The Bank of Newburgh

Receives in payment and exchange from dealers, the notes of the undermentioned banks, at the rates following:

IN THE STATE OF NEW-YORK.

AT PAR.

New-York City Banks, -
Banks at Albany, - -
Banks at Troy, - -
Lansingburgh Bank, - -
Mohawk Bank, - - -
Bank of Orange, - - -
Bank of Catskill, - - -
Aqueduct Association of Catskill, - - - - - -
And the notes of banks made payable at New-York. -

AT A DISCOUNT.

Middle District Bank, - -
Bank of Hudson, - - -
Bank of Columbia, - -
Bank of Utica and its branch at Canandaigua, - -
Utica Insurance Company, -
Bank of Canandaigua and its branch at Utica, - -
Jefferson County Bank, - -
Bank of Niagara, - -
Hudson & Columbia Facilities.

IN THE STATE OF NEW-JERSEY.

AT PAR.

Banks in Newark, - -
Banks in New Brunswick, -
Bank of Morristown, -
State Bank at Elizabeth, -
Patterson Bank, - - -
Banks at Trenton, if not less than $5, - - -
All other Jersey notes from to per cent.

IN THE STATE OF PENNSYLVANIA.

AT PAR.

Philadelphia City Banks, -
Germantown Bank, if not less than $5, - - - -
Bank of Delaware County, if not less than $5, - -
Bank of Chester, if not less than $5, - - - - -
Farmer's Bank, of Bucks, if not less than $5, - - - -
New Hope Bridge Company, if not less than $5, - -
Bank of Montgomery, at Norristown, if not less than $5,

AT A DISCOUNT.

Silver Lake Bank, - -
Easton Bank, - - - -
All other notes out of the city of Philadelphia from to per cent.

IN THE STATE OF CONNECTICUT.

Middletown Bank, - -
Phœnix Bank, at Hartford, -
Hartford Bank, - - -
Banks at New Haven, - - -
Derby Bank, - - - -
Bridgeport Bank, - - - -
Hartford Bank, if payable at New-York, at par. - -

IN MASSACHUSETTS & RHODE ISLAND.

Bank notes made payable in the city of New-York, at par,
Others from to per cent. discount.

Corrected at the bank weekly.

GAZLAY, PRINTER, NEWBURGH.

A common practice among banks up to 1865 was the issuance of the weekly discount list. This list would be essential for local merchants in the course of their daily business transactions. Which notes would be paid at par and which would be discounted could often depend on the political winds of the time.
Courtesy of Historical Society of the Highlands

Banking in Early America. The Mid-Hudson Valley, The Banks of Newburgh

Lucien Mott

The banks of Newburgh, New York, offer an interesting historical insight into America's early financial history. Located on the Hudson River fifty miles north of New York City, Newburgh was first settled in the early eighteenth century and incorporated in 1801. Throughout the eighteenth century, Hudson Valley settlements such as Sleepy Hollow, Garrison, Fishkill, New Windsor, Kingston, Poughkeepsie, and New Paltz existed in relative isolation, populated mostly by subsistence farmers scraping a living from the rocky soil. This pattern of life was unchanged until the early nineteenth century, when the pace of life and economic development picked up considerably. The transformation from an agricultural-based economy to a market economy caused a considerable amount of political excitement in the village of Newburgh in the 1830s. Much of this excitement and political tension focused on the development of banking. By the 1830s, Newburgh was in need of capital to continue its economic expansion. Under what terms this capital would be obtained became the starting point for political agitation. I shall examine the controversy surrounding the founding of the Highland Bank in the village of Newburgh in 1833 and 1834 through 1840. I shall also give a brief overview of the national bank era in Newburgh.

Background

When the Bank of Newburgh was founded on April 15, 1811, it was one of just 200 banks in the United States. According to the bank's own history, it was only the fifth corporation in New York State. Banks were often at the center of political controversy because until 1838 they had to obtain a charter from the state legislature. In Europe, banks represented the interests of families, individuals, or partnerships—in essence, established wealth. The average European of the eighteenth and early nineteenth centuries never dreamed of accessing the services of a bank. However, in New York and much of America, capital had to be scraped together by whatever means possible, often with the help of the government. In this environment, banks quickly became embroiled in national and local politics. These debates were hard-fought because banks provided a much-needed means of exchange and capital for all classes. To be denied access to bank services was considered anti-democratic. On the other hand, conservative agrarians viewed the very existence of banks as a threat to honest labor. For this reason, a person's opinion on banks and banknotes helped define their political views.

Early Use of Banknotes

The simplest way to understand the political divisions behind banking and banknotes is to examine their use. The first fact to understand is that America's early economic development was shaped by the limited supply of specie to serve as legal tender. In a traditional economy, gold and silver had been assigned an abstract value relating to agricultural commodities. Most of the population only marginally used gold and silver, preferring barter or direct exchange of goods and labor. This was the economic system that operated in the Hudson Valley in the eighteenth century. American farmers interacted with merchants (general store owners) to obtain credit and goods they could not otherwise produce.[1] These localized economies had minimal interaction with the outside world; the needs of farmers were generally satisfied by this pre-industrial arrangement. However, such a system was stagnant because it did not provide enough capital for improvement of roads, the building of canals, or the social and economic strains associated with population growth. As the Hudson Valley economy developed, a new circulation medium, apart from scarce gold and silver, was needed: in other words, a way to assign abstract values to agricultural commodities that could then be used as a circulating medium.

Naturally, merchants were the first to address this need. Informally, they began to issue bills of exchange to facilitate business transactions, thereby providing an ample supply of money. If merchants had to rely simply on the supply of gold and silver in circulation, the growth of the economy, not to mention the scope of their business activity, would be severely restricted. In the eighteenth century, a scene was often repeated where farmers' produce or ships' cargoes went unsold, not for lack of demand but owing to a shortage of ready cash.

It was a small step for merchants to combine their resources to form banks ensuring an available source of money to facilitate commerce. These banks would further expand the supply of money by printing banknotes in excess of their specie reserves. Alexander Hamilton understood this. He advocated different conceptions on the use of money, to the point where he was willing to consider debt as money. While the eighteenth-century merchant was conservative, he was forced into this position out of necessity. The result was a multitude of circulating banknotes representing a curious amalgamation of political, philosophical, and economic practices. These banknotes, later known as the paper system, were looked on with suspicion by the farmer and his political representatives. They saw no need for them, holding the opinion that the merchant class was somehow tricking them out of the fruits of their labor. As banknotes proliferated, the complexities of their use caused more tension between the classes. Let us consider, for example, a typical banknote from the Bank of Newburgh.

There were no standard denominations before 1861. From the Gary Ferguson Collection. Note that this banknote is made out to a specific individual or bearer

Banknotes such as the one illustrated presented a dilemma that was long unresolved, and in fact represented a skirmish line for political debate. In the early nineteenth century, the issuance of banknotes was considered a common-law right to borrow and go into debt. As such, these notes were not considered money in the current sense, being passed along almost indefinitely or until the indeterminate time that they could be paid. It was expected that banknotes would be paid in specie—coin—as soon as possible. Therefore, banknotes were not money, but a promise to pay money. Certainly the bearer had this expectation. The longer he held the note and the further the note traveled from its point of origin, the more depreciated it became. Thus, there were good reasons for the bearer to redeem his notes at the earliest possible convenience.[2]

This presented a dilemma for the issuing bank. It was expected to pay, and refusal to do so would effect the reputation of the issuing institution, thereby decreasing the public's willingness to accept their notes and make deposits or buy bank stock. Paying the note also meant a decrease in its specie reserve, which in turn curtailed the bank's ability to issue banknotes and make loans. So it was in the bank's interest to delay the redemption of its banknotes as long as possible. This is the reason banks tended to issue notes of small denomination. They would be more likely to circulate longer than a $20 to $100 dollar note.[3]

As a result, a market in banknotes developed. Some notes could be redeemed at par, others at a discount depending on a number of factors. Because of these discrepancies, speculators eagerly sought to buy banknotes at discount, often far away from the banks' locations. When they had accumulated a sufficient supply, the speculators would travel to the institution to demand payment in specie. You can imagine the scene as speculators showed up with bags full of banknotes. It could not have been a happy occurrence for bankers and local borrowers alike, since this practice was decidedly against their interests. Speculators leaving town with corresponding amounts of gold and silver was deflationary. Since there was no national credit system at this time, communities had to rely on their own resources to provide capital.[4]

Legislative attempts to deal with this confusing and problematic situation resulted in even more confusion. For example, in 1819 the Maryland legislature enacted a law against banks that refused to redeem notes in gold and silver. The following year it reversed itself, enacting a law against persons who demanded that notes be redeemed.[5] The latter law was directed at speculators, the former against banks that suspended specie payments in the Panic of 1819.

After the panic, a democratic movement arose that coalesced eventually around Andrew Jackson. Following the end of the American Revolution, and particularly after the War of 1812, the market revolution connected once-isolated farmers and tradesmen to the economy. It subjected them to booms and busts, eroding economic security and predictability. Segments of the new democratic movement saw banks and their paper system as imprisoning farmers, tradesmen, and groups that formerly controlled their economic destiny. It was viewed that these workers were being entrapped in an increasingly complex web of complicated transactions they could neither understand nor control. Before the Panic of 1819, National Republicans, led by Daniel Webster, held the upper hand. They pushed for what became known as the American System, a strong National Bank and internal improvements. But after the panic, as farmers and artisans lost jobs, radicals such as William Duane of Philadelphia gained the upper hand. With the newly politicized artisans and farmers, he and others pushed anti-bank policies as they attacked what they called the new moneyed aristocracy. [6]

Andrew Jackson became the champion of the simple folk and their "old ways." After 1828, the Jackson Administration took what would be considered a pre-capitalist position on banks and banknotes. Using the power of the new populism, he attacked the Second Bank of the United States, and in general disapproved of all circulating banknotes. Jackson's position was that "Banknotes are mere evidence of debt due by the banks, and in this respect differ not from the promissory notes of the merchants."[7] William Gouge, an advisor to Jackson in 1833, admitted that this debt essentially became the money of the country. However, he was not willing to take the next logical step and assume that the obligations of banks were not ordinary debt but money. Gouge's view was that it was in the nation's long-term interests to adopt a purely metallic money system. In his view, allowing excessive bank credit and the use of banknotes only led to corruption and an unequal distribution of wealth.

> That through the various advantages which the system of incorporated paper-money banking has given to some men over others, the foundation has been laid of an artificial inequality of wealth … these banks give rise to many kinds of stock-jobbing, by which simple minded are injured and the crafty benefited.[8]

A further example of this class-oriented, anti-bank attack is illustrated by William Duane, who became Jackson's treasury secretary in 1833. Duane blamed the banks for widening inequality. Without banks, Duane conceded "there might be fewer towns or such crowds as are in them; but there would have been more men at the plough; and there would have been more integrity, frugality, and content." Instead, he argued, society had been convulsed with "fluctuations, revulsions and panics ruinous in their consequences, by the mighty power of nearly 600 banks."[9] Duane was not just opposed to the United States Bank but all banks. Some historians have attributed this to the survival of pre-capitalist agrarian notions, others to resistance to the rapid changes brought on by the market economy. However, it is difficult to envision America's nineteenth-century economic development without banks. Clearly, Duane's economic orientation was more in tune with the eighteenth century.

Jackson's personal desire to establish gold and silver as the only means of circulation medium was not shared by all members of his party, nor by his second vice president, Martin Van Buren, whose chief reason for supporting the demise of the Bank of the United States was to get rid of that Philadelphia institution. As a New Yorker, Van Buren saw the National Bank as robbing New York institutions of their rightful leadership role in finance. Jackson and his anti-bank supporters used agrarian rhetoric to attack the Second Bank of America. Behind the rhetoric was a complex confluence of interests and attitudes. The National Bank was accused of any number of crimes. A meeting in Warwick, New York, resolved: "That President Jackson in vetoing the bill for re-charter [of the Second Bank of the United States], has endeared himself in an eminent degree to every farmer, mechanic, and laborer, who subsists upon his honest industry, whilst he has conformed to the doctrine and example of a Washington, a Jefferson, and a Madison, in fearlessly checking the overgrown power of the moneyed oligarchy, which is threatening a prostration of our Republic."[10]

Behind this class-based rhetoric lay the belief that the existence of the bank threatened liberty. In the age of democracy, there was strong feeling that a powerful federal government and its bank oppressed the common man. The rhetoric had very little to do with reality. Under the leadership of Nicholas Biddle, the Second Bank was acting as a central bank should. The government deposited all of its funds in it, provided a ready supply of money (this was especially important during war), and kept a watchful eye on state banks. The latter function caused the most controversy. In the course of regular business in Philadelphia and through its branches, the U.S. Bank acquired large quantities of state banknotes. It would redeem these notes, thereby ensuring discipline in the issuance of banknotes, as banks would be fearful of issuing too many notes. (The generally accepted guide was no more than three times a bank's gold reserves.) Prudent bankers saw the wisdom of this system: It weeded out weak and corrupt institutions.

However, the system led to any number of political and regional tensions. First, it gave substance to federal power because, in effect, the U.S. government was taking responsibility for the currency system. Jackson and other conservatives saw this as a clear violation of the Constitution, as well as a violation of states rights. If the federal bank were left alone and allowed to develop on a natural course, in all likelihood it would force out all state banknotes, replacing them with notes of its own issue. (Replacement of all state banknotes did in fact eventually happen, with the creation of the Federal Reserve banking system in the 1930s.) The result would be even greater federal economic power at the expense of the states and local banks. Agrarians and groups such as Locos Focos did not really understand the intricacies of the market economy, being frozen in an eighteenth-century conception of economic development. Farmers and workers were also stressed by the development of the market economy and the resulting periodic recessions, such as the panics of 1819, 1837, and 1857. In these downturns, farmers and workers lost jobs and farms, leaving them with no means of support. The economic forces that shaped their lives were beyond their understanding, so they were naturally susceptible to any political movement that promised to redress their grievances.

Those who were prospering from the market revolution of the early nineteenth century—Martin VanBuren and the New York Bankers—understood the need for banks and banknotes well enough. However, they did not like the federal bank for two reasons. First, it curtailed the supply of easy money with its discipline of the market. Second, the New Yorkers resented the power of the Philadelphia bank because it took away profitable business from New York City, which by the 1820s and '30s had become America's financial capital. To destroy the U.S. Bank would bring considerable financial and political gain to New York. To accomplish this, they were not beyond using the conservatives' democratic rhetoric. In fact, they eagerly manipulated public opinion and ignorance for their own ends. After achieving destruction of the National Bank, they quickly discovered they had nothing in common with their anti-bank allies.[11]

Banking in Newburgh

It is interesting to see how these national tensions and contradictions played out on the local level in the early nineteenth century. The founders of the Bank of Newburgh were local merchants and businessmen eager to expand their establishments. As in the rest of 1830s America, a bank was the only conceivable way to raise capital. Accordingly, a petition was presented to the New York legislature to incorporate a bank in Newburgh. A charter had advantages and disadvantages. On the plus side, it gave the corporation exclusive rights to do business in a given area. But it also restricted the scope of banking activities, often placing limits on capital and general terms relative to conducting business. The Bank of Newburgh's charter was typical for the period. Its capital was limited to $400,000, and it shares would be $50 per. The total liability of the bank—whether bond, note, or loan—was not to exceed three times the specie on deposit. Alexander Hamilton developed the basic outline of all of these early charters, which he had copied from the Bank of England.[12]

The original petitioners for the Bank of Newburgh were Isaac Belknap, Jr.; Jacob Powell; Selah Reeve; and Chauncey Belknap. Typical of these men was Reeve, whose family came to Newburgh in 1784, settling on a farm three miles north of the village. He began in business in nearby New Windsor, manufacturing brown earthenware. From there he became involved with several businesses in

Newburgh, including the bank. The other petitioners were also prominent citizens. Isaac Belknap was a Revolutionary War veteran and Powell a developer. The bank's first board of directors consisted of Isaac and Chauncey Belknap, Powell, Reeve, John Chambers, Francis Crawford, John D. Lawson, and James Hamilton. These men represented the emerging market elite of Newburgh, marking the transition away from an agrarian-based subsistence economy. Through their business activities, they held a tremendous amount of power in Newburgh. Like many businessmen in the early nineteenth century, they were eager to take advantage of every opportunity to gain wealth. A bank represented an excellent opportunity to do this, especially since banking was very profitable in its own right. Their background would lend them to adopt a Federalist position in support of a strong bank and improvement in infrastructure. However, as we shall see, this class of men would have to utilize the rhetoric of populism to further their interests in the 1820s and '30s.

The bank's founders were part of Hudson Valley's economic development. Through the seventeenth and eighteenth centuries, the economy had been primarily agricultural, but that does not mean the Hudson Valley was not part of the wider Atlantic trade. Most of the local farmers bartered through the 1820s, until a moneyed economy began to appear.[13] Farmers needed money to pay taxes, increase their land holdings, and buy goods they could not acquire through trade. For this they turned to men such as Isaac Belknap or Selah Reeve, entrepreneurs who began to look for opportunities in the growing market economy. As entrepreneurs, they began to develop different attitudes toward wealth and what we would call "individualism." Farmers tended to stop production when their immediate needs had been met and long-term goals achieved. In Newburgh, the establishment of the bank was a milestone in the triumph of market values over more traditional rural values.

The establishment of the Bank of Newburgh in 1811 came at a critical time in American history. Susceptible to strong European influence, the survival of the United States was still very much in doubt. When America went to war in 1812, the federal government was woefully unprepared to provide the means to fight. The Bank of Newburgh was part of the effort to raise money for the war, loaning the U.S. government $50,000. Treasury Secretary Albert Gallatin had to turn to state banks because the charter of the First Bank of the United States had not been renewed, crippling efforts to organize federal forces to counter the British. As a result of this embarrassing episode, Federalists were able to persuade Congress to charter a Second Bank of the United States in 1816.

The period following the War of 1812 until the Panic of 1819 was one of unprecedented economic growth, and the Bank of Newburgh shared in this prosperity. The transformation from the agrarian economy of the eighteenth century—the Jeffersonian ideal—to a free-for-all laissez faire market economy was not without winners and losers. Economic transformations inevitably lead to tension and confusion, as many workers and farmers resisted the implications of these new modes of business. The attack on the Second Bank of the United States is an example of this. Many Newburgh citizens welcomed this attack, but that did not mean they were against banks in general. From 1832 to 1834, national and local politics came to a boiling point over the establishment of a new Newburgh Bank.

The Highland Bank

The controversy over the establishment of The Highland Bank heated up in January 1832. The Jacksonian *Newburgh Weekly Telegraph* presented the issue, reflecting the wave of democratic class-based sentiment. It asked a rhetorical question: "How would the moneyed interest have approached the question [of a new bank] in 1811?"

> Those with means and monies who had broken up their connection with the business of the community, and retired, as the term is, to become money lenders; to upon their resources, would have answered—A Bank—indeed, how presumptuous, to think of a Bank, when we have money enough to meet all the demand and sometimes more than enough—A Bank, to be sure! And what is to become of our bonuses and premiums when the times are hard and men must have the ready. How foolish and ridiculous to think such a thing when it is not in the least wanted!
>
> The men who bear their arms and bend their back bones to the labor and business of the day; the men with few friends, and fewer dollars—who are really, after all, the very soul and body of Society-would have held and very different language. They would have said—Give us a Bank, by all means; place within our reach the funds necessary to enlarge our business, give us a fair chance with those who are born to better hopes and brighter fortunes, and we will show you what patient industry, and preserving enterprise can accomplish.[14]

This is a good example of the rhetoric of the period, and of the confusion and cross purposes of local and national politics. It is written in the language of class conflict, representing the issue as if the moneyed interest were different from those striving for a new bank. As we have seen, the men who founded the Bank of Newburgh in 1811 were the moneyed interest of the community and now, according to the paper, the evil force oppressing poor working men. If they had retired to become money lenders, it was because they could make even more money with a bank that served the interests of the merchants and that class. Who were these men who now wanted a new bank, and whose interests would it serve—the people who were now being wrongfully oppressed by the Bank of Newburgh?

Opposition to the new bank certainly came from the vested interests of the Bank of Newburgh. In their view, they had been granted a charter from the state with its privileges and limitations. Having enjoyed a monopoly since 1811, the bank naturally regarded the new institution as an encroachment on these privileges. It not only challenged their economic position, but was a challenge to their political position as well. The Bank of Newburgh authorized the statement in the *Newburgh Weekly Telegraph* in January 1832 that "the sole object of many of the petitioners was to obtain directorships."[15]

This may have been true to some extent, but from 1811 to 1832 Newburgh had grown a great deal. The $400,000 limit of capital was no longer sufficient to support continued growth, so another bank, with its banknotes, was in order. The 1830s was a period of restless energy and extraordinary growth. All classes were eager to tap into it. While broad segments of the community recognized the need for a new bank, they could not muster the political support in Albany. Consequently, the first attempt to charter the new bank failed in April 1833. The *Newburgh Weekly Telegraph* reported the failure, stating "that the news was treated as a public calamity—that it was true that there are those among us who did rejoice at the disappointed hopes of the people, but when we remember that the severest calamities which befall the human family, war, pestilence and the ravages of the devouring element, are sources of profit and high enjoyment to some, we need not be surprised now to hear the note of exultation over the fate of a bill which involved the great measure, the commercial property of this section of the country."[16]

By describing the opponents of the bank in such terms, the *Newburgh Weekly Telegraph* fully utilized the tone of class-based political discourse prevalent at the time. It was "us against them," the mass of honest working men toiling under the oppression of the established moneyed interests. Such republican rhetoric dated back to the Revolutionary War period. It would become a cornerstone for the ideological basis of the new Republican Party in the 1850s. However, it failed to take into account forces at work to establish the new bank. It became a political battle between the established Bank of Newburgh and a group of new investors representing the Highland Bank. The latter group was prepared to utilize the rhetoric of the ongoing Democratic revolution. When groups wanted to charter a new bank in the 1830s, all they needed to do was cry oppression to catch the attention of the state legislature.

The *Newburgh Weekly Telegraph* took the lead in the fight to secure a charter for the Highland Bank. In subsequent issues, arguments for the bank poured forth. "The stores of our merchants are filled with goods… Our steamboats are well patronized,… Our mechanics are all busily and most of them profitably employed, adding daily to the wealth of the nation… It is to be presumed that the honorable Senators who vetoed the Highland Bank did not once imagine that the farmers of Orange County required such vast sums of money to be expanded in this place?"[17] At a gathering, characterized as a meeting of the citizens of Newburgh, at the Manson House on April 20, 1833, the forces for the bank regrouped. Selah Reeve, Daniel Farrington, and Aaron Belknap were some of the prominent citizens in attendance. They resolved that "Our Bank Capital now is and has been for a long time past altogether inadequate to carry on the ordinary commerce; and such capital has become in a great measure concentrated into the hands and under the power of a few individuals… who exercise a pernicious and dangerous influence over the business of their neighbors."[18] They noted how the new bank would serve the entire community: "the poor widow who sustains her family by her daily toil feels the greatest benefit almost as sensibly as the greatest mercantile adventurer."[19] We can surmise that the bank's supporters were posturing for the Democratic state legislature rather than exhibiting a deep concern for Newburgh's poorer classes.

The eventual passage of the new bank's charter did not come in time to save the political career of Isaac R. Van Duzer, a Democratic assemblyman who was defeated in his November 1834 re-election bid. In May 1833, rumblings of dissatisfaction with Van Duzer began to appear in the *Newburgh Weekly Telegraph*. By October 1833, the paper had turned against him: "We need not inform our friends, as they are doubtless already apprized of the fact, that I.R. Van Duzer, apparently a warm friend, has at length assumed an attitude of open hostility to the Democratic Republican Party.[20] While Van Duzer did not come out against the new bank, his failure to get it past the legislature and his ties to the Bank of Newburgh was reason enough to cause his defeat.[21]

In any case, the Highland National Bank was incorporated on April 26, 1834, with $200,000 dollars in capital. General Gilbert Fowler—who defeated Van Duzer in the November election—was made its president. The first directors were

Fowler, Samuel Williams, Jackson Oakley, Thomas Powell, James Belknap, and Christopher Reeve. When reviewing this list, a reader cannot help but compare it to the founders of the Bank of Newburgh. Powell, Reeve, and Belknap are from the same families that founded, subscribed to, or did business with the earlier bank. Had these men become so impoverished by the Bank of Newburgh that they needed to start their own institution to recoup their wealth? Or did they find that the Bank of Newburgh no longer fulfilled their needs? Was the new bank's purpose not to serve the interest of the common man, but those of Newburgh's merchants and businessmen? In actuality, the creation of the Highland Bank had more to do with a political fight among the propertied class than a desire to lift up the poor. The capital of a second bank was needed for Newburgh to grow. In the end, the Highland group prevailed because they were better able to utilize the democratic rhetoric of the period. This rhetoric served the purpose of established wealth on the local level just as it did on the national level for the likes of New York City bankers and men like Martin Van Buren.

An early example of a Highland Bank Dollar Note. From the Gary Ferguson collection

Political infighting and corruption stemming from the chartering of new banks, like that which occurred in Newburgh, led to a movement in New York to do away with bank charters by instituting a policy of free banking. The issue arose due to influence-peddling in the state legislature associated with the chartering of banks, or as it was put at the time, "Lobbying for Bank Charters, that monster of corruption." This issue tied into the democratic movement, arguing that it was the natural right of every citizen—not just the moneyed elite—to have access to banking facilities. Conservative bankers naturally opposed this move, both because it infringed on their hard-won privileges and on the grounds that it would cause chaos in the marketplace with an even greater array of banknotes.

The same forces that pushed for the Highland Bank were too strong to resist, and in April 1838 the Free Banking Act passed. As the *Newburgh Weekly Telegraph* put it, the new banking law "will be found, in many ways of its numerous and complicated provisions, to shadow forth those strange fears which for so many years have haunted our law makers—fears that the people, left to regulate their Banking as their other business by subjecting it to a wholesome competition and the usages and regulations of trade generally—shall prove their own destroyers; yet by this law much, very much has been gained, which looks like real liberty, and not its shadow."[22] This is a classical defense of the free market economy.

In many ways, the free banking movement has shaped our perception of banking to this day. It represented a step forward in the democratic access to money. It also inaugurated a policy of permanent inflation with which we are all familiar today. Gold and silver would be around for another 100 years; they did bring some discipline to the market. But as America reached the twentieth century, specie would become less important. From a political standpoint, the Free Banking Act departed from the "executive type" of law. In it, the legislature defined certain powers to be exercised in designated circumstances and by administrative agencies. This would lead to a proliferation of state government continuing into the twentieth century. On a national level, the increase in the number of banks during the Jacksonian Revolution meant that federal and state governments abrogated control over the credit and monetary system. This caused inflation, wasted labor, business failures, and abandonment of an efficient system of credit as well as a sound currency system. The political will for strong federal regulation of banking was still a century away.

The free banking movement did not go unchallenged. Chartered banks such as the Bank of Newburgh did not want unlimited competition or the chaos caused by an overabundance of banknotes. A traditionalist movement called Locos Focos started a grassroots political movement in 1837 to eliminate the paper system entirely. This movement fully utilized the eighteenth-century anti-commercial ethos that had, in part, motivated Andrew Jackson's attack on the Bank of America. The Locos Focos movement combined forces, especially the New York Bankers, who wanted to kill the U.S. Bank. Once the Jackson Administration succeeded, the state's Democratic Party split into warring factions, as New York Bankers found they had little else in common

This coin was issued by the anti-banknote party of New York Locos Focos. The mint drop refers to senator Thomas Hart Benton, who requested that his salary be paid in gold coins, which eventually became known as "Benton's Mint Drops"

with anti-capitalist forces. Locos Focos groups pushed the traditionalist class argument that all of the paper circulating would bring down the working man by allowing those who produced nothing to live on the wealth created by labor.[23]

In Newburgh, the Free Banking Act allowed for a proliferation of banks, this time without a political fight. The Powell Bank (1838) and Quassaick Bank (1852) were the first institutions established following its passage into law. The Powell Bank was based on converted real estate holdings; the Free Banking Law permitted the conversion of real estate into active capital by its mortgage for bills of circulation. Thomas Powell (son of the original founding member of the Bank of Newburgh) and a number of partners opened the bank with capital of $138,000. It became private in 1843 and was absorbed by the Bank of Newburgh in 1857.[24]

I have not come across any banknotes from the Powell Bank, nor has Newburgh note specialist Gary Ferguson. This old check is located in the Crawford House, run by the Newburgh Historical Society. Note the crossed-out Highland Bank. This is a rather interesting and confusing aspect of the check. One wonders if they could afford to have their own checks printed

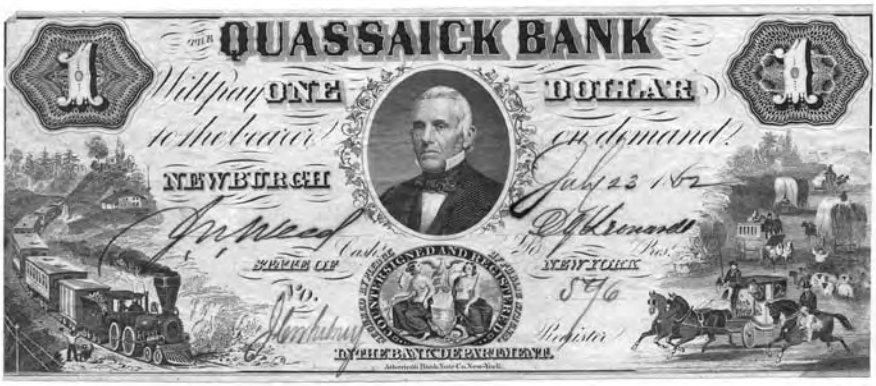
The profusion of new banks did not solve the problem of elasticity. The opening of the Powell Bank corresponded with the Panic of 1837, which lasted into 1839. Specie had been suspended in Newburgh in May 1837, shortly after the *Newburgh Weekly Telegraph* assured that "banks in this county enjoyed the confidence of the community to the fullest extent, they would not find it necessary from the fear of a run, to suspend specie payments."[25] However, Newburgh banks were forced to follow the example of New York banks and suspend specie payments.

The Panic of 1837 came about due to overexpansion. As the country became absorbed in wild schemes to make money, banks lent without restraint. With the demise of the National Bank, there was no institution powerful enough to restore discipline in the issuance of banknotes or credit. Furthermore, Jackson had aggressively pushed a hard-money policy in 1835 and 1836. His goal was to undercut the circulation of private banknotes by eliminating the government market for them. While gold and silver poured in from Europe, the economy did not suffer from these measures. But when European investment slowed, money lenders realized they had overextended. They suspended specie payments and cut back on credit.[26] The government, which had by this time retired all of its debt—thereby exacerbating the problem by forcing more money into the economy during the speculation period—had abrogated all responsibility over the economy, giving over to a laissez faire policy. Newburgh was faced with a severe credit and monetary crisis. During the suspension, banks not only stopped paying out gold and silver for their notes, but stopped issuing notes altogether, forcing merchants and municipalities to issues their own notes, usually in denominations less than a dollar. In March 1838, the *Newburgh Weekly Telegraph* became almost exasperated with the situation. "Where are all the bills of our own state banks, the 5's, 10's, 20's, 50's? They are not to be seen in the country, not in the city, not at the east, not at the west. The banks report monthly so much in specie, so much in this thing, so much in that, and, mark, so much in circulation. Where is this circulation? Who has the benefit of it? Certainly not business people…We have seen not a solitary Bank of Newburgh V [five-dollar bill] this winter, Fives at the Bank of the Highlands are as scarce as gulls on the Green Mountain." In response to the Whig Party suggestion that smaller notes be printed, the editor asked: "How one dollar notes are to be substituted for 5's, 10's, when none of latter are in circulation, we cannot perceive." If we don't happen to have a Highland five, we can't possibly tell how we are to go to the Bank and demand ones."[27]

The *Newburgh Weekly Telegraph* was aligned with the Democratic Party, which was on the defensive at this time. By 1838 the Whig Party had been formed and was blaming them for the economic slowdown. It was the Whigs who suggested that banknotes of small denominations be allowed, a suggestion the Democrats refused. This could only help the Whigs at the polls in the upcoming election. The above quote shows the untenable position the *Newburgh Weekly Telegraph* found itself in. On the one hand, it had to defend the hard-money position the Democrats had taken against the Whigs; on the other, its readers wanted access to cash on whatever basis it could be had.

With no government regulation of currency, small towns and cities were left to deal with the emergency as best they could. This problem of elasticity would plague the economy into the twentieth century. In 1890, the official history of the Bank of Newburgh stated that the institution had reduced its capital from $800,000 to $400,000 due to competition from New York City banks, and that $800,000 had been a large figure for a country bank.[28] By the 1890s, the inability of the national banking system to freely print money again became a political issue. The Populist movement called for the elimination of national banks altogether.

The Quassaick Bank was organized in March 1852 by David Crawford and other prominent Newburgh citizens after a meeting in the Orange Hotel. It was capitalized at $130,000. E.W. Farrington was president, Jonathan Weed cashier, and David Crawford was on the board of directors. Weed's signature became one



These two notes were donated to the Newburgh Historical Society in 1901. Unfortunately, they are glued to a piece of cardboard, but are otherwise in good condition. At one time, the society had a much more extensive collection of banknotes. These notes were stolen, however, sometime in the early 1990s. What the collection consisted of is uncertain, but I suspect it contained mostly obsolete notes, perhaps uncut sheets. There was also mention of plates. Note the design, the transition from horse power to steam. Technological developments, especially transportation, were common motifs on banknotes through the twentieth century

of the most prominent on Newburgh currency into the late nineteenth century. In those days, the cashier was a bank's highest-paid official. He handled all the money and supervised the printing of notes. Weed was born in November 1825 near Newburgh. When his father died at an early age, Weed was forced to work in the family brickyard while attending school in the winter months. In 1845 he was offered a position at the Highland Bank, where he rose to the position of teller. From there he became cashier of the Quassaick Bank. He also served as treasurer of a number of local organizations as well as on company boards. [29]

A beautiful Lazy Duce from the collection of Gary Ferguson

National Bank Era

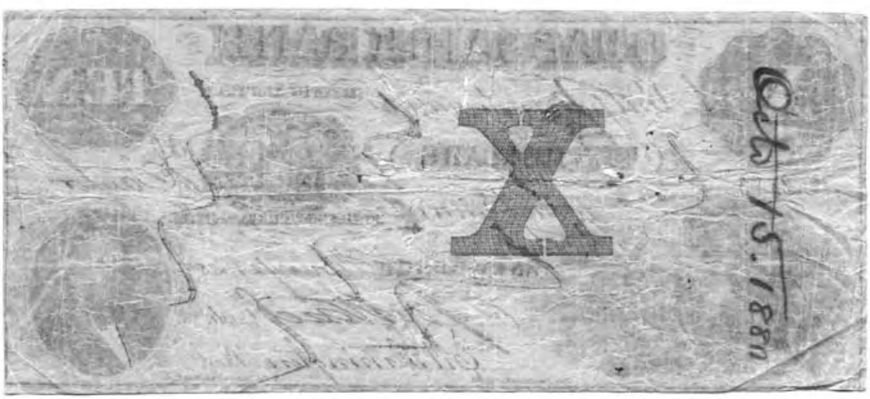
By the Civil War, the confusing situation in currency was complicating the transition into an industrial society. Occasionally, public outcry—such as the 1842 Cincinnati Bank Riots—erupted over worthless currency.[30] With no national banking system to police state banks and uneven supervision by state governments, anyone could open a bank and start printing notes. At the advent of the Civil War in 1861, the federal government's fiscal policy—as during the War of 1812—was in such disarray that it had no means of financing its army. Like Albert Gallatin before him, Treasury Secretary Samuel Chase had to turn to state banks. He requested a loan of $150 million, which the banks were prepared to provide. But Chase's requirement for payment in gold and silver essentially drained all hard money out of the economy. Banks would have had no problem in raising funds paid in their notes, but gold and silver were another matter. In short order, Chase was forced to introduce a federal currency to pay for the war and supplement state banknotes. National banknotes were authorized by an act of Congress on February 25, 1863. They were intended to be a temporary expedient. Temporary turned into lengthy: national banknotes were not withdrawn until July 1935.[31]

A natural solution to the problem was to bring back a national bank, but Chase did not propose a new federal bank. Instead he proposed a national banking system. State banks would be chartered by the federal government; they would buy U.S. bonds and issue currency of uniform size and design against them. At first, banks resisted. But they were soon brought along with a tax on their notes. Thus Congress finally reasserted some measure of authority over the currency. Private and public interests merged to create a currency system in which state banknotes could be converted into U.S. notes during the war and into coin thereafter. However, it would take time for these notes to circulate at face value. Even during this crisis, the government was unwilling to take full control over the paper system. The political fights over the National Bank were still too fresh for the government to fully regulate state banks and to embrace a paper system.

Political and social resistance to a paper system continued after the Civil war, as demonstrated by the Supreme Court case of *Hepburn v. Griswald*. The question was whether greenbacks (the new Federal currency) were constitutional, that is legal tender. A strict interpretation of the Constitution would suggest that only gold and silver were legal tender. The case arose when Hepburn contracted to borrow $11,500 in gold from Griswald in 1862. Two years later, Hepburn offered to repay the amount in greenbacks, which in the meantime had been made legal tender. Her offer was refused because the market value of the greenbacks in gold was only $4,500. In 1869, the Supreme Court upheld the view that only gold and silver were legal tender and ordered Hepburn to repay the amount in gold.[32]

The government was dissatisfied with the decision: It denied them the right to define legal-tender status. In a series of Supreme Court rulings that followed, the *Hepburn v. Griswald* decision was overturned. This case demonstrates the deeply embedded resistance to the development of capitalistic institutions, and in particular the paper system. The need to establish federal currency as an accepted medium led the government to establish gold certificates and silver certificates, in essence promising to pay all of its notes in specie. The resistance of the development of banks, banknotes, stocks, and bonds would influence America well into the late nineteenth century, even after the direction of monetary development had become clear. By the early twentieth century, however, gold and silver were becoming less and less important as mediums of exchange.

In the post-Civil War era, most Newburgh Banks found it advantageous to join the National Banking System, especially since most of them were note-issuing banks.



Note the date on the back of the obsolete note from the Quassaick Bank. One can speculate that this note might have been redeemed as late as 1881. It would be interesting to discover whether it was redeemed at par

The pattern of the history of banking in Newburgh in the latter half of the nineteenth century into the twentieth century was similar to other Northeastern towns and cities. It was a pattern of consolidation. The Highland Bank seems to have been the strongest of the Newburgh banks; it maintained its identity into the late twentieth century. We can trace this consolidation process through the notes issued by the local banks.

First title, most common. Gary Ferguson Collection

Second title, very rare. Gary Ferguson Collection

Third title, exists in both large and small size. Gary Ferguson Collection

In May 1927, the Quassaick Bank and the Highland Bank merged, creating one of the largest banks of its kind outside New York City.[33] This process of merging continued until 1997, when the bank was acquired by Fleet Bank. Long before then, it had lost its local roots. The National Bank of Newburgh surrendered its local identity in 1958, when it merged with the National Bank of Orange County.

Conclusion

At the heart of the banking controversies, in Newburgh and the nation as a whole, was the American perception of republicanism as it had evolved from the American Revolution. Jacksonian America had broadened the definition of republicanism to include groups of property-less men. Inevitably, banking became embroiled in the evolution of democratic ideals. It was not so much, as the rhetoric of the time would suggest, an issue of the moneyed aristocracy oppressing the working man. The real argument was over who had access to easy

A rare large denomination note. Gary Ferguson Collection

money (or credit) and under what terms. This was a democratic cause because access to money meant access to equal opportunity. The drive for easy money ran directly into older pre-capitalist notions of how the economy worked. Hamilton's vision, though not intended to empower the masses, inevitably led to a democratic conception of banking. Jefferson's agricultural vision viewed banking in pre-capitalist terms—that is, with suspicion. Jefferson hard-money advocates were viewed as the champions of democracy. It was their belief that the only legal tender of the nation was gold and silver. To accept the paper system was to create an aristocracy of money that would exploit the working man. This was definitely the view of Jackson and his advisor William Gouge.

In any era, there are contradictions and cross currents, and the 1830s were no exception. The easy-money advocates espoused the Jeffersonian vision by arguing that all citizens should have access to money, and that to deny such access was decidedly antidemocratic. From a practical standpoint, only a paper system could provide for economic growth. As was demonstrated in the panics of 1819, 1837, and 1857, the hard-money system could never provide enough credit to satisfy the needs of businessmen, let alone the common man. The implications of a total paper system, however, were such that no political consensus could form until the twentieth century to fully implement it. Such a system required a strong federal government with full control over the country's currency. The political climate of pre-Civil War America viewed this as an attempt by the federal government to squash states rights and to elevate bankers to a position of power. However, this does not mean that bankers and their paper system were not powerful forces.

The tension between the two systems—hard money and paper—generated the substance of political debate. In Newburgh, when the *Newburgh Weekly Telegraph* called for a new bank to fulfill the needs of commerce, when it praised the passage of the Free Banking Act, when it spoke out against the aristocracy of money and praised the destruction of the Second Bank of America, and when it complained during the Panic of 1837 about the lack of currency in circulation, it was advocating a paper and easy-money system. For Newburgh and many communities like it, democracy meant access to credit. Local need for money was the predominant motivation. Like Martin Van Buren and other national leaders, the *Newburgh Weekly Telegraph* fully utilized the hard-money rhetoric of the day to advocate a paper system. The dilemma of the Democrats in Newburgh and the nation was that while this rhetoric was popular with their base, it did not really serve their interests and in the end opened the way for the growth of the Whig Party.

Endnotes

1. A account of the Hudson Valleys 18th-century economy can be found in Thomas Wermuth, *Rip Van Winkle's Neighbors: The Transformation of Rural Society in the Hudson River Valley, 1720-1850* (Albany: State University of New York Press, 2001)
2. Brey Hammond, *Banks and Politics in America* (Princeton: Princeton University Press, 1957), 180.
3. Hammond, 181.
4. Hammond, 180.
5. Hammond, 180.
6. Michael Hold. *The Rise and Fall of the American Whig Party* (New York: Oxford University Press, 1999), 4.
7. Herman Krooss and Paula Samuelson ed. *Documentary History of Banking & Currency in the United States*, "William Gouge, Advisor to President Jackson , Principles of the Banking System", (New York: Chelsea House , 1983), 40.
8. Krooss, 40.
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10. *Newburgh Weekly Telegraph*, 1 November 1832.
11. For further reading, see Hammond Chapter 14.
12. Hammond. 54.

13. Wermuth, 3.
14. "Facts and Observations Relative to the Proposed new Bank" *Newburgh Weekly Telegraph*, 19 January 1832.
15. "Seven Banks Share in City of Newburg's Financial History" *Newburg News*, 5 September 1935, 1.
16. *Newburgh Weekly Telegraph*, 18 April 1833.
17. *Newburgh Weekly Telegraph* 25 April 1832.
18. *Newburgh Weekly Telegraph* 25 April 1832.
19. "The Highland Bank" *Newburgh Weekly Telegraph* 10 October 1833.
20. "Our Politics" *Newburgh Weekly Telegraph*, 24 October 1833.
21. *Newburgh Weekly Telegraph* 14 November 1833.
22. "The General Banking Law" *Newburgh Weekly Telegraph*, 26 April 1838.
23. Hammond. 576.
24. "Seven Banks Share in City of Newburg's Financial History" *The Newburgh News*, 5 September 1935, 1.
25. *Newburgh Weekly Telegraph*, 18 May 1837.
26. Allen. 37
27. *Newburgh Weekly Telegraph*, 1 March 1838.
28. *The National Bank of Newburgh*. (Newburgh: Privately printed , 1911) 30.
29. John Nutt, *Newburgh, Her Institutions and Leading Citizens*, (Newburgh: Ritchie & Hall, 1891), 170.
30. Hammond, 609-611.
31. Don Kelly, *National Banknotes* (Oxford, Ohio: The paper Money Institute, 1997) , 6.
32. Hammond, 108.
33. "Seven Banks Share in City of Newburg's Financial History" *The Newburgh News*, 5 September 1935. 5.