INTRODUCTION

> The Republic has Degenerated into a Democracy!
>
> 'Richmond Whig'[1]

> Nobody cares a damn for the House of Lords. The House of Commons is everything in England, and the House of Lords is nothing.
>
> The Duke of Wellington[2]

This is the story of the financial panic of 1837 and its remarkable outcome for the British merchant bank Baring Brothers & Company. It is the story of a bank's response to unusual events during the transformation of American life in the 1830s, and the effect of this transformation on Barings and global finance long term.

Events of the 1830s took place amidst changes that began before the French Revolution, and accelerated in England, Continental Europe, the United States and elsewhere around the world with the end of the Napoleonic Wars.

The years 1770–1815 put in place that clutch of marvels of the Industrial Revolution involving textiles, steam, patent protection, coal, machines and factories that made Great Britain the first nation in history to achieve sustained economic growth. The French Revolution started the process in France to sweep away privilege that would give that country a politics sufficiently liberal to follow a growth path similar to England's. When the long eighteenth century came to peace in 1815, the energy and talents of so many – distracted by war for so long – were freed, and the world could pursue in full measure those aspects of industry, technology and trade that peace allowed.

Free from war in Europe, the western powers scrambled for land worldwide, and human activity spread to all quarters of the globe. Russia expanded to the south and east. Canadians and Americans went west. Britain committed itself to India and the subcontinent, fortified its wartime base at Singapore and thrust inland from coastal enclaves in South Africa and Australia to create in rough form the nations we see today. The Dutch continued their turbulent presence in Indonesia after the war, and established a small commercial settlement at Nagasaki in the 1820s. France captured Algiers in 1830 to begin its African empire, and considered expansion of its settlements in south-east Asia. Even the north and south poles saw a string of explorations in the immediate post-Napoleonic years. Advances in ship design and engineering, railroads, and the telegraph made geographical expansion more possible than ever before, and helped overcome what the Australian historian Geoffrey Blainey called 'the tyranny of distance'.[3]

Changes were palpable. But they paled against the coming of the greatest theme of the age: democracy. In the first half of the nineteenth century, agitation for political reform stirred monarchies and parliaments across almost all Europe. Newspapers multiplied as an outward and visible sign of a widening freedom of expression. In 1830, Paris alone supported six dailies; London nine. The slave trade in the Atlantic and Indian oceans was stopped by law and by the vigilance of the British fleet. With the coming of peace, reform spread to economics. The case for free trade which Adam Smith made famous in 1776 could now be turned into policies which, by the 1840s, unlocked new commercial opportunities throughout Asia and the Atlantic world.[4]

While Europe bubbled, the greatest theatre of democracy was the Americas. Independence movements throughout the Latin world set back the imperial states Portugal and Spain after 1815, and stood out as examples of decolonization in an age of empire-building. But in the first decades of the nineteenth century, most eyes focused on the large and restless United States developing north of Mexico which, until 1815, had been moulded largely by forces from Europe, and would now set its own course.

Few were more interested in the progress of the United States than Baring Brothers & Company. First a merchant house, then a bank, Barings had built a high reputation since its founding in 1763. Its aspirations were as global as the British Empire, and this included the growing market of the United States – colony or not. Its involvement was at first professional, then familial with the marriage of two partners into Philadelphia society in 1798 and 1802. When it was an emerging market at the start of the nineteenth century – as China, India or Brazil are today – the American Union was a slapdash mix of risk and reward. And Barings experienced both in a relationship that lasted for a remarkable 200 years.

The House did not cause or directly prompt the industrial, political and economic forces unleashed after 1815. Instead, Barings was an unusually successful example of a new breed of merchant-turned-banker who quietly provided the credit instruments that turned the wheels of investment, commerce and innovation. Barings epitomized British confidence after 1815 and many viewed Britain itself as the model of what a successful nation might be. After Napoleon, Britain stood alone, possessed of a financial and industrial paramountcy that, for a time, was unique; and in the nineteenth century most of world trade and finance went through London in one form or another.

Barings committed formally to the American market in the form of a new partnership in 1828. By this time, the United States had transformed itself from a struggling ex-colony to a nation on the move – curious to Europeans and the world for its vigour and style, and for its experiment in republican government. By 1828 the United States was well into an industrial revolution of its own which would match and later exceed Britain's in scope and scale; and it made sense in the nineteenth century that Barings would ride – indeed facilitate by finance – the wave of progress and change wherever it might lead.

To match the economic exuberance of the young nation, the late 1820s saw the rise of a new kind of American to political power. In the four years after 1824 vast numbers of voters, many with little or no property, were added to the electoral roles in the United States, and these new participants in the political process elected General Andrew Jackson their president by a large margin in 1828. Not only did this end the elite Virginia-Massachusetts line of presidents since Washington, it swept Jackson into office with a mandate for reform unprecedented in the history of the American republic to that time. The kind of man that an Adams or a Jefferson or a Baring called unlettered and ill-suited to rule, was the same man that President Jackson – this 'Napoleon from the Woods', this 'Old Hickory' – called honest, virtuous and wise. Out were the genteel politics comfortable to European sensibilities. In was a more abrupt, ordinary, levelling, boisterous and practical pattern. Moreover, this democracy of the common man was coupled with a muscular American assertion of rights on the world stage that would grow ever more confident as the nineteenth century progressed.

In the main, the United States turned from the trappings of aristocratic leadership in 1828 just as Barings increased its commitment. Welcome or alarming, democracy at this time became the permanent engine of American expansion and growth at home and abroad. It became the unmistakable fact of the American scene and – to the extent the United States set a sort of 'rough and tumble' standard and style in economics, politics or finance outside its borders – it became an unmistakable fact on the world scene as well.

This study of the Panic of 1837 illustrates part of the tidal wave of change after 1815. It is also a contribution to the Jackson literature with a much-needed foreign view of America in the 1830s, and a look at the financial aspects of these years in a global context. It is a work of history relevant to international business and management as an example of a superb business institution adjusting – or not adjusting – its approach to changing events, information and norms.

But it all began with a question: how the pre-eminent British bank of the time, Baring Brothers, managed to avoid significant harm from the terrible troubles of 1837 – indeed to emerge with increased prestige and influence – when others did not. Specifically, it seeks to find when and for what reasons the bank decided to pull back from its commitments in the United States. Importantly, this book also contrasts the success of the House during the 1830s with that of the House in later years, when Barings encountered great difficulties and finally collapsed from mismanagement, hubris, ignorance and nonchalance.[5] By a close-up view of what happened in the 1830s it hopes to illustrate larger themes.

Economic events, that is to say, 'what' happened in the 1830s in the United States, are not at issue historically. An inflation developed in the early part of the decade, after two decades of falling prices. Prices rose moderately from roughly the first quarter of 1830 to the fourth quarter of 1833, then backed off in a mild contraction in 1834. American commodity prices then rose sharply for two years, as did urban real estate, exchange-traded securities, the number of state-authorized bond issues, slaves and, in the last stages, money itself.

The years 1835–6 were characterized in the United States by what may be called a boom psychology – for example in public land sales. The psychology followed a common panic pattern, generically described as follows: after a period of some restraint (1833–4), new profit opportunities are perceived (1835–6), and people move to take advantage of them. This stimulates business, and various forms of credit come into play (e.g. bank notes, bills of exchange, hypothecated bank deposits) to enable people desiring to borrow to do so. At a certain point, some kind of shock or 'displacement' occurs that changes expectations as to a given set of investments.[6] Business euphoria, credit expansion and speculation falter (gradually or all at once) because it becomes clear to a few, then later to many, that credit positions are extended beyond what are sustainable in the long run. The objective becomes to preserve any gains one has to this point, and usually involves getting out of whatever assets one owns before others do. The end of 'overtrading', in Adam Smith's word, was followed by what Smith called 'convulsion', or in current finance parlance, 'distress'. In this study, the latter occurred with a vengeance, as the financial events of 1837 (panic) became the deflationary economic events of the years 1839–43 (depression).[7]

In the 1830s the troubles were transatlantic, indeed international, though the focus of the present study is Great Britain and the United States. The British displacement occurred when the Bank of England discovered that four merchant banks, nominally under its supervision, had extended themselves a bit too far in the American trade. The Bank moved to restrain credit in the summer of 1836, having a great effect on the fortunes of the firms to which the British Houses were connected in the United States. Though made nervous by the Bank of England's action, Americans did not move to topple the United States boom right away. The American displacement came later from the failure of several New Orleans cotton commission Houses in March 1837.

The problem of 'what' happened as to the panic is settled. The actual etiology of the panic – the 'why' – is less so. The years of the Jackson presidency (1829–37) were ones of bitter political partisanship, and years indeed went by before a dispassionate historical account was penned. Most twentieth-century studies stress one or more internal American factors as the panic's cause – the veto of the recharter bill, the deposits removal, the proliferation of banks, the 'Specie Circular', the Distribution Act to allocate the federal surplus – in general, the policies of the Jackson administration.[8] More recent studies claim these political problems are overemphasized in explaining the inflation of the 1830s, and look rather at the Anglo-American trade system within the larger world economy, including supplies of specie, and conditions in the international capital market.

Contributions by economists and economic historians Walter Buckingham Smith, Peter Temin and Hugh Rockoff emphasized global influence and balanced the explanations that focused mainly on the domestic side.[9] Added to the rocky domestic scene of Jacksonian politics and banking reform initiatives in England, these later accounts detail the evolution of new patterns of capital flows in the early 1830s that involved trade credits between the United States and Great Britain, and changes in specie flow patterns to and from China and Mexico. The combination of so-called 'real factors' (Jacksonian politics) and monetary ones (specie and money flows) caused a destabilized situation in the late 1830s.

The questions of what happened, and why, are provided here for historiographical context. The present study, however, is concerned with these considerations only as they affected what contemporaries thought, and what made them act the way they did. In these terms, Baring Brothers certainly paid close attention to the 'real factors' such as Jackson administration policies, but as a bank of international scope and commitments, the 'monetary factors' of flows of money, specie and credit were givens as well. The prime consideration was always survival in a business that Barings' American agent considered 'inherently hazardous'.

Though not literally hazardous of course, unravelling past events in business history is nonetheless difficult – financial history particularly so. In contrast to those of other fields, personalities attracted to commerce and money tend not to be as expressive, impressionistic or prone to lengthy description in the sense they tend to see value in action rather than thinking. There are exceptions of course, but there is a reason why a favourite aphorism of the notoriously terse Pierpont Morgan was the Provençal phrase: *pense moult, parle peu, écris rien* ('think a lot, say little, write nothing'). The high-stakes business of merchant banking required strict confidentiality and discretion.

Nevertheless, the historian intent on getting at answers is sometimes left only with the third item of Morgan's triplet. Certainly this is the case with Barings, in whose correspondence there tend to be many actions but few explanations; many orders, but little theory or elaborated reasons of actions. The present author has, therefore, taken what he has described as an 'aspirin approach'. That is to say, like drug action, one may see a striking effect or outcome, perhaps repeatedly, but not know the reasons for such results. Therefore, in the 1830s, while six other British merchant banks required assistance from the Bank of England, Barings did not. We know this is true, but are not sure why. Indeed, we know Barings was healthy enough to coordinate a rescue of ailing banks. But the evidence for Barings' motivation is circumstantial and fragmentary, and must be pieced together.

This investigative approach is very different from other historical studies of Baring Brothers, of which there are three of note. Ralph Hidy's *The House of Baring in American Trade and Finance* (1949) is a meticulous account of Barings in the United States to 1861. Philip Ziegler's *The Sixth Great Power* (1988) is Barings' official history, and an elegant survey of the House from its founding to 1929. John Orbell's *Baring Brothers and Co. Limited. A History to 1939* (1985) is a slim but highly-informed volume by the current archivist of ING Barings in London. All provide masterful descriptive overviews of the House, but few provide reasons for partner decision-making. This is what the present study attempts to do. It magnifies one episode within the House's long history – albeit a pressurized one – and seeks to explain in detail what the partners believed and why they behaved as they did.

In this regard, this book will argue four reasons for Barings' pull-back from the United States before the 1837 downturn. These weave as themes through the chronological text. First, Barings was uneasy about the democratic administration of Andrew Jackson, and what they considered to be a disruptive lack of propriety developing in the United States – different in spirit from earlier days of doing business in America. Second, the firm had an instinctual sense of caution and conservatism about it. The London partner most in charge of American affairs, Joshua Bates, appears to have possessed the personal quality of 'changing before he had to'. This resulted in acting too early at times, but allowed the firm to maintain initiative and control. Others, more propelled by circumstances, were surprised by the suddenness of events. They lost control or transferred control to someone else – in our case, the Bank of England. Historical caution and conservatism kept the firm in good stead in the 1830s but, as we shall see, doomed their ultimate leadership in the rough-and-tumble American market, and indeed the world, longer term.

Third, this study posits that the firm pulled back from the United States simply because they were able to do so. Barings' operations had terrific geographical spread. The United States, though important, was not its only venue. In this regard, the House of Rothschild was similar. It was fabulously successful yet did not commit to the United States until relatively late. Though chary about Latin America in this period, Barings' diversification efforts into South Asia, Canada and the Far East are clear.

The fourth reason for Barings' American pull-back had to do with the issue of maintaining continuity from one generation of partners to another. Continuity translated into a sense of legacy, and a created a gentle pressure to perform honourably. Throughout our period, Barings maintained a posture of self-conscious leadership, as if watched; as if somehow a different set of standards applied to a firm of such pedigree. This may have been one source of Barings' caution, of 'changing before one had to', of arranging its affairs in a way that precluded cavalier behaviour and gross failure. Once again, an organization can take this inclination too far so as to stifle innovation and daring, but in the 1830s, it served Barings well.

Elements of the story of Barings in the nineteenth century will strike readers as familiar, though nearly two centuries old. Some of these include the ongoing importance of the Atlantic economy in the history of the United States, and the connection of London and New York; the rise of Liverpool and the development of the American south and west; issues of moral hazard and lender of last resort; overseas trade versus domestic economic development; tariffs; bank regulation; balanced government budgets and budget surpluses; the participation of China and Mexico in the world economy; international trade and investment flows; the role of central bankers; politics' effect on markets; fixed exchange rates; the importance of people in decision-making in an age of machines and technology; and, finally, the ability of smart people close to the best information to make mistakes.

Chapter 1 provides an overview of Barings' early history, prestige derived from the French Wars, the avoidance of disaster in the excesses of 1825, and the bank's connections to the United States before 1828. Chapter 2 describes the members of a new Baring partnership formed in 1828, its rules and standard procedures, and provides macro-economic data on the Anglo-American trade economy. Chapter 3 describes the new business connections which the partnership established in the United States, highlights the House as a 'value' player that committed when markets were at low points, describes Barings' increasing options worldwide, and the House's relationship to the influential Second Bank of the United States.

Chapter 4 describes a bundle of economic and political problems between 1832 and 1834 that created tension in the financial community. In these years, Barings was unnerved by what it learned about the Andrew Jackson administration. Chapter 5 sees the 'problems' of Chapter 4 swept away, the American economy boom in 1835 and 1836, the pressure of competition on Barings in the United States, and the decision of the Baring partners to reduce their American position based on what it considered unsustainable values in real estate and commodity prices. In the autumn of 1836, the Bank of England discovered excesses among several merchant banks doing large business in the United States. The Bank raised its borrowing rates and, with the counsel of Barings, curbed these merchant banks' activities – taming, at the same time, certain speculative excesses in the British economy. Chapter 6 recounts the ripple effect of the British moves on the American economy which continued its boom into the early spring of 1837, but which had become vulnerable by this time to unexpected shocks. An American downturn began in March 1837. Healthy for its early exit, Barings assisted where it could, but the Panic of 1837 began an extended period of American economic distress lasting until 1843.

In closing, this study discusses Barings' triumph in the 1830s in terms of the serious lapse of the House in 1890 and the mortal difficulties in Singapore in 1995. It argues that Barings' impulse to reject the American democratic style of the 1830s saved the partnership by causing its timely pullback from the United States. It argues also that – ironically – the very values and behaviour that enabled the House to triumph in the 1830s foretold Barings' inability to compete long-term with more flexible financial institutions in later years, and led to its destruction in the late twentieth century.

The years covered in these pages to approximately 1840 constitute what the author has come to consider Baring Brothers' 'American moment'. The House continued its contribution to American development for several decades after this time, but never again would it be so preoccupied with the United States or have a 'lock' on its business. Competitors in the emerging United States took Barings' place as American financial institutions matured. With the possible exception of the Panic of 1873, never again would foreign credits and business play so large a part in an economic disturbance as they did in the events that triggered the Panic of 1837.

In 1830 the Duke of Wellington noted the winds of change blowing through the English Parliament. Five years later, an American newspaper in Richmond, Virginia, also commented on big changes in American politics. On both sides of the Atlantic, men once thought inappropriate for positions of influence or leadership were coming to power amidst the relentless forces creating a modern world. Companies, however distinguished their pedigree, ignored these forces at their peril.