The Paper Column

Peter Huntoon
Steve Schroeder

Danish and American National Banks in the Virgin Islands

Introduction

In 1917 the United States purchased Denmark's colonial holdings in the West Indies, which were renamed the U.S. Virgin Islands. At the time, the currency in use on the islands was issued by The National Bank of the Danish West Indies, a bank that opened in 1905. The bank was granted the exclusive right to be the bank of issue on the islands for 30 years through a concession awarded by the Danish Minister of Finance as authorized by Danish legislation passed in 1904. One of the terms of the treaty governing the purchase was that The National Bank of the Danish West Indies was allowed to maintain this monopoly as per its Danish concession.

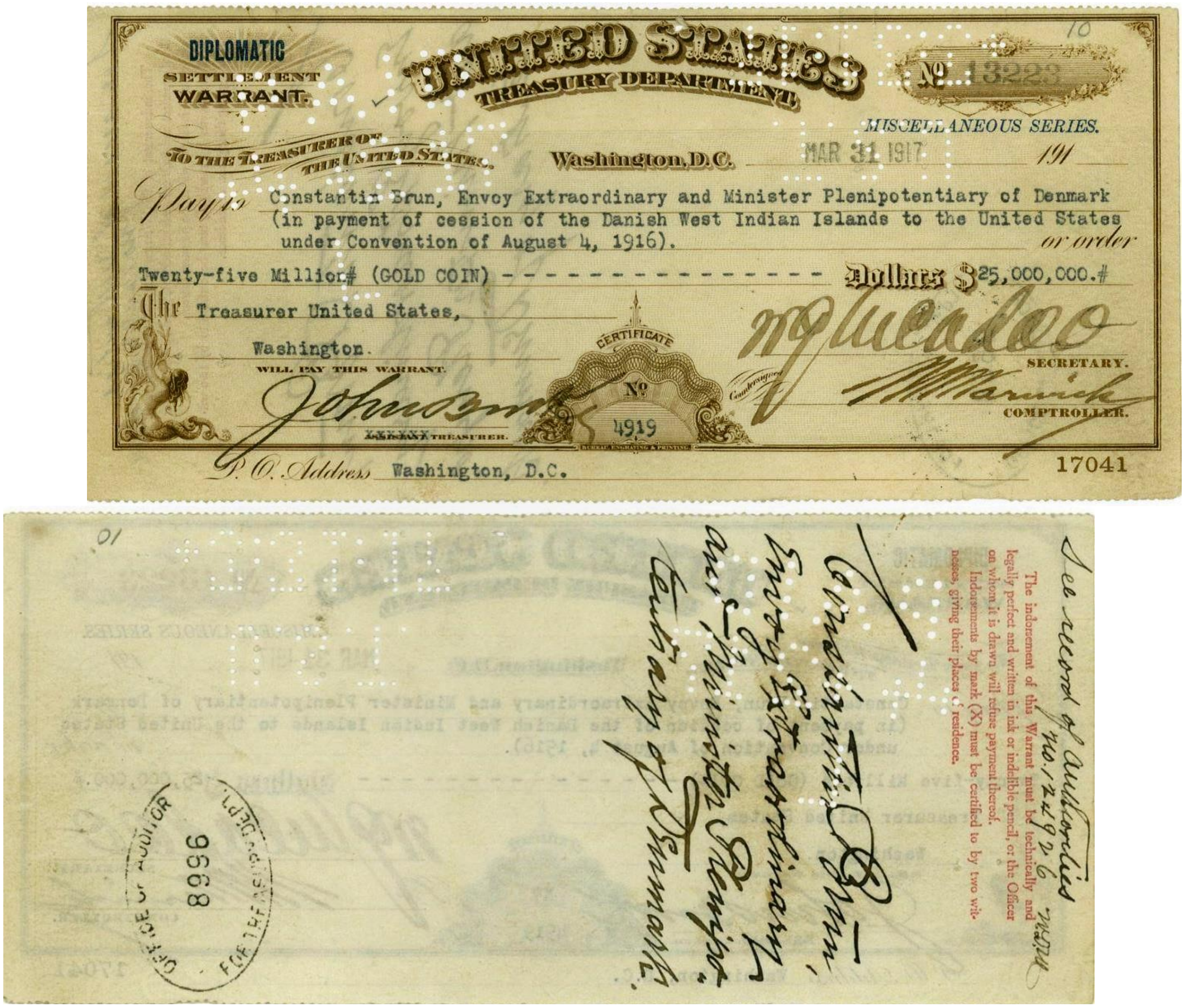

Figure 1. Check used by the United States to purchase the Virgin Islands from Denmark in 1917. Denmark. Danish National Archives photo.

The United States Treasury was anxious to convert the territorial economy to a U.S. dollar basis at the expiration of the 30-year period. Treasury officials working in league with Territorial Governor Paul Martin Pearson facilitated the organization of the Virgin Islands National Bank to replace the Danish bank and assume much of its business. As the Danish bank was liquidated its currency was redeemed and replaced by U.S. currency.

The Virgin Islands National Bank was awarded charter 14335 by the U. S. Comptroller of the Currency on April 30, 1935. The bankers missed the opportunity to issue national bank notes by a little under two months.

This is a brief history of The National Bank of the Danish West Indies and the handoff of much of its business and its banking facilities to The Virgin Islands National Bank.

The Virgin Islands

The U.S. Virgin Islands comprise the northernmost islands in an arc of small islands that extends from a point 40 miles east of Puerto Rico southward through the Caribbean Sea some 650 miles to Trinidad and Tobago off the northeast coast of Venezuela. The principal islands are St. Thomas (32 mi^2) and St. John (19 mi^2) on the north and St. Croix (84 mi^2) on the south.

Columbus found the Virgin Islands on his second voyage in 1493, and there being too many small islands to name, called the group the Virgins. This was a mythical reference to St. Ursula and her 11,000 virgins massacred while returning from a pilgrimage to Rome by the Huns for not submitting to their advances. The Caribs, natives who occupied some of the islands at the time, yielded the name Caribbean Sea (House of Representatives, 1920, p. 5).

The history in the next three paragraphs is distilled from Dyroff (1992), Wikipedia Danish_West_Indies, and U. S. Department of State.

The Danish colonial era in the West Indies began when the Danish West India Company was chartered during 1671 in Copenhagen by King Christian V, who also was a principal stockholder. The company established a permanent settlement on the then uninhabited island of Saint Thomas in 1672, then bought the rights to St. John from the French in 1717 and established a settlement there the following year. Saint Croix was purchased from the French West India Company in 1733. The three islands reverted to the King in 1754 upon the bankruptcy of the company, thus becoming Royal Danish colonies.

The colonizers established plantations and engaged in a triangular trade between the islands, Africa and Denmark. This involved the sale of arms and other goods to Africa, importation of African slaves for plantation labor, and export of tobacco, sugar, rum, molasses and cotton to Denmark.

Importation of slaves occurred during the 1674-1803 period, after which the slave trade was banned. It was estimated that about 3,000 African slaves were being brought in yearly by 1778. The ratio of slaves to whites continued to climb to an estimated 19:1 on St. John in 1770 and readily exceeded 10:1 on St. Thomas and St. Croix by the 1800s. Slavery was unilaterally abolished in the islands in 1848 by Governor Peter von Schollen to quell developing rebellions. Emancipation led to a serious contraction in the plantation economy. In time, Danish subsidies were required to keep the economy of the islands afloat, thus diminishing Denmark's interest in maintaining the colony.

U. S. Interest in Acquiring Some Caribbean Islands

Serious official interest in acquiring islands in the Danish West Indies developed during the Civil War as the Union contended with Great Britain's support of the Confederacy. A naval presence was desired there to counter the success of Confederate blockade runners operating from Bermuda, Nassau and Jamaica. Secretary of State William Seward initiated formal negotiations for a purchase of suitable islands from Denmark on January 7, 1865. However, negotiations stalled upon General Grant's military successes in bringing the war to a close and Lincoln's assassination. Although President Andrew Johnson was favorably disposed to the purchase, anti-imperialist sentiment started to set in as the country grappled with reconstruction. Seward persevered in finalizing a treaty agreement for the sale on October 24, 1867, for St. Thomas and St. John islands for $7.5 million with the consent of the islanders. (Brady, 1969).

In the meantime, yellow fever, smallpox and cholera epidemics had swept over St. Thomas in late 1866 followed by a severe hurricane on October 29, 1867. A month later the islands were devastated by an earthquake. An overwhelming majority of the population voted favorably for the sale on January 9, 1868, and King Christian IX signed the Treaty on January 31st, but from the U.S. perspective the sale now appeared to be a serious liability. The political scene in the United States was convulsed by Johnson's impeachment during the spring of 1868, and nothing was accomplished during his remaining term. President Grant, who assumed office in March 1869, preferred to annex the Dominican Republic rather than purchase the two West Indian islands. (Brady, 1969).

The final blow to the purchase came March 22, 1870, when the Senate Committee on Foreign Relations reported the treaty out with the recommendation "that the Senate do not advise and consent to the ratification of the treaty." The chairman of that committee was Charles Sumner, the radical Republican abolitionist who had been savagely caned in 1856 on the floor of the Senate by southern opposition House member Preston Brooks. A Senate vote two days later failed to ratify it (Scott, 1916).

Interest in the West Indian islands was rekindled in 1900 when Secretary of State John Hay attempted the purchase because the islands were strategically positioned to secure the eastern Caribbean gateway to the coming Panama Canal. His entreaties were stalled by the Danish parliament over failure of the U.S. to agree to grant U.S. citizenship to the islanders.

Beginning in 1915, the Wilson government became alarmed by the threat that Germany would annex Denmark and turn the islands into a naval base from which they would launch submarine attacks against shipping in the Caribbean. Despite its concerns pertaining to citizenship and human rights for the islanders, the Danish government acquiesced after Secretary of State Robert Lansing insinuated that the U.S. would consider seizing the islands to prevent them from falling into German hands (Lansing, 1931). This time, three islands were on the table, St. Thomas, St. John and St. Croix.

"The Virgin Islands were acquired by the United States from Denmark in 1917, solely for their strategic position as an outpost of military defense of the Panama Canal" (Dept. Interior, 1932, p. 31). The prize consideration for the United States was the harbor at St. Thomas adjacent to Charlotte Amalie, the finest in the eastern Caribbean, which was coveted as a naval base and coaling station.

The United States paid Denmark $25,000,000 in gold coin for the Virgin Islands and took possession of them on March 31, 1917. The terms of the treaty providing for the transfer had been negotiated and signed in New York by Constantin Brun, Danish Minister to the United States, and Robert Lansing, U.S. Secretary of State on August 4, 1916. Its terms were ratified by the Danish parliament and U.S. Senate, and signed by President Woodrow Wilson on January 16, 1917.

U. S. Possession

The Virgin Islands were administered by the U.S. Navy from 1917 to 1931. Thereafter, they were placed under the supervision of the Secretary of the Interior by a Presidential Executive Order signed by President Hoover February 27, 1931. By then the navy had discontinued its naval base.

According to a Congressional investigation, what the United States purchased besides a good harbor was a poverty-stricken population that was less than 10 percent white. The population of the islands had declined from 43,178 in 1835, to 26,051 in 1917, to about 22,000 in 1931 owing to economic emigration and an excessive death rate. "The curse of these islands as of the other West Indies has been the question of absentee ownership and the desire of the owners to simply get what they could out of the islands without looking to the welfare of the people" (House of Representatives, 1920, p. 11).

A 1920 census revealed the following (House of Representatives, 1920, p. 9).

> The total number of families in the islands, as reported, was 9,568. The total number of dwellings was 5,858.
>
> About 15,000 persons over 10 years of age are engaged in gainful occupations, or about 69 per cent. Eighty-two per cent of the males are so engaged and 58 per cent of the females. In St. Croix the principal occupation is farm labor, men and women both working in the fields on the plantations. In St. Thomas the principal occupations are those connected with the harbor, both sexes being engaged in the work.

Much of the agricultural labor force on St. Croix and St. Thomas belonged to unions of which women comprised the majority of members. Prior to cession the average first-class worker earned about 25 cents per day, second class laborer 12 to 15 cents per day. Wages had risen to $1 per day by 1920. The following testimony is revealing (House of Representatives, 1920, p. 17-18).

> The Chairman. When these men and women were earning 25 cents a day how did they live?

Figure 2. Proof of a 100-franc gold note issued by The National Bank of the Danish West Indies with a portrait of King Christian IX of Denmark. The bank held a monopoly on the issuance of currency in the U. S. Territory of the Virgin Islands from 1917 to 1934.

Mr. Chabert (president of the labor union of St. Croix). They were half starved * * * There was a very large infant mortality * * *

The Chairman. Did these people working on 25 cents a day have any kind of homes?

Mr. Chabert. Oh, no; just two boxes, or a few pieces of boards to lie on, and they had families. The husband and the wife both worked, so they could get the 50 cents a day * * *

The Chairman. Now, are the people getting along pretty well on a dollar a day?

Mr. Chabert. Well, it has just been started, but they will get along very much better, but even now they can not live on a dollar a day, but it is better.

Conditions on St. John were somewhat more idyllic (House of Representatives, 1920, p. 13).

Fishing affords to many of the people of St. John their living. St. John seems to be one of those unusual and (to the mind of some) desirable places where people can live without working. They can catch fish, go into the woods and pick fruit from the trees, and get along. Work does not seem to bother many of them.

St. Croix had the prime agricultural land with sugar cane as the principal crop, but sugar exports began a decline in the 1860s as prices dropped. Even so, sugar comprised 84.6 percent of the value of agricultural products in 1917. Sugar, tobacco and coffee had been grown on St. Thomas, but by 1920 the population had turned to the harbor for their income. However, shipping seriously diminished after World War I as the navy pulled out, oil replaced coal as fuel for ships, and radio made it unnecessary for ships to call there for cable instructions. Cotton had been grown but was decimated by weevils so production of it ceased after 1913. Poultry had been an important staple but the arrival of mongoose destroyed that.

Deforestation to support a charcoal industry primarily to fuel ships resulted in depleted rainfall and excessive runoff, thus exacerbating periodic droughts. Deforestation was especially serious on St. John Island. There was, however, a budding livestock industry on the islands, especially cattle (House of Representatives, 1920, p. 13).

The following is a view of the situation in 1931 (Dept. Interior, 1931, p. 50).

> Its per capita wealth was about one-eight of that of the United States. * * * Sixty per cent of the land on St. Thomas is still owned by 15 men; 80 per cent of that on St. John is owned by 12; 70 per cent of that on St. Croix belongs to 14.

The Virgin Islands were not yet a favored tourist destination for the sun, sand and sea crowd from the U. S. mainland. One of the major initiatives of the Department of the Interior was to facilitate the creation of the infrastructure needed to accommodate tourism and to promote it. A few of the many initiatives to improve the lot of the islanders were to create homesteading opportunities in order to diversify land ownership, encourage gardening and subsistence farming, rehabilitate agricultural land and diversify crops, expand the export of sugar in the form of more profitable rum, and improve educational and health services.

The National Bank of the Danish West Indies

In 1904, a syndicate comprised of five prominent Danish banks, Nationalbanken i Kjöbenhavn, Privatbanken i Kjöbenhavn, Den danske Landmandsbank, Hypothek og Vekaelbank, and Kjöbenhavns Handelsbank, proposed the establishment of a joint-stock bank in the Danish West Indies "who shall have, for a period of 30 years, the sole right to in the said islands to issue Bank Notes which shall, on demand of the holder, be exchanged for gold coins" (Danish Ministry of Finance, 1904). Besides conducting a general banking business, it would loan against real estate mortgages. In addition, the bank would serve as agent within the islands for the Danish Treasury. Its name was Dansk-Vestindiske Nationalbank—National Bank of the West Indies.

The bank could issue up to 10 million francs if business conditions warranted. The circulation was to be secured by gold coin or bullion equivalent in value to three-eighths of the notes in circulation. The remaining five-eighths of the circulation was to be secured by various forms of commercial paper held by the bank. The notes were to be redeemable in gold coin at the head office in St. Thomas or the bank's agency in Copenhagen. The bank was to pay an annual tax of 10 percent of its profits to the Danish state treasury. The bank's operations were supervised by the Danish Ministry of Finance.

The head office was to be in Charlotte Amalie on St. Thomas with branches in Christiansted and Frederiksted on St. Croix Island.

The money issued by the bank was to be denominated in a new local money called francs and bits, where there were 100 bits per franc. 100 francs was pegged at 72 Danish kroners, both being gold.

The banking concession was authorized by the Danish Parliament on March 29, 1904, and granted on June 20, 1904, by the Danish Ministry of Finance. The 30-year concession for issuing notes commenced then and the bank opened in January 1905.

The currency issued by the bank consisted of gold notes denominated in 5, 10, 20 and 100 francs dated 1905. It was printed by Bradbury Wilkinson & Co., Ltd., London.

Coins issued under the new system included gold 10- and 50-franc pieces along with minor coins of 2-1/2, 5, 10 and 50 bits, and 1 and 2 francs. The 1- and 2-franc coins were silver. The coins were minted and supplied by the Danish Ministry of Finance through the bank.

Under the previous system, the islands utilized currency issued by the private Bank of St. Thomas denominated in local dollars and State Treasury Notes denominated in local dalere. The Bank of St. Thomas, founded in 1837, failed in 1898. A branch of the British Colonial Bank handled banking in the islands in the interim.

Upon opening, the National Bank exchanged the existing State Treasury notes and coins for its own, as well as various local and foreign silver and gold bullion coins and still viable foreign paper then in circulation. The scope of this task is revealed by the experience of the head clerk on St. Croix (Hoist, 2009).

> On January 30 [1905], Moller Nielsen was sent to St. Croix in order to carry out the money exchange there. The boxes of new banknotes that they brought with them were deposited at the Fort in Frederiksted and

were daily removed and returned under armed escort by military gendarmes. The gold coins that were turned in had to be weighed on gold scales in order to ascertain that they were of full weight, otherwise they would be rejected. No less than 600,000 francs were exchanged for gold, and furthermore, Moller Nielsen had delivered to him the Government's reserve of gold doubloons, so he returned to St. Thomas with a supply that corresponded to 2 ½ million francs.

Owing to the international monetary chaos attending the outbreak of World War I, the Danish governor of the West Indies issued an order on August 3, 1914, that temporarily abrogated the obligation of the bank to redeem its notes in gold at St. Thomas. That action was superseded by a law to the same effect passed by the Danish parliament October 2, 1914.

Irony

The bank's existence and rights were guaranteed by the treaty. Article 3, section 4, provided that "The United States will maintain the following grants, concessions and licenses, given by the Danish Government, in accordance with the terms on which they are given." Item h in that list was the following.

> Concession of June 20th, 1904 for the establishment of a Danish West-Indian bank of issue. This bank has for a period of 30 years acquired the monopoly to issue bank-notes in the Danish West India islands against the payment to the Danish Treasury of a tax amounting to ten percent of its annual profits.

Figure 3. Virgin Islands Governor Paul Martin Pearson orchestrated the replacement of The National Bank of the West Indies with The Virgin Islands National Bank at St. Thomas, Virgin Islands, charter 14335. Wikipedia photo.

This, of course, meant that the National Bank of the West Indies continued to operate in the islands. The currency on the islands continued to be that circulated by the bank denominated in francs and bits.

Although the Virgin Islands was now an unincorporated United States territory, the currency used there until the end of 1934 continued to sport the portrait of King Christian IX of Denmark.

A Loose End

The abrogation of the obligation to redeem the notes of the National Bank of the West Indies in gold was still in effect at the time the United States acquired the islands. The ambiguity that this posed was dealt with by fiat through two executive orders signed by Navy Rear Admiral Joseph Wallace Oman, the appointed governor.

The first of these, Executive Order 12 dated June 18, 1920, was also countersigned by President Wilson. Executive Order 12 re-established the obligation of the bank to redeem its notes in gold after August 23, 1920.

> WHEREAS, the National Bank of the Danish West Indies has made representations to the Government of the United States that on account of the difficulties and delays incident to communications, it will find great difficulty in complying with the aforesaid Executive Order on its effective date, and has requested that the effective date of the said Executive Order be extended for a period of sixty days; and
>
> WHEREAS, the National Bank of the West Indies has made further representations concerning the scarcity of gold coin of Danish West Indian mintage with which to redeem its notes;

Governor Oman received a request by the bankers to delay the date for redemptions in gold. He rescheduled the date to October 25, 1920, in Executive Order 15 dated August 8, 1920, as follows:

in fulfilling its obligation to redeem its notes on and after October 25, 1920, may redeem such notes as are presented at its principal office in St. Thomas either in gold coin of the Danish West Indies or, at the fixed rate of 96.5 cents United States for 5 francs Danish, in United States coin or currency, including United States gold coins, silver, nickel and bronze coins, gold and silver certificates, notes issued by the United States and notes issued through or by the Federal Reserve Banks and by the National Banks of the United States; provided, however, that United States gold coins may be used in redeeming the aforesaid notes only if such coins be within the legal limit of tolerances in regard to fineness and weight as provided in Sections 3535, 3536 and 3537 of the Revised Statutes of the United States, and that United States subsidiary silver, nickel and bronze coins may be used only up to the respective amounts for which such coins are legal tender under the laws of the United States.

Thus, the notes were as good as gold and continued to circulate without resistance until the notes were called during the liquidation of the bank in the mid-1930s.

A New Monetary Era

There was agitation from all quarters to put the economy of the islands on a U.S. currency basis from the outset of the handover because from then on most of the trade to and from the islands was with the U.S. mainland with considerable financial clearing through New York banks (House of Representatives, 1920, p. 32-37). However, a U.S. dollar-based local economy was not possible under the terms of the cession treaty owing to the grandfathered monopoly right of The National Bank of the Danish West Indies to issue the currency on the islands.

Obviously, the U. S. Treasury and the Territorial government desired to convert the economy of the U.S. Virgin Islands to a U.S. dollar basis as soon as the Danish monopoly expired in 1934. To accomplish this, an American bank had to be encouraged to establish a branch or branches on the islands or a new bank had to be organized. The seriousness with which this was taken is revealed by the fact that a committee consisting of Secretary of the Treasury, Secretary of the Interior and Governor was formed in 1932 to pursue it (Dept. Interior, 1932, p. 136).

The search for a mainland bank interested in establishing offices on the islands began in March 1932. Two consultants hired by the Department of the Interior arrived on the islands to assess the situation (NYT, Mar 16, 1932). Nothing came of their work. The New York Times (Jun 24, 1934, p. 57) reported "Representative of the Chase National and the National City Bank, among others, have looked over the field but nothing developed."

Naturally, the officers of National Bank of the Danish West Indies didn't want to relinquish their monopoly rights so a delegation consisting of Managing Director Axel Holst and an island merchant Herbert Lockhart visited Copenhagen in June 1933 to explore their options (NYT, Jun 4, 1933). That initiative also bore no fruit.

Lacking interest on the part of mainland banks, the course settled upon by the Governor of the Virgin Islands and the U. S. Treasury was to establish a national bank owned and operated by islanders. Governor Paul Martin Pearson, a Hoover appointee, took the lead in carrying this concept forward.

The option of forming a locally owned national bank was announced by Governor Pearson on April 6, 1934. The plan was to capitalize the bank at $175,000, of which $125,000 was to be subscribed by the Reconstruction Finance Corporation, on the condition that $50,000 be subscribed locally (NYT, Apr 6, 1934). This was a highly unusual arrangement because at the time the Reconstruction Finance Corporation primarily was investing in existing faltering depression-damaged U.S. banks by infusing them with cash in exchange for preferred stock, until they could be returned to a sound state, at which time they could buy back the preferred stock. Here, the RFC was pledging more than 70 percent of the capital to create a new bank. Very obviously, U.S. Treasury officials were paving the way for its organization.

A letter from Governor Pearson to the Danish Finance Minister outlined his vision for the liquidation of the Danish bank and its replacement by the new national bank (Pearson, Oct 4, 1933).

I stated in the communication the desire of this Government that mutually satisfactory arrangements be made with the National Bank of the Danish West Indies for a transfer within the next sixty days if possible, and that the United States Bank should take over the assets and liabilities of the National Bank of the Danish West Indies and undertake to liquidate the assets.

Figure 4. Issued 20-franc gold note from The National Bank of the Danish West Indies. These notes were fully redeemable in U. S. currency until 1939, so they were redeemed making survivors very scarce.

> In connection with this matter, I desire to inform you that it is the opinion of representative men in the Virgin Islands, who would probably become the Board of Directors of the United States Bank, that Mr. Axel Holst, the Managing Director of the National Bank of the Danish West Indies, should be selected for the Managership of the United States Bank.
>
> To interested persons here, it seems that such an arrangement would not only enable Mr. Holst to liquidate the assets of the National Bank of the Danish West Indies with less loss and in shorter time than if he were acting as liquidator independently of the United States Bank, but at the same time the United States Bank would, at its inception, have the benefit of the influence and knowledge which Mr. Holst combines in rare degree.

Delays in organizing the new bank ensued owing to reluctance on the part of the Virgin Island business community to buy into the concept. The New York Times (Mar 25, 1935) reported the following.

> When local subscriptions still were not forthcoming, the RFC sent two experts here. Since then the two have been scouring St. Thomas and St. Croix for subscriptions. Despite the large deposits in the Danish Bank, they found the local business men reluctant to invest. Only after many talks and considerable persuasion and explanation was the $50,000 finally pledged.
>
> The long delay is variously attributed to the lack of cooperation from many islanders, mistrust of Federal-sponsored institutions and lack of confidence in Governor Pearson's administration. Only after one of the RFC experts had made clear at a meeting of the Colonial Council that subscribers could qualify as directors of the new bank and direct its affairs and that the local administration would have nothing to do with it was the "sales resistance" of the islanders broken down.

Finally, it was announced on March 25, 1935, that the necessary subscriptions of $50,000 had been secured so organization of the new bank could proceed. In the meantime, the National Bank of the Danish

West Indies continued operating although its right to issue currency had ceased with the close of business on June 19, 1934.

The Virgin Islands National Bank was formally organized April 12, 1935, and chartered April 30th, when it was awarded charter number 14335 by Comptroller of the Currency J. F. T. O'Connor. Patrick J. Fitzsimmons arrived on St. Thomas on April 10th (VIDN, Apr 12, 1935) and was installed as its interim president until a permanent president could be hired. Ludvig Christensen was named cashier.

Albert E. Wharton was brought on board as permanent president in February 1936 (NYT, Feb. 22, 1936). Wharton came from a vice presidential position at the Morris Plan Bank of Norfolk, Virginia. He previously had served as cashier at the National Bank of Commerce of Norfolk, VA, charter 6032, from 1921-1929 and as assistant casher 1918-1920.

The bank opened at its offices in the former National Bank of the Danish West Indies facilities in Charlotte Amalie and Christiansted at 9 am on May 1, 1935, a Wednesday (VIDN, May 1, 1935). The Frederiksted opening was delayed pending receipt of authorization from the Comptroller of the Currency.

Thus, the National Bank of the Virgin Islands was a national bank with head office at Charlotte Amalie on St. Thomas, with two branches on St. Croix. This was allowed under national banking law because branch banking was legal in the Virgin Islands. The bank directors and staff with one exception were Virgin Island residents (VIDN, Aug 1, 1935). Axel Holst, Managing Director of the National Bank of the Danish West Indies, was not among them.

Redemption of Franc Gold Notes

Ordinances were passed by the Colonial Council of St. Thomas and St. John, and the Colonial Council of St. Croix, to place the islands on a U.S. currency basis (VIDN, Jul 14, 1934). The conversion took effect February 11, 1935 (NYT, Mar 25, 1935).

Governor Pearson by proclamation declared on July 14, 1934, that the United States government would exchange U.S. coin and currency at the rate of 0.193 dollars per franc. The exchanges were carried out at the three offices of The National Bank of the Danish West Indies. The old money would cease to be legal tender one year later.

Notices were published regularly in the Virgin Islands Daily News by The National Bank of the Danish West Indies that laid out the specifics as follows (VIDN, Apr 12, 1934).

> 1. All Circulating Bank Notes presented during the period April 1, 1935, to April 1, 1936, to the Bank at its principal office in St. Thomas or either of its branches in St. Croix, or at any agency or agencies designated by the Bank, will be redeemed by the Bank on demand.
>
> 2. With approval of the Governor, the Bank may on April 2, 1936, deposit with the Government in a fund to be known as the Note Redemption Fund an amount in legal tender, coin, or currency of the United States, equal at the legal rate of fifty percentum of the Notes outstanding at the end of the business day of April 1, 1936.
>
> 3. Thereafter, and upon proclamation of the Governor, the Notes of the Bank shall be redeemed from the Note Redemption Fund in the order of presentation for redemption, and in accordance with the rules established for the said fund; provided, however, that the Government of the Virgin Islands shall be under no obligation to redeem any such Notes if not presented for redemption before April 1, 1939, or if the Note Redemption Fund shall have been exhausted.
>
> 4. After the issuance of the Governor's proclamation, no action may be commenced against the Bank for money due and payable upon any of the Notes.
>
> The Notes of the National Bank of the Danish West Indies will cease to be legal tender and will not circulate as money after September 15, 1935.

Unstated, of course, was that the currency of The National Bank of the Danish West Indies was not redeemed in gold after January 1934 because by then the United States was off the gold standard.

The Big Picture

This was the story of the exclusive circulation of money within the Virgin Islands, a territory of the United States, that consisted of currency issued by a bank chartered by Denmark and coinage coined by Denmark. This peculiar situation persisted for 17 years after the islands were acquired by the United States as the result of a provision in the treaty ceding the land to the United States. The provision allowed The

National Bank of the Danish West Indies to maintain its exclusive monopoly over the circulation of money in the islands.

The result was that the local economy of the Virgin Islands between 1917 and 1934 operated with paper and coin denominated in francs and bits where the currency carried the portrait a Danish monarch. That currency was highly regarded, being redeemable for gold for most of that period.

This quirk of history teases the question of U. S. sovereignty over the money in use in one of its territories. Its use bothered some people philosophically and was a bit of a nuisance in the financial discourse between the mainland and islands, so there was agitation for change. However, the United States honored the treaty that grandfathered in the Danish system until 1934. Besides, as a practical matter, the isolated micro economy of only about 22,000 U. S. citizens in the form of Virgin Islanders was affected, so it didn't cause a noticeable perturbation within the overall U. S. economy. The issue certainly wasn't of sufficient concern to cause the United States to challenge or abrogate the terms of an otherwise honorable treaty with a friendly nation.

There was one curious sovereignty detail, and that was who supervised the bank, the Danes through the Danish Ministry of Finance or some U. S. entity? A statement in Governor Pearson's 1933 annual report reveals that the U. S. Comptroller of the Currency provided oversight. Specifically, Pearson reported that H. N. Stronck, national bank examiner, examined the bank on February 22, 1932. Of interest to this discussion is that he found that the outstanding circulation on that date to be 961,480 francs equivalent to $139,300 (Pearson, 1933, p. 7).

The National Bank of the Danish West Indies was liquidated after its concession expired. Although the 30-year concession expired in 1934, delays in financing the new bank delayed the transition from the old money system until the spring of 1935. The Danish bank closed on April 30, 1935, and the new National Bank of the Virgin Islands opened the next day. The franc currency was redeemable until April 1, 1939, after which it was demonetized. Most of the notes were exchanged for U.S. currency in the Virgin Islands, although note holders had the option to redeem them for Danish kroner.

The fact that the franc currency was sound, and that ample time and opportunity for its redemption was available and well-publicized, resulted in wholesale redemption of the paper currency. The result is that surviving issued pieces of this historically interesting currency are scarce to very rare. The 5-franc notes can be located with some patience, but 10-franc notes rank as very scarce. Issued 20- and 100-franc notes are virtually impossible to find. A few salvaged circulated but canceled 100-franc pieces are reported. Face and back proofs of all denominations are occasionally available.

The Virgin Islands National Bank was purchased by The First Pennsylvania Banking and Trust Company in April, 1960, as a first step as that bank expanded its reach into the Caribbean and Central America (NYT, Apr 28, 1960). At that time, The Virgin Islands National Bank had $17,200,000 in deposits.

Two Incidental Facts

The only place where Columbus actually set foot on what was to become United States soil was at Salt River on St. Croix.

Governor Paul M. Pearson was the father of muckraking commenter Drew Pearson, writer of the syndicated Washington Merry-Go-Round column of the mid-20th century.

References Citied and Sources of Data

Brady, Marvis H. Donovan, 1969, An historical account of the purchase and transfer of the Danish West Indies: Virgin Islands Department of Education, ESEA Title III Booklet 9, 15 p. plus appendices.

Brun. C., Danish Minister to the United States, and Robert Lansing, U.S. Secretary of State, Aug 4, 1916, Cession of Danish West Indies, 39 Stat. 1706, Treaty Series 629.

Danish Ministry of Finance, June 20, 1904, Promulgation of grant of concession for the establishment of a Danish West Indian Bank of Issue, 6 p.

Department of the Interior, 1931, Annual report of the Department of the Interior: U. S. Government Printing Office, 172 p. plus appendices.

Department of the Interior, 1932, Annual report of the Department of the Interior: U. S. Government Printing Office, 163 p. plus appendices.

Department of the Interior, 1934, Annual report of the Department of the Interior: U. S. Government Printing Office, 418 p.

Dyroff, Jan M., Oct. 1992, Early numismatics of the Virgin Islands: The Numismatist, p. 1702-1708.

Hoist, Olav, 2009, A banker in the Danish West Indian Islands: St. John Historical Society newsletter: [https://stjohnhistoricalsociety.org/vol-x-no-4-january-2009-a-banker-in-the-danish-west-indian-islands-by-olav-hoist-in-danish-translation-courtesy-of-nina-york/]

House of Representatives, Jan 1920, Virgin Islands, Report of Joint Commission appointed under authority of the concurrent resolution passed by the Congress of the United States: House Document 734, Government Printing Office, Washington, DC, 38 p.

Lansing, Robert, Jul 19, 1931, Drama of the Virgin Islands purchase: New York Times Magazine, p. 4-5.

New York Times, Mar 16, 1932, Opens banking Inquiry, p. 36.

New York Times, Jun 4, 1933, Virgin Islands bank seeks Permit, p. 28.

New York Times, Apr 6, 1934, Forming national bank for the Virgin Islands, p. 1.

New York Times, Jun 24, 1934, New bank project stirs St. Thomas, p. 57.

New York Times, Mar 25, 1935, Virgin Islands get funds for a bank, p. 6.

New York Times, Feb 22, 1936, Sails to head Virgin Islands Bank, p. 29.

New York Times, Apr 28, 1960, Bank is acquired in Virgin Islands, p. 55.

Pearson, Paul M., 1933, Annual report of the Governor of the Virgin Islands for the fiscal year ended June 30, 1933: U. S. Government Printing Office, Washington, DC, 12 p.

Pearson, Paul M., Oct 4, 1933, Letter from the governor of the Virgin Islands to S. C. Godske-Nielsen, Danish Finance Ministry, regarding liquidation of The National Bank of the Danish West Indies: Journalsager 1933-1938, Danish National Archives, Danish West-Indies sources of history [https://www.virgin-islands-history.org].

Scott, James Brown, 1916, The purchase of the Danish West Indies by the United States: The American Journal of International Law, v. 10, no. 4, p. 853-859.

U.S. Department of State archive: https://2001-2009.state.gov/r/pa/ho/time/wwi/107293.htm

Virgin Islands Executive Orders 12 (Jun 18, 1920) and 15 (Aug 8, 1920), signed by Governor J. W. Oman.

[Virgin Islands] Daily News, Jul 14, 1934, A proclamation, Exchange of United States Coin and Currency for Danish West Indian Coin, p. 2 and succeeding issues.

[Virgin Islands] Daily News, Apr 12, 1935, President of new bank here, p. 1.

[Virgin Islands] Daily News, Apr 12, 1935, Notice to holders of circulating Bank Notes of The National Bank of the Danish West Indies, p. 3.

[Virgin Islands] Daily News, May 1, 1935, New bank opens Wednesday, p. 1.

[Virgin Islands] Daily News, Aug 1, 1935, p. 3.

Wikipedia: https://en.wikipedia.org/wiki/Danish_West_Indies

Wikipedia: https://en.wikipedia.org/wiki/Danish_West_Indies#Slavery