

INTRODUCTION

This study began as a consequence of a number of fortuitous events. I had only recently completed a manuscript on the role of slave property in the antebellum credit system. A necessary condition for understanding that subject was gaining a knowledge of local and regional credit markets, and the instruments antebellum planters and their agents had used to hedge their exposure to various risks inherent in producing staples for very distant markets. At a time when the institution of credit seems to have become detached from the underlying economy because of the mammoth role government plays in underwriting our fiat monetary regime, as well as sponsoring credit subsidies for various activities which are deemed to be worthwhile pursuits by society, such as encouraging home ownership, it is easy to lose sight of the fact that the institution of credit initially evolved as a risk spreading mechanism. The institution of credit arose from the same economic environment which gave birth to the modern insurance industry.

I, like most financial historians, had focused initially on chartered banking corporations and like others had assumed that chartered banks played a role in the antebellum financial system which roughly corresponded to the role commercial banks play today. It was only after I began to unravel antebellum credit relations, a task greatly aided by the bankruptcy of antebellum slave agriculture and the consequent exposure of thousands of relationships in collection suit records, that I came to realize that chartered banks had functioned principally as ‘amplifiers’ in a complex network of slave planters and their commercial agents.

It was a disappointment to discover that nowhere had even a partial set of business records for one antebellum commercial agency survived into the late twentieth century. Indeed, nearly all of the evidence which documented that commercial agencies or factorage firms had ever existed was to be found in collections of plantation records. Law suit records provided an important supplement, especially estate proceedings wherein inventories often listed the assets and liabilities of a defunct factorage firm. None of these sources, however, came close to providing what I believed a set of business records would

no doubt yield as an aid for understanding how slave planters mediated their risks and extracted maximum concessions from buyers of their staples in far-away markets.

While searching inventories of manuscript collections in various locales, which might illuminate the precise technicalities of risk spreading among planters, factors and chartered banks, I found myself digging a very deep hole in a collection whose existence has been known about for many decades. The collection, which is located at the Louisiana and Lower Mississippi Valley Collections at Louisiana State University in Baton Rouge, is identified simply as the 'Bank of the United States, Natchez Branch'. A huge body of material which had come to the archive in the 1930s, its inventory had been prepared shortly after its arrival. In the midst of trying to understand how and for what purposes entries would have been made in various ledgers, discount books, and 'bill ticklers', it became necessary to assemble the entire collection in one room and prepare a new inventory. This undertaking would have been impossible without the committed support of the staff of the library. Over a period of days, it soon became clear that the collection was even larger than originally had been supposed. Not only were the records of Natchez Branch of the Second Bank of the United States present in the collection, but also the records of the commercial agency of the United States Bank of Pennsylvania which operated in Mississippi from 1836 to 1841. Perhaps the most important undiscovered treasure, though, were the records of the collection agent sent to Natchez in 1841 by the assignees of the failed United States Bank of Pennsylvania. These records span the critical period from 1841 to 1852 and include not only the usual account books, but also the agent's voluminous letter press books

The letter press books yielded information about the problems encountered by the United States Bank of Pennsylvania in the immediate aftermath of its being chartered by the Pennsylvania legislature to receive most of the assets and liabilities of the defunct Second Bank of the United States. As the agent set about collecting upwards of four million dollars in claims against debtors resident in the state of Mississippi, he wrote to his principals in Philadelphia several times a week. A number of very large claims could only be settled by receiving whole plantations, together with slaves. Before the close of the 1840s, the assignees of the failed United States Bank of Pennsylvania had emerged as one of the larger slaveholders in the state and their agent was remitting to them large sums realized from the sale of staples produced on those plantations. As fate would have it, one of the trustees was an opponent of slavery; so, the agent, along with the other principals, elected to keep him in the dark about the extent of their involvement in slave agriculture. Not only did the assignees receive income from slave agriculture, but their agent also trafficked in slaves, selling and hiring them out when prudent, responding to local market conditions.

The exertions of the agent and his lawyers to realize the claims against Mississippi planters and commercial agents, for the failed banks' assignees, bring into sharp focus the critical importance of slave agriculture in the formation of the United States' economy in the antebellum decades. Of all the assets assigned by the Board of Directors of the United States Bank to the trusts established for the benefit of the holders of the failed bank's circulation, none were as productive, or as sound, as the claims against slave agriculture in the lower Mississippi Valley. And without those claims, the failed bank's circulation would never have been redeemed.

It is perhaps ironic that virtually all of the funds realized at Philadelphia in the immediate aftermath of closing up of the Second Bank of the United States, had been deployed under Nicholas Biddle's not so able leadership in improvement companies for building canals and railroads. The stocks in these companies were also assigned to the trusts, and virtually all of those claims turned out to be worthless.

The Bank of the United States Collection presents us with a remarkably full picture of banking operations in the early decades of the nineteenth century. More important perhaps is the information it yields about the history of the Second Bank of the United States in the aftermath of Andrew Jackson's veto of its recharter in 1832. The Board of Directors of the Natchez Branch, following strict instructions from the Philadelphia parent, set about curtailing discount lines and purchasing only bills payable at short date in Eastern seaboard cities. Soon enough it became clear that the likelihood of realizing from a single growing season, even a portion of the bank's capital, which was deployed at Natchez, was an impossibility. The credit facilities available locally, at New Orleans, and elsewhere, simply were inadequate for permitting those who had discounted paper at the branch to move their loans to other banks or lenders.

The historiography has not fully appreciated the immense difficulties which accompanied a 'closing up' of the Second Banks' affairs at its many disparate locations across the United States. Those who had supported the bank's re-charter complained bitterly that its withdrawal from the nation's money markets opened the way for waves of speculation and the chartering of poorly capitalized state banks which expanded their portfolios and their circulation well beyond the limits of what prudence would have dictated. But in truth, chartering a plethora of new banks by state legislatures was the only rational response to the Second Bank's imminent cessation of operations. Private capitalists were few in number and possessed only a narrow means to facilitate locally, liquidations at branch locations. Closing the bank, under optimal conditions, would have required opening up large and highly liquid credit facilities at locations along the Eastern seaboard. The bank's operations in the country's money markets had simply dwarfed what remained after its final exit in 1836.

State legislatures chartered new banks, and some of these institutions were able to market their securities to investors in Philadelphia, New York and Europe. The sale of their stocks and bonds did provide a measure of liquidity for the local markets. Conditions became so stringent in 1834 at some locations along the Mississippi River, that the only available paper suitable for remittance to points East were bills drawn by the newly chartered banks, checking on credit facilities which had been created at places where they had been able to market their stocks and bonds.

The empirical data, such as it is, suggests that overall more than enough new banking facilities had been opened in the country to fill the void left by the exit of the Bank of the United States. The combined authorized circulation of all of these institutions should have more than offset the withdrawal of the national bank from the money markets. But in truth, what we glean from the empirical data must lead us to the wrong conclusion; i.e. that state banks opened their discount lines with abandon and flooded the nation's marketplace with worthless paper. As will be seen, in the lower Mississippi Valley at least, the newly chartered state banks never obtained a 'circulation' in the parlance of the time. Their paper, for the most part, never obtained the negotiable character of what might be called money, or a money substitute. Their portfolios seemed to bulge with loans, but in truth many of those loans were nothing more than bills receivable taken in settlement of bills of exchange which had fallen under protest during their first months of operation. Their obligations were not suitable for remittance purposes to distant locations in settlement of claims.

It is perhaps a testament to the success of the Bank of the United States that nothing emerged to take its place in the immediate aftermath of Jackson's veto of its re-charter. Indeed, over the course of the previous decade the national bank had shaped the course of exchanges within the country and dominated the traffic in foreign bills as well. It could and did press its paper on any and all locations in the country. If pressures developed at any location in its national system, it easily relieved those pressures by creating drawing facilities on another location, thus injecting instantaneous liquidity at a location where it was needed. No state bank, or group of state banks, would ever realize such remarkable powers for creating and sustaining a circulation, at least for the remainder of the antebellum decades.

Ultimate blame for the monetary chaos which followed in the wake of Andrew Jackson's veto must, however, be laid at the door of the parent bank in Chestnut Street. It is no coincidence that during the bank's last decade of life, the federal government suddenly found itself with the means to liquidate the entire national debt. The accumulated claims from the Revolutionary War, the War of 1812, the Louisiana Purchase, and sundry other huge expenditures by the government, under normal conditions, might have taken decades longer to retire. But thanks to the high powered money which sloshed around the

national bank's network of branches, a speculation arose in western lands. The government sold vast amounts of land, thanks to the abundant credit provided by the bank and its branches. While the form of the loans being made caused them to appear to be highly liquid self-liquidating ones, in truth, by 1832, each branch had acquired a portfolio of permanent accommodation loans, guaranteed by nothing but endorsements.

The bank's enemies regarded it as a leviathan which made and unmade political fortunes and corrupted everyone it ever touched. There is scant evidence that the bank ever attempted to overwhelm the political process, though in the months preceding the Congressional re-charter, the discount lines did expand, ostensibly to facilitate the liquidation of the federal government's debt in Europe by marshaling the supply of foreign bills at points East to raise the needful. Thus, the bank was able to relieve the pressure on the domestic exchanges by offsetting its demand for foreign bills with an abundance of discounts at home.

In the decade preceding its 1832 Congressional re-charter, the Bank of the United States so enhanced liquidity levels around the nation, that it may be said to have unwittingly promoted an inflationary bias in the realm of monetary policy. Still, one is immediately struck by the relative rarity of specie either paid out or tendered at the branch in Natchez. How much that inflationary bias fed real economic growth and how much it stimulated the national propensity to leverage and speculate will probably never be known. Perhaps the best indicator, though, is the trade deficit which rose in most years preceding the 1837 Panic.

Whatever ambivalence many Americans may have felt for the Bank of the United States, Europeans invested a great deal of trust and money in the country because of the institution's reputation in the money markets of London and Paris. The willingness of foreigners to invest ever larger sums in American improvement companies, banks, and state government bonds, kept the insalubrious consequences of a rising trade deficit in check; at least temporarily.

It does seem clear that Nicholas Biddle and the directors of the parent bank at Philadelphia concluded sometime between Andrew Jackson's veto in 1832 and their application to the Pennsylvania legislature for a state bank charter in 1836, that liquidating the portfolios at the branches and realizing the proceeds in money which could then be distributed to the shareholders, was a complete impossibility. Initial attempts to shrink the more-or-less permanent discount lines at the branches with sight bills on locations in the east, resulted almost immediately in a great deal of domestic exchange falling under protest, and considerable embarrassment for drawees in cities up and down the eastern seaboard..

At Natchez at least, the branch sold the exchange which had fallen under protest, to the newly chartered Planters Bank of Mississippi. But the sale had

to be made on a long credit which meant that little money was realized for the parent bank at Philadelphia. The initial reduction of the permanent discounts, then, had met with failure. And the national bank had been forced to increase its circulation because so many bills on the East had been dishonored and the bank was left without the means to retire even a portion of its circulation.

One can only imagine the consternation which must have prevailed as the board of the parent bank met to consider what options were available to prevent a fire sale of assets in order to raise the means to meet the bank's liabilities; namely its circulation, in the form of demands notes and checks. A good portion of the shareholders' capital would be lost if the bank had to continue meeting tenders of its circulation without its first having been provided with the means from the liquidation of its assets at the branches. Once the charter had expired, there would be no possibility of emitting any more circulation in order to buy time while the assets at the branches were being slowly liquidated.

So, it is highly probable that the inspiration for a state chartered bank, which could receive all the assets and liabilities of the old Second Bank of the United States, was born from necessity. Obtaining a new charter from the Pennsylvania state legislature turned out to be a very expensive proposition as will be seen; moreover, the federal government's stock in the bank had to be liquidated, no matter the sacrifices. From the beginning of its life, the United States Bank of Pennsylvania was crippled by heavy calls on its most liquid assets. Even though the new institution attempted to perpetuate the national character of the old bank by contracting agencies at the western branches which were contracted to buy exchange for its account on the East and on Europe, there was no possibility of continuing a circulation which would float throughout the nation. The new institution, then, was a pale imitation of its predecessor. The loss of a national circulation was also a huge blow because it meant that the new institution was little more than a localized state bank, although by far the biggest one in the country. It simply dwarfed every other banking company and was many times the size of all the other banks in Philadelphia and New York.

A national circulation had been one of the Bank of the United States' profit centers. A national circulation also had been its chief support, not only for profits but for dispersing risks throughout the country whenever pressures developed within the national system. During the life of the Bank of the United States, its paper was received by all offices of the federal government as legal tender, thus creating an instant demand for its obligations. Similarly, when a government agent drew a bill in favor of a payee, he drew it on an account at the Bank of the United States.

During the bank's lifetime, the nation had for all practical purposes, a national circulation; a condition which would not prevail again until the twentieth century. The bank had spawned the first true fiat monetary regime in the

nation's history, and this in no small measure explains the difficulties which its management encountered when they tried to convert permanent accommodation lines at the branches into ready money. Once the bank disappeared from many disparate locations, credit conditions in each locale became localized. The capacity of a state bank in New Orleans, for example, to press its paper on markets far removed from it, simply wasn't there. And it is here that we can see immediately a vast difference between the note issues of a state bank or group of state banks and the notes emitted by the Bank of the United States.

Were one to aggregate the circulation of all the state banks in the nation in 1837, one would immediately see that the overall circulation had indeed increased dramatically from levels which had prevailed during the lifetime of the Bank of the United States. As previously noted, the reported amount of circulation at various locales around the country is misleading because so much domestic exchange had fallen under protest the previous year and as a consequence, the orderly retirement and reissue of bank notes had been interrupted. This, I believe, explains the monetary inflation which seems to have occurred in the two years preceding the Panic of 1837. But an examination of conditions at Natchez, which is possible because of the availability of the records of the United States Bank's agency there, together with a relatively complete collection of records for the Commercial Bank of Natchez, suggests that the credit system was already in liquidation mode, two years before the general bank suspension in the spring of 1837. The circulation was indeed augmenting, but it was augmenting because banks could not meet their own obligations timely when tendered.

Since so much of the currency of the nation's state banks in 1837 was already 'uncurrent', the seeming paradox of how the circulation could have expanded even as the credit system was contracting, is resolved. We may say, then, that the circulation of the Bank of the United States was simply more powerful as a money substitute than any circulation of a state bank or banks which obtained in the aftermath of Andrew Jackson's veto. All of which places a very different complexion on what people thought they were seeing after the Second Bank's charter expired, i.e. the proliferation of state chartered banks and the over issuance of notes, and what really was happening in various localized money markets around the country.

The records of the Natchez branch and the commercial agency of the United States Bank in that city, indicate that credit facilities there were contracting from 1834 onwards. This fact has important implications for understanding the origins of the Panic in April of 1837 and whether events abroad, such as the Bank of England's raising its discount rate in 1836, contributed to the pressures which led to the national suspension. As more-or-less permanent credit facilities were closed in locales around the country, those in search of credit had to resort to short term bills on other locations to meet their borrowing needs.

Not only were debtors being required to liquidate their 'permanent' discounts, but there simply were no lenders in most marketplaces who could accommodate them with permanent lines of credit.

There is no doubt that the volume of bills offered for sale in the exchange markets nationally swelled considerably in the years after 1832. As permanent accommodations disappeared in places like Natchez, credit mediators necessarily sold bills on correspondents in other cities to meet their requirements. Initially the stress was greatest at points along the Mississippi River, places where the Bank of the United States had been especially important and more or less dominant in the local markets. The discount line at Natchez was larger than the branch's discount line at Boston, for example. But as commercial agents in Natchez and St. Louis and New Orleans tried to support their credit and that of their clients, they resorted to drawing on their correspondents in New York, Boston, Philadelphia, and even London. In such an environment, it was very easy for arrearages to begin accruing, as drawers in the West fell into debt to their correspondents in the East. Increasingly, bills from points west began to fall under protest and as they were returned to remitters in places like Natchez, the holders had no choice but to receive a highly illiquid long dated bill receivable in settlement. And so credit facilities in that locale became even more strained and paper suitable for remittance became unavailable.

The market for sterling exchange was turned upside down when the Bank of the United States stopped buying altogether in 1833. In prior years the bank had virtually made the market for sterling bills and foreign bills generally. It had been able to set the price and reduce the premium such bills commanded when little paper was offered for sale. For the first time ever, sterling bills fell to a discount in New Orleans and New York. The situation only reversed itself the following year when the Bank of the United States returned to the market as a big buyer.

By 1834, even the foreign exchanges were being called upon to shoulder some of the burden of liquifying the domestic exchange markets. So, eventually the pressure in the western cities was communicated to London. London might have supplied the needful, but already the money market there was spooked by events abroad. Even more troubling was the Bank of England's declining specie reserves; a clear indication of disquiet and distrust in the money market.. Financial historians have studied this phenomenon with much attention to the details of the Bank of England's specie crisis and the consequent raising of the discount rate in response to the drain. They have observed that specie was not being exported abroad as contemporaries had generally assumed was the case. But here the investigation of what happened to the specie, which was drawn for, has stopped. Several hypotheticals present themselves. The specie drain simply reflected the activities of speculators, betting that the Old Lady of Threadneedle Street would be forced to suspend. But the bulk of the specie drain probably

resulted from the actions of commercial agents in the City, dutifully protecting their clients whose money they managed. Currency debasement didn't excuse them from returning to their depositors, an equivalent in specie if called upon to do so. And since London was an international money market, these same agents would have held large sums for foreign clients as well, clients who could [and no doubt did] demand that their own bills be honored in specie when presented for payment by a third party holder.

By 1836, the principal merchant banks which had financed the Anglo-American trade in preceding decades were in trouble. Four of the six largest firms failed outright and were liquidated for the benefit of the Bank of England. The liquidations continued for more than a decade. All the firms had conducted extensive underwriting operations for American securities which had been offered for sale in the London market. Purchasers of foreign bills in the United States, bills which had been drawn against sale proceeds from securities and staples, were overwhelmed with waves of protested bills, returned to them when the drawees were forced into liquidation.

Long before the general suspension in 1837, the credit system had already moved toward contraction. The anecdotal evidence indicates that specie redemption by the banks of their circulation, when tendered, was at best nominal. So, as long as a year before every bank in the country was forced to suspend, deterioration in the credit system was clearly observable. And once the banks everywhere suspended, liquidation of discount lines commenced in earnest. Suspension brought no relief. The banks saw their circulation become an object of speculation as debtors with the wherewithal paid their debts in depreciating bank notes. Only if a bank were able to start redeeming in specie, could it hope to preserve the value of its paper and its shareholders capital.

Most bank charters provided for a forfeiture of the charter in the event the bank suspended. State legislatures attempted to alleviate the hardships by authorizing temporary suspensions, but market forces overwhelmed such stopgap measures. As bank notes depreciated, assets in the form of loans also declined in value. So, it is little wonder that in the two years after 1837 banks pressed their clients to liquidate their debts and steadily reduced their discount lines. Most banks in the East resumed paying specie, at least nominally, in 1839. The banks of Mississippi never really did resume and resumption at New Orleans was tentative at best.

A second bank suspension commenced in 1841. The United States Bank of Pennsylvania was at the epicenter of the crisis. Its collapse took all of the banks of Philadelphia with it, and most of the banks in the South and West followed in its wake. One historian of the bank has said that its difficulties sprang from its heavy concentration of resources in places like Natchez, rather than diversifying its resources in manufacturing and enterprises closer to home. But in this instance, Nicholas Biddle's reasoning was sound and it made perfectly

good sense. Southern staples provided most of the nation's foreign exchange earnings. As Peter Temin, and others have observed, the condition and size of the nation's money stocks in the antebellum decades depended heavily on sterling exchange; that is, a capability for realizing funds in sterling. With sterling bills in hand, the world's marketplace was accessible. And the nation's principal source of foreign exchange were the sterling bills drawn against consignments of staples like cotton and sugar, exported from southern ports. Slave plantations greatly enhanced the nation's monetary system as a whole, because they were the engines which generated most of the nation's foreign exchange earnings. No other economic enterprise of the time came close to them in importance.

Shortly before the Natchez branch of the Bank of the United States opened, Biddle had been questioned about the desirability and necessity of opening a branch and that city. He answered that no place in the world were there more rich proprietors so concentrated as in Mississippi. He might well have added that at no location in the United States was the potential greater for generating foreign exchange, the lifeblood of the American financial system. More than twenty years after his death, as the nation was plunged into civil war, realities had changed only slightly. Exports of southern staples still provided the bulk of the nation's foreign exchange earnings and sustained the underpinnings of its financial system. How important those earnings were, still, can be seen in the premium paid for sterling bills in the New York money market in 1863. It had risen from one or two percent in 1860 to nearly four hundred percent a few years later.