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Article Summary: The laws of the time would have permitted the Nebraska territorial government to exert considerable control over banking. Because the majority of the legislators favored a laissez-faire policy, they actually did very little to shape the structure of banking in the territory.

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Photographs / Images: examples of Territorial banknotes, including a \$3.00 bill of the Waubeek Bank; Table I: List of Nebraska Territorial Banks Chartered by Acts of the Legislature; Bank of Florence; Governor Mark W Izard

GOVERNMENT AND BANKING IN TERRITORIAL NEBRASKA

By GORDON J. BLAKE

BANKING WAS one of the earliest businesses established in Nebraska Territory, as well as one of the most controversial, yet little effort has been made to investigate the economic role of Territorial banks and their relation to the Territorial government. What purpose did the banks serve, and to what extent were they influenced by government?

The Territorial period of Nebraska may be typified as a period of optimism and speculation. The interest in land speculation was great, and by "1857 individual lots on the river landings of some towns were valued at \$10,000. Three or four blocks back they sold for \$2,000, and even those as far distant as a half mile brought \$1,200."¹ In fact, the main interest of many of the early settlers seems to have been speculation. They hoped to become rich quickly and then return to the east to lead a life of leisure. Even agriculture was not developed to any extent prior to the panic years of 1857 and 1858.²

The absence of productive industries explains the severe shortage of "hard currency" which existed throughout most of the Territorial period. The residents needed manufactured products from the Eastern States but produced almost nothing of an exportable nature. Consequently, they not only were forced to expend their supply of "hard currency" but were unable to replenish the supply. The resultant shortage of currency created great difficulty in the conduct of economic affairs in the new Territory because there was nothing to serve as a medium of exchange.³

Under the existing circumstances only two, perhaps three, alternatives were available to the Territorial citizens. One alternative would have been a barter system, but a barter system is extremely clumsy and was not used. The second alternative was the creation of banks with the power to issue

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Examples of Territorial bank notes included some of odd denomination. Notice the \$3.00 bill of the Waubeek Bank.

notes which would circulate as currency. Another alternative was increased production of products which could be sold on eastern markets. While increasing production provided the best choice for the long run, it was not an adequate solution for the short run because of the time required to increase production. Thus, as pointed out above, the Territorial Nebraskans really had only two choices.

It is not difficult to understand why the Territorial Legislature chose the second alternative, a choice which has been severely criticized by many historians and which was also criticized by many of the Territorial Nebraskans. Most critics failed to see the narrow choice available to the Territorial solons, and consequently compared it to monetary systems which were not available to the Territory. This is not to imply that the Territorial Legislature created a perfect banking and currency system. They simply chose the best *system* available to them.

The 1855-1856 session of the Territorial Legislature passed an act making engagement in banking business a criminal offense. The act read as follows:

If any person shall subscribe to or become in any way interested in any association or company formed for the purpose of issuing or putting into circulation any bill, check, ticket, certificate, promissory note, or other paper of any bank to circulate as money in this Territory, he shall be punished by imprisonment in the county jail not exceeding one year, or by a fine of not less than one thousand dollars. 4

Consequently, banks could be established only by special charters granted by the legislature. The following clause was placed in all the special charters: "The said company, under the above name and style, are hereby declared capable in law of issuing bills, notes and other certificates of indebtedness." 5

The same session of the legislature also approved a series of bank charters shown in Table I. Under these charters "each bank was authorized . . . to open its doors and begin business as soon as half of its initial capital was — not paid in, but — subscribed." 6 Furthermore, each bank was "authorized to issue notes and to buy and sell all kinds of property, opening the door to unlimited speculation." 7

The fact that the legislature first outlawed banking and then approved a number of special charters to permit banking points out the dilemma of Territorial Nebraskans regarding the chartering and formation of banks. On the one hand they harbored a deep distrust of banks and bankers, and

TABLE I

LIST OF NEBRASKA TERRITORIAL BANKS
CHARTERED BY ACTS OF THE LEGISLATURE

| Year | Mo. | Day | Bank | Location | Capital Stock |
|------|------|-----|---------------|---------------|--------------------|
| 1856 | Jan. | 18 | Florence | Florence | \$50,000—\$500,000 |
| 1856 | Jan. | 18 | Nebraska | Omaha | \$50,000—\$500,000 |
| 1856 | Jan. | 18 | Nemaha Valley | Brownville | \$50,000—\$500,000 |
| 1856 | Jan. | 18 | Platte Valley | Nebraska City | \$50,000—\$500,000 |
| 1856 | Jan. | 18 | Fontenelle | Bellevue | \$50,000—\$500,000 |
| 1857 | Feb. | 12 | Tekama | Burt Co. | \$50,000—\$500,000 |
| 1857 | Feb. | 12 | DeSoto | DeSoto | \$50,000—\$500,000 |

Source: Addison E. Sheldon, *Nebraska: The Land and the People* (New York, 1931), I, 274f.

on the other realized the inadequate supply of currency could best be alleviated by a banking system.

The distrust of banks and bankers was largely a result of their past experience. Most of the early citizens had suffered losses from bank note depreciation, and many had also been forced to pay extremely high interest rates on bank loans.

Their awareness of the need for currency seems to have been almost subconscious and existed concurrently with a desire to eliminate banking. Such an attitude is exhibited by an article appearing in the *Nebraska Advertiser* on September 13, 1856, which states that "it is well known to a majority of our readers, that we opposed the incorporation of any Bank in Nebraska."⁸ The same article then proceeded to describe the extensive benefits which these institutions would bestow upon the Territory. Many similar articles appeared and continued to appear until the panic of 1857-1858.

By 1856 times were flush, and the "Legislature was besieged by men wanting charters for ferries and bridges."⁹ Such an economic frenzy created a tremendous demand for currency, and consequently the third Territorial Legislature was requested to charter more banks. The charter bills received a very unfavorable report by a select committee, composed of Mills S. Reeves and James S. Allen. While they were not against banking as such, they did object to chartering numerous banks, because "it will be

seen that a multiplicity of banks would most completely defeat the object sought; the thing sought is a bank of issue, exchange and deposit.”¹⁰ They also thought that the existing currency supply was excessive and that

property as a consequence upon this flood of paper currency has risen to a fictitious value and multitudes have been caught by the speculating mania and borrowing money and purchasing at high rates have found themselves, when the crisis arrived, deeply involved, without the ability to pay even a moiety [*sic*] of indebtedness were [*sic*] their property sold for the utmost that it would bring. Where then would be the benefit of banking to Nebraska more than what is necessary to meet the actual wants of the Territory? ¹¹

The committee also suggested additional sections for any of the charters which might be approved.

First – that the stock of said bank shall never exceed \$300,000 and that no bills of less denomination than five dollars shall be used. Second – that it shall be unlawful for said bank to exact more than eighteen per cent per annum or one and a half per cent per month. Third – that said bank shall deposit [*sic*] with the Territorial (or State) Treasurer ample special securities to the full amount of the issues of said bank. Fourth – that the capital stock shall not be transferable without in every instance, giving three months notice in some newspaper at or near the locality of the bank of the intended transfer of said stock and all transfers made contrary to the provisions of this action shall be void.¹²

If the above sections had been included in the bank charters and enforced, the Territorial citizens would not have been exposed to so many of the excesses of early banking. The first section would have reduced the amount of banknotes in circulation, both in total value and volume. The second section would have protected the people from the usurious interest rates and would probably have tended to curb speculation. Section three would have required more adequate reserves and thus protected depositors and note holders from extensive loss. It would also have tended to limit currency issue. The fourth section would have made the unlimited personal liability clause meaningful.

The committee report was an attack upon the existing policy of *laissez-faire* and a plea for government regulation in the interest of the people. The plea was ignored by the majority of the Legislators, and six more bank charters without the recommended changes included were approved. Governor Mark W. Izard vetoed all six charters, and the Legislature quickly



The Bank of Florence was chartered by the Territorial Legislature on January 18, 1856. Now restored as it was in Territorial years, it has before it a marker placed there by the Historical Land Mark Council.

passed two over his veto, those of the Bank of Tekama and the Waubeek Bank of DeSoto. The others failed to pass by a small margin.¹³

The Legislature also failed to provide any real control of the banks which they chartered. "No banking board was provided or any public official to whom reports were required to be made, and if any reports of the condition were published it was done voluntarily by the bank, and they were doubtless 'doctored' for the occasion."¹⁴

The majority of the Legislators evidently had no desire to control banking; and, when some of the bank charters failed to pass, the bankers proceeded to issue their notes without right of charter. Due to the repeal of the criminal code by the third session of the legislature, there was no restriction against such action. The repeal was later amended to exclude the section which was applicable to banking.¹⁵

It is not surprising to find very little governmental control or regulation over banking during the early territorial period. The majority of the Legislators seem to have come to the territory to engage in speculation and

as a rule were also quite young.¹⁶ Thus many not only lacked experience in the operation of government but also favored policies which would facilitate speculation.¹⁷

The policy, if it may be called a policy, of *laissez-faire* allowed excesses which led to a collapse of banking in the panic of 1857-1858. One of the most important excesses was the issuance of large amounts of bank notes. The Territory needed a medium of exchange with which to carry on normal economic pursuits, but it did not require the volume of bank notes which were issued by the Territorial banks.¹⁸ The excessive supply of currency facilitated speculation and an inflationary economic situation in 1856 and most of 1857. Some historians have claimed that the excessive supply of bank notes caused the inflation and the following depression. Such an explanation is a drastic over-simplification because there are generally many factors involved in an inflation and a depression, and the currency supply is only one of these factors. Thus, it is incorrect to blame the excessive currency for all of the economic ills of the Nebraska Territory. Inflation was more nearly a symptom than a disease.

Another weakness of the banking system of the Territory was the authorization of banks to issue notes when one-half of their initial capital was subscribed. The holders of the bank notes were therefore dependent upon the personal integrity of the bank's stockholders. If the stockholders were unethical, and a few were, they could transfer their stock to unreliable or irresponsible persons and escape the personal liability clause of the charters, thus leaving the note-holders without recourse.¹⁹

Even if the stock-holders were honest, there was always a chance that they would subscribe for more stock than their assets were worth. The fact that bank notes were actually instruments of indebtedness, payable on demand, lends importance to the ability of the stockholders to meet their obligations. In a very real sense the note holder was loaning to the bank by accepting a promise to pay in lieu of gold. The bank notes also were accepted only at a discount if there was any doubt about their redemption, or if the redemption of the notes would cause the holder any expense. The discount was essentially an interest rate paid for risk. During prosperous times the discount rate was either low or non-existent, but when an economic recession appeared people were no longer willing to loan because of fear of loss. Therefore they demanded a higher rate of interest or presented their notes for redemption at the very time the banks were least able to repay. Mass demands for redemption often forced banks

to suspend specie payment and perhaps just as often threw them into bankruptcy, resulting in heavy losses for those persons so unfortunate as to possess the bank's notes. ²⁰

During the Territorial period there were many pamphlets published which listed current rates of discount and descriptions of bank notes. One was printed by the office of McCann and Metcalf, bankers at Nebraska City, and titled the "Circular of Quotations in This City for Currency and Exchange." Another was the "Tompson's Reporter," published in Philadelphia, Pa., which included facsimilies of many of the Territorial and State bank notes and described most of them. The "reporters" were useful in detecting counterfeit bank notes which were quite common at the time and were an aid in determining the standing of various banks as well.

As suggested above, the multiplicity of note issues facilitated counterfeiting and at times there was much counterfeit currency in circulation. ²¹ There were also notes in circulation which did not have a bank of issue. They were notes which someone printed and spent, which carried the name of a non-existent bank with a fictitious location. It was probably easier than working for a living. There were several articles in the *Nebraska City News* during the latter part of the 1850's referring to shipments of bank notes addressed to a non-existent bank in Nebraska City. The shipments rather perturbed the editor, who believed that some easterner was ruining the reputation of Nebraska City. His wrath was in vain.

Everything went along quite well from 1854 until the latter part of 1857. The people were optimistic about the development of Nebraska and their own chances of gaining wealth. As J. Sterling Morton stated:

We all felt, as they used to print in large letters on every new town plat, that we were 'located adjacent to the very finest groves of timber, surrounded by a very rich agricultural country, in prospective, abundantly supplied with building rock of the finest description, beautifully watered and possessing very fine indications of lead, iron, coal, and salt in great abundance'. In my opinion we felt richer, better and more millionarish than any poor deluded mortals ever did on the same amount of moonshine and pluck. ²²

The day of reckoning was approaching, even though it was not recognized until it actually struck. In 1857 the eastern states found themselves in a financial panic which forced many banks to suspend and cast others into complete ruin. It took a few months for the panic to spread from the east to the west, and the residents of Nebraska Territory were not worried. As late as December 19, 1857, the *Nebraska City News*

Governor Mark W. Izard, who served from 1855 to 1857, vetoed six bank charters, two of which were passed over his veto by the legislature.



was able to write an article in defense of the Nebraska banking institutions. It read, in part:

Have those outside Nebraska . . . ever reflected that in proportion to the number of banks, there have been less bank failures in Nebraska than in any State or Territory in the Union? There have been three bank suspensions in our territory and five specie paying banks, while the bank of New York City and all New York and of the states in a mass have suspended specie payments.²³

It was not long until the editor must have regretted the day he wrote such optimistic words. In the early part of 1858 the panic overran the Territory and an article of a completely different tenor appears in the *Nebraska City News*. It was titled "Tekama Wildcat" and concerns the Tekama Bank which had recently failed:

Major J. D. White has just returned from the den of this ferocious animal and . . . saw him in all of his native wilderness. . . The wildcat banking institution is gone up — and not only has it gone up it has taken money with it. . . The Bank of Tekama or its stockholders have not \$500 assets in the Territory. The banking house is a little shanty 10 by 12 . . .

From the best information the Major was able to gain, the bank had issued \$99,000, which is . . . in the hands of the people and they have implicit confidence in the bank and praying Republican leader, Reverend William Young Brown, Esq. ²⁴

After the dust settled Nebraska was left with only one operating bank, the Platte Valley Bank of Nebraska City.²⁵ All the others had failed, and in most instances their failure had caused their luckless note holders considerable loss.

During the political campaign of 1859 both parties condemned banking and the incorporation of banks. The campaign promises were quickly forgotten, and no action of consequence was taken prior to 1867.

An important event in the history of banking in the United States occurred on February 25, 1863, when the National Bank Act became law. On October 1, 1863, only 66 national banks had been organized and these were small institutions. On March 3, 1865, a 10 per cent tax was placed on state bank notes in an effort to force them into association with the National Banking System. While these acts were quite important to the United States as a whole, their importance was relatively minor in Nebraska during the period under observation. During the latter Territorial period there were only a few banks in Nebraska, of which only three were associated with the National Banking System by the end of the Territorial period. They were: The First National Bank of Omaha, organized August 26, 1863; The Otoe National Bank at Nebraska City, established July 19, 1865; and the Omaha National Bank, organized July 2, 1866.

The Territorial banks produced an acceptable medium of exchange, but by over-issuing notes and by generally unwise operating policies they tended to destroy much of their potential effectiveness. Perhaps with wiser management and a little enlightened governmental regulation they would have been of more service.

As can be seen from the above information, the government of Nebraska Territory exerted little or no control over banking. The Government could have exerted considerable control over banking under the existing laws; but, as we have seen, the majority of the Legislature favored a policy of *laissez-faire*. Consequently, we can state that government was not an important factor in shaping the business structure of banking in Territorial Nebraska.

NOTES

1. James C. Olson, *History of Nebraska* (Lincoln, 1955), 98.
2. Margaret Curry, *History of Platte County Nebraska* (Culver City, Calif., 1950), 264; James C. Olson, *J. Sterling Morton* (Lincoln, 1942), 52.
3. *Council Journal, Nebraska Territory, 1st, 2nd, & 3rd Sessions, 1855-57* (1857), 115.
4. W. S. Harding, "Early Banks in Nebraska," *Nebraska History*, (October - December, 1923), VI, 112.
5. John Knox, *A History of Banking in the United States* (New York, 1900), 808.
6. Addison E. Sheldon, *Nebraska: The Land and the People* (New York, 1931), I, 272.
7. *Ibid.*
8. R. W. Furnas, "Nebraska Banks," *Nebraska Advertiser* (Nebraska City) September 13, 1856, p. 2.
9. Sheldon, I, 276.
10. *Council Journal, Nebraska Territory, 1st, 2nd, & 3rd Sessions . . .* 116.
11. *Ibid.*
12. *Ibid.*, 117.
13. Knox, 808.
14. Henry W. Yates, "Early Nebraska Currency and per Capita Circulation," *Nebraska State Historical Society Proceedings and Collections*, No. 2 (Lincoln, October 1, 1894), I, 69.
15. Knox, 808.
16. Lafayette Nuckolls, the youngest legislator, was elected to the council in the first territorial assembly of Nebraska when he was 19 years old. The oldest legislator, Origen D. Richardson, was 59. J. Sterling Morton, *Illustrated History of Nebraska* (Lincoln, 1905), I, 205, 216.
17. "Unidentified Newspaper Article," *Henry W. Yates Scrapbook*, in the possession of the Nebraska State Historical Society, Lincoln.
18. *Council Journal, Nebraska Territory, 1st, 2nd, & 3rd Sessions* (1855-57), 116.
19. *Ibid.* Also referred to in many newspaper articles of the time.
20. Ray B. Westerfield, *Money, Credit and Banking* (New York, 1938), 364f.
21. *Ibid.*
22. Olson, 52.
23. *Nebraska City News* (Nebraska City), December 19, 1857.
24. "Tekama Wildcat," *Nebraska City News* (Nebraska City), May 29, 1858.
25. *Peoples Press* (Nebraska City), December 22, 1859.