Salem Bank of Goshen, Indiana

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To the local historian Salem Bank building is the most interesting building in Elkhart county. To appreciate this it is necessary to go back to the time of the first settlement of the New England colonies and become acquainted with one of the most important problems which the early settlers met and had to solve, and which continued to embarrass their successors down to the time of the enactment of the National Banking law at the close of the Civil war.

Almost immediately after the planting of the settlements on the New England coast the colonists had to face the perplexing problem of supplying themselves with a sufficient amount of that which is commonly called money. At first they used beaver skins and other commodities; and they adopted the shells used by the native Indians as their money. This condition continued until 1690 when the colony of Massachusetts Bay discovered that the printed paper evidences of debt of the colony could be satisfactorily used as a medium of exchange in the hands of the colonists. After this all the other colonies in course of time adopted this system of providing their people with money.

But while this money served their people well within their respective colonies it could not be used to advantage in intercolonial trade because it was at a discount when tendered for payment outside the colony issuing it. But in 1775 a beginning was made to overcome this difficulty through an agreement entered into by the colonies of Massachusetts Bay, Rhode Island and Connecticut by which it was agreed that the paper bills of each of these colonies should pass current—that is, should be accepted at par—when offered in payment in either of the other colonies.

During all these years the handling of specie, which could be used in payment for imported goods and for a few other purposes for which the paper notes could not be used, was in the hands of dealers in specie. Professor McMaster groups these dealers in two classes, "monied men and speculators in cash". These men were intensely hostile to all forms of paper money because it limited the demand for, and therefore the value of, their wares; but they were unable to prevent its use. And the colonists, having abundant money, prospered marvelously.

Then came the Revolution. As the cost of the war increased, the paper bills issued both by the states and the Confederation to carry it on grew in volume and depreciated in value until at the end of the war the country was in very much the same condition as is Germany now as the result of its part in the Great War; with the important difference that much of the currency of the Americans was counterfeit. This counterfeit money was put out by the British, for at that time it was considered a legitimate way to strike at the credit of an enemy in time of war. The problem thus presented to both the states and the federal government could be solved only by partial or total repudiation—and this solution was applied.

After the Revolutionary war was over, three private banks were organized by state authority with the right to issue paper bills; and in 1782 congress chartered a bank having the same privilege—the Bank of North America. The influence of these banks added to that of the "monied men and speculators in cash" was now sufficiently strong to prevent, to a considerable extent, legislation by the states to restore the systems which had existed before the war. And when the Constitutional Convention met in 1787 these interests were able to force the inclusion in the constitution approved by it of the provision that no state should coin money, emit bills of credit, or make anything but gold and silver a tender for payment of debts.

Upon the ratification of the constitution the effect of this was to demonetize all the paper money and copper coins then in circulation. The circulation which had been only about $4.00 per capita in 1784 fell to $3.00 in 1790, and all business was paralyzed. The imperative need for a medium of exchange forced into existence state banks authorized to issue notes; and by 1795 twenty-five such banks were in operation and by the end of that year the circulation by their aid had increased to $7.75 per capita. Of this amount not more than one dollar per capita came from the Bank of the United States which congress had chartered in 1790 and which continued in operation from 1791 to 1811.

The managers of this bank claimed that by their charter they were given a monopoly of the right to emit bank notes; and that the state banks were infringing on their rights. And they at once began a fight to destroy them. Their purpose was announced in the slogan, "No Money but the Money of the Constitution". The war between the federal bank and the state banks was a bitter one. The method adopted by the federal bank consisted in its obtaining notes of state banks and holding them until those of some particular bank, in the opinion of its managers, amounted to more than the bank to be attacked would have in specie. These notes would then be presented for payment and if the full amount was not paid at once in specie the notes would be protested for nonpayment and the bank closed. And partly for protection against counter-attack and partly to keep down the circulation the federal bank emitted no notes in excess of the amount of specie in its vaults. As Professor McMaster expresses it:

> The chief cause of the deadly hatred which many of the state banks felt (for the federal bank) was the vigilance with which it watched their issues and the incessant calls it made on them to redeem.

The charter of the federal bank expired in 1811 and congress refused to renew it. The fact that nearly three-fourths of its stock was owned by foreigners was one argument used against its renewal. Those who have condemned the refusal of congress to renew the charter of this first Bank of the United States have claimed, I believe without exception, that the management and credit of the bank were so excellent that its notes were at all times at par with Spanish silver dollars—

which were the only legal tender coins in the country—and this claim is always conceded. But in a study of this subject some years ago I became satisfied that this could not be true since the world-wide scarcity of specie was such that even the Bank of England suspended specie payments from 1798 to 1822. And I was able to verify my opinion upon finding among the documents in possession of the Elkhart County Historical Society a copy of the Philadelphia *Gazette and Daily Advertiser* of April 8, 1806, which contains this advertisement:

Spanish Dollars Wanted. For which a Premium will be Given. Apply to Thomas Biddle, No. 43 Walnut Street.

As the federal bank was located in Philadelphia, and Nicholas Biddle was its president, this evidence seems conclusive and justifies the assumption that the silver dollars wanted were for the bank; and to be paid for with notes of the bank.

The extreme distress because of lack of money continuing the secretary of the treasury late in 1814 recommended the chartering of a second Bank of the United States in all material respects like the first bank of that name. This was done and a charter was granted for a term of twenty-one years. The policy of its managers was the same as that of their predecessors and their efforts to destroy the state banks were as persistent and as futile. When its charter was about to expire congress voted to renew it, but President Jackson vetoed the bill.

In 1819 the per capita circulation was only $7.74 and decreasing. In 1828 it had fallen to $5.90. What little coin there was in the country was held in the importing centers—the larger towns of the Atlantic coast. None was in circulation in the hands of the people; and all taxes were payable only in coin. On the 7th day of December, 1822, there was a sale of lots in Indianapolis for delinquent taxes. I quote from an Indianapolis paper:

The list was a long one. The scarcity of money in those day can be judged by the fact that the largest delinquency was $2.87½. The lots were put up at auction and several of what are now the most important business locations in Indianapolis were sold "for a song."

The need for small change could not be met by exchange of commodities, of course, and the greatest sufferers were the very poor. One expedient for getting small change was to take Spanish dollars to a blacksmith and have him cut the coins into fractions. These pieces of coin were called "cut money". The Elkhart County Historical Society is fortunate in having several pieces. They are very rare.

May 3, 1836, thirteen days before the expiration of its charter, the stockholders of the second Bank of the United States obtained a charter from the state of Pennsylvania under the name United States Bank, and to it the Bank of the United States transferred its property and business. Mr. Upton closes the chapter he devotes to the second Bank of the United States with these words:

> A financial giant such as was this institution did not expire without a struggle. In 1839 it got the New York banks in its toils and brought them to the verge of ruin. Two years later, Sampson like, it laid hold of the pillars of the financial temple and signalized its death by a general crash. The circulating notes and deposits of this corporation were eventually paid in full, but no dividends were paid to the stockholders. The whole $28,000,000 subscribed was a total loss to them.

The war on the state banks did not cease with the disappearance of the second federal bank and its successor; but those who waged it made no pretense that they were actuated by the patriotic motive suggested by the slogan of the federal banks. The banks attacked by these later bank wreckers were of the class of state banks known as "free banks", and their notes as "bond secured" currency. They were called free banks because no charter from the state was necessary for their organization. The law authorizing their organization required no more than that the organizers should comply with requirements laid down in a general banking law.

This law in Indiana required only that those organizing a bank should deposit with a designated state official state bonds to secure payment of the notes to be issued by the bank; and upon such deposit being made the promoters of the bank would at once receive the amount of notes authorized. Upon proof that any of these notes had been presented for payment and that the bank was unable to at once redeem them in specie, the custodian of the bonds was required to sell the bonds at public auction for specie and from the proceeds pay the defaulted notes. In those days of scarce specie such a sale necessarily involved to all others interested a heavy loss but to the purchaser a big profit, especially if the holder of the defaulted notes was the successful bidder and could use his notes as cash in the purchase.

Many attempts were made by legislators to enact laws which would enable communities to organize banks and emit notes which would both enable the communities to receive the benefits of a bank of issue and at the same time adequately protect holders of its notes; but in the main they were not able to circumvent the schemes of the professional bank wreckers. Lack of time prevents my giving any details of such legislation and the devices of the bank wreckers.

A single incident, however, will sufficiently illustrate the problem and show how one bank in Indiana escaped a threatened attack. I take it from the testimony of Lyman J. Gage, a distinguished banker of Chicago who became a secretary of the treasury in the cabinets of McKinley and Roosevelt, and who was called to testify before the congressional committee on banking and currency in 1908. In telling of his experience in the early days in a Chicago bank, he said:

> I remember specially being very diligently occupied for some days in sorting out the notes for a particular bank until we had accumulated some $25,000 or $30,000 of the issue of the bank of Rushville, I believe it was, and three men with about $30,000 of that money started for the bank to get these notes redeemed, or to bust the bank. * * * At the end of about three days the men returned with the notes they had taken away, and explained that they had taken the prescribed route; they had gone by rail to a certain place, and had taken a stage and had gone to a certain other place: that thence there was no stage line over to the other place where the bank was; and so they had hired a private vehicle to take them over there, but they were strangers and were under suspicion and sombody smelled out the object of their visit and they were informed by a committee of men that if they had come to break their bank they had better start back because neither they nor their money was safe on any such kind of an errand; and they prudently returned.

The first constitution of Indiana was adopted in 1816 when the country's experience with the first Bank of the United States was recent history, and when congress had just granted a charter to its successor. For the purpose of protecting its citizens against the danger which the existence of the new federal bank threatened, the state constitutional convention put up a barrier which they believed would, and which did, prevent the location of a branch of the federal bank in the state. The constitution provided as a part of the fundamental law of the state:

> There shall not be established or incorporated in this state any bank or banking company, or moneyed institution, for the purpose of issuing bills of credit, or bills payable to order or bearer; provided, that nothing herein contained shall be so construed as to prevent the General Assembly from establishing a state bank and branches.

In 1834 a state bank was chartered. The state owned one half the stock and individuals one half, all of which was paid in specie. The capital was $1,600,000. The charter expired in 1855. The success and popularity of the bank were such that in that year, when there were twenty branches [?] in operation, it was reorganized and rechartered as the Bank of the State of Indiana. [?] That there was profit in the operation of the bank is shown by the fact that after payment of the principal and interest on the bonds issued to obtain the specie required to pay for its shares the state realized a net profit estimated by some authorities as $2,780,600 and by others as $3,500,000. At all of its branches it did a regular banking business; the central office being the administering bureau and clearing house for the branches. It had the right to issue notes without putting up any bonds, to the amount of twice its capital. In writing of the great panic of 1857, Mr. Knox says:

> No bank in the country stood higher than the state bank of Indiana during the panic. In all Western and Southern states its notes commanded a premium and in the East were taken at a slight discount. * * * Its loans were made in small amounts and scattered all over the entire state, thus affording the greatest possible measure of relief.

The serious defect in the law authorizing the chartering of a state bank was the requirement that before a new branch could be established all the other branches must consent. The result of this was that many prosperous towns needing a bank were kept from getting it by the veto of the branch in a neighboring and rival town. When the constitutional convention met in 1852 to prepare a new constitution the demand for additional banking facilities throughout the state led to the insertion of the article giving the legislature power to enact a general banking law. The demand was for "free" banking, and such a law was enacted. The law as enacted was capable of serious abuse. Of banks organized under it Hepburn says:

> Notwithstanding the strength of the State Bank of Indiana, the state was for a time the favorite place for incubating note issuing "banks" without capital, banking offices or furniture. A circular letter issued offering aid to any one desiring to start such a bank stated that the sole cost necessarily incurred in starting a $100,000 bank would be $5,000 for plates to print the notes, and expenses, including compensation to the promoter, and $5,000 as margin to carry the necessary bonds to be deposited.

Under this law Salem Bank was organized in 1854.

In 1857 the country was swept by a wild money panic which had its origin in New York city. Of its effect on Indiana banks it is enough to say that the Bank of the State of Indiana was not affected by it. All its notes presented for payment during the panic were redeemed in specie on presentation, but all the bond security banks in the state were forced to suspend except two in Indianapolis, one in Fort Wayne, and Salem Bank. The immunity of Salem Bank was not luck; it was because of the wise plan adopted for its protection when it was organized. The organizers and first directors were John A. Cook, of Goshen, the son of a Goshen merchant, Thomas G. Harris, a lawyer, also of Goshen, and one Samuel Geisinger, probably the promoter.

Some of the facts I have given and knowledge of the experience of free banks in other states must have been in the minds of the organizers. Obviously the danger to be avoided was a surprise attack by "bank busters". The only way to avoid such attacks was to make it impossible for these commercial buccaneers to catch the bank unprepared and without some notice. The plan adopted consisted in locating the bank in an out of the way village and establishing a branch where its business was to be done. The hamlet of Salem—

now the village of Wakarusa—was well adapted to serve as the seat of a bank of which a branch could be established in Goshen; and this name was adopted. And very soon after its name was taken by the bank it was abandoned by the village and a more appropriate name—its Indian name, Mud-knee-deep—was adopted. The situation was probably made more complicated by the fact that Salem was the name of the county seat of Washington county.

The bank was now ready for business. If men came to the Goshen office with notes to be redeemed it would be necessary for them to make known their object and the amount of the notes held by them. If the bank had specie sufficient to redeem them they would be redeemed. If it had not they would be told that the notes would be redeemed at Salem. The Goshen manager would then perhaps be able to collect from Goshen merchants enough specie to add to that in his hands to redeem the notes and rush it through to Salem to redeem them if presented there. It was safe to assume that holders of the notes would realize that the manager of the bank would make public the information they had given him and would know the amount of notes in their possession and the amount of specie they would have if the notes were redeemed. And they would have reason to suspect that they might be met somewhere along the road by such a committee as Rushville was able to produce or waylaid by highwaymen as conscienceless as themselves.

As I was told these facts by men who knew; and was not told that the bank ever had presented to it for redemption notes in excess of the amount it was able to redeem, I assume that the "bank busting" fraternity concluded that Salem Bank was not an attractive prospect, and avoided it. For thirteen years this bank supplied its patrons with the money they needed and thereby contributed to the prosperity of the community it served. In the ten years between 1850 and 1860 the population of Goshen increased from 780 to 2,053 and in the next decade to 3,138.

In March 1865 congress authorized the issue of bonds to a large amount to pay obligations growing out of the Civil war. And to increase the home market for them it required banks of issue to deposit federal bonds as security for note issues. At the same session it enacted a law laying a tax of ten per cent on all notes of state banks paid out after the first day of July, 1866. While this put an end to the issue of notes by Salem Bank it did not put an end to its prosperity. In 1865 John Cook, who was then the owner of the bank, sold its business and good will to General Milo S. Hascall and John W. Irwin. The next year the bank was moved from its location facing the east side of the courthouse square to its present location on the east side of the square.

Some years ago I met a gentleman who was interested in the subject of Indiana banking and who knew the story of Salem Bank. In talking of it I said I wished that I could get some of its canceled notes for our historical society's collection. He said he thought he could get some for me; and he did. They were placed in a cabinet of the society in which there was an excellent collection of paper money—colonial, continental, state bank notes of Michigan and Indiana, make-shift currency of Pennsylvania towns issued to provide small change for the inhabitants, "shin-plasters" of the time of the Civil war, postal currency, bills of the Southern Confederacy and some rare coins of both America and Europe.

I regret to say that because the Society lacked adequate means for preserving its objects of historical interest nearly all of those I have named were clandestinely removed some years ago. As they are of slight commercial value I am confident that they are being kept in some private collection and I will continue to indulge the hope that they will be restored to it when the Society is better prepared to receive and safely keep them.

[There is some confusion of dates and banks in the above article. The Second State Bank of Indiana had only 13 branches. It was entirely liquidated in 1854. The Bank of the State of Indiana took its place. The state had no money invested in this bank. It seems to have had 19 branches. The Salem Bank was organized under the Free Banking Law of 1852—a copy of the New York system. Its notes were supposed to be based on state bonds equal in value to Indiana fives.]