Antebellum Banking in Georgia

By Carole E. Scott

Throughout the nation before the Civil War the appropriate role—if any—and structure of banking was a major political issue. Banking in Georgia was embroiled in struggles between agricultural and commercial interests and between the less developed up country and the low country.

Georgia had two local parties, the Union Party, which was affiliated with the national Democratic Party, and the States Rights Party, which was affiliated with the national Whig Party. The Union Party's origin was the Clarkite faction. The States Rights Party's origin was the Troupite faction. As was true in the rest of the nation, anti-bank sentiment was most prevalent in the Democratic Party. Generally, the commercially-oriented Democrats were more likely than Whigs to favor hard (specie) money, oppose bank suspension of specie redemption, and question the usefulness of banks.

It was Democrat spokesmen, reflecting the views of Thomas Jefferson, who claimed banks rob the people of their liberty by concentrating wealth and credit. Whigs spoke in favor of banks creating paper money and took a moderate stance toward the tariff and a national bank. Democrats agreed with South Carolinian John C. Calhoun's defense of southern rights and sectionalism. In Georgia, Whigs could be elected governor and to Congress. Never did this happen in South Carolina. South Carolina's governor was selected by its legislature. Georgia switched to the direct election of its governor.

"Most Whig legislators came from commercially oriented districts—black belt and urban, planter and merchant. Democrats came mostly from predominantly white, subsistence farming districts." (Wallenstein, 462)

Democrats predominated in the poorest banking markets and, therefore, where bank failures were concentrated. Widely desired was to finance the state government as much as possible with sources of revenue other than taxes. This, along with the fact it would promote economic development, led the state to invest in banks and railroads. Banks were not regulated by the federal government, and neither it nor state governments provided deposit insurance.

A commercial bank is a financial institution that accepts deposits, makes loans, and in the antebellum period issued paper money called banknotes, bills, or notes. They primarily made loans that financed commerce. Some states would not charter banks, and in some banking was a state monopoly. As is true today, in the antebellum period commercial banks had to be incorporated businesses chartered by either the federal or a state government. The relatively short lived First and Second Banks of the United States were the only commercial banks Congress chartered during the antebellum period. States were then the most important level of government.

The U.S. Treasury owned some of the stock of the Banks of the United States, which had branches spread around the nation. The State of Georgia was part owner of its earliest banks, and one bank, the Central Bank, was a state-owned bank. Banks Georgia chartered could not branch outside the state, and banks other states chartered could not branch into Georgia. Citizens of other states could, and did, purchase stock in Georgia-chartered banks.

Georgia's banks mainly dealt in short term commercial loans and bills of exchange. Their charters typically prohibited them from investing in real estate except in cases of foreclosure, and limits were placed on their specie reserves and note issue. State law provided for the forfeiture of their charter for refusing to redeem their banknotes in specie (gold and silver coins). However, it was not enforced when it was violated during banking crises (panics). (Carey, 39) In 1836, a general act providing for the incorporation of banking institutions was established by an act of the General Assembly. All the stockholders of an incorporated business could lose was what they had invested in them. This was necessary in order to attract investment in the high stakes, risky banking business.

Georgia's first bank was a branch of the First Bank of the United States established in Savannah in 1802. In 1810, the Planters Bank of Savannah and the Bank of Augusta were chartered. The state reserved stock for itself when it chartered both these banks. After 1810, the state invested much of its surplus income in bank stock. Two thirds of the stock of the Bank of the State of Georgia was reserved for the State. Table One below shows its earnings from four banks.

Table One

Bank Dividends and Bonuses Received by the State of Georgia

1829 – 1838

State Bank	**$410,000**
Bank of Darien	**$178,750**
Bank of Augusta	**$100,310**
Planter's Bank	**$ 56,800**

Source: Charles C. Jones, Jr. and Salem Dutcher, *Memorial History of Augusta, Georgia* (Syracuse, 1890), p. 356.

No Georgia bank suspended specie payment during the Panic of 1819 and none failed. (Coleman, 114) Most of the state's banks were located in cotton-trade-focused cities and towns. Savannah and Augusts had by far the most banking capital.

Unlike northeastern banks, southern banks were overwhelmingly agricultural lenders, either directly by lending to planters or indirectly by lending to those who supplied them with goods and services. Early in the nineteenth century, the South's

cotton became the nation’s chief export. Banks’ role in the South’s economy was largely shaped by the fact the South ran a substantial foreign trade surplus. In contrast, the North imported more than it exported. Much of the South’s exports of agricultural commodities was shipped abroad through northern ports. So important to New York City was its cotton trade that when southern states left the Union a serous proposal was for the City to become an independent city in order to preclude the loss of cotton-related business to port cities in the Confederacy where there would be no tariffs, the federal government’s chief source of revenue. As is made clear by periodic complaints in the press that cotton was in the fields, but there was a lack of money to move it to market, banks provided an essential service.

In the antebellum period the reserves banks were required to hold were high specie content gold and silver coins they were required on demand to redeem their banknotes with. It was a fractional reserve system because banks were not required to hold enough specie to redeem them all. The public could obtain a bank deposit from which they could withdraw banknotes on demand either by depositing specie or by getting a loan from a bank. People deposited specie in banks because they found it more convenient to make purchases with paper money. The U.S. Treasury minted both gold and silver coins, a service that provided the federal government with some revenue because their monetary value exceeded the cost of producing them. Banks sometimes got away with meeting their reserve requirement by moving specie from bank to bank ahead of a visit by a state bank auditor.

Back then coins of other nations also circulated in the United States. Individuals could mint coins, and Georgian Templeton Reid in 1830 minted $2.50, $5, and $10 gold coins. The U.S. Treasury periodically issued a relatively small amount of high denomination notes—debt securities--that looked like paper money, but paid interest. Sometimes they were used as money.

When money was in short supply, businesses issued small denomination notes to make change with. People receiving this script could use it to make purchases from the issuing business and try to get others to accept it. Because it was said they could be used to bandage an injured shin, this script was called shinplasters. In Georgia between 1810 and 1866, “more than fifteen hundred varieties of currency of this type circulated.” (Schweikart, *Banking in the American South*, 80]

On December 19, 1818, Georgia’s General Assembly passed an act to prevent the evils of private banking and to stop the issuing and circulation of the bills and notes of unchartered banks, private banks, and bills and notes called change bills that were designed to circulate as money. This made it unlawful for anyone else to carry on any kind of operations which incorporated banks were authorized by law to carry on. According to an 1861 issue of *Bankers Magazine*, there were then 33 private banks in Georgia, 15 of which were correspondents of the Bank of the Republic, a New York bank controlled by Georgia banker Gazaway Bugg Lamar.

On December 24, 1832, an act was passed to prevent the circulation of bank bills under the denomination of five dollars. This act was in response to small denomination bills having been productive of fraud and loss to the public and having a

tendency to prevent or retard the general and speedy restoration of a specie currency. (Cobb) During financial panics the public horded specie..

When banks' borrowers spent the banknotes the banks provided them with, the amount of paper money in circulation rose. Much of the money was invested in very speculative ventures, of which there was an abundance available. Periodically, increased lending and spending caused inflationary booms that subsequently turned into deflationary busts when many borrowers could not repay their bank loans. Busts (crises) occurred in 1819, 1837, and 1857.

Interbank balances which appeared on banks' balance sheets as an asset, "notes due from other banks" and a liability, "due to other banks," were significant. One reason for "due from" was that a correspondent relationship existed. A correspondent bank maintained a deposit at a larger, respondent bank in exchange for services from the respondent such as redemption of the correspondent's banknotes. This made the correspondent bank's notes more acceptable. Banks holding deposits in each other and lending money to each other meant there could be a domino failure effect--the failure of one bank causing another to fail and so on.

The optimum situation for a lender is to lend someone money to be repaid just prior to the lender having to repay money it borrowed to make the loan. For am antebellum bank, the deposit of specie into it is analogous to it borrowing money. The deposits are others' money which they will take back (withdraw). What are today called demand deposits are like a loan to a bank due whenever the lender choses. The loans banks make come due at a specific future date. The shorter is the average term of its loans, the less risk of failure a bank faces. (Borrowers can run into more unforeseeable financial problems the further off is the due date of their loans.) For a bank's safety and to make charging a lower interest rate possible, long term loans need to be secured with collateral provided by the borrower.

While some merchants could in weeks repay a bank the money they borrowed to purchase inventories, the best loans to farmers at least took months to collect. Much of the lending Georgia farmers needed in the antebellum period was for the purchase of raw land in the up country (interior counties) as the Cherokees and Creeks were removed. Clearing the land so crops that it would take months to sow, grow, harvest, and possibly sell at a profit and build a home and out buildings took years. Everything else being the same, a longer term loan is more risky than a shorter term loan. Loans for the purchase of raw land had to be very long term loans. To reduce the risk banks took in making these loans, the land was mortgaged to them.

In order to earn a return on its loans, the interest rates a bank charges its borrowers must more than cover the costs it incurs in making loans. One of these costs is loans that are not repaid. Georgia's usury law put a ceiling on how much a bank could charge for a loan. The usury law that limited how much could be charged for loans may help explains why farmers complained so much to state legislators about not being able to get bank loans. Helping them motivated the creation of the state-owned Central Bank.

A cotton-based credit cycle began each year with the moving in October of cotton by river to a port. Those shipping cotton north or abroad drew orders called bills of exchange on buyers to pay them in the future for the cotton. The middlemen handling the sale of the cotton sold the bills of exchange on a discount basis to banks. The money thus obtained was used to pay planters for their cotton. Foreign sellers were likely to demand specie or a foreign currency. One of the services provided by port city banks was to buy and sell foreign exchange (foreign currencies).

Planters used the money they received for their crops to pay local merchants who, on a credit basis, had sold them goods for personal use and supplies they needed to grow their crops. These merchants used this money to pay northern merchants from whom on a credit basis they had purchased their inventories from. Northern merchants used this money to pay foreign creditors for goods they had imported to sell to southerner merchants.

This process meant that the South was constantly in debt to the North and that banking in both regions was very seasonal. Better for banks' financial health would have been constant, similarly-sized inflows and outflows of money, rather than periodic, large net outflows followed by large net inflows. In the antebellum period prosperity, particularly in the South, became ever more dependent on the price of cotton per bale and the size of the crop, the former being inversely related to the latter. Because both of these fluctuated significantly, the cotton market attracted many speculators.

> In Georgia, bank charters were requested on the plausible ground that additional banking capital was demanded by the commercial necessities of the city or town in which it was proposed to establish the bank. The charter would be granted, and the incorporated gentlemen, to comply with the precautionary regulations of the legislature, borrowed, for a few days, the amount of specie to be placed in the vaults before operations be commenced. The bank would open under these auspices, the specie would be returned to its proper owner, and the notes of the stockholders would be substituted for it. On such unsafe, fraudulent, and unsubstantial foundations rested many Georgia corporations. (McGrane, p. 27)

When many depositors feared their bank was in trouble, it experienced what is called a run. A run took place when a host of depositors showed up demanding specie which, if it could not be provided, the bank would be forced out of business even if it was solvent. (If given enough time, a solvent business can meet all its obligations.) A bank experiencing a run and closing would set off runs on other banks. All that enabled banks to survive might be the state government allowing banks to refuse to redeem their banknotes.

While a few banks' notes traded at par, that is, a seller accepted, say, a ten dollar bill for an item priced at ten dollars, often buyers had to pay more than ten dollars for a ten-dollar-priced item because the banknotes they offered were discounted. The further away a bank was from the point of a sale, the larger was the discount on its notes. The more likely it was that a bank would fail or the less that was known about its condition,

the larger was the discount. A ten percent discount meant a ten dollar bill was needed to purchase a nine-dollar-priced item.

Banks that accumulated a large amount of the banknotes of another bank could either restrain the amount of lending the other bank could engage in or even cause it to fail by demanding it redeem these notes. One of those this happened to was Henry Shultz, an immigrant from Hamburg, Germany who settled in Augusta, Georgia in 1806, where he got a job as a laborer on pole boats that transported cargo to Savannah. (This was before steamboats plied the Savannah River.)

Soon he began to build and run his own boats. In 1814, Schultz erected a toll bridge over the Savannah River to connect Augusta with South Carolina. With a partner, he opened the unchartered Bridge Bank at the Augusta end of the bridge. Other Augusta banks presented his bank with more of his bank's notes than it could redeem. His bank failed, and he lost the bridge and other property he owned in Augusta, which was taken by force under a court order. He then built a toll gate at the South Carolina end of the bridge and charged people to get to the bridge until a court order made him stop doing this.

He then tried to commit suicide by putting a pistol in his mouth. He was only mutilated. Subsequently, he got the State of South Carolina to help him create a new city of Hamburg in 1821 not far from Augusta. As its mayor, he had a young man whipped so savagely trying to get him admit to a theft that he died. Schultz was charged with murder and imprisoned for several months. Schultz's heirs—some of his friends--built another toll gate at the bridge. The owner of the bridge said he was going to destroy the gate with cannon fire. Schultz's heirs said they would return fire with cannons Shultz had left in Hamburg. A compromise was reached when Schultz's friends were paid $10,000 to remove the gate. (Clark, 111-112)

An examination of newspapers, banknote reporter publications, and reports to the State of Georgia, indicates that during the antebellum period there existed at one time or another at least 59 General-Assembly-chartered banks, one unchartered bank, two free banks, and 32 companies which were not banks, but they issued notes used as money. Various cities, counties, and merchants issued scrip.

In order to get away from the politicization and corruption involved in legislative chartering, in 1839 Georgia and New York became the first two states to pass free banking laws. This meant getting a bank charter was an administrative process, rather than a legislative function of government. However, only two Georgia banks were chartered in this way, and banks continued to be chartered by the legislature. Georgia's free banks held bonds (debt securities) and mortgages belonging to the banks that they could liquidate (turn into cash) if they failed to redeem their banknotes. The amount of banknotes they could circulate was limited by the value of the bonds and mortgages they deposited with the state. Other Georgia banks' circulation was limited by the amount of their equity capital, which was supposed to have been provided them in the form of specie. Their liabilities, excluding deposits, were limited to three times the amount of their capital.

Either banks or their branches appear to have existed in at least 57 cities and towns. There were also savings banks--charitable institutions which supposedly did not issue currency. However, a listing of the state's banks in the May 5, 1857 issue of Milledgeville's *The Southern Recorder* reports that the Mechanics Savings Bank in Savannah had a circulation of $408,071, which was a greater circulation than 16 out of 24 banks had. There were some companies which engaged both in banking and insurance underwriting (issuing insurance policies).

Building a railroad cost a huge amount of money. Georgia's legislature assisted railroad companies by giving them the right to operate a bank. This was a financially unsound policy. However, the State's longest-lived bank was a railroad bank. The Georgia Railroad Company of Athens, which was founded in 1833, became the Georgia Railroad and Banking Company when it was granted a bank charter in 1835 In 1840, it moved its headquarters to Augusta. Its banking operation was much more successful than its railroad was, and it came to be primarily a bank. This bank merged with North Carolina's First Union in 1986. First Union merged with North Carolina's Wachovia in 2001.

It is not easy to gather such data as to how many banks there were at any point in time or how many failed. For example: House Document 79, 25th Congress, December 4, 1837 to July 9, 1838, page 501, fails to list five failed Georgia banks which are shown at that time in *Clark's New-England Bank Note List and Counterfeit Bill Detector* on April 1, 1838. Newspaper reports reveal that all seven of the Georgia banks which went broke in the depression year of 1842 were located in the up country.

Relatively small, up country banks were often largely owned by one or a few men who were sometimes relatives and/or business associates simultaneously engaged in businesses in need of bank loans. It is clear that that some of them borrowed heavily from the banks they owned at low or zero rates of interest. Georgia's first two bank failures, which occurred in the up country in 1832, were caused by "bad management and flagrant violation of the laws rather than economic conditions." (Heath, 203) The size of a bank's capital (equity) and circulation (banknotes) and deposits were good indicators of whether or not it would survive. The largest banks in Georgia in 1857 were the ones which survived that year's banking crisis.

The first bank to fail was the Bank of Macon. Its demise illustrates the often ineffective bank regulation in this period. Less than two years before the Bank of Macon and the other bank failed the Bank of Macon had been praised in a resolution passed by the Georgia General Assembly, which said that it had conducted its affairs in a manner deserving of approbation and the confidence of the public. (Gowan, 36) After it failed a legislative committee found that fraudulent statements had been made by the Bank of Macon to the Governor. The committee also found that its charter had been violated by the Bank making a man who was not a stockholder its president and by allowing two directors and the cashier to make loans, rather than the bank's nine directors. Frequently the cashier made loans on his own authority. It violated its charter, too, by

lending too much to a single individual or partnership. Some of these loans went to its directors.

According to the 1832 Journal of Georgia's house, before it failed, the Bank of Macon's board of directors ceased to exist, but a large number of loans were made after this took place. Its bookkeeping was so poor that the legislative committee had to rely on the printer who printed its banknotes in order to determine the size of its circulation. Ultimately all its capital was withdrawn, and it operated without capital. It failed shortly after it was purchased by New York interests. One of its officers was shot and killed over his not atypical refusal to turn over its books. A jury set his killer free.

The *Southern Recorder* on May 10, 1842 reported that mearly a decade after the failure of the Bank of Macon, similar problems with the Bank of the State of Georgia's branch in Macon were exposed by a stockholders' committee. It reported that the situation was deplorable, and that the Bank "must necessarily suffer heavy losses" from bad debts and fraud by the branch's officers, who had appropriated its funds "to their own mad and reckless speculations." The parent bank in Savannah, too, had problems. Its officers had "occasionally and under peculiar circumstances received discounts" (loans) that violated the Bank's bylaws."

The heavy concentration of bank closings and failures up country; the fruitless transfer of the Bank of Brunswick, the Bank of Hawkinsville, and the Bank of St. Marys to larger towns; and the failure of the State of Georgia to be able to rescue the Bank of Darien, suggests that economic factors peculiar to small banking markets accounted for the high failure rate of Georgia banks.

From 1839 to 1854, *Van Court's Counterfeit Detector and Bank Note List* reported that the banknotes of 13 Georgia banks were worthless. Publications like Van Court's were necessary because thousands of different looking, easily counterfeited, banknotes circulated throughout the nation. In addition to enabling people to find out what a bank's notes looked like, these banknote reporters provided information about the discount rate at which they traded. The Bank of Augusta's charter called for a death penalty for anyone counterfeiting its notes or bills. (Jones and Dutcher, 332)

Many Georgia banknotes circulated beyond the state's borders because some of its banks specialized in providing banknotes in states whose government did not allow banks to be established. These banks, all of which were located in Georgia's recently settled up country, were called wildcat banks. The term "wildcat banking" is said to have originated in Michigan in the 1830s when banks were located in places so remote that wildcats roamed. Because only there could their banknotes be redeemed, the difficultly of reaching them reduced the likelihood of their banknotes being presented for redemption. Also reducing demand for redemption was the circulation of heir notes far from the bank. Georgia attempted to ensure that a bank had many owners who were scattered throughout the state, but it exempted the wildcat Atlanta Bank and some

others from this requirement because it could not be met. (After eight months, no stock in the Atlanta Bank had been sold.)

Wildcat banker George Smith, an immigrant from Scotland, first entered the American banking business in the old Northwest—today's Midwest--with his own money and funds he raised in Scotland. He purchased a controlling interest in the Bank of Atlanta, an interior town that was small even by the standards of that day. Two years later he added the Interior Bank of Griffin to his banking chain. Much of Smith's Georgia banks' currency was sent North to fill a void caused by Wisconsin's prohibition against any business issuing currency and Illinois tying the amount a bank could issue to the amount of bonds deposited with the state. (Knox, p. 740) Smith's plan to control finance in the Illinois-Wisconsin area was fought by an alliance of banks in this region that collected Smith's banknotes and took them to Georgia for redemption. Some banks were forced into this alliance by being threatened with a run unless they cooperated. Smith retaliated by threatening participating banks with ruin. (Gara, 385)

Like other wildcat banks, Smith's was disliked by many Georgians. Georgia's Whig Congressman and future Democrat and vice president of the Confederate States of America, Alexander H. Stephens, wrote a Midwesterner that the Atlanta Bank was a "d—d swindling concern and ought to be burnt up—that is regarded with universal distrust and suspicion in Geo. And that if a run shd (sic) be made upon it would have to go by the board." (Heath, p. 390) Complaints about the Atlanta Bank caused Georgia's legislature to launch an investigation. It found nothing to substantiate the public's distrust and noted that the bank was reported to redeem its banknotes with a promptness unsurpassed by any other bank.

According to Augusta's *Chronicle and Sentinel*, on December 14, 1853, the ratio of specie to circulation and deposits for the Atlanta Bank was 23.2, and its ratio of capital (owners' investment) to circulation plus deposits was 61.9. For all Georgia banks according to data gathered by the United States' Secretary of the Treasury in 1876, these ratios were, respectively, 24.7 and 65.2. But for all Georgia banks circulation was only 2.56 times deposits, while the Atlanta Bank's was 619.3 times deposits.

South Carolina's banking system was more stable than Georgia's. Claimed is that the average circulation and deposits of South Carolina banks was greater than Georgia's. The Secretary of the Treasury's report to the 25th Congress (1837-1838) indicates that the average South Carolina bank had $882,980 in circulation and deposits; while the average Georgia bank had $687,648. Average capital per bank in South Carolina was $883,047; while in Georgia it was $714,927.35. However, the Treasurer's report apparently omits several Georgia banks. Averages computed from the 21 banks' balance sheets which appeared in Georgia newspapers reduces the average circulation and deposits figure for Georgia to only $488,630. Average capital per bank is reduced to $636,198.

In 1843, discounts on Georgia banknotes in *Van Court's* ranged from 2 percent to 60 percent. All South Carolina banknotes traded at a 1.5 percent discount. In 1858,

Georgia banks' discounts ranged from 2.25 percent to 10.00 percent. South Carolina's all traded at 2.25 percent. *Van Court's* did not provide discounts for banks in extremely poor condition, something more common in Georgia than South Carolina.

The Louisiana Purchase was financed by U.S. government bonds marketed in London and Amsterdam whose buyers were to be repaid in six month installments between 1819 and 1822. Specie was needed for making these payments. So, starting in 1818, the Bank of the United States switched from following an inflationary policy to a deflationary one because in order to obtain specie it presented for redemption other banks' notes it held. This brought on the Panic of 1819.

The large amount of Georgia banknotes used to purchase public lands in Alabama had been deposited in the Savannah branch of the Bank of the United States, which presented them for redemption. Georgia's legislature responded to this by suspending the penalty for nonpayment of specie. In the summer of 1821, Savannah's Planters Bank took advantage of this to cease paying specie to the Bank of the United States, while continuing to pay specie to individuals. The Bank of the United States sued the Planters Bank, and it won its lawsuit in 1824 after appealing to the U.S. Supreme Court.

Democrat Thomas Spalding, an innovative, planter and one of Georgia's most influential political figures, was one of the prominent founders and the first president (1819-1826) of the Bank of Darien. Chartered in 1818, it began with a capital of $1,000,000. Reportedly the strongest bank south of Philadelphia, half its stock was owned by the state, and it was the state government's depository. During the early antebellum period, McIntosh County that Darien was the county seat of was one of the wealthiest parts of the South Atlantic coast. Sea Island cotton and rice were grown there, and upland cotton was shipped down the Altamaha River to Darien, a port town. McIntosh County's population in 1820 was 5,129. In 1860 it was 5,546. In 1820, the population of Chatham County where Savannah is located was 14,737. In 1860, Chatham County's population was 31,043.

The Panic of 1819 led the Bank of Darien to require a person submitting bills for redemption swear that each and every one of them was their own before at least five directors and the bank's cashier. The Planters Bank of Savannah would only exchange pennies for a customer's $30,000. Another customer was told he would be paid pennies at the rate of $60 a day. (Gouge, 141-143) The Bank of Darien had branches in Savannah, Augusta, Milledgeville, Macon, Marion, Auraria, and Dahlonega. The latter two were gold mining towns. The Bank of Darien was a major backer of the gold fields of North Georgia and North Carolina in the late 1820s and early 1830s. The contraction of credit resulting from the Panic of 1837 and the end of the gold rush weakened the bank.

Secretary of the U.S. Treasury, William H. Crawford, a Georgian, decided to provide relief to his home state and ordered the Treasury office in Alabama to deposit all its funds in the Bank of Darien instead of the Savannah branch of the Bank of the United States. In 1822, these funds were withdrawn from the Bank of Darien and deposited in the Savannah branch of the Bank of the United States. The Bank of Darien

suspended specie redemption, and its banknotes depreciated rapidly. (Rothbard, 88) It was claimed was that the Bank of Darien had been re-chartered only because some legislators were made officials of the bank.

Branch banks made it possible for a banking company to obtain more specie and make more loans. If you operated only one bank, your business would be concentrated in a small area that might be economically devastated by one event, such as the failure of a major business. Having several banking offices is like making several loans, rather than only one. Any borrower may be unable to repay his loan, but it's not likely that most borrowers will be unable to repay their loans, particularly if they are widely geographically spread and engaged in a variety of endeavors. Because, everything else being the same, in banking being small means being relatively weak, making a banking company larger was another advantage of branching. The Bank of Darien would have been better off if all its branches were located in places as different as Macon and Dahlonega. A steep decline in the price of cotton would devastate towns like Macon, but it would not devastate the two North Georgia gold mining towns.

Georgia experienced a cotton-based boom from 1831 to 1836. A member of a planter family, John Basil Lamar, described the feverish harvest-time activity in Macon during which men scurried back and forth, "each intent on swindling somebody & to enrich himself, [while] drays [were] rushing by with cotton from the boats, & returning with boxes and barrels…Streets were chocked up with wagons (sic) & carts" and the toots of passing steamboats contributed to the "melee of commercial place" he found "gloriously exciting." (Carey, 38)

The Second Bank of the United States' charter was up for renewal in 1836. President Andrew Jackson's transfer in 1833 of the federal government's deposits in the Second Bank to various state banks resulted in these banks issuing a flood of banknotes that fueled speculation in land and securities. The president of the Second Bank responded by reducing its lending and calling in loans. The Bank of Dairen was one of President Jackson's "pet banks" that received the federal government money. Its federal funds peaked at $1.6 million in 1836.

Alarmed by the speculation, Jackson required that purchases of federal land be made with specie. (Land sales accounted for a significant amount of the federal government's revenue.) This was followed by the Panic of 1837, which plunged the nation into a depression that persisted through the early 1840s. There were additional money crises in 1839 and 1842. The money supply declined steadily from 1837 to 1843. The 1837 collapse of the nationwide boom caused cotton prices vital to the South and very important to the nation to plummet. The price of cotton per pound dropped from a high of 17.5 cents in 1836 to a low of 3 to 7 cents in 1842. In May, 1837, the money center banks in New York, Philadelphia, Baltimore, and Charleston suspended specie redemption. Georgia banks experienced runs, and all but two suspended. Deflation and depression ensued. The state of Georgia was one million dollars in debt, and its treasury was empty. Commerce in Georgia came to a standstill, and only its eleven strongest banks were able to survive.

When the Central Bank of Georgia, a state-owned bank, was chartered in 1828, the state-owned shares in the Bank of Darien were turned over to it. Located in the state capital, Milledgeville, the Central Bank became the state's most powerful financial institution. Up country Democrats supported the Central Bank. Whigs seem to have consistently displayed the greatest hostility to it. They claimed that its currency had been depreciated and the Bank thrown into debt by the Democrats using it to buy the votes necessary to keep them in power.

The design of the Central Bank may have been ideal in the eyes of some politicians, but financially it was unsound. It was required to lend to the people at more favorable terms than they could get elsewhere. Its capital consisted of the funds in the state's treasury; state-owned stock in other banks; debts owed the state; receipts from the sale of public lands; taxes; and dividends paid by other banks. Initially, its notes were to be backed one-hundred percent by specie or notes of specie-paying banks in its vault. Its loans were supposed to be distributed by county on the basis of their population. It made long-term agricultural loans other banks did not normally make. It had substantial political support from credit-starved frontier counties Starting just before the nation fell into depression after the Panic of 1837, Georgia's legislature began spending in excess of its revenues. This resulted in a shrinkage of the Central Bank's capital. At the same time, it was having trouble collecting its loans, some of which were made in order to provide relief to struggling Georgians.

Two major drains on the Bank's resources were financing the building of the state-owned Western & Atlantic Railroad and liquidating the Bank of Darien, which lost its charter in 1841. The long-troubled Bank of Darien became predominately a problem to the state because its private directors dealt with their debts to it by forfeiting their stock. The Central Bank was required to finance the Western & Atlantic by buying its script (paper money). After the federal government failed to complete the promised distribution of its surplus, the politically motived Central Bank borrowed money to make investments the state had committed it to that it could not repay.

By the 1850s, the state was earning a substantial amount of money from the Western & Atlantic (W&A). As can be seen in Table Two below, which shows what the General Assembly in 1858 expected the state to earn in fiscal year 1859, revenue from the W&A far exceeded what it would earn from banks. (The total expected revenue plus an 1858 surplus of $767,906.10 is incorrect. The actual total was $767,900.05.)

Table Two

Anticipated Revenue, State of Georgia

Fiscal 1859

From general tax	$375,000.00
Net earnings of W&A Railroad	300,000.00
Bank tax	31,120.00

Bank dividends	29,575.00
Railroad tax	6,204.94
Miscellaneous items	5,775.88
Balance after paying appropriations for 1858	20,224.23
Total	$767,906.10

Source: *Journal of the House of Representatives of the State of Georgia at the Annual Session of the General Assembly* (Columbus, November 31, 1858) p. 393.

After the Civil War, the W&A was leased to a company headed by former Governor Joseph E. Brown for $300,000 a year. Half this money was allocated to the state's common schools. The W&A property has been leased out ever since.

"During the summer of 1841 the Central Bank and a number of others failed. The substance had all been eaten out of the Central Bank by the measures which the Legislature had adopted during the last four years; that is to say, by the attempt of the State to live on it...The Chattahoochee Railroad Bank was said to have been a tremendous fraud. [It never intended to build a railroad] The whole country is flooded with its issues amounting to millions, and yet it never had ten thousand dollars of specie in its vault." (Editor, *Journal of Commerce and Commercial Bulletin*, 368)

In 1842, the General Assembly provided for the regular burning of Central Bank notes, hoping that this would restore value to those remaining. By early February, 1842 about $20,000 of its bills were being withdrawn from circulation each week. The next year, George Crawford, a Whig who was accused of trying his best to undermine the value of the Central Bank's bills, was elected governor. The Whigs also gained control of the legislature and open congressional seats. (Lamplugh, 365) Crawford was reelected and served until 1847. A special legislative committee investigating the Central Bank reported that it was grossly mismanaged, and the provisions of its charter were not being carried out. The committee recommended that its charter be revoked. In 1842 arrangements were made to wind it up which took until 1856 to accomplish.

The Panic of 1857, an international financial crisis brought on by a host of factors, caused Georgia banks to believe they would be faced with a demand for specie they would be unable to meet; so they began ignoring the state law prohibiting them from refusing to redeem their banknotes. This made the panic worse. Unlike his predecessor, the new governor, Democrat Joseph E. Brown, said he would order proceedings to be begun for the forfeiture of the charters of banks refusing to redeem their notes. Influenced by bank lobbyists, the General Assembly passed a bill that changed the penalty for refusing to redeem banknotes in specie from loss of charter to a ten percent penalty. Brown's veto of this bill was overridden. (Parks, 46-49) Brown believed that bankers coming under pressure after taking advantage of their unlimited privileges to amass a fortune would suspend; let their bills depreciate; then buy them up at a discount; and when the storm passed end up richer than before amid general disaster. (Avery, 62)

In 1823, Governor John Clark had said, “the opinion now almost universally prevails that the pecuniary embarrassment of the citizens is greater in proportion as you approach the vicinity of a bank.” Governor Brown’s veto message in 1857 “which, while ostensibly confined to the measure under review, was really an attack upon banking and an argument against having banks at all.” (Jones and Dutcher, 333)

Georgia’s banking system was financially unsound for various reasons, one of which is that it was the product of political compromises that were sometimes between diametrically opposing political viewpoints. Playing a role in South Carolina’s better performance may have been it being a one-party autocracy. As a result, its government may have had to make fewer and less politically-based, contentious compromises. South Carolina was settled much earlier than Georgia. It had a more dominant low country; majority slave population; smaller total population; and a wealthier white population.South Carolina’s banking system probably benefitted from the fact that the Bank of the State of South Carolina (BBSC) imposed some restraint on other banks throughout the antebellum period. Georgia’s Central Bank’s role shrank before it was liquidated in the 1840s. The BBSC’s survival and less troubled history than the Central’s appears to have at least in part been due to complete domination of the state by the Democratic Party. In Georgia this party was subject to spirited competition from the Whig Party, which attacked the Central Bank as a tool of the Democrats.

Both in the antebellum period and today, Canada’s banking system has been more stable than the United States’. Michael D. Bordo, Angela Redish, and Hugh Rockoff believe that “the relative stability of the Canadian banks in the recent [2008] crisis compared to the United States…reflected the original institutional foundations laid in place in the early 19th century in the two countries.” A key initial difference was that Canada’s federal government had the power to charter and regulate banks, while the U.S. Constitution did not unambiguously give the federal government power over them, and state governments chartered banks. This led to fights over the constitutionality of the First and Second Banks of the United States. From the demise of the Second Bank of the United States to the Civil War, the chartering of banks was solely the responsibility of the states, whose banking policies varied.

In Canada the banking system was created as a system of large financial institutions whose size and diversification enhanced their robustness. Moreover, it evolved into an oligopoly which was tightly regulated in a grand bargain whereby the chartered banks would provide financial stability in exchange for the Canadian government limiting entry into the industry. In the U.S. the fragmented nature of the banking system created financial institutions that were small and fragile claim Bordo, Redish, and Rockoff. They point out that in the South all the loans made by a local bank would depend ultimately on the value of a single crop. If it sold for too little, the banks would suffer runs. Because U.S. banks, many without branches even within a state, could not adequately supply the nation’s rapidly growing industrial sector, a securities market developed which raised money throughout the entire nation. This New York based market was mostly unregulated.

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