on account of this competition
between Alton and St. Louis, from 2.75 to 4.25 per hundred. To
exclude further competition the Alton merchants invested some two
or three hundred thousand dollars in mines and smelting establish-
iments. But their agent did not stop there. He began to deal in lots
in Galena, and scattered money profusely on every hand. The effect
was soon apparent; property in Galena rose in a few months more
than 2000 per cent. But all these exertions and lavish expenditures
to get control of the lead trade could not keep up the price of
that commodity in the East, its destined market, and the lead of the
Alton merchants, having been kept in store in New York for a year or
two awaiting a rise in prices, was finally sold at a ruinous sacri­
fice. Slot & Co., and Stone, Manning & Co., both Alton firms, had also
received advances of several hundred thousand dollars to operate in
produce, but their efforts proved equally disastrous. It has been
estimated that the bank lost altogether in its Alton operations near
$1,000,000, but the fact was kept secret at the time. Instead
of building up Alton and giving the bank a monopoly of exchanges on
the East, the result of this scheme was to crush Alton and bring
the bank within the second year of its existence, to the verge of
bankruptcy. Gov. Ford says; "This is an example of the danger of
endeavoring to force trade, wholly against nature, out of its
accustomed channels. Let it be a warning also to all banks, not to
engage, either by themselves or by their agents, in the ordinary
business of trade and speculation."

The Legislature met in special session on Dec. 7, 1835,
and sat for about six weeks. In his message Gov. Duncan advised

/Ford's Hist. of Ill., p. 178.
/Ford's Hist. of Ill., p. 178. The preceding paragraph
is largely taken from this author.
that the Legislature settle the question as to whether the President and Directors of the bank or the Legislature should open the subscriptions for the $1,000,000 increase in the stock of the bank, provided for by its charter, before any vested right had been created. The stock was then at a premium of 13 per cent, and the Governor believed that "from the peculiar advantages conferred by the charter upon the stockholders, it would rise to 20 or 30 per cent above par." Accordingly he recommended that the Legislature in behalf of the State, subscribe this $1,000,000 of stock, sell it at auction to the highest bidder, and turn the premium into the State Treasury. He estimated that in this way the State would reap a profit of from $100,000 to $300,000. But the Legislature did not altogether follow his advice. On January 16, 1836, an act was passed authorizing the bank to sell at public auction the $1,000,000 of stock provided for in the second section of its charter; to establish three additional branches of discount and deposit at its option; and to have fifty days in addition to the ten previously allowed for the redemption of its notes; but none of these provisions were to take effect until the bank had contracted with the Governor to redeem the Wiggins Loan with the interest that should accrue thereafter on the same, which condition was accepted by the bank on the 9th of the following June. Another act was passed at the same time as the previous one which made the bank paper receivable in payment of the revenue of the State, college, school, and seminary debts.
By the summer of 1836 land and town lot speculation was in full blast in Illinois, and the follies of 1819 were repeated on a grander scale. Chicago had been the starting place and was still the center of this activity. Speculators poured into that town from every quarter. The plats of towns from all the surrounding country were taken there and sold at auction, and, in some cases, even forwarded to eastern markets. "In fact, lands and town lots were the staple of the country and were the only article of export." Nearly every one had town lots for sale, and, naturally enough, all were impatient for a great influx of immigration and the rapid development of the State. It was believed that these would be obtained by a system of improvements. The people soon became enthusiastic on the subject, and an internal improvement convention was assembled at the same time that the Legislature of 1836-37 met. The convention recommended that the Legislature adopt a system of internal improvements that "should be commensurate with the wants of the people." Thus urged the Legislature passed an act "to establish and maintain a general system of internal improvement." This act established what was called a Board of Fund Commissioners and provided for a vast system of works in the way of improving navigable rivers, and constructing canals and railroads. For carrying out the provisions of the act, the Legislature voted a loan of $3,000,000! The total government expenses of the State from its admission up to 1836 did not reach $1,000,000. Truly indeed did mere possibilities appear high, probable, and probabilities wear the livery of certainty itself.
Together with this act and in harmony with the speculative and improvement craze of the time came bank expansion.

On February 28, 1837, an act was passed authorizing the Bank of Illinois to borrow $250,000 and loan the same upon real estate security at a rate not higher than ten per cent. On March 2, the Governor was instructed to subscribe in behalf of the State for the $100,000 of stock reserved to the State by the charter of the State Bank of Illinois. On March 4, an act was passed increasing the capital stock of the State Bank $2,000,000, to be subscribed wholly by the State, and that of the Shawneetown Bank $1,400,000, $1,000,000 to be subscribed by the State and $400,000 by private subscription; provided that the consent of the banks should first have been obtained. Ten per cent on the stock subscribed was to be paid by the State the same as the private stockholders had originally done. The Fund Commissioners were authorized to negotiate a loan, not exceeding $3,000,000 for which they were to issue certificates of stock called "the Illinois Bank and Internal Improvement stock". When the increase in the stock of these banks should be subscribed by the State, the Legislature was to elect five additional directors for the State bank and nine for the Shawneetown bank. This still left a majority of the directors of each bank to private stockholders, although the State held much the larger portion of the stock of each. The Shawneetown bank was authorized to establish three branches of discount and deposit, one at Alton, one at Jacksonville, and one at.
Lawrenceville, whenever the interests of the community or bank should require it. The fund commissioners might deposit in any bank or banks of the State all funds borrowed or otherwise obtained for the purpose of internal improvement, and the banks were made the fiscal agents of the State in respect to all internal improvement funds. They were to make quarterly reports of their condition to the fund commissioners, and the Legislature might by committee, make such examinations of their affairs as it deemed proper. All bank notes were made payable where issued. It was expected that the bank stock thus provided for would command a premium of at least ten per cent - since the first $1,500,000 of stock, offered in 1835, had risen to 13 per cent above par and that the State's bank stock would yield a handsome dividend; accordingly the bill provided that the dividends and profits accruing from the stock should be applied first to payment of interest on the loans authorized by the same act, and the balance together with the premium on stock sold was to constitute a fund to be held inviolably for the payment of the interest on the loans authorized by the internal improvement act, and whatever balance of the dividends and profits should remain was to be deposited in the banks to the account of the fund commissioners. By another act of the same date the banks were made depositories of the State revenues which they were to receive, and, upon the warrant of the Auditor, pay out without making any charges.

The fact that most of the State Bank's officers were Whigs caused it to be regarded as a Whig concern. The Democrats,
headed by Judge Smith, who now pronounced the bank unconstitutional, though he had written its charter and advocated its passage through the Legislature, and Judge McRoberts, receiver of public moneys at Danville, maintained a strong opposition to it. An act of Congress of the previous session had provided that the surplus revenue from the sale of public lands might be deposited in the various States. The bank made an effort to get a share of these deposits, but it was so hated by the Democrats, and they made such representations at Washington as to its unsoundness, that the Secretary of the Treasury refused its request. Its notes fell below par and were gathered up and presented for specie, which was then paid into the land office for public lands, and thus drawn out of the country. To check in some measure this constant drain of specie the bank resorted to the expedient of putting its notes in circulation as far as possible from the branch where they were issued.

The State Treasury had been solvent in 1835, but when the old plan of making the bank the custodian of the public funds had been adopted and when the bank’s paper had begun to depreciate, the road to bankruptcy was shortened, and was traveled before 1838. By the measures passed in the winter of 1837 the banks and the State were inseparably linked together, and the gigantic improvement scheme involved both alike in ruin. This scheme has a history of its own and can only be mentioned here. A canal connecting the Lake Michigan and the Illinois River had been the dream of every statesman since 1820, and now it seemed about to be realized.
The first set back came when the bonds of the State issued for the canal loan were taken East to be sold. To the great surprise of the commissioners they could not be disposed of. In this strait the banks came to the rescue and took $2,065,000 of the bonds at par. The Shawneetown bank disposed of its share of $900,000, but the remaining $1,165,000 of them which fell to the State Bank were not sold, yet they were used as bank capital and the bank's business was expanded accordingly. The condition of the Illinois banks at this time and for various years up to 1837 as well, may be seen from the following table.

But unfortunately within two months after the passage of the internal improvement act and before the scheme could be fairly launched came the financial revulsion of 1837. The expansion of the banks, of which the internal improvement craze had been the chief cause, was at its utmost when the crash came. The causes and history of this panic are too well known to need mention here. By May all surrounding banks had suspended, and the Illinois banks though solvent, could no longer stand the strain. By their articles of incorporation they could not suspend specie payments longer than sixty days without forfeiting their charters. But they had been made the fiscal agents of the State, and all the State monies and the internal improvement funds, amounting in all to $1,055,604, were deposited with them. If the banks were forced into liquidation, it would mean a great loss to the State and the entire failure of the whole internal improvement scheme. To avoid this catastrophe the...
canal commissioners wrote to the Governor urging him to convene the General Assembly for the purpose of relieving the banks which they declared to be perfectly solvent, but manifestly unable to resume, or at all events to continue, specie payments while all the other banks of the country were in suspension. A special session was called which met July 10. In his message the Governor made a statement of the case without directly recommending that suspension be legalized, though he did recommend a partial repeal of the internal improvement act. The Legislature legalized the suspension, but left the internal improvement act untouched. By an act of July 21, all the State's bank stock was pledged to redeem any loans made for internal improvement. And on the same day that provision of law which declared that no bank should refuse for sixty days to redeem its notes in specie upon penalty of forfeiting its charter, was suspended until the end of the next general or special session of the General Assembly; provided that the bank should first agree to conform to the following conditions: Make no dividend before resuming specie payments; neither sell, dispose of, nor pay out any of its specie, except for change, and in sums under five dollars; make monthly reports to the Governor of its condition; not increase its circulation beyond the amount of capital stock actually paid in; receive and pay out any funds belonging to the State, free of charge; allow such of its debtors as were citizens and residents of the State to pay their debts in installments of ten per cent each, upon executing new notes with approved security; and surrender its
charter if any of these conditions were violated. The conditions were promptly accepted by the banks.

"It will be remembered that the Legislature, in 1835, in the law incorporating the State Bank of Illinois, had solemnly enacted that the Legislature of the State should never pass any law retarding, staying, protracting, or in any wise suspending the collection of any debt or debts due the State Bank. It furnishes a somewhat striking example of the futility of such provisions not incorporated into a paramount written constitution."

Complaints were made at this session of mismanagement on the part of the banks in respect to the canal funds, but an examination by committees produced no results. "The only thing worthy to be remembered concerning it, is that one of the committee to examine the Shawneetown bank, after his return, being asked what discoveries he had made, verbally reported that he had seen plenty of good liquor in the bank, and sugar to sweeten it with."

By this time party lines had become pretty strictly drawn upon the subject of the banks. The Whigs supported them and the acts legalizing suspension, while the Democrats opposed both. The Whigs regarded the banks as institutions of the State, and denounced the Democrats for opposing them as disloyal, destructive, and opposed to government. The Democrats retorted by calling the Whigs bank vassels, the ragocracy, and rag-barons; the bank notes were

2Ford's Hist. of Ill., p. 197.
/Lyman J. Gage, Banking in Illinois, World's Congress of Bankers and Financiers, p. 421.
styled bank rags, and written or printed lies; and in the very ex-
tremity of hatred the Whigs were termed the British-bought, bank,
blue-light, federal, Whig party. Yet this bitter partisanship was a
benefit to the banks, for it gave them staunch and unswerving friend
in the Whigs.

In his farewell message, delivered Dec. 4, 1833, Gov. Dun-
can said: "The Banks of our State, as well as those of our sister
States, have resumed specie payments, and are fully entitled
to the public applause and confidence they are now enjoying, for
the prudence and judgement they have used in sustaining themselves
under difficulties of so thre atoning a nature". Certain members of
the General Assembly also warmly commended the action of the banks
in suspending as a most wise and prudent cause calculated to con-
serve the best interests of the State and community. But in his
inaugural address at the same session, Gov. Carlin, a Jackson Dem-
ocrat, denounced the banks in severe terms, and declared that no
exigency or vicissitude that could possibly happen should ever
render necessary the suspension of specie payments by the banks,
and that to sanction such suspension by legislation was to legalize
the violation of law and moral obligation. He pointed out as defe-
cts of the banking system; "The difficulty of exacting from the ban-
ks a strict and rigid compliance with the provisions of their
charters and of compelling them by process of law to meet their
various obligations and contracts; and the impossibility of pre-
venting them from using their power and influence to affect and

Ford's Hist. of Ill., p. 227.
control the politics of the country. In less than a year came the bank crash of 1839, and again the banks suspended never fully to resume.

At this session of the Legislature an act was passed, known as the small note act, to protect the State banks from competition of private bankers, since several insurance and other companies, notably the Chicago Marine and Fire Insurance Company, had taken advantage of the privilege conferred by their charters of loaning money and receiving it on deposit to issue certificates of deposit which circulated as money and were generally more certain of redemption than bank notes. This act provided that all notes of a less denomination than five dollars, issued by any banking institution not chartered by the State to issue notes, should be uncollectable, and that if any person should utter or pass, as in lieu of money, any note or bill issued or published by any joint-stock company not incorporated, any demands arising therefrom should be uncollectable in law, and that any person so uttering or passing such notes issued or published as aforesaid, should be deemed and considered a swindler, and should be liable to indictment as such, and upon conviction be fined in any sum not less than one thousand dollars nor more than one thousand for each offense. In March, 1839, the power of appointing State directors to the banks was transferred from the Legislature to the Governor, and the Shawneetown bank was authorized to establish two additional branches. Joint resolutions were passed by the General Assembly strongly denouncing the
action of the General Government in refusing to make the Illinois banks depositories of the public money, and depositing it instead in the Bank of Missouri, which action, according to the resolution was manifestly injurious to the interests of the people of the State. The Legislature evidently had confidence, or wished to establish confidence, in the banks, for in incorporating insurance companies, etc., it frequently provided that for the security of their funds they might be invested only in real estate or stock of the State Bank of Illinois or the Bank of Illinois at Shawneetown, and school boards also were authorized to invest their surplus funds in such stock.

In September, 1839, upon the promise of Governor Carlin to deposit $500,000 of internal improvement bonds as collateral security, the Shawneetown bank loaned the commissioners of public works $200,000, but the Governor's promise was never fulfilled, and this sum together with $80,000 previously loaned for building the State House, was, according to Governor Ford, never repaid by the State, yet it was authorized by an act of Feb. 26, 1841, to be paid in auditor's warrants of a denomination of $10,000 and bearing six per cent interest, and according to a communication from an agent of the bank to the Governor in January, 1843, the full amount was held by the bank at that time in State bonds and scrip.

When the Legislature met in December 1839, Gov. Carlin again attacked the banks, especially the State bank, on much the same Ford's Hist. of Ill., p. 224.
grounds as before. He declared that the State's banking system was at war with the genius of a free government, and was radically defective and unsanctioned by any principle of republican virtue, and that the State Bank having set at defiance the will of the community—the law of her existence, and every principle of justice and moral obligation, by the suspension of specie payments, no longer merited any favors at the hands of the Legislature. Therefore he recommended that no law be passed to legalize the suspension of the bank, and that a rigid and thorough examination be instituted into its condition. Such an examination was at once ordered by the Legislature and the committee was charged to inquire whether or not the bank had forfeited its charter; what proportion of its loans had been made to non-residents; what had been the nature of the bank's dealings with certain Eastern brokers, with the Bank of Missouri, and with the acting fund commissioner; how far it had engaged in trafficking in pork, lard, bacon, lead, etc.; to what extent it had loaned to any one person; and whether it had not shown partiality and favoritism in its accommodations, especially toward bank officers. Most of these inquiries were satisfactorily answered by the bank. It appeared, however, that the bank directors had in general been the largest borrowers; that Godfrey Gilman & Co., of Alton, had at one time had loans to the amount of $800,748, and that Samuel Wiggins of Cincinnati, having originally taken $200,000 of bank stock, had obtained loans to the amount of $108,000 upon the pledge of his stock and had used the money thus obtained...
to meet his installments on the stock; that the Chicago branch, though without the knowledge of the parent bank, had been engaged in the pork trade; and that the principal bank had made a venture in lead.

Upon this report the Legislature in which the bank had many friends, again legalized its suspension, notwithstanding the Governor's recommendation to the contrary. The time limit and the conditions of this suspension were the same as had been made in 1837, with the additional proviso that the banks should make no loan on a pledge of their own stock, nor suffer any person to become indebted to them for more than $10,000 on his own paper or $25,000 on bills of exchange, and that two new directors should be chosen at each election. The Chicago branch was ordered to be removed; and accordingly on the 14th of the following July it was transferred to Rockport. The other branches in operation at this time and located at Galena, Jacksonville, Belleville, Mount Carmel, Alton, Quincy, and Vandalia, were all continued.

This Legislature also repealed the internal improvement system and provided for winding it up. The State debt was over $10,000,000 and since the Treasury was completely bankrupt, interest on it had to be met by further loans.

The Legislature of 1840-41 was convened two weeks earlier than usual in order to make some provision for paying the interest on the State debt. This debt by that time amounted to $13,643,601, and the annual interest on it greatly exceeded the State's revenue.
In his message the Governor presented the alternatives of increasing taxation or increasing the State's banking capital, but strongly advised against the latter. The committee on finance, however, existed advised that, since such unwillingness to pay taxes on the part of the people, the bank capital be increased to six millions, which would in their opinion, produce a reaction in business, and enable the banks to resume and sustain themselves, and even declare a dividend of perhaps nine per cent. This would pay the interest on the sum invested and, also, on the larger part of the State's debt. "Taxation for any public enterprise will be entirely avoided, by gradually increasing the banking capital as the commerce and the population of the State demands". Very fortunately the recommendation of the committee was rejected and increased taxes were voted, the present emergency having been met by the hypothecation of State bonds.

This Legislature was Democratic and therefore opposed to permitting the banks to continue in suspension. These institutions had declared their ability and intention to resume on January 15, the date fixed for resumption generally throughout the United States, but their enemies were more anxious to destroy them than to have them resume. Gov. Carlin, in his message, repeated his former denunciations of the banks and of their action in suspending. It will be remembered that suspension had been legalized in 1839 to extend to the end of the next regular or special session. The Democrats now contended that that part of this session preceding the
time for the regular session to begin, constituted a special session and that if it was adjourned sine die the banks would have to resume specie payment on the day of such adjournment, or forfeit their charters and cease to exist. The Whigs claimed that the whole was but one session, and attempted to defeat the adjournment sine die, by breaking a quorum. To prevent this the Democrats closed the doors, whereupon several Whigs, Abraham Lincoln among them, leaped out of the windows. Enough were detained, however, to make a quorum, the Legislature adjourned sine die, and the Democrats believed that the banks had been ended. But such was not the case, for though the banks failed to resume at the end of the session, or even by January 15, the date they themselves had set for the resumption, before the end of the regular session, by the use of legitimate or illegitimate influence, an act was passed which set aside any forfeiture that had accrued by reason of the failure of the banks to redeem their notes and legalized indefinite suspension on the usual conditions, but with the additional proviso on the part of the State bank that it purchase at par $200,000 of State bonds in semiannual installments of $50,000 each. Debtors were again allowed to pay their debts by executing new notes and paying a ten per cent installment. The Chicago branch was authorized to be reinstated, and the bank was given the privilege of issuing notes in denominations of one, two, and three dollars until January 1st, 1846. At this session also the singular condition was imposed upon a manufacturing company in the grant of its charter that all sums received above
$100 must be deposited in the State Bank at Vandalia. It was believed that the privilege of issuing small notes would enable the banks to make an earlier resumption, but its only effect was to flood the country with small notes instead of large ones and drive specie so entirely from circulation that the banks were compelled to purchase from abroad all they acquired. They might pay out new specie but never receive any, so that this measure intended for their benefit did them infinitely more harm than good.

The change of this Legislature from a hostile to a friendly attitude toward the bank may be accounted for by the fact that since the bank was the custodian of the State's funds and revenues — was practically the State Treasury, the members were entirely dependent upon it for their pay. Auditor's warrants, issued at fifty cents on the dollar, could be cashed only at the bank, which fact made many of the erstwhile hostile now desirous of conciliating that institution. Many charges against the bank of direct corruption and bribery were made at the time and have been made since but they are without absolute proof. The hopelessly insolvent and discredited condition of the State at this time is seen from the Auditor's report for December 5th, 1842. The report says:

"Toward the close of the last session of the Legislature when the State bank refused to redeem the auditor's warrants, the members of the General Assembly, after having been in session about three months, were unpaid and without means; the judges and other officers were in a similar condition; and the credit of the State,
at the same time, had sunk so low, that the public documents could not be obtained from the post office, until the officers themselves became personally responsible for the postage. In this extremity the State bank was able to dictate its own terms to the Legislature and extort from that body whatever concessions it chose to demand.

The Whigs claimed that this deplorable condition of affairs was caused by a loss of confidence which the vindictive opposition of the Democrats to the banks had brought about. "According to their views", says Gov. Ford, "if the banks owed five times as much as they were able to pay, and if the people owed to each other and to the banks more than they were able to pay, and yet if the whole people could be persuaded to believe the incredible falsehood that all were able to pay, this would be a revival of confidence rather than the restoration of a general delusion".

But the banks soon passed the stage where confidence could aid them. The State bank in order to regain the favor of the Legislature and the people, which it was conscious it had forfeited, taxed its resources to redeem outstanding auditor's warrants to the amount of $300,000. Its notes, which had been at a discount for specie ever since the United States had refused to make it a depository for the public money, had gradually sunk to twelve and fifteen per cent below par. Finally the action of certain of the bank's directors, contractors to build the Northern Cross railroad, proved to be the culmination of its misfortunes. For building the railroad they were to be paid in canal bonds which at that time
were unsalable. To obtain loans from the bank they defeated a proposition not to expand during suspension, and established it as a principle that the bank could not issue an excess of paper while in suspension. Having obtained loans themselves, they were compelled to vote loans to others, also. Greater tension was then put upon the bank's credit, and the paper, increased in volume, sank to a lower discount. At length, in February, 1842, the State Bank of Illinois, with a circulation of $3,000,000, "exploded with a great crash, carrying wide spread ruin all over the State and into the neighboring States and territories".

In June following, the Bank of Illinois at Shawneetown to which also the State was heavily indebted, with a circulation of about $1,700,000, likewise collapsed. The notes of these banks, having been at a slight discount for several years, had, of course, banished all good money from the country so that now the people were left without an adequate circulating medium, which was not supplied until brought in from other States in the course of trade and commerce, at that time a very tardy process. "The banks and the State had been partners in speculation and now they were partners in embarrassment. The revenues were payable in notes of these broken banks; the State paid no interest on her bonds, of which the banks held a large amount, and they were worth in the market but fourteen cents on the dollar."

After July 1841 no attempt was made to pay the interest on the public debt. On account of this and a lack of information /Davidson & Stuve, Hist of Ill., p 425./
as to its cause, the inhabitants of the State came to be regarded by the citizens of other States as dishonest and little better than a band of outlaws; they could not go abroad without being reproached with the degradation of their State's condition. "Illinois became a stench in the nostrils of the civilized world". By the end of the year 1842 the bank paper had depreciated to one-third its par value, commerce was extinct, business was stagnated, immigration had ceased, produce was unsalable and barter had to be resorted to in order to obtain the necessary articles for domestic consumption.

Gov: Ford thus sums up the situation, as it was when the Democrats elected him to the gubernatorial chair in 1842. "The domestic treasury of the State was indebted for the ordinary expenses of government to the amount of about $313,000. Auditor's warrants on the treasury were selling at fifty per cent discount, and there was no money on the treasury whatever; not even to pay postage on letters. The annual revenues applicable to the payment of ordinary expenses, amounted to about $130,000. The treasury was bankrupt; the revenues were insufficient; the people were unable and unwilling to pay high taxes; and the State had borrowed itself out of all credit. A debt of near fourteen million dollars had been contracted for the canal, railroads and other purposes. The currency of the State had been annihilated; there was not over two or three hundred thousand dollars in good money in the pockets of the whole people, which occasioned a general inability to pay taxes. The whole people
were in debt to the merchants; nearly all of whom were indebted to the banks, or to foreign merchants; and the banks owed everybody; and none were able to pay."

What to do with the banks was the problem which confronted the Legislature of 1842. Gov. Carlin in his valedictory message recommended that their charters be unconditionally repealed and the banks put into forcible liquidation. This plan, though manifestly unjust, was advocated by the group of ultra Democrats, and was sure of popular favor, for the banks had made themselves odious by their many delinquencies that the people would willingly countenance the most extreme measures against them. Most zealous among the advocates of repeal was Lyman Trumbell, Secretary of State and he was joined, after some hesitation, by Stephen A. Douglas. Its adoption however meant the probable loss of the $3,000,000 of bank stock held by the State. Gov. Ford in his inaugural message favored some sort of compromise with the banks. Their connection with the State, at least, ought to be severed, and he thought that some arrangement could be made by which the State could get back the $2,665,000 in bonds which had been issued to them. He recommended that, if the banks refused or were unable to resume specie payments at an early day, the Legislature provide for winding them up promptly and withdrawing their notes from circulation, or take some other measure that would "relieve the country from the curse and blight of broken banks, and their depreciated paper".

Ford's Hist. of Ill. p. 278.
On December 12 a joint resolution was passed which directed the Governor, Auditor, and Fund Commissioner to enter into negotiations with the banks with a view to affecting an amicable dissolution between them and the State. In accordance with the report of this committee, a bill, drawn up by Gov. Ford himself, and intitled "An act to diminish the State debt and put the State bank in liquidation", was passed on January 24, 1843, the vote in the House being 107 to 4. By this act the bank was given four years in which to wind up its affairs; a bank commissioner to represent the State was to be appointed by the Governor with the consent of the Senate; the bank was to go into immediate liquidation and pay out its specie, except $15000 reserved to, pay the expenses of settling its affairs, pro rata among its depositors and note holders, except to stock holders, and issue certificates of indebtedness for the residue of the respective obligations; these certificates were to be receivable for debts due the bank or property purchased of it; the specie obtained in the collection of debts was likewise to be paid out pro rata to creditors at the end of every twelve months; debtors who would pay one-fifth of their loans with all interest and costs, were to be allowed to renew the same from time to time by executing new notes; the bank was to deliver to the Governor, within five days State bonds, scrip, and other evidences of debt equal to $2,050,000, and was to receive in return $2050000 of its stock held by the State, the remaining $50,000 to be reserved until the bank's final dissolution; no execution was to be
levied upon specie in the possession of the bank so long as its officers complied with the rules concerning the same; all its banking privileges other than those necessary to wind up its business were to be discontinued; no bank property was to be sold for less than two thirds of its appraised value; and finally, the bank should within three days, file its acceptance of the above provisions with the Secretary of State.

An act "to put the Bank of Illinois into liquidation", passed February 25, 1843, and to go into effect on March 3rd following, deserves some mention, though it was suspended by another measure of the same date and never became in force. That was arbitrary and severe as well as without due regard to the rights of private stockholders will be seen from some of its provisions. The bank's charter was to be repealed, and all its estate was to vest in three commissioners, appointed by the Governor, who were to proceed direct to Shawneetown and take possession of the banking house and all goods and chattels, credits, cash, effects, and bank bills belonging to the bank; all specie was to be paid out pro rata among creditors and the other property disposed of for their benefit; if resistance was offered the commissioners were empowered to summon the posse comitatus to their aid, and any person so resisting was declared a felon and liable to imprisonment for ten years.

It is probable, however, that this act was intended chiefly as a threat to coerce the bank into compromising, for on the same day another bill, entitled "an act to reduce the public debt
one million dollars and put the Bank of Illinois into liquidation", was passed.

This measure was similar to the one for closing the State bank and provided that the bank should turn over to the State $1,000,000 of State liabilities, half in five days and half in twelve months, and would receive from the Governor in return an equal amount if its stock which the State held. When the bank should accept these provisions then the act entitled "an act to put the Bank of Illinois into liquidation" was to be suspended for four years.

By these acts the public debt was reduced by $3,050,000.

The action of the State in cancelling $3,050,000 of its bonds by a transfer of an equal amount of bank stock by legislative action has been criticised as not equitable towards the billholders, or toward the private stockholders who had paid cash for their stock.

Certainly if an individual who bought bank stock in 1837 had paid for it in his notes, as the state did in bonds, he would, after the bank had been acknowledged insolvent have been allowed to take them up by a return of the stock.

But meanwhile others than the State were also looking out for themselves. Prior to this legislation, certain speculators bought the controlling interest in the bank and had themselves elected directors. Then they secretly borrowed $100,000 of its specie, transmitted it to New York, and bought at thirty cents on the dollar, $333,000 of the $804,000 of interest bonds which had been illegally hypothecated with brokers there by the fund commissioner.

/ Brown, Hist. of Ill., p. 441.
in 1841. The $100,000 of specie borrowed and their stock notes
which the bank held were paid with these bonds at par. After the
bonds had passed into the possession of the bank, they were tendered
to the Governor in 1844 in exchange for stock according to the
liquidation law. At first the Governor refused to receive them,
inasmuch as a law had been passed for the settlement of the bonds
hypothecated in New York, but later, when it became apparent that
these bonds had been widely scattered and the law could not be com-
plied with, he accepted them on conditions subject to the approval
of the Legislature. That body would not at first ratify the contract,
but later, in 1847, compromised by receiving the bonds at forty
eight cents on the dollar.

Subsequently the State Bank of Missouri, jointly with sev-
eral other creditors, brought a chancery suit in the United States
Court for the District of Illinois against the bank and its offic-
ers and agents. By the decree in this cause three receivers were
appointed to take charge of the bank's assets, make sale, and apply
the proceeds in payment of its debts and in redemption of its is-
sues, and to settle its affairs generally. But one of the trustees
qualified and upon his death Judge Thomas of Jacksonville was ap-
pointed in his place, and acted in that capacity about twenty years
In 1871 he remitted to the Clerk of the United States Circuit Court
at Chicago, who had been appointed a special auditor, the last of
the notes and certificates, amounting to, about $700 for cancel-

/ Davidson and Stuve, Hist. of Ill., p. 426,
The charter of the Cairo bank, which it will be remembered had been chartered in 1818, but not brought into existence until 1836, was repealed and the bank put into liquidation on March 4, 1843. The institution was under the management of the Cairo City and Canal Company which had come into possession of some of the lands mentioned in the charter of the City and Bank of Cairo of 1818, and thereby claimed the right to exercise banking functions, although its own charter expressly inhibited all banking powers. Upon this claim it established a branch at Kaskaskia, issued notes, and carried on a general banking business for a few years, but suspended in 1839 and did not again resume. No compromise was offered it, but all its property was vested in a trustee with the largest possible powers and with orders to collect the assets and pay them out pro rata as soon as possible.

This was the end of banks in Illinois owned in whole or in part by the State. At once affairs began to brighten; auditor's warrants rose to 85 and 90 cents, and state bonds from 14 to 40 cents; immigration began again and a period of great prosperity ensued. Various causes contributed to bring about this result, though Gov. French in his inaugural address message in 1846 attributed it wholly to the liquidation of the banks. It remains true, however, that throughout the period of their connection, the banks and the State had proven "a mutual curse" to each other.

*Davidson & Stuwe, Hist. of Ill., p. 426.*
FOURTH PERIOD; FREE OR STOCK BANKS; 1851-1863.

From 1843 to 1851 there were no banks of issue located in Illinois. The old banks were being wound up and various laws were passed by the Legislatures of 1840-47, 1848-49, and 1850-51 to expedite and direct their dissolution. The leading political party of the State, the Democrats, held and in its platform of 1845 declared that the State ought not to incorporate or charter either State banks or any other banking institution whatever. In 1847 a convention was held to draft a new constitution which was submitted to the people and adopted by them in 1848. The Democratic papers of the State throughout the session of the convention urged that the constitution be made to forbid any banking institutions whatever, and accordingly an article was proposed in the convention which forbade the Legislature to create any bank or authorize the issuance of bank paper, and required to prohibit by adequate penalties the circulation of any bank paper within the State. This proposition was defeated by but one vote, yet the provisions finally inserted on the subject are much milder. They are as follows:

"No State bank shall hereafter be created, nor shall the State own or be liable for any stock in any corporation or joint stock association for banking purposes to be hereafter created. The stockholders in every corporation or joint stock association for banking purposes issuing bank notes, or any kind of paper credits to circulate as money, shall be individually responsible, to the
amount of their respective shares or shares of stock in any such corporation or association, for all its debts and liabilities of every kind. No act of the General Assembly, authorizing corporations or associations with banking powers, shall go into effect, or in any manner be in force, unless the same shall be submitted to the people at the general election next succeeding the passage of the same, and be approved by a majority of all the votes cast at such election for and against such law.

In his message to the Legislature of 1848-49 Gov. French spoke of the prevalence of a class of speculative opinions on the subject of banking which had gained strength from various schemes resorted to in other states, claiming to secure all the real advantages of banking institutions without incurring any of the dangers incident to the operation of incorporate banks. All such schemes the Governor strongly deprecated. Nevertheless before the end of the session the establishment of a banking system was agitated. The plan was to divide the Staten into three banking districts with boards of bank trustees for each. Circulating notes were to be issued to banking associations upon deposit of United States stock and a certain portion of gold as security. The scheme, however, failed of adoption though in respect to security it was certainly preferable to the one afterwards adopted.

In his message in 1851, Gov. French said, "The opinions which I have taken occasion to express upon the general subject of banking and the currency in my previous communications to the
To the present comparatively safe and prosperous state of affairs, no good can follow the application of ill-timed and unnatural stimulants which may serve to infuse into the spirit of trade a temporary feverish impulse, to be succeeded by a corresponding depression." But this did not deter the Legislature from passing an act to establish a general system of banking. It was modeled after the banking law of New York and in its provisions concerning the issue of bank notes went upon much the same principles as our present national banking system. It provided that any number of persons might form a banking association, upon depositing with the Auditor at least $50,000 of United States stocks on which full in interest was annually paid, or Illinois stocks valued at twenty per cent less than they had been sold in New York for six months previous—no stock to be valued above its par value, or its market value at the time of deposit. The person or persons making this deposit were to be entitled to receive from the Auditor circulating notes of denominations above one dollar, registered and countersigned, to an amount equal in value to the stocks deposited. These notes, made payable on demand, and signed by the president and cashier of the bank, might be loaned and were to circulate the same as money. A certificate certifying the name of the bank, its location, amount of capital stock, and the number of shares—the names and residences of the stockholders, the number of shares held by each, and the period at which such association should commence and terminate, was to be
recorded in the Recorder's office of the county where the bank should be located, and a copy filed with the Secretary of State. The banks were to have all the powers of ordinary banking institutions. The Auditor was authorized to give to bankers power of attorney to relieve for their own use interest or dividends on the stocks deposited; but this power was to be revoked on the bank failing to redeem its notes, or whenever, in the opinion of the Auditor, the stocks became insufficient security. The issuing of notes by the Auditor in excess of the amount of stocks deposited was forbidden under heavy penalties; and stockholders or creditors to the amount of three thousand dollars or more might apply to the Circuit Court for a judicial examination of the bank. The Auditor was to deliver to the bankers an amount of their deposited stocks equal to the amount of any notes returned to him for cancellation, which notes should be burned. When any bank refused to pay its notes on demand the Auditor was to sell the pledged bonds at auction in New York, and pay the notes with 12 1/2 per cent interest as damage from the proceeds, after the redemption of all notes the stock pledged might be applied on other liabilities. Notes were to be payable only at the bank where issued which was always to keep on hand a sufficient amount of specie. If a bank allowed any of its notes to be protested, it was prohibited from exercising further banking privileges and could exist only for the purpose of settling its accounts; its assets were to be taken by a receiver and applied first to the redemption of notes, second, to the payment of other
the stocks and other effects of the bank were insufficient to re-
dem its notes the stockholders were to be liable in their private
capacities to the amount of their shares. Interest charged was not
to exceed seven per cent, and loans might be made on real or per-
sonal property. Dealing in real estate was forbidden other than to
sell such as was received by way of security. A board of three com-
missioners was provided for, who were to examine the banks annually
and inspect the securities held by the Auditor; if any of these
had depreciated, additional security was to be required. The offi-
cers of each bank were to make quarterly statements to the Auditor
under oath as to the value of its real estate, the debts due the
bank and the debts owing by it, its deposits with other banks, the
amount of notes and bills in circulation and specie on hand, and
the suspended debts, and neglecting to so report the bank must li-
quidate. Finally any bank might go into voluntary liquidation after
redeemed
having ninety percent of its notes and deposited funds for the
remainder.

Upon the passage of this bill banks and banking at once
became again a source of political strife. The bill, though passed
by a Democratic Legislature, was vetoed by Gov. French, himself a
Democrat. In his veto message he declared that in any banking sys-
tem the first consideration ought to be to provide for the convert-
ibility of its circulating notes into specie at all times; banks
should be for the accommodation of the people and not for the ex-
clusive profits of bankers; and the State being now without banks the people could make their own terms, and extreme care should be exercised not to inflict upon the rising prosperity of the country the blighting curse of a worthless paper currency. "Nothing," he said, "can be added to the history of banking to prove beyond all doubt that credit can not possibly be used for any length of time as banking capital without the most serious distress to both the currency and the country. The history of such a system, as justified by all experience, may be repeated in a few words. Its tendency is to increase the abundance of money, advance prices, aggravate the spirit of speculation, lessen the specie circulation, and increase the demand for its exportation, and consequently produce a drain upon the banks. Then a panic ensues which leads to the withdrawal of specie and advance in the rates of interest, and difficulty in obtaining discounts, and an apprehension of approaching disaster which is only dispelled by the destruction of the system, the bankruptcy of individuals, the sacrifice of the security relied upon for the redemption, and then the gradual return of gold and silver into those channels which have been monopolized by credit circulation. The bill makes no provision that each bank that shall be organized under it, shall have on hand at all times a stated amount of gold or silver to redeem its notes in circulation. This measure which virtually dispenses with gold and silver in banking operations, is carrying the principle of free banking to an extent never before tried or risked in any country." He further objected
that the bill did not make adequate provision for the personal
liability of the stockholders for the redemption of the notes issued. He declared that the security to be deposited, being mere evi-
dence of public indebtedness would constantly be undergoing serious
fluctuations in value and if the bill went into operation in its
existing shape, "one of the professed objects of establishing
banks among us is utterly defeated, viz: the prevention of the cir-
culation of so great a variety of bank paper, the character of which
is suspicious and unknown".

Nevertheless despite the Governor's objections, the bill
passed both houses on the same day it was returned, Feb. 15, and became
a law, subject to the approval of the people at the next general
election.

There was great contrariety of opinion as to the advisab-
ility of the new law. Some feared that the provisions of the act
were so stringent that few banks would be organized under it, others
"ran wild after the discovery of the new and safe scheme whereby
the capitalist, contrary to Franklin's aphorism, might 'eat his cake
and have his cake' invest his money in bonds, deposit them, and from
the hands of the Auditor have his money again and own his bonds too".
The currency of the State was already made up largely of notes issued
by similar banking institutions of other states and the advocates of the measure urged that this State should supply its own cur-
rency and derive the benefits to trade and commerce which banks
would confer. In order to have the law voted on as early as possible
and yet at a general election, as the constitution required, the General Assembly resort to the expedient of legislating all the county treasurers out of office and ordering a new election; and at this election, in November, 1851, after the friends and opponents of the law had thoroughly canvassed the State, it was adopted by a vote of 37,626 to 31,405.

At the time this law went into operation Illinois was growing and developing at a marvelous rate and it was certainly true that banking facilities and a bank currency were needed by her business interests. Within a year, as seen from the table opposite page, seventeen banks were started with a circulation of $1,351,783. The stocks deposited with the Auditor to secure their circulation were chiefly Illinois canal, interest, and internal improvement bonds, the remainder being Virginia 6's, Ohio, Missouri, Kentucky, and California bonds. This addition to the circulating medium together with the issues of the banks of other states, for stock banking had become pretty general throughout the union, produced a rapid expansion of business and enhancement of prices. A speculative tendency began to be manifested and some newspapers declared that the experience of 1819 and 1837 was about to be repeated, but the expansion at this time was largely due to natural and legitimate causes. Illinois was in the height of prosperity. A vast tide of immigration was pouring in, railroads and other improvements were being carried rapidly forward, and commerce was developing accordingly. This, however, soon led to over-expansion, which with other causes produced the panic of 1854.
This panic was especially felt in the West and Northwest. "In Ohio, Illinois, Michigan, Wisconsin, Iowa, and Missouri, a large circulation of bank notes, mostly of the free banks, had been obtained through expenditures for railroad purposes, and the general expansion of business. When the contraction began, this circulation came in rapidly and found the banks wholly unprepared to meet it. Yet the Illinois banks by drawing for their balances at the East and borrowing to the extent of their credit managed to continue payments.

A slight decline in their stocks deposited was at once made good by additional securities. The Auditor's report for 1854 shows that the number of banks had increased to thirty-three, two, of which, however, had gone into liquidation, solvent, and one, having failed to redeem its notes, had been placed in the hands of a receiver and its securities advertised. The securities deposited at this time were Virginia, Georgia, Missouri, Ohio, California, Kentucky, South Carolina, Tennessee, and various Illinois stocks, all at par except those of California which were rated at 80 per cent, and those of Illinois the highest of which were rated at fifty per cent. The total amount of the stocks deposited was $2,651,210, and the amount of circulating notes outstanding was $2,649,341.

The Auditor's report for 1855 gives a list of sixty-one banks, with a circulation of $6,480,873 and securities at a cash value of $6,663,389. Of these sixty-one banks, eleven had been closed or gone into voluntary liquidation, leaving fifty in operation.

It will be observed that the amounts of bank circulation, securities, etc., as taken from the Auditor's reports, do not agree with the amounts given in the table taken from the Comptroller's Report for 1876 and inserted opposite page 57. Presumably the Auditor's figures are more complete and accurate.
The securities deposited were the bonds of Missouri, Virginia, Tennessee, Louisiana, North Carolina, South Carolina, Georgia, Kentucky, Ohio, Iowa, Michigan, Minnesota, and Illinois. The circulation was divided as follows: 858,992 one dollar notes, 541,084 two dollar notes, 247,631 three dollar notes, 5,081,050 five dollar notes, 109,354 ten dollar notes, and seven, twenty dollar notes. Quarterly reports from about forty of the banks show their condition in round numbers to be as follows; total resources, $13,000,000, notes in circulation $5,500,000, capital stock $6,000,000, deposits, $1,000,000; and specie on hand, $635,000.

In 1856, fifty-six banks were reported, nine of which had filed certificates of their intention to wind up their business, and two had deposited specie with the Auditor and with drawn their securities. The falling off in the number of banks was doubtless due to the panic of 1857. The securities deposited amounted to $7,057,059, $3,035,000, of which was in Missouri 6's at 90 cents; next in order of importance, aside from the Illinois bonds, came Virginia 6's at 97 c, Tennessee 5's at 94 c, Louisiana 6's at 96 c, North Carolina 6's at 93 c, South Carolina 6's at 100 c, Georgia 6's at 102 c, Kentucky 6's at 104 c, Ohio 5's at 102 c, Iowa 7's at 110 c, Michigan 6's and 7's at 106 c, and 100 c, respectively, Minnesota 3's at 103 c, and five varieties of Illinois bonds ranging from 90 cts to 105 c. The banks which reported showed the sum total of their resources to be $11,000,000, their capital stock $4,000,000, the amount of notes in circulation $5,000,000, the profit and loss account about $1,200,000, and their surplus $164,000.
The panic of 1857 severely tried the banks. As to the causes of this crisis throughout the nation, the state of the currency was generally recognized as the root of the trouble, and to it were ascribed the over-trading, over-importation, stock speculation, etc. In Illinois especially, was business expansion and activity at its greatest tension. The period from 1851 to 1860 has never been equaled by this State before or since in rapidity of growth and development. To this activity from natural causes, the abundant currency furnished by the stock banks of the different States gave an unwanted stimulus. In the spring of 1857, as some of the signs of the crisis began to be manifested, some of the securities of the Illinois banks declined. On May 8, the bank commissioners notified the banks to file additional securities, and all responded save two. But the securities continued further to decline, and on July 27, another requisition was made on the banks to file, within ninety days, additional security. The failure or inability of the banks to meet this requisition would have thrown into the market $4,560,000 worth of securities, $2,738,000 of which were Missouri stocks, and in the existing condition of the stock market this would have depreciated their value below the amount necessary to redeem the notes based on them thereby producing a depreciated currency. For fear of this result it was strongly urged that the time limit of the requisition should be extended, but the bank commissioners remained firm and all the banks promptly met the call except three. Some embarrassment was caused later, in consequence of the refusal of the St. Louis merchants and brokers to take Illinois stock currency. But one of the
bank commissioners visited them, explained the provisions of the banking system for securing notes, the value of which at that time depended largely on the credit of Missouri, and induced them to again accept Illinois currency. The recovery from this crisis was rapid and complete. Yet the trial to which the banks had been subjected had exhibited their worthlessness as banks of business, though no material losses resulted to the people on their circulation.

In his report for 1860, the Auditor says: "During the past two years the circulation of the banks of the State was largely increased, owing partially to the advancing business and institution of the State, but principally to the fact that its known character for security has attained for it a much wider circulation in the adjoining States than it has heretofore had, and I am satisfied that the rigid execution of our banking laws, together with a few amendments all that is necessary to make it acceptable to the people".

The figures in the report show that one hundred and ten banks had been organized and were then in operation with a circulation of $12,320,694. The following table shows their securities and the cash value of the same.

### STOCKS BELOW PAR.

<table>
<thead>
<tr>
<th>STOCKS</th>
<th>Par value</th>
<th>Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missouri 6's</td>
<td>$3,026,000 At 67 1/2</td>
<td>$2,042,550</td>
</tr>
<tr>
<td>Tennessee 6's</td>
<td>3,321,000 At 72 1/2</td>
<td>2,407,725</td>
</tr>
<tr>
<td>Virginia 6's</td>
<td>1,284,000 At 76</td>
<td>975,340</td>
</tr>
<tr>
<td>Louisiana 6's</td>
<td>507,500 At 75</td>
<td>380,625</td>
</tr>
<tr>
<td>North Carolina 6's</td>
<td>888,000 At 82</td>
<td>728,160</td>
</tr>
<tr>
<td>South Carolina 6's</td>
<td>100,000 At 20</td>
<td>20,000</td>
</tr>
<tr>
<td>Georgia 6's</td>
<td>335,000 At 92 1/2</td>
<td>268,000</td>
</tr>
<tr>
<td>Kentucky 6's</td>
<td>66,000 At 92 1/2</td>
<td>61,050</td>
</tr>
</tbody>
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$9,525,500  $6,383,950
In the first half of 1860 banking under the general law of 1857 reached its highest point. As a system of legitimate banking it was faulty and lax in its provisions, but as a system for furnishing a safe circulating medium it was well guarded and successful. Since it went into operation many defects in it had appeared and various remedies had been attempted. In his valedictory message January 3, 1853, Gov. French said; "The operations under the general banking law have revealed errors or omissions in the system too obvious to be overlooked, and too serious to be allowed to pass without correction. Laws of a stringent character are required to protect the interests of the people against a mass of circulating trash in the guise of a paper currency, which is finding its way into every part of the State. The professed object of the general banking law at the time of its adoption was to furnish a well regulated and well secured paper currency, and thereby drive from among us worthless foreign paper money, and equally worthless domestic paper issues. That this end has not even been approached
is known to all; but on the contrary, it is quite certain that the
State, in no period of its history, has been so completely flooded
with an equivocal paper currency as at the present time, and the
mischief is every day extending and growing more serious. That a
well secured paper currency should fail to drive out worthless
foreign and equally worthless domestic issues was, of course, the
only possible result. And the Legislature attempted the equally
vain expedient of trying to legislate foreign irredeemable paper
out of the State. An act, commonly known as the "foreign small
note act," was passed on Feb. 10, 1833, and went into force on the
first of the following August. It provided more stringent rules
for the incorporation and regulation of banks within the State; and
enacted that any person who should issue, pay out, pass, or receive
any note or bill of a denomination less than five dollars, to be
used as or in lieu of money, other than the notes of the banks of
this State, or specie paying banks, lawfully organized, in other State
and
should be liable to a fine of fifty dollars, imprisonment for one
year. The law was, however, everywhere violated daily from the
start and foreign notes continued to circulate as before. Manifest-
ly if unlawful currency already circulated and unlawful banking
was being carried on, they could not be prevented by making them
more unlawful. In 1835 Gov. Matteson said; "I would recommend that
if any modification is made of the present banking law, that a strict
accountability to the administrators of the law be required." The
bank commissioners, in their report for the same year, recommended
that banks be allowed to charge ten per cent interest the same as private individuals; that they be allowed to take up their securities from the Auditor in sums of $1,000 or more instead of being compelled to take up all but ten per cent as was then the law; and that the discrimination of twenty per cent against Illinois stocks deposited as security be removed. At that session only the recommendation in respect to taking up securities was enacted into law, but two years later Illinois bonds were placed on an equal footing with those of other States as note securities, and all were to be valued at ten per cent less than their market price; and banks were given permission to charge interest at the rate of ten per cent. The principal trouble, however, arose from the fact that banks would often be started in out of the way places not easy of access, at which alone their notes could be presented, and where they had to be presented and protested separately; and the bank could cause unreasonable delay in redemption by counting out small change for each bill presented. This, also, the Legislature of 1857 sought to remedy. The location of a bank in a place of less than two hundred inhabitants was forbidden; the banks were required to be located at the place where their notes were dated; and the notes were made redeemable and could be protested in packages. The Supreme Court of the State declared these amendments constitutional without submission to the people. Yet the amendments failed to accomplish all the desired results, for the bank commissioners in their report of Feb. 11, 1861, said: "As the law now stands the deposit of bonds to
the amount of fifty thousand dollars is held to be sufficient compliance with the provisions in regard to capital, and such bonds have both by the Legislature and the courts, been declared to be capital, and by this decision the business of banking has gone in many cases into the hands of irresponsible and non-resident persons, who, having no object or interest except to get their notes into circulation, and leave the bill holders to take care of them, have located their banks in remote and inaccessible places, where no legitimate business can be done, or is expected to be done, and thus the country has become flooded with what is known as "wild cat" currency. But at this time dangers of a graver nature threatened. During the nine years in which the law had been in operation, fourteen banks had been closed up, and all their notes had been redeemed at par, excepting in one case, and in that the discount had been but three per cent. The year 1861, however, brought new conditions; all the securities had depreciated and the stocks of southern states become almost worthless.

The General Assembly, on Feb 14, 1861, amended the law by requiring that all securities hereafter deposited should be United States or Illinois stock; that upon the depreciation for sixty days of any State bond, the Auditor was to call upon the banks to make up the deficiency, but they were to have six months in which to do so. Springfield and Chicago were made general points of redemption; interest damages on notes protested was raised from 12 1/2 to 20 per cent; and the Auditor was directed to pay out bonds deposited pro rata on notes protested or notes of banks.
gone into liquidation. Within a month the depreciation of State stocks had become so great that many of the notes began to pass from hand to hand, with "a nervous precipitancy which showed a general distrust of their value". The city banks tried to send the doubtful bills out to the country to buy produce, but the farmers were also distrustful and the bills were returned as fast as they could be sent out. Chicago brokers and later the railroads sued daily lists of the notes they would receive, made out arbitrarily and often rejecting notes shown by the Auditor's reports to be secure. No one could do business without having one of the lists or bank note reporters constantly with him. The notes came to be divided into "Illinois common" and "Illinois preferred" of different values, and New York exchange soon rose to 13 per cent above the "preferred". To make matters worse large amounts of the almost valueless currency of the Southern States was in circulation.

"A well known banker bought a bank and endorsed with his own hand all its notes as they came to him. An equally well known editor, whenever he could get possession of one of those notes, printed beneath the endorsement, a picture of wild cats quarreling and reissued them".

A special session of the Legislature met in April, and various schemes for relief, one making the State guarantee the bills, were proposed, all of which failed of adoption. A very elaborate plan for a new banking system entitled "An act providing for..." Banking in Illinois, L.J. Cage, p. 437.
the organization of a central bank to be called the Union Bank of Illinois, with as many branches as might be organized under the charter, was passed by the Legislature but rejected by the people. Many of the banks were unable to comply with the commissioners' demands for additional securities, and by 1862 their number had decreased from 110 to 62, and most of their notes had been redeemed by surrendering them for the securities. The Auditor's report for 1864 shows twenty-three banks in operation and ninety-eight in suspension. By this time the national bank system had gone into operation and the law taxing the issues of State banks gradually extinguished their circulation. A law was passed in 1867 permitting State banks to file a bond for their circulation, and receive their securities. And another law declared that any person or persons, not incorporated by law with banking powers, who should issue notes or bills, should be deemed a common swindler and liable to indictment. It also provided that no more banks should be incorporated with power to issue bills. This closes the history of State banks of issue in Illinois.

State banks of deposit and discount have been in operation under general laws since 1851. By the construction put upon the constitution of 1843, these laws did not require to be submitted to the people. In the Constitutional Convention of 1869, it was unanimously agreed that the State bank systems had been fully tried and had brought only disaster, yet it would not be unwise to make some provision for a system of State banks which might be used in
meeting any contingency that might occur. Accordingly the following provisions were incorporated in the constitution and are now the law.

No State bank shall hereafter be created, nor shall the State own or be liable for any stock in any corporation or joint stock company or association for banking purposes, now created, or to be hereafter created. No act of the General Assembly authorizing or creating corporations or associations, with banking powers, whether of issue, deposit or discount, nor amendments thereto shall go into effect, or in any manner be enforce unless the same shall be submitted to a vote of the people at the general election next succeeding the passage of the same, and be approved by a majority, of all the votes cast at such an election for or against such law. Every stockholder in a banking corporation or institution shall be individually responsible and liable to its creditors, over and above the amount of stock by him or her held, to an amount equal to his or her respective shares so held for all its liabilities accruing while he or she remains such stockholder. The suspension of specie payments by banking institutions, on their circulation, created by the laws of this State, shall never be permitted or sanctioned. Every banking association now, or which may hereafter be, organized under the laws of this State, shall make and publish a full and accurate quarterly statement of its affairs (which shall be certified to under oath, by one or more of its officers), as may be provided by law. If a general banking law shall
be enacted, it shall provide for the registry and countersigning, by an officer of State, of all bills or paper credit, designed to circulate as money and require security to the full amount thereof, to be deposited with the State treasurer, in United States or Illinois State stocks to be rated at ten per cent below their par value; and in case of a depreciation of said stocks to the amount of ten per cent below par the banks or banks owning said stocks shall be required to make up said deficiency by depositing additional stocks. And said law shall also provide for the recording of the names of all stockholders in such corporation, the amount of stock held by each, the time of any transfer thereof, and to whom such transfer is made.

Amendatory acts of the law for State banks were passed in 1879, and in 1887 and at the latter date, also, enact, entitled "An Act providing for a State bank system" was passed by the Legislature and ratified by the people, and, as amended in 1889, is now the law.

With these banks of deposit and discount merely and with private bankers, this history is not concerned. They are important factors in the banking interests of the State, however, for it is estimated that there are in Illinois to-day at least five hundred banks of deposit and discount, either existing under such private charters or unincorporated, and a capital of at least $13,000,000 engaged in banking through the medium of such incorporations and of private banking houses. These estimates are but roughly made for accurate statistics cannot be had.