Chicago's Panic Scrip of 1907

by Loren Gatch

The Panic of 1907 and the restriction of payments by banks gave rise to a multitude of local currencies, as cities and towns nationwide sought to replace scarce cash with emergency issues to meet payrolls and otherwise provide for a circulating medium. An intuitive way of examining these scrip experiences would be to follow the structure of the National Banking System itself, and start with the central reserve cities—New York, Chicago, and St. Louis. Even though New York City was the epicenter of the panic, its banks did not issue emergency scrip for general circulation. Thus, a detailed account of the panic scrip of 1907 must begin with events in Chicago.

As the second, smaller central reserve city, Chicago was subject to multiple pressures. Not only did Chicago's banks have to contend with liquidity demands from its own correspondents, they also came under increasing pressure to issue some sort of emergency scrip in order to accommodate local payrolls. Despite its status as a central reserve city, Chicago's options were constrained by what was happening in New York City. Like other smaller cities, Chicago saw its access to cash restricted and a widespread shift to the use of checks whenever possible as a means of payment. Led by James B. Forgan, president of the First National Bank, the Chicago Clearing House Association (CCHA) both employed clearing house certificates internally and issued for public use some $7 million in small denomination clearing house checks that circulated not only in the Chicago area but found demand among outlying banks in the Midwest.

James Berwick Forgan
1852-1924

Unlike those smaller cities, though, Chicago possessed the financial resources to engage substantial shipments of gold from London, which began arriving by mid-November. Those shipments, along with additional supplies of national banknotes as well as the resort to clearinghouse media, mitigated the effect of currency restrictions and allowed the city to return to unrestricted payments by the end of the year. Moreover, unlike New York City, relations between Chicago's commercial banks and its trust companies remained harmonious. In New York City, competitive jealousies had caused the departure of trust companies from the clearing house in 1901; in October 1907, it was the unwillingness of the New York banks to come to the aid of the Knickerbocker Trust that allowed the situation to get out of control. In contrast, Chicago's institutions worked well together, and trust companies were abundantly represented in the clearing house. Forgan was the indisputable leader of Chicago's financial community. Born in Scotland in 1852, Forgan entered banking early in life, moving to North America via Montreal, and later to Chicago in 1892. Though an intimidating personality, Forgan worked well with other bankers, mostly notably John J. Mitchell, president of the Illinois Trust and Savings Bank, with whom Forgan coordinated the response of Chicago's financial community to the urgent demands for currency from various institutions and businesses.

October 26: Going on a "Check Basis"

While the collapse of the Morse banks represented the first tremors in New York, it was the collapse of the Knickerbocker and runs on similar institutions that led to the panic by October 24. The refusal of New York banks to rescue the trusts, even while saving their own, created public anxiety that became contagious. Trust companies had lent heavily in the call loan market, and their attempts to liquidate these loans threatened a crash of asset prices. The eminent J. P. Morgan, for his part, mobilized money to support the stock market. On Saturday, October 26, the New York clearing house decided to issue certificates, and Chicago followed suit that same day.

In the days prior to the resort to certificates, Chicago had found itself under growing pressure both from New York and the interior banks. While country banks were drawing upon their Chicago balances, correspondents with accounts in the East were transferring their balances to Chicago in an attempt to gain currency. As the First National's Forgan later described those early days,

> *The national banks in Chicago shipped out of their reserves to country banks between twenty-five and thirty million dollars. We ourselves shipped, in six days, six million dollars…At the end of the week, notwithstanding this drain on our legal reserves, we owed the country banks as much as we did at the beginning. They had transferred their balances from New York and other Eastern points to Chicago and immediately ordered currency against them, leaving us still normal in our deposits but very much reduced in our legal reserves.*

As these pressures increased throughout the week, Chicago banks grew defensive, suspending currency transfers to their correspondent banks and starting to call in loans. Over that weekend, the CCHA approved the issuance of clearinghouse certificates in denominations of $5,000 and $10,000, paying 7% interest and backed by securities to 75% of their face value, terms that were similar to other large-denomination issues across the country. The certificates employed were simply those printed for the Panic of 1893 and never used, having sat in the CCHA's vault for the previous fourteen years. In addition to the CCHA approving certificates, the savings banks invoked their legal privilege to require that their depositors give thirty days' notice before withdrawing funds. In taking these measures, Mitchell explained, "Chicago has simply protected its currency reserve and every other currency center has done or will do the same." On Monday, October 28, the city's banks announced that they were on a "checking basis", and the certificates were put to use in clearinghouse settlements; banks in Minneapolis, St. Paul, Duluth and elsewhere announced similar moves.

Transacting by check alone needn't be an immense burden, Forgan averred, since 95% of the city's business was already handled that way. The biggest challenge was how to accommodate large industrial payrolls, which typically were either paid in cash or in checks which employees expected to be able to cash immediately. Municipal governments found themselves in a similar position; already the City of Chicago Treasurer, John E. Traeger, reported that he had run out of cash to pay city workers and was resorting to warrants which might or might not prove negotiable. Other commercial depositors were instructed that they would receive withdrawn balances in checks marked "payable through the Chicago Clearing House". Correspondent banks drawing upon their Chicago balances would receive drafts that would be handled in the same way. Even though limited by withdrawal restrictions, account holders in savings banks could also take certified checks on their deposits in lieu of cash for specific expenditures. Finally, bankers remained willing to pay out cash on a case by case basis if customers could demonstrate sufficient need. As Forgan put it, "we won't see anyone get 'stuck' for want of cash, but on the other hand we don't want people to 'stick' us by withdrawing their money without sufficient warrant therefor."

The banks' action gained the broad support of the business community, which was reinforced by the fact that David R. Forgan, James' own brother, was both head of the Chicago Association of Commerce and president of the National City Bank. In addition to restricting payments, the banks took two further steps to bolster their position. First, they sought to engage gold imports from London. James Forgan announced that the First National would draw $2 million from there, while Mitchell arranged $1 million for the Illinois Trust and Savings; by the end of the panic, total gold imports by Chicago institutions would amount to $20 million, or about one-fifth of the total gold imports into the United States. Second, eight national banks sought to expand their banknote circulations by some $5 million. Under normal circumstances, this was a cumbersome and unprofitable procedure, since it involved procuring expensive federal government bonds that had to be deposited with the Comptroller of the Currency as backing for the notes. Banks holding federal government deposits were also obliged to post the equivalent in bonds as collateral. Seeking to expand the supply of eligible bonds, the U.S. Treasury allowed banks to swap these federal bonds for municipal and railroad bonds; the federal bonds thus freed would then become the basis for further issues of banknotes. The fresh banknotes, however, would only become available by mid-month at the earliest.

At the beginning of November, then, Chicago's financial community had responded to the panic with a number of measures. It had issued clearinghouse certificates, suspended currency shipments to its correspondent banks, drawn gold from abroad, and endeavored to expand the national banknote circulation. While this was the same mix of measures taken by New York City banks, the historian of Chicago banking, F. Cyril James, considered the payments suspension during early November to be a failure of leadership and Forgan's weakest moment in the crisis. The correspondent banking business was more important for Chicago than it was for New York, and it was Chicago's particular responsibility, James argued, to carry the interior banks.

Chicago businesses were broadly supportive of these moves, though it remained as yet unclear how easy it would be for employers to meet payrolls using checks alone. Calls grew louder for the banks to create some sort of emergency scrip to meet these needs. Indeed, Samuel Insull's Commonwealth Edison had already gone ahead and created its own private currency in denominations of $5, $10, and $20. For a given $100 payment, employees received $20 in cash and the rest in a mix of the round-denomination checks whose negotiability for rent and groceries was enhanced by the fact that they could in turn be used by retailers to pay their electricity bills. The Chicago Coal Operators Association adopted a similar practice.

The Chicago Clearing House Committee during the Panic of 1907. From the left: Orson Smith (Merchants Loan and Trust); John J. Mitchell (Illinois Trust and Savings; Ernest A. Hamill (Corn Exchange National); James B. Forgan (First National); George M. Reynolds (Continental National); and Byron L. Smith (Northern Trust).

November 4: Pressure for Bank Scrip Mounts

As the currency shortage began to bite, Cook County Treasurer John R. Thompson and five hundred other prominent citizens delivered their petition on November 4 to James Forgan as chairman of the Chicago Clearing House Committee, calling upon that body to issue some medium that would allow large businesses and local governments to meet their payrolls:

> *Whereas, the commercial situation in our city is such that it is difficult to get sufficient currency to meet pay rolls and provide for such transactions as necessitate cash; and*
>
> *Whereas, this condition, if continued for any great length of time, would work untold hardship upon the entire community; and*

Whereas, your committee represents hundreds of millions of dollars in valuable securities; and

Whereas, we have the utmost confidence in the integrity and ability of your committee to properly handle the situation,

Therefore, we, the undersigned citizens of Chicago, respectfully urge upon your committee to issue at once asset currency—bills in denominations of $5, $2, and $1—and pledge the securities which are accepted by your committee, reserving sufficient margin to safely secure such currency.

Within the Clearing House Committee there was some resistance to the idea of issuing an emergency medium, in part because their very use might erode public confidence that things were returning to normal. Forgan in particular took issue with the phrase “asset currency”, which for him raised a legal red flag. In the financial parlance of the time, “asset currency” referred to a set of reform proposals that sought to give banks greater flexibility in expanding their note issues. Proponents saw this as preferable to creating a central bank that would be controlled either by the government or by New York bankers. In 1906 Forgan himself had served on the Currency Commission of the American Bankers Association, where he represented the outlook of Midwestern bankers hostile to the concentration of financial power that a central bank would make possible. Indeed, Forgan’s views on currency were quite traditional. An exponent of the old Banking School perspective, Forgan held that a circulating medium issued against the proper short-term assets was inherently non-inflationary, and that active monetary management by a central bank was unnecessary.

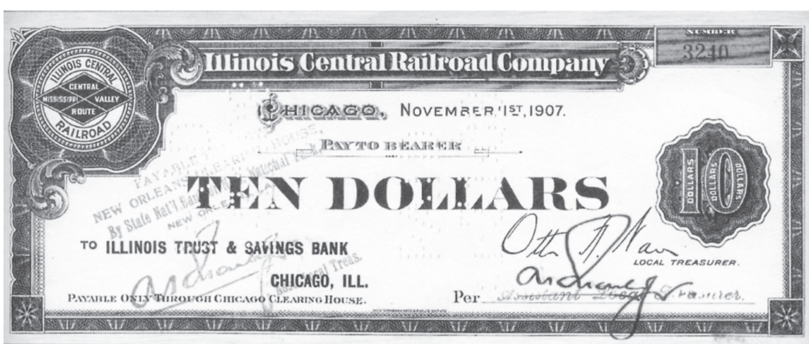
However sympathetic he might have been towards the proposal, Forgan was firm about its illegality: “The law will not permit the issue of ‘asset certificates.’” Nor did Forgan think that small-denomination notes could be construed as a simple issue of clearing house certificates in new amounts. “That in effect…would be doing just what we cannot do, in fact, the issuing of ‘asset currency’.” Forgan was adamant that clearing house certificates could only function as a means of interbank settlements. On the other hand, he conceded, if individual banks were to issue cashiers’ checks that were liabilities of the banks, and not of the CCHA, then that would fall within the law. After all, banks were already doing this on behalf of specific customers who, once they endorsed their checks, would put them into circulation. A bank-sponsored circulating check plan would work in the following way. When one clearinghouse bank sought to deliver a clearinghouse certificate to another to settle a balance, the receiving bank might elect to turn over the certificate to the clearinghouse manager and accept instead small cashiers’ checks issued in various amounts to the value of the certificate. The checks, payable to the receiving bank or to bearer, would then be useful as circulation and would have the same collateral banking enjoyed by the big clearinghouse certificates.

Despite the bankers’ demurral, County Treasurer Thompson continued pressing them to consider a check plan, modifying the language of his petition to get rid of the “asset currency” reference in favor of “medium of exchange”. Thompson found that meeting payrolls with checks had been inconvenient for his employees, since many of the checks couldn’t be subsequently cashed. Had they been issued in round amounts, the checks themselves might have been negotiable. Behind Thompson was a growing number of State Street merchants, including such prominent retailers as Marshall Fields and Carson Pirie Scott, in support of an emergency issue. Meeting on November 6, the CCHA agreed in principle with a check issue, but left it up to the Clearing House Committee to work out the details.

On November 9, the heads of railroad companies joined with merchants at the offices of the Chicago, Rock Island and Pacific to amplify their call for checks. David Forgan, representing the interests of 2,500 merchants in the Chicago Association of Commerce, wanted an issue as soon as possible. The need for checks was explained with reference to the reduced daily clearings through Chicago banks, which had fallen from $46 to $34 million, compared to the last week of October. Businesses reported reduced traffic, and with the holiday season looming retailers in particular feared a crimp in sales due to a lack of cash. Even though railroads like the Illinois Central were already using their own scrip, the proliferation of checks issued by different firms was resisted by their workers. In addition to their own payroll needs, railroads also viewed clearinghouse checks as a stimulus to the movement of crops, which they hoped would reverse the decline in grain shipments that had occurred the previous week. While farmers and grain dealers would not take checks drawn on local interior banks for their produce, scrip backed by the Chicago banks was acceptable. The Chicago Tribune defended the safety of the proposed checks by pointing out that what was good for the banks would be just as good for the population at large:

> *Chicago business is suffering greatly for lack of such small checks of accepted value…At present a great many firms are issuing different kinds of checks, and these are beginning to cause confusion and much inconvenience. The clearing house checks will be engraved, and have about them all the safeguards against counterfeiting that ordinary paper currency has. They should be everywhere welcomed, and the banks can provide no better service to the business interests of Chicago than by issuing such checks as soon as possible*.

For their part, major labor groups like the Chicago Federation of Labor and the Brotherhood of Railway Trainmen supported checks, as long as employers made it clear to small retailers that these should be accepted as cash. Attitudes among the rank and file were much more hostile towards checks. At a district council meeting, the Carpenters' Union voted against the use of checks and called for a return to cash payments. Workers expressed their ire through direct action. Six thousand miners near Danville, Illinois, went on strike when their employer paid them in checks instead of cash. Workers on the Wabash line threatened to strike when banks in Decatur, Illinois refused to cash their pay checks. After a saloonkeeper in Steubenville, Ohio, refused to cash scrip paid to workers from the Carnegie Steel plant, a riot ensued which destroyed the establishment and left two workers dead. A similar squabble over a $5 certificate in a Cleveland saloon led to the murder of a railroad fireman.



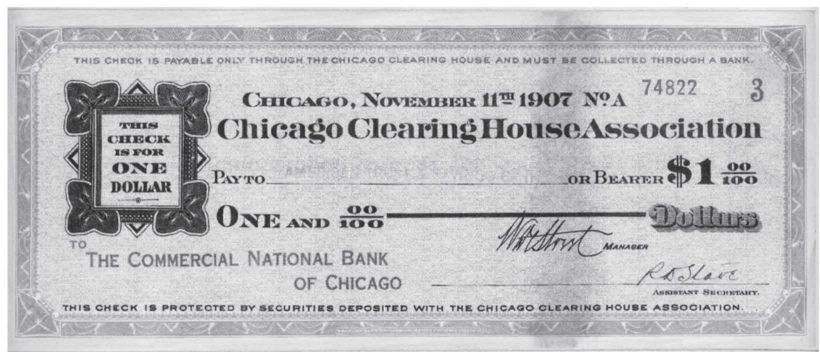
A $10 check issued by the Illinois Central Railroad. (image courtesy of Doug Corrigan)

Such tragedies underscored how the panic-induced shortage of cash had disrupted the significant role that the saloon played in urban workingmen's finances. In normal times, saloons stood ready to cash payroll checks, typically with funds provided by the brewers precisely for that purpose, expecting that grateful workers would spend some of their earnings on drink. Temperance activists of course deplored this as an incitement to drunkenness and financial recklessness, but in a city like Chicago the saloon was deeply woven into the fabric of everyday life, especially in immigrant communities. With banks located in a distant downtown and open during hours inaccessible to working people, the neighborhood saloons' readiness to cash pay checks represented a genuine public benefit. For example, one establishment alone, near the Union Stockyards, processed over $40,000 in workers' checks each month. Municipal employees as well relied upon the saloon's financial services. Lacking access to funds because of the banks' payments restrictions, brewers could no longer finance the saloons, which could no longer cash their clientele's checks. The result was not merely inconvenient, but completely disorganizing for working-class finances.

Even as the CCHA put off issuing checks, its leaders touted the confidence-building effects of large gold shipments. With the arrival of the Lusitania in New York City carrying gold for the First National, its deposit with the New York subtreasury enabled the release of an equivalent amount in Chicago. On November 12, Chicago bystanders witnessed the public spectacle of nearly $3 million in gold coin being transferred over city streets to the vaults of the First National Bank. Crowds gathered outside the subtreasury watched as 600 sacks of gold weighing some 12,000 pounds were loaded into express wagons under armed police guard. An additional $500,000 was delivered in the same way to the Illinois Trust and Savings Bank, with President Mitchell promising further imports.

November 14: Clearinghouse Checks Appear

It was not until November 14 that that the Chicago banks finally gave in and approved the issue of checks in small denominations. Acknowledging the force of concerns that large numbers of payroll checks weren't easily negotiable, the CCHA agreed to issue uniface scrip in denominations from one to ten dollars. Produced by the Western Bank Note Co, the $1 would



A $1 Clearinghouse check issued on the Commercial National Bank of Chicago. (Image courtesy of Doug Corrigan).

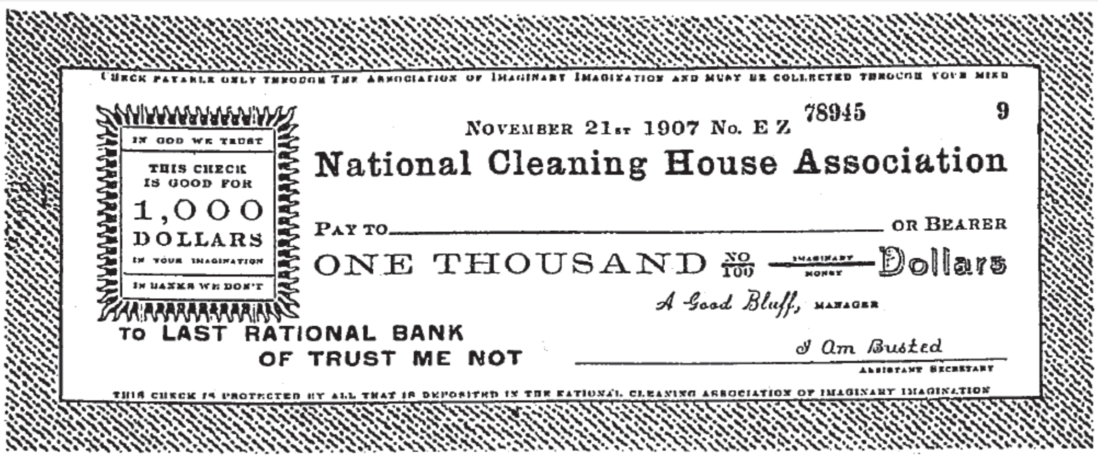
be blue; the $2 yellow; the $5 green; and the $10 purple. Apart from the differences in color and denomination, the differences between the issues were minimal. The checks would be drawn on only four of the clearinghouse banks: the First National, the Corn Exchange National, the Continental National, and the Commercial National. Any bank wishing checks would present a clearinghouse certificate to the manager of the CCHA, who would then draw small checks against one of the four banks to the equivalent amount. Banks would then deliver the checks to establishments with large payrolls; when spent, the checks would return to the banks as deposits from retailers. In his memoirs, Forgan credited the details of the plan to Byron L. Smith of the Northern Trust Company. The next day, the first $260,000 worth of checks arrived at the Clearing House, where the onerous task began of getting each check signed by an officer of the each of the four issuing banks. By the end of that week the first batch had been snapped up by local businessmen, and on Saturday alone a further $1,325,000 were issued, almost exclusively for large payrolls. The four assistant secretaries worked into Saturday evening and Sunday signing an additional $2 million in checks.

Although the likely volume of clearing house checks was far smaller than the value of gold imports or even the additional supplies of national banknotes, the widespread appearance of checks by Monday of the third week of November decisively changed the psychology of the panic in Chicago. The premium charged for currency shrank immediately, and with local circulation assured, Chicago banks stepped up shipments to the interior. Demand for the checks flowed not just from Chicago and its environs but even from adjoining states. For example, one businessman requested $120,000 in order to meet a payroll in the copper country of northern

Michigan. Banks in Huntington, Indiana, engaged the import of Chicago clearinghouse checks in order to make the latest payroll for the Erie line. An initial $14 million in checks had been ordered from all sources, and it was thought that final demand might reach $30 million. What remained unclear, however, was to what extent the sheer presence of checks would lessen the hoarding of regular currency, thus reducing the need for checks in the first place.

As Chicago's clearinghouse check plan unfolded, a few wrinkles became apparent. At first, too many $10 checks were produced, leaving businesses in the awkward position of having to pay out too many small bills in change; the output of $1 and $2 checks was accordingly increased. By mid-week the printing of further clearing house checks was temporarily suspended, as the paper supply had run out. The CCHA battled unfounded rumors that its checks were being counterfeited in large numbers (later in December, one William Tersnow, aged 27, was arrested for attempting to pass a $1 check raised to a $10). More problematic was the stance of the Chicago Brewers Association, which initially told saloon keepers not to accept clearinghouse checks without knowing the presenter, and demanding an endorsement. After the CCHA objected the association reversed itself and advised saloons to accept the checks just as they would cash. By the end of the first week of their issue, clearinghouse checks in excess of $5 million were in circulation. The CCHA streamlined the issuing process by creating a special application form that allowed employers with large payroll needs to purchase the checks directly from the issuing banks, paying with the firms' own certified checks.

Yet another complication was the emergence, in late November, of a rash of so-called "burlesque checks." These were parodies of the CCHA's checks that sought to make political or humorous commentary about the circumstances of the financial panic.



Facsimile of a "Burlesque" check.

The Chicago Daily Socialist, a newspaper, printed its own parody checks as advertisements, "endorsed by workers." Other examples purported to be issues of the "National Cleaning House Association", the "Bankers' Dream Association", and the "American Lemon House Association." These varieties were printed in blue with the same box on the left side as a genuine $1 check, but sported instead such phrases as "Free pass good at any depot to watch the trains pull out"; "In God we trust; in banks we bust"; and "This check is good for $1,000 in your imagination." Red type along the border of such a note would read, "check payable only through the association of imaginary imagination, and must be collected through your mind." Such notes were drawn on the "Universal Bunco Bank of America" or the "Last Rational Bank of America."

Many of these burlesque checks were produced by the Coh Spring Card Company and the Hight Manufacturing Company, both located at the same address on South Cottage Grove Avenue. Their parodies were being sold as souvenirs by drug stores. Alas, given the seriousness of the circumstances, there was little mood for satire if these issues at all confused people, especially when a few samples were actually used in commerce. While not counterfeits, Forgan asked Chicago's Mayor Fred Busse to suppress them, and through a lawyer their producers agreed to desist without admitting any wrongdoing.

Conclusion: Retiring the Checks

By the fourth week of November, James B. Forgan felt confident enough about the situation to send out a circular to thousands of western bankers, inquiring about the prospects of resuming unrestricted payments. The results were sufficiently encouraging that Chicago bankers began winding down the measures undertaken to combat the panic. After December 3 no new clearinghouse checks were issued and the Western Bank Note Company was instructed to cease printing them. Issues of clearinghouse certificates peaked at $38,285,000. As of early December a total of $12,234,000 in clearinghouse checks had been printed, while the amount actually put in circulation amounted to $7,080,000 (some accounts give slightly higher figures), and these amounts contracted as conditions improved. Forgan later claimed that only $7,885 of the checks were never presented for redemption. On January 18, 1908, the CCHA officially announced the retirement of both certificates and checks.

In the historian F. Cyril James' judgment, after some hesitation Chicago bankers, led by Forgan and Mitchell, successfully navigated the crisis. Unlike New York City, no bank runs occurred, and only one small suburban institution failed. As the second reserve city, Chicago balanced conflicting demands from New York, from the interior banks that Chicago served, and from local commercial interests starved by the currency famine. It was a mark of the city's financial resilience that, unlike the third reserve city St. Louis, the price of New York funds in the Chicago market never rose to more than a slight premium. Still, as in 1893 Chicago bankers in 1907 resisted bold action. It was only after sustained pressure from commercial and industrial interests that the CCHA relented and issued clearinghouse checks. Once these were a part of the local circulation, currency shortages abated and the banks were better able to meet their commitments to interior banks. By the end of November the resumption of unrestricted payments became a mere formality, with most of the nation waiting to follow the lead of New York City. The Chicago bankers' hesitation in accommodating local commerce did engender some ill will: for a brief period in early 1908 the Chicago Credit Men's Association entertained the idea of setting up a commercial clearing house that would enable businesses to settle balances with each other without the need for banks.

In altered form, Chicago's clearinghouse checks did enjoy second lives. The following spring, the First National Bank issued its quarterly statement using paper manufactured from the pulped residues of the checks, quite likely sourced from the Chicago Coated Board Company, which also put out a souvenir cardboard plaque made of the same residues.

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