

The Pressure of 1836:  
The International Origins of the panic in 1837

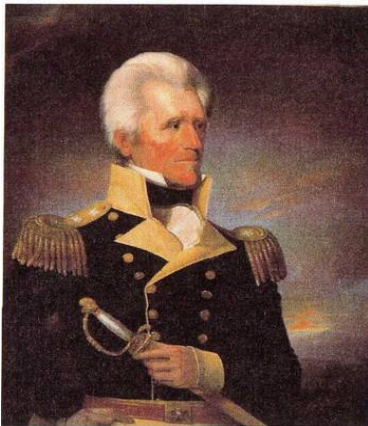
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PEAES Conference 2007

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On July 20, 1836, J. & I. Cohen, Jr. and Co. of Baltimore, Maryland sent a gift to the wealthiest man in Britain and, most likely, in the world – Nathan Mayer Rothschild.<sup>1</sup> After years of providing Rothschild with financial news and receiving credit in return, the Cohens interpreted the latest battle in the American “Bank War” between President Andrew Jackson and his political opponents as the fulfillment of their financial dreams.<sup>2</sup> All of their years of confidence brokering, trading financial information for profit or power, had brought them the



**1-1. Portrait of Andrew Jackson by R. E. W. Earle (c. 1836). Property of N. M. Rothschild & Sons.**

reward of being correspondents of the new bankers of the United States Federal Government.<sup>3</sup> To celebrate, they sent Rothschild a portrait of President Jackson.

The irony of sending the world’s most powerful private banker the image of a man who hated banks would bear out within the next year. Strained from the beginning, the relationship

<sup>1</sup> For Rothschild’s wealth, see: Niall Ferguson, *House of Rothschild: Money’s Prophets, 1798-1848* (New York: Viking, 1998), 287, 299-301, 304. For evidence of the Cohen’s gift and of their relationship with Nathan Mayer Rothschild and Sons [NMRS], see: NMRS to J.I. Cohen Jr. & Bros., 6 September 1836, II/10/1, Rothschild Archive.

<sup>2</sup> The “Bank War” has inspired generations of historians. The literature on this subject spans from the 1830s to the present from both political and economic perspectives. Key works in the political historiography, include: Arthur M. Schlesinger’s *The Age of Jackson* (Boston: Little, Brown, 1945); Bray Hammond, *Banks and Politics in America: From the Revolution to the Civil War* (Princeton: Princeton University Press, 1957); and Marvin Meyers, *Jacksonian Persuasion: Politics and Belief* (Stanford: Stanford University Press 1957). For a useful historiographical essay on Jacksonian scholarship, see: Daniel Feller, “Politics and Society Toward a Jacksonian Synthesis,” *Journal of the Early Republic* 10, no. 2 (1990): 135-161. Two historiography essays summarize the economic history literature on this period: Larry Schweikart, “U. S. Commercial Banking: A Historiographical Survey,” *The Business History Review*, 65 (Autumn 1991): 606-661; and Richard Sylla, “Review of Peter Temin *The Jacksonian Economy*,” EH-Net Economic History Services, Aug. 17, 2001, <http://www.eh.net/bookreviews/library/sylla.shtml>.

<sup>3</sup> As a banking term, “correspondents” became a part of the vocabulary of finance in 1819 replacing the previous term “connexion” but it gained real significance in the 1830s. Franz Redlich, *The Molding of American Banking: Men and Ideas* (1951, Reprint, New York: Johnson Reprint Company, 1968), I:51.

between Rothschild and the U. S. Federal Government commenced during a period of financial tension that would lead to the worst economic depression Americans had ever known.<sup>4</sup> By the time the painting arrived in London, news of the latest battles in the American bank war led English investors to doubt their trans-Atlantic investment. As America's bankers, Nathan Mayer Rothschild and Sons found themselves responsible for the finances of a nation undergoing the deepest and most widespread economic crisis in its history – the Panic of 1837.

In a neat package, the Cohen's gift conveys the way financial information changed meaning as it crossed national borders. In addition to the time lag of transportation in the age of sail, international investment suffered from mistranslation.<sup>5</sup> Celebratory news for Americans who profited from the increasingly decentralized banking system could prove disastrous to British investors who cherished stability and trusted the imperial power of a centralized system of political economy. From the square mile of London real estate known as the City, the speeches of American politicians decrying the Bank of the United States, state chartered banks, paper money, internal improvements, overtrading, and speculation in federal land sales sounded like direct threats to Londoners' investments and the British financial system. Frightened by news of America's policy changes, British investors reconsidered the security of their trans-Atlantic investments. Because British capital played such a large role in financing the American economic boom of the 1830s, the threat of the withdrawal of these investments provided a legitimate cause for panic in every city and town connected with the global capitalist economy.<sup>6</sup>

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<sup>4</sup> For economic evidence of the severity of the depression, see: Peter E. Austin, "Baring Brothers and the Panic of 1837" (PhD diss., University of Texas at Austin, 1999), 309-311; and Peter Temin, *The Jacksonian Economy* (New York: W. W. Norton, 1969), 148-157.

<sup>5</sup> For more on the speed of trans-Atlantic news before steam, see: Robert G. Albion, *Square-Riggers On Schedule: The New York Sailing packets to England, France, and the Cotton Ports* (Princeton: Princeton University Press, 1938), 9, 274.

<sup>6</sup> For the economic growth of the 1830s, see: Douglass C. North, *The Economic History of the United States, 1790-1860* (New York: W. W. Norton, 1966) 68, 189-203; Robert E. Gallman, "Economic Growth and Structural Change

In sum, national, as well as local and personal, context mattered in the interpretation of financial news, and this news stimulated economic change.

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As a case study, the Panic of 1837 offers an excellent opportunity to explore how the contextually sensitive approach of cultural history and the trans-national awareness of Atlantic world history provide new interpretative insights into American economic development.<sup>7</sup> In my recently defended dissertation, “1837: Anatomy of a Panic,” I argue that the term the “Panic of 1837” was invented long after 1837 to lump together both the acute experience of panic and the longer years of economic depression.<sup>8</sup> Compared to the secondary sources written by historians, primary sources described not only a shorter panic in 1837 but also a more personal, local, and

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in the Long Nineteenth Century,” in *The Cambridge Economic History of the United States: The Long Nineteenth Century*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000), 9, 23; and Stuart M. Blumin, “The Social Implications of U. S. Economic Development,” in *The Cambridge Economic History of the United States: The Long Nineteenth Century*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000), 813-863. Few Americanists have recognized the significance of British investors in bringing about the economic crisis that ended the 1830s. For exceptions, see: Hammond, *Banks and Politics*, 457; and Ralph W. Hidy, *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861* (Cambridge, MA: Harvard University Press, 1949), 207.

<sup>7</sup> Over a decade of historical literature in a large variety of subdisciplines has expanded our understanding of the 1830s as a period of accelerated “market revolution.” For examples, see: Melvin Stokes and Stephen Conway, eds., introduction to *The Market Revolution in America: Social, Political, and Religious Expressions, 1800-1880*, (Charlottesville, VA: University Press of Virginia, 1996). Recent cultural histories that have explored life inside capitalism from the bottom up, see: Edward J. Balleisen, *Navigating Failure: Bankruptcy and Commercial Society in Antebellum America* (Chapel Hill, NC: University of North Carolina Press, 2001); Brian P. Luskey, “The Marginal Men: Merchants' Clerks and Society in the Northeastern United States, 1790-1860,” (PhD diss., Emory University, 2004); Bruce H. Mann, *Republic of Debtors: Bankruptcy in the Age of American Independence* (Cambridge, MA: Harvard University Press, 2002); Stephen Mihm, “Making Money, Creating Confidence: Counterfeiting and Capitalism in the United States, 1789-1877” (PhD diss., New York University, 2003); and Scott Sandage, *Born Losers: A History of Failure in America* (Cambridge, MA: Harvard University Press, 2005). For the culture of capitalism in Britain, see: Margot C. Finn, *The Character of Credit: Personal Debt in English Culture, 1740-1914* (Cambridge: Cambridge University Press, 2003). The movement to rethink America’s economic culture from the perspective of average people rather than political economists or business leaders reflects the new “new political history’s” debates about politics from the bottom-up and from the home to the streets. For examples of this, see: Jeffrey Pasley and David Waldstreicher, eds., *Beyond the Founders: New Approaches to Political History in the Early American Republic* (Chapel Hill: University of North Carolina Press, 2003). For business history’s recent interest in the construction of capitalism, see: Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York: Cambridge University Press, 1994). For more on the development of the field of Atlantic History, see: Bernard Bailyn, *Atlantic History: Concept and Contours* (Cambridge, Ma.: Harvard University Press, 2005).

<sup>8</sup> Jessica Lepler, “1837: Anatomy of a Panic” (PhD diss., Brandeis University, 2008).

transnational experience. Contemporaries described their panics as beginning in March 1837, two months before the bank suspensions that historians have typically described as the onset of the crisis, and as ending in May 1837, before the start of the economic depression. Respecting the difference between these two meanings, in this essay, “Panic” refers to the national story of crisis and depression described by historians and “panic” refers to the acute experience of overwhelming financial uncertainty described in the spring of 1837.

In May 1837, as panic reached its climax, newspaper editors and elite financiers intentionally cast the crisis in nationalized political terms to cleans themselves of blame.<sup>9</sup> For over a century, historians of all stripes accepted this interpretation and blamed the crisis on the bank war between Andrew Jackson and Nicholas Biddle.<sup>10</sup> In 1967, Peter Temin’s *The Jacksonian Economy* challenged the economic significance of American political leaders and their fiscal policies by arguing that shifting global specie flows throughout the 1830s had caused the crisis.<sup>11</sup> This paper accepts Temin’s international thesis but questions his dismissal of the bank war. By employing the methodology of cultural history, the following pages argue that financial information laced with bank war inspired messages held different meanings and incited

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<sup>9</sup> This argument is more thoroughly developed in: Lepler, “‘To Save The Commercial Community of New York’: Business Culture and the Panic of 1837,” in Robert Lee, ed., *Commerce and Culture: 19<sup>th</sup> Century Business Elites* (London: Ashgate, forthcoming).

<sup>10</sup> For some examples of accounts of the panic between the 1850s and 1950s, see: “History of Our Panics,” *New York Times*, 20 August 1878; “American Panics and their Causes,” *New York Times*, 3 November 1907; E. G. Bourne, *Distribution of the Surplus Revenue of 1837* (New York: G. P. Putnam, 1885); Reginald Charles McGrane, *The Panic of 1837: Some Financial Problems of the Jacksonian Era* (1924, Chicago: University of Chicago Press, 1965); Samuel Reznick, “Social History of an American Depression,” *American Historical Review* 40, no. 4 (July 1935): 662-687; S. A. Trufant, *Review of Banking in New Orleans, 1830-1840: History of the Panic of 1837: Address Delivered before the Louisiana Historical Society* (1918); John Wentworth, “Lecture Delivered before the Sunday Lecture Society: May 7 1876” in *Reminiscences of Early Chicago* (Chicago: Lakeside Press, 1912). For key political histories from the 1940s through the 1970s, see: Schlesinger, *Age of Jackson*; Hammond, *Banks and Politics in America*; Glyndon G. Van Deusen, *The Jacksonian Era, 1828-1848* (New York: Harper Torchbooks, 1959); James Roger Sharp, *The Jacksonians Versus the Banks: Politics in the States After the Panic of 1837* (New York: Columbia University, 1970); John McFaul, *The Politics of Jacksonian Finance* (Ithaca: Cornell University Press, 1972); and Meyers, *Jacksonian Persuasion*. For a critique of the entrepreneurial-consensus school, see: Edward Pessen, *Jacksonian America: Society, Personality, and Politics* (Homewood, IL: Dorsey Press, 1969).

<sup>11</sup> Temin, *Jacksonian Economy*.

different responses on both sides of the Atlantic.<sup>12</sup> The interpretation of financial information, including references to the bank war, inspired Temin's shifts in global specie flows. In short, I argue that ideas not only explained the economic changes of the 1830s but also functioned as an essential part of the economy.<sup>13</sup>

To make this argument, this paper presents a microhistory of a period of time I have labeled "The Pressure of 1836." Before they panicked in 1837, bankers, merchants, bill brokers, and newspaper editors on both sides of the Atlantic Ocean reported rapidly rising interest, discount, and exchange rates from the summer of 1836 until the March commercial crashes that initiated the panic. Contemporaries described this period as a time of great "pressure." By placing the ideas that inspired this pressure under a historical microscope, I argue that the panic was in part a result of the slippage between international and national interpretations of financially significant news. Although economic historians continue to launch econometrical assaults on the various bank war fiscal policies that may have caused the Panic of 1837, this paper does not plug historical data into contemporary formulas.<sup>14</sup> Instead, the following pages

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<sup>12</sup> Temin and Leland Jenks implied that the ideas of American and British investors incited panic but neither scholar studied the function of this cultural factor on the economy or the transnational context of these ideas. Temin, *Jacksonian Economy*, 128; and Leland Hamilton Jenks, *The Migration of British Capital to 1875* (New York: Alfred A. Knopf, 1927), 85-88.

<sup>13</sup> For examples of excellent cultural histories of capitalism that do not consider the function of culture within the economy, see: Thomas L. Haskell and Richard F. Teichgraber, III, eds., *The Culture of the Market: Historical Essays* (New York: Cambridge University Press, 1993); and Anne C. Rose, *Voices of the Marketplace: American Thought and Culture, 1830-1860* (New York: Twayne, 1995). For a recent historiographical review of this literature, see: Jean-Christophe Agnew, "Capitalism, Culture, and Catastrophe: Lawrence Levine and the Opening of Cultural History," *Journal of American History* 93, no. 3 (2006): 772-791. For an example of economic history that considers the importance of culture for business development but not as a component of the economy, see: Naomi Lamoreaux, "Rethinking the Transition to Capitalism in the Early American Northeast," *Journal of American History* 90, no. 2 (2003): 437-461.

<sup>14</sup> Studies which employ econometrics to debate policy causes of the panic include: J. Van Fernstermaker, *The Development of American Commercial Banking, 1782-1837* (Kent, Ohio: Kent State University Bureau of Economic and Business Research, 1965); Hugh Rockoff, *The Free Banking Era: A Re-examination* (New York: Arno Press, 1975); Peter L. Rousseau, "Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837," *Journal of Economic History* 62, no. 2 (2002): 457-488; Larry Schweikart, *Banking in the American South from the Age of Jackson to Reconstruction* (Baton Rouge: Louisiana State University Press, 1987); Richard H. Timberlake, Jr., "The Specie Circular and Distribution of the Surplus," *Journal of Political Economy* 68, no. 2 (1960): 109-117; Richard

begin to explain the international and cultural causes of panic in 1837. In so doing, this essay demonstrates that a microhistorical approach to economic history provides a new model of synthesis for economic, political, social, and cultural history across national boundaries.<sup>15</sup>

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The Cohen's sent their gift shortly after President Andrew Jackson transferred the U. S. Federal Government's British accounts to Rothschild from Baring Brothers, a large London merchant banking house that had managed America's money since the nation's founding.<sup>16</sup> Jackson's inauguration of commercial relations with Rothschild resulted from his dislike of Barings who associated themselves with his political opponent Nicholas Biddle, President of the Second Bank of the United States [BUS]. Since 1816, the BUS, a private corporation, acted as a quasi-central bank by investing the federal government's funds, issuing paper money, and regulating the nation's exchange of bank and commercial paper.<sup>17</sup> A decade of economic prosperity had swollen the federal government's coffers with the proceeds of the import tariff and federal land sales. During his second term in office, Jackson removed these considerable funds from the BUS and allowed its charter to expire. Thus, Jackson relocated control over

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H. Timberlake, Jr., "The Specie Circular and the Sale of Public Lands: A Comment," *Journal of Economic History* 25, no. 3 (1965): 414-416; and Harold D. Woodman, *King Cotton and His Retainers: Financing and Marketing the Cotton Crop of the South, 1800-1925* (Lexington: University Press of Kentucky, 1968).

<sup>15</sup> My microhistorical model is derived from a combination of recent studies of antebellum culture which include: Walter Johnson, *Soul by Soul: Life Inside the Antebellum Slave Market* (Cambridge, MA: Harvard University Press, 1999); Patricia Cline Cohen, *The Murder of Helen Jewett: The Life and Death of a Prostitute in Nineteenth Century New York* (New York: Knopf, 1998); and Alfred Young, *The Shoemaker and the Tea Party: Memory and Revolutionary America* (Boston: Beacon Press, 1999).

<sup>16</sup> For a recent survey of the historiography of British finance, see: Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason* (New York: Cambridge University Press, 1990), 151-181.

<sup>17</sup> Redlich, *Molding of American Banking*, 1:96-180.

federal finances to hand-picked state chartered institutions and, despite his anti-paper and anti-bank rhetoric, inspired an expansion of the nation's unregulated financial confederacy.<sup>18</sup>

Jackson's supporters in Congress defended his plan. On April 27, 1836, C. C. Cambreleng of New York addressed the House of Representatives on a bill entitled "Armament of Fortifications." Although the bill's primary goal was improving the navy's fleet, the congressman used only a fraction of his time to discuss the possibilities of war with foreign nations like France, Great Britain, or Mexico. Instead, he launched a volley of numerical artillery in the domestic and highly partisan bank war. Cambreleng was responding to a new plan proposed by the Whigs that would diffuse the fiscal power of the president and his "pet" banks.<sup>19</sup>

Earlier in the month, a Whig congressman had proposed an amendment to this military spending act to distribute \$3.4 million surplus federal funds to the States.<sup>20</sup> As a committed Jacksonian Democrat, Cambreleng spoke forcefully against this amendment which would not only remove federal funds from Jacksonian control but also increase the decentralization of American finance. "Before gentlemen tamper with our revenue and empty our treasury," he cautioned, "I hope they will devise the ways and means to fill it again." Suggesting that the Federal coffers were artificially swollen, he expressed his concerns about "a wild and

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<sup>18</sup> Harry N. Scheiber argues that Jackson's 1833 executive order ending federal deposits in the BUS and initiating the "pet bank" system and the Deposit Act of 1836 illustrate the significance of shifting opinions of the security of banks in the Jacksonian Era and established real economic pressures that contributed to the panic of 1837. Harry N. Scheiber, "The Pet Banks in Jacksonian Politics and Finance, 1833-1841" *Journal of Economic History* 23, no. 2 (Jun 1961): 196-214. In terms of the effects of the loss of the BUS on the integration of national financial markets, Howard Bodenhorn argues that the state system of banking continued to enable an integrated financial system and allowed for economic efficiency because banks could meet the unique needs of their local clientele. Although he demonstrates that the state system of banking was not entirely dis-integrated after the BUS, I argue that the diffuse communication networks and lack of authority inherent in the decentralized system prevented American banks from coordinating their response to the crisis in 1837. Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-Building* (New York: Cambridge University Press, 2000) 25-6, 165-212.

<sup>19</sup> C. C. Cambreleng, "Armament of Fortifications," *Congressional Globe*, 24th Cong., 1st Sess., 312-6 (1836).

<sup>20</sup> For a summary of the Distribution Act or Deposit Bill, see: Sean Wilentz, *The Rise of American Democracy: Jefferson to Lincoln* (New York: W. W. Norton, 2005), 436-446.

uncalculating spirit of speculation.” He cited statistics as “evidences of sudden and extraordinary overtrading” and of “the vast and sudden expansion of the business of all the banks in the union.” Using estimated figures and an undisclosed formula, he calculated a \$23.5 million trade deficit in 1835 and an \$85 million increase in banking capital since 1830. Even though the proposed amendment discussed redistributing a significantly smaller sum, he presented these alarming figures to frighten Americans into trusting the President’s plan. Expressing his “great confidence” in Jackson’s administration, Cambreleng assured that his statistics of “overtrading” evidenced the dangerous timing of the Whig’s policy of “distribution.”<sup>21</sup> Although his arguments pointed out the flaws of the policies of financial decentralization that had been promoted by both parties, Cambreleng intended his speech to frighten his fellow legislators and the wider audience of national voters into fearing only the Whigs’ most recent proposal.

Americans ignored the warnings in Cambreleng’s speech. Legislators passed a reformulated “Deposit Bill” that included a half-hearted attempt at federal banking regulation – an investigation into the state chartered banks that held federal funds – as well as an incentive for expanding state bank capital – the distribution of the surplus to the states. Congress attempted to remove control of federal funds from the President but did not address the problems of “overtrading,” rapid bank expansion, or federal financial impotence.<sup>22</sup>

In a final counterattack during the summer of 1836, Jackson issued a Treasury Order known more commonly as the Specie Circular that limited payment for federal lands to gold or silver coin. Issued after Congress went into recess for the summer, Jackson hoped that this executive measure would check land speculation and prevent the increase in the circulation of

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<sup>21</sup> Cambreleng, “Armament of Fortifications” 314-5. These statistics and others released by the Treasury Department have been scrutinized by many economic historians who varyingly argue that the numbers accurately reflected both an unfavorable balance of payments and a vast inflation of value on both sides of the Atlantic.

<sup>22</sup> Wilentz, *Rise of American Democracy*, 443.

bank paper that he assumed would follow the Deposit Bill. The Specie Circular however failed to stabilize America's finances. It incentivized shipping the coins that backed paper financial instruments at America's Atlantic mercantile centers to frontier outposts. By the time Congress reconvened, Whigs feared, bank paper and bills of exchange would have significantly depreciated and interest rates for loans of specie would have skyrocketed. The payment of foreign debts would be nearly impossible.<sup>23</sup>

Although legislators had to wait until December to propose new fiscal policies, partisan newspaper editors kept the bank war raging throughout the summer and fall by publishing frightening editorials and reprinting vituperative speeches. With the election for the next President under way, economic policy became a key campaign issue. The stock and money markets in New York fluctuated as investors placed bets on which candidate would win and which policies would remain law.<sup>24</sup> As one newspaper reported, "the election of the presidency is beginning to be talked of as an event capable of affecting the money market."<sup>25</sup> In August, the newspapers reported New Yorkers saying that the election of Vice President Martin Van Buren, Jackson's hand-picked successor, "will injuriously effect the money market and eventually produce an extreme pressure next winter."<sup>26</sup> By early September, "a fever and anxiety [had] spread over the market" in response to "fluttering" stock values and increasing discount rates.<sup>27</sup> Newspaper reports predicting dire consequences both in favor and opposed to Jackson's policies increased the pressure.

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<sup>23</sup> Wilentz, *Rise of American Democracy*, 444-6.

<sup>24</sup> "Wall Street", 29 August 1836, *New York Herald*, 3.

<sup>25</sup> "Wall Street", 25 August 1836, *New York Herald*, 3.

<sup>26</sup> "Wall Street", 29 August 1836, *New York Herald*, 3.

<sup>27</sup> "Wall Street," 1 September 1836, *New York Herald*, 3.

Meanwhile, aboard New York's weekly packet ships, news of bi-partisan efforts to decentralize and expand America's financial system traveled to England's financial center, the City. Without the domestic political context, excerpts from American newspapers sounded positively dire to readers in Great Britain who had invested large sums of money in America's banks, stocks, and mercantile businesses. Historians estimate approximately \$175 million of British capital was invested in American financial securities and tens of millions more financed American commercial endeavors.<sup>28</sup> By mid-June the London *Times* reported that "great interest seems to be raised in the City by the discussions on American affairs, but many . . . doubt whether trading and banking have been carried on to the extent described, and ask for further evidence on the subject." To provide the "facts" of the "state of the trading and banking interest" requested by his readers, the editor excerpted a recent Congressional speech given by "Mr. Cambreleng of New York" that had been written "to show the impolicy of distributing the surplus revenue of the country among the several states." Ignoring the partisan motives of the text, the editor asserted that Cambreleng's speech had "greater importance" in London because it demanded a reevaluation of the security of the entire American economy. Given the sums British investors had risked on American ventures, the *Times* editor believed that the figures cited by Cambreleng needed "to be made known and carefully watched in this country." He hoped that publishing his warning would not cause "very extensive mischief" but rather "excite caution" in Britain and the United States in order to "avert the altogether otherwise inevitable consequences."<sup>29</sup>

Ignored in Washington, D. C., Cambreleng's speech and other excerpts from American fiscal policy debates shocked readers in London. As one letter to the editor attested, "the

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<sup>28</sup> Jenks, *Migration of British Capital* (New York: Alfred A. Knopf, 1927), 84-5.

<sup>29</sup> *Times* (London), 17 June 1836.

statements in your paper [have] excited much alarm in the minds of persons holding American stocks and engaged in American trade.”<sup>30</sup> While Americans read the newspaper accounts of fiscal policy debates through partisan eyes, Londoners saw only the potential risks of American commerce. Had too much British specie been traded to America in exchange for paper that promised high interest rates? Would these stocks, bonds, and bills of exchange retain their value if specie was constantly being redistributed and reinvested? Regardless of whether the Specie Circular, Deposit Bill, and state-chartered banks actually threatened the specie to paper ratio and spawned an unsafe expansion of banking, this possibility haunted London investors.

The *Times* article echoed previously existing doubts in the City. In May 1836, Joshua Bates, American-born head of Baring Brothers, had already heard “a good deal of talk about gold going out and a sentiment of money matters in the City.” While Bates felt that inquiry into American specie flows would “probably do good,” he was concerned that “if carried too far it must end in panic.”<sup>31</sup> As the summer wore on and especially after the *Times* article, the talk in the City spread to networks of investors outside the square mile. Having recently agreed to sell a bond issue for a Louisiana state bank, Bates’ correspondents in Amsterdam complained that the *Times* coverage of American banking “was not calculated to strengthen the confidence in trans-Atlantic loans.”<sup>32</sup> Bates recorded in his diary that “the Newspaper contains accounts of the great increase of Banks in the U.S. and expressed fears that seem were founded that a crisis may

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<sup>30</sup> *Times* (London), 17 June 1836.

<sup>31</sup> Joshua Bates, diary, 18 June 1836, Dep. 74, vol. 3, ING/Baring Archive, London.

<sup>32</sup> Hope & Co to Baring Brothers, 3 May 1837, HC 8.1.1836, ING/Baring Archives.

happen in consequence.” Nicely summarizing how doubts contributed to economic actions, Bates continued “we must prepare for consequence.”<sup>33</sup>

Bates immediately began to reconsider his firm’s strategy in the American trade. He ordered his Boston agent, Thomas Wren Ward, not “to have any more exchange accounts at present,” to withdraw credit from several American state banks, and to “be cautious in granting credits in New York to houses having other accounts open in London.” This last request proved that Bates had not only lost confidence in the profitability of American paper, but also that he had lost trust in his fellow London bankers. Bates feared that if the paper currency of American banks depreciated, American bills of exchange would prove difficult to pay. If Americans failed to cover their bills of exchange, English bill brokers who had extended credit across the Atlantic and tied up their capital in this paper would not be able to pay their debts. By refusing credit to New Yorkers with other London accounts, Bates sought to prevent his firm’s ensnarement in this web of dubious credit.<sup>34</sup>

By reacting early to the news, Bates anticipated a shift in confidence that extended far beyond his personal doubts, but he did not broadcast his concerns.<sup>35</sup> Despite the “talk” and the *Times* article, the confidence of many British financiers in the American trade thrived. The “American Houses,” merchant bankers who specialized in financing American commerce, continued to extend credit, buy stocks, and trust their correspondents in the United States.

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<sup>33</sup> Joshua Bates, diary, 18 June 1836, Dep. 74, vol. 3, ING/Baring Archive, London. For more on Joshua Bates’ role in Baring Brothers, see: Philip Ziegler, *The Sixth Great Power: A History of one of the Greatest of all Banking Families, the House of Barings, 1762-1929* (New York: Alfred A. Knopf, 1998), 112-144.

<sup>34</sup> Joshua Bates to T. W. Ward, 22 July 1836, LB5C, ING/Barings Archive.

<sup>35</sup> In a meeting between Bates and Philip Hone recorded in the latter’s diary, Hone makes no mention of Bates discussing his concerns about the American trade. The Bank of England had already increased discount rates for American Houses, but Hone does not record any English doubts about America. Philip Hone, diary, 29 August 1836, 12:117, New York Historical Society.

Exemplifying this spirit, Rothschild accepted the accounts of the United States federal government.

Only days after the Cohen's gift to Nathan Mayer Rothschild set sail across the Atlantic, a carrier pigeon, by far the fastest form of communication available in the mid-1830s, transmitted terrible news from the European Continent. The trained bird conveyed the brief message, "*il est mort.*" Days later, letters and newspapers confirmed that shortly after attending his son's wedding in Frankfurt, on July 28, 1836, Nathan Mayer Rothschild died suddenly at the age of fifty-nine. Rothschild had been characterized as a "pillar" of the exchange – a component of the architecture, a constant presence in the center of finance, and the supporting structure of the Empire's currency. The financial world grieved his death with commemorative memorabilia like mourning rings and broaches as well as silk scarves that depicted Rothschild standing in the exchange with a statement of his business and philanthropic successes.<sup>36</sup> A funeral procession of seventy-five carriages attracted a crowd "so great many of the shops were shut to protect the windows from the pressure."<sup>37</sup> Beyond the physical pressure of the mourning crowds, Rothschild's death created financial pressure as the market experienced "variations of all stocks & their wild fluctuations."<sup>38</sup> Discount rates began to increase. Rothschild's death unquestionably fed the feelings of foreboding in the City, and newspapers as well as private correspondence spread London's pressure to other markets.

Shortly after Rothschild's death, private doubts transformed into public policy as the financial institution officially responsible for Britain's currency joined Baring Brothers in questioning the trustworthiness of the American trade. Empowered by Parliament to maintain the

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<sup>36</sup> Ferguson, *House of Rothschild*, 287, 299-301, 304.

<sup>37</sup> *Times* (London), 9 Aug 1836.

<sup>38</sup> Ferguson, *House of Rothschild*, 300.

value of British paper money, the Governor and Directors of the Bank of England [BOE] faced the daunting task of ensuring that the supply of gold coins in their vaults could sustain the circulation of paper money and simultaneously produce profits for private stockholders. Apart from selling shares in long-term Government loans, the BOE made money by “discounting acceptances” or using its specie to buy bills of exchange for slightly less than face value with the understanding that the commercial paper would be redeemable for the full value in specie after a short period of time.<sup>39</sup> The Directors raised or lowered the discount rate, the amount they charged for these short term loans, based on the supply of coins in the BOE’s vaults. Low discount rates encouraged trade. But, when the vaults emptied, the BOE raised discount rates to protect the specie reserved for the currency.<sup>40</sup> Thus, national currency and transnational trade competed for the specie inside the vaults of the BOE. It was not, however, a fair contest. Due to its public duty, the BOE was obliged to protect the national currency at the expense of transnational trade.

In an era of debates over “free trade” and “protectionism,” the BOE was a quasi-laboratory of political economy. Every time the BOE Directors faced the choice to discount a bill, they were actually deciding whether the economy should produce financial stability within British territory or private profit irrespective of political boundaries. Although there were many sources of London merchant banking capital, the BOE’s overwhelming specie supply and public duties made it the largest and most powerful bank. While economists had not yet defined the role of a central bank in a crisis, the BOE had already acted as a lender of last resort for the government, ensuring that the British Empire remained solvent. As a lender to private merchant

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<sup>39</sup> For discounting mechanics, see: Edwin J. Perkins, *Financing Anglo-American Trade: the House of Brown, 1800-1880* (Cambridge, MA: Harvard University Press, 1975), 6; Bodenhorn, *Banking in Antebellum America*, 148-9.

<sup>40</sup> Joshua Bates explains the purpose of raising discount rates in his letter to the BOE, see: Joshua Bates to Directors of the Bank of England, 26 Oct 1836, in “Committee of the Treasury Minute Book,” vol. 22, G8/29, Bank of England Archive.

banks, the BOE's responsibility in a crisis was less clear. Nevertheless, because the BOE discounted merchant bankers' bills, the BOE's obligation to protect the national currency linked the nation's capital with the City's global trade. When London merchant bankers extended credit to confidence brokers in New York or New Orleans, they loaned Britain's specie to America.<sup>41</sup>

Due to the connection between their national responsibilities and transnational trade, the Governor and the Directors of the BOE were particularly concerned by the reports of the insecurity of America's financial system. In the months leading up to August, the bullion in the BOE's vaults diminished by more than two million pounds forcing the ratio of paper in circulation to metallic reserves well under the bank's desired thirty percent.<sup>42</sup> Connecting the *Times* article with the BOE's ledger, the Governor of the BOE became convinced that his institution was losing specie because London investors sent it to America to supply capital for America's many new banks. As Joshua Bates warned his Boston agent in early July, "the Governor of the Bank pretends to be or really is most alarmed about the gold going to America and the amount of American bills in circulation."<sup>43</sup> While the BOE could not control America's financial system, it could influence the English firms that offered commercial credit to American merchants and sold American bonds and stocks to British investors.

On August 24, 1836, towards the end of a very long Committee of Treasury meeting, BOE Governor James Pattison "laid before the committee an account of the acceptances of certain mercantile houses in the hands of the bank at stated periods." While the clerk transcribing

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<sup>41</sup> For more on the guiding principles of the BOE, see: Sir John Clapham, *The Bank of England: A History* (New York: Macmillan, 1945); Larry Allen, *The Global Financial System, 1750-2000* (London: Reaktion Books, 2001), 72-81; and A. Andreades, *History of the Bank of England: 1640-1903*, trans. Christable Meredith, 4<sup>th</sup> ed. (New York: A. M. Kelley, 1966). For a fascinating cultural and architectural history of the BOE that links its policies with imperial debates over political economy, see: Daniel M. Abramson, *Building the Bank of England: Money, Architecture, Society, 1694-1942* (New Haven: Yale University Press, 2005).

<sup>42</sup> Andreades, *History of the Bank of England*, 265.

<sup>43</sup> Bates to T. W. Ward, 9 July 1837, LB5C, ING/Barings Archive.

the meeting recorded the precise amounts of discounts of seven American Houses, none of the discussion entered the record. The committee, however, must have debated whether they believed that these brokers of American credit had exceeded the bounds of safe banking and were now threatening the currency of Britain. The BOE Directors worried that transnational investment threatened national financial security.<sup>44</sup>

Governor Pattison's presentation of the American Houses' accounts suggests that he blamed the American trade for the BOE's specie shortage. A century later, economic historians argue that this was an erroneous assumption on Pattison's part. Troubled about specie levels of the BOE only when the vaults emptied, the Directors concentrated on forces withdrawing gold from the vaults not those that had deposited gold before 1836. The coffers of the BOE may have been artificially swollen because of gold pouring in from the end of the East India Company's monopoly on trade with China as well as the sale of a loan to compensate slave owners after the 1834 Emancipation Act. If this is true, increased circulation of the BOE's paper based on the inflated specie reserves of 1834-5 and not the gold exiting the BOE's vaults in 1836 compromised the reserve ratio.<sup>45</sup> Additionally, economic historians have demonstrated that the specie supplies in America were composed primarily of Mexican silver, not English gold, thus the BOE's coins had not literally traveled across the Atlantic. Finally, since the BOE "lost" about \$17 million in gold and the United States imported only \$7 million in the year proceeding

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<sup>44</sup> Minutes, 24 August 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive, London. This minute book, like all of the BOE's minute books, records the date, time, attendance and resolutions passed at meetings. Sometimes brief statements record the substance of debates and, sometimes letters and other pieces of evidence are transcribed. There is no attribution of authorship.

<sup>45</sup> Clapham, *The Bank of England*, 149, 152. The response to the American Houses illustrates belief in the currency principle – the idea that the BOE's primary responsibility was to ensure that Britain had an adequate reserve in the vaults to meet the nation's liabilities. In opposition to the currency principle, the banking principle argued that the BOE's role was to enable British business not to sustain set levels of specie to bills. While Directors of the BOE included believers in both principles, the specie principle clearly won out in 1836. It is worth noting that advocates of neither principle argued that the source of the problems at the BOE lie in the earlier 1830s influx of specie rather than the 1836 outflow. For more on these two principles, see: Andreades, *Bank of England*, 273-277.

September 1836, economists argue that everyone involved in the market wrongly associated the BOE's specie with the American trade.<sup>46</sup> While economic historians have found considerable evidence that most of the specie did not travel to the United States, the destination of the BOE's gold remains an unanswered question among scholars. The BOE Directors could not have been expected to comprehend these complex specie flows that continue to elude present-day economists. Nevertheless, their interpretation – that American loans threatened the British specie supply – fueled the BOE's policies.

Whatever the cause of the BOE's diminishing gold supply, the Committee of the Treasury was so disturbed by the combination of Cambreleng's figures and the diminished specie reserves of the bank that they "resolved that the said account be laid before the Court of Directors," the shareholders who composed the BOE's governing board.<sup>47</sup> The next morning, August 25, 1836, the Court of Directors, the most powerful collection of financiers in the world, officially began to reconsider their confidence in America. And, they translated their doubts into policy that would spread doubt and pressure throughout the Atlantic world.

The BOE's policies, although based on misunderstandings of both economics and American partisan diatribe, had not come out of the blue. Barings had predicted the coming crisis in confidence from newspaper reports; another American firm learned of the BOE's doubts through gossip. Five days before the Court of Directors met, "an active intelligent director of the Bank of England" informed the American House of Timothy Wiggin and Company that "more British capital has been absorbed by American and continental houses than can be spared." The informant indicated that the Directors of the BOE sought to prevent British specie from funding

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<sup>46</sup> For the wider view of global specie flows as the cause of the BOE's fluctuating specie levels, see: Clapham, *Bank of England*, 145-154; Temin, *Jacksonian Economy*, 136-139, 173.

<sup>47</sup> Minutes, 24 August 24 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive.

American banks. To accomplish this, the BOE would no longer offer American houses the opportunity to discount bills of exchange. While bills of exchange were not directly tied to American banks or bank money, they were the principle financial instruments traveling between firms in the United States and London. Thus, the BOE would not provide short term loans for firms that sold American stock, bonds, and other paper promises “however high may be their standing and credit.” This policy of not accepting commercial paper threatened the reputations of individual firms as well as investors’ confidence in the larger Anglo-American trade. Wiggin passed this information along to his firm’s American correspondents warning of dire consequences. He wrote that “this decision places all houses in jeopardy that do business with American dealers in British merchandise.” In response to the BOE’s policies, he announced that his firm would contract the credit offered to American dealers in British merchandise. This letter, published in American newspapers, should have warned American confidence brokers of the coming contraction of British credit.<sup>48</sup>

Americans, however, were too busy worrying about the Specie Circular, local bank scandals, and the presidential election to worry about confidence in London. On the evening of September 29, 1836, news of the BOE’s decision reached New York. Reports of the changing interest rates received barely a mention in the city’s papers. When the same news reached New Orleans on October 15, 1836, newspapers filled their columns with calls for political rallies and details of a treaty with Native Americans in Michigan.<sup>49</sup> Perhaps, most Americans simply did not realize that all of their domestic anxieties paled in comparison to the possible ramifications of English doubt. Again, financial information changed in meaning as it crossed national borders.

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<sup>48</sup> *Times* (London), 28 October 1836.

<sup>49</sup> *New York Herald*, 30 September 1836; and *New Orleans True American*, 15 October 1836.

Anxiety inspired by the BOE traveled much quicker within Britain. A day's journey north from London, the cashier of the BOE's branch in Liverpool immediately "notified all the Banks at Liverpool" that he had received orders to no longer accept the paper of American houses. England's Liverpool-based cotton merchants had extended millions of pounds of credit to American cotton factors in the form of paper promises. They expected the year's harvest to be large enough to cover their debts and leave a profit, but the cotton had not yet arrived. While they waited for shipments from New Orleans and America's other southern ports, Liverpoolians would be ruined if they could not continue to discount their bills. News of the BOE's decision "excited such alarm that a deputation came immediately to London" to seek the repeal of what Joshua Bates would call "the obnoxious edict."<sup>50</sup>

On August thirtieth, the Treasury Committee members met with William Brown, Liverpool-based and American-born head of a large bill brokerage firm. As an expert in the Anglo-American exchange business for more than thirty-years, Brown recognized that the BOE's decision not to discount bills would be disastrous for the American trade and his own personal fortune. Brown offered calculations to "convince [the BOE's Directors] that the Bank has not at present any cause to apprehend a further drain of Gold" to the United States. Brown blamed the specie drain of the previous months on the "measures of the President" arguing that "to guard themselves against a run from their opponents ... [the banks] deemed it advisable to have more specie in their vaults than usual." Brown believed that political power struggles had threatened financial security but that the Specie Circular and distribution of the federal surplus had not precipitated a crisis because American banks acted wisely. Contrary to the argument in the *Times* article, Brown asserted that American banks were drawing specie not to finance

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<sup>50</sup> Bates to T. W. Ward, 6 September 1836, LB5C, ING/Barings Archive.

speculation but out of caution. Thus, Brown reinterpreted the drain on British specie as a reason for increased confidence in American banking rather than a source of doubt.<sup>51</sup>

If the BOE's Directors had not been reading about America's politicized debates over currency, Brown's interview brought the Bank War to the heart of British finance. Whether or not the Specie Circular or the Deposit Bill truly endangered American banking, the BOE Directors' distaste for Jackson's domestic agenda had already begun to reverberate far beyond the BOE's parlors in the form of policies that could cripple America's system of credit. Brown's letter offered the first evidence to the BOE's Directors of the global ramifications of their policies. Brown informed the Directors that in the week following the BOE's decision to no longer discount the bills of exchange of American houses, textile factors dealing in the Manchester market "suspended their orders as far as practical and apprised their correspondents in America of the measure taken by the Bank of England." Liverpool cotton prices fell, but after traders learned that the BOE had listened to Brown and agreed to continue discounting American paper, the cotton market rebounded. Even after Brown's interview at the BOE, one merchant sought Brown's advice as to whether "it would be safe to go on with the purchase of goods on American accounts." The American trade grew more dangerous daily.<sup>52</sup>

By the time Brown returned to Liverpool having convinced the BOE to continue discounting the paper of the American houses, the packet ships with news of the BOE's policies had already left port. The falling price of cotton, an unintended consequence of the BOE's policy, might indicate to Americans that Britain's central bank was attacking America's most important cash crop. Undoubtedly wishing he could replace this news with the BOE's retraction

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<sup>51</sup> Minutes, 7 September 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive.

<sup>52</sup> Minutes, 7 September 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive.

of the policy and rising cotton prices, Brown regretted, “the mischief is done.”<sup>53</sup> The “mischief,” however, had only begun.

In New York, news that the BOE would not discount American paper had not yet arrived when rumors spread between anxious Wall Street investors about the BOE’s objective to lure specie back into its vaults. James Gordon Bennett at the *Herald* reported that “many speculations are indulged respecting the recent movement of the Bank of England to check exportation of specie from that country to the United States.” Bennett dismissed another newspaper’s argument that the BOE’s policies were “a war declared by England.” He assured that “England and the United States from the rapidity of intercourse between them, are but as one country.” Ironically, over the next few months, news of the BOE’s policies would provide New Yorkers with evidence of the opposite. In mid-October, “the extreme pressure. . . [was] being attributed to a combination of causes.” Confidence brokers blamed the pressure on political agendas, economic policies, overtrading, speculators, greedy bankers, technology, and even the weather. These confusing explanations increased tension.<sup>54</sup>

On Wall Street stocks tumbled and climbed daily throughout the fall of 1836, but discount rates soared. High discount rates were based on a number of factors: a flood of commercial paper in the market, difficulty in acquiring specie, and doubts that the paper promises would be paid in full on the due date. Brokers tried to avoid holding on to most bills of exchange because the likelihood of their being paid seemed to be diminishing. Confidence brokers who needed to pay international debts snatched paper of the most reputable firms from

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<sup>53</sup> Minutes, 7 September 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive.

<sup>54</sup> *New York Herald*, 11, 14 October 1836.

the market quickly and at high prices. The combination of a fairly volatile stock market and a consistently tight money market confused New York confidence brokers for months.

Finally, Bennett reminded New Yorkers of the letters they had received in August “from high commercial houses in London and Liverpool” that “predicted the very state of things we have now among us” due to “the financial measures of our government – and the crusades relative to the currency in this country.” Undoubtedly looking to build his own reputation as a public confidence broker, Bennett pointed to warning signs after the fact, making his readers believe that he had predicted the pressure. Regardless of the fact that he had not connected the ramifications of America’s political feuds about its economic policies with declining English confidence, he upbraided his readers for “the utter folly of the people in shutting their eyes to the coming storm.”<sup>55</sup> Despite the pressure in the money market, many Americans remained confident that the season’s cotton sales would ensure that their bills would be honored in London. They trusted that their staple export would guarantee continued prosperity.

On November 2, 1836, news of the BOE’s “mischief” described by William Brown finally arrived in New York. After a morning of brisk trade, a packet ship carrying the latest news from London arrived. “‘What is the news?’ ‘How is the money market?’ ‘What say the Rothschilds?’ burst from every quarter,” reported Bennett. New York’s financiers crowded around the Josephs, the Rothschilds’ New York correspondents, who “speedily stated that the London market was tighter – that all American securities were flat and depreciated – that the rates of interest were high and likely to advance.” “The effect of this news on the stock market

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<sup>55</sup> *New York Herald*, 15 October 1836.

was instantaneous,” Bennett noted as the stock market reversed its morning advances. The pressure increased, again.<sup>56</sup>

The fluctuations continued when, a week later, news from London arrived that the BOE decided to continue discounting American paper. This time however, Americans began to question the BOE’s true agenda. Rumors circulated that a coterie of British capitalists, including the BOE Directors, had been manipulating American credit to lower the price of cotton. This rumor contained an element of truth because the BOE had affected the price of cotton, but the fall in cotton prices had been an unintentional result of the BOE’s attempt to decrease the supply of American bank paper. The cosmopolitan notion promoted by Bennett only weeks earlier that the United States and Britain were “as but one country” was replaced by the belief that the BOE was actively pursuing a sinister plan to shift the balance of trade so that American merchants would be forced to send gold back to England.<sup>57</sup> In reality, the BOE saw America’s unregulated paper money system as a direct threat to British currency. In order to protect the British specie to paper ratio, the BOE’s Directors would pursue any policy they deemed fit – even if this meant that American commerce and banking crumbled in the process. Without a centralized financial system, American bankers were unable to respond with a similar national specie policy. The pressure worsened in America’s loosely confederated money markets as merchants found it increasingly difficult to pay their debts.

Back in London, Joshua Bates recorded in his diary that the BOE had been “playing some shabby tricks” and predicted that this would cause “a crisis in the U. States.” Having acted quickly by contacting his American agent after the *Times* article in June, Bates felt that Baring

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<sup>56</sup> *New York Herald*, 3 November 1836.

<sup>57</sup> *New York Herald*, 11 November 1837.

Brothers would stand to lose “not much probably.” But, he would not have predicted the same for the other American houses.<sup>58</sup> He wrote to Ward, in Boston, that, “the Bank seem [sic] incompetent and unqualified to comprehend what they are about.” With “incompetent” men playing “tricks” with American trade, Bates instructed Ward to buy Barings’ own bills in order to “avoid getting loaded with a description of paper that will be no use in case of extreme pressure.”<sup>59</sup> Bates wanted to avoid owning bills of exchange that might be dishonored when firms could no longer manage their liquidity to pay their debts; purchasing debts drawn on his house should prevent his firm from becoming a creditor of bankrupts. Fully aware of how rumors like all genres of financial information could unsettle business, Ward would have to “manage cleverly so as not to let slip any word of hostility towards any one.”<sup>60</sup> Bates strictly defined the script for withdrawing credit from American accounts so that it would not upset the overall money market. “To good people say we make no change,” he instructed, “to those that have too much credit use the circumstances as an excuse to cut them down.” By challenging the trust between only certain correspondents, Bates hoped to avoid contributing to any additional pressure in the already tight American money markets. He also used the pressure as an excuse to carefully screen his clients for trustworthiness. While he worried that his firm’s actions would increase existing problems, he acknowledged that “we cannot prevent a crisis on the U. States.”<sup>61</sup> By the fall of 1836, Barings Brothers’ circle of trusted correspondents was shrinking. Bates’ correspondence with Ward illustrates that he recognized the power of ideas over markets and was not afraid to manipulate information in order to profit.<sup>62</sup>

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<sup>58</sup> Bates, diary, 17 September 1836, Dep. 74, vol. 3, ING/Barings Archive.

<sup>59</sup> Bates to T. W. Ward, 9 September 1836, LB5C, ING/Barings Archive.

<sup>60</sup> Bates to T. W. Ward, “Private,” 9 September 1836, LB5C, ING/Barings Archive.

<sup>61</sup> Bates to T. W. Ward, 9 September 1836, LB5C, ING Barings/Archive.

<sup>62</sup> For more on the development of criteria of credit assessment, the role of local community in evaluating credit, and the development of credit reporting agencies, see: Balleisen, *Navigating Failure*, 146-151; Sandage, *Born Losers*,

As September turned to October and the BOE continued to threaten the discounting privileges of American merchant bankers, Bates fumed that “the Bank has been on very bad principles for the last 18 months and it will be difficult to get matters righted.”<sup>63</sup> At the same time, however, he recognized his own advantageous situation. As he wrote to Ward, “we think the present crisis will operate beneficially for us and if a stop is put to the circulation of competitors we shall have the field to make ourselves.” The BOE’s tight money policies would bankrupt American Houses without liquid capital reserves; such a disaster for the American economy might provide a windfall for Baring Brothers. Bates’ early anticipation of the pressure transformed the position of his house from one of vulnerability to strength. A master confidence broker, Bates expected a crisis in confidence and laid foundations for a future where the BOE, the other American Houses, and American correspondents looked to Barings for credit.<sup>64</sup>

By early October, however, Bates was joined by even more British investors doubting the state of foreign exchange with the United States. In London, the *Times* reported that, the pressure at the Stock Exchange “may be traced to the precautions which the more cautious class of men are taking against what they conceive to be the coming difficulties.” Investors’ doubts spread and materialized in the form of “pressure” upon the market for British government securities – guaranteed investments.<sup>65</sup> Three days later a “very generally circulated” rumor that the Bank of England would again raise the discount rate caused “a depression” in the London stock market. “The rumor, though it was so general,” reported the *Times*, “was not traceable to any source that

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99-188; and Rowena Olegario, *A Culture of Credit: Embedding Trust and Transparency in American Business* (Cambridge: Harvard University Press, 2006). On the development of networks of exchange dealers and merchant bankers in London, see: Stanley Chapman, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I* (New York: Cambridge University Press, 1992), 81-106. For an excellent discussion of Baring Brothers’ system of credit rating and the importance of honest correspondents, see: R. W. Hidy, “Credit Rating before Dun and Bradstreet,” *Bulletin of the Business Historical Society* 13, no. 6 (1939): 81-88.

<sup>63</sup> Bates, diary, 9 October 1836, Dep. 74, vol. 3, ING/Barings Archive.

<sup>64</sup> Bates to Ward, 14 September 1836, LB5C, ING/Baring Archive.

<sup>65</sup> *Times* (London), 10 October 1836.

established it to be well founded; but it nevertheless had the effect of very considerably affecting and embarrassing the transactions of the day.” The *Times* connected investors’ anxiety with reports from the United States. “Both the private letters and the journals from New York by the last arrival,” confessed the *Times*, “contain anticipations of an approaching crisis.”<sup>66</sup> The New York “anticipations” reported by the *Times*, however, did not take into effect the BOE’s decision not to discount American paper. How much more imminent would the “crisis” look when this news arrived in New York?

By late October, confidence brokers on both sides of the Atlantic agreed that pressure in New York and London money markets was rising but disagreed about the implications for international trade. Some Americans believed that the combination of high cotton prices and bumper crops would cover their debts to British merchants. In fact, some believed that British financiers would be forced to send specie to the United States. Of course, these theories failed to calculate the effect of the BOE’s policies on all aspects of the economy. Since both credit rates and cotton prices were determined in Britain, the BOE’s decision would force merchant bankers to demand payment from American debtors and foster a drop in cotton prices before Americans even knew that there had been a change in policy. The bumper crop would only deepen American debt because cotton planters received credit from cotton factors before factors knew the actual Liverpool prices. Based on the previous year’s sales, factors would grossly overestimate the credit extended to planters and write bills of exchange based on exaggerated predicted proceeds of their cotton sales. Despite the appraisals of people dreaming of high cotton prices, Americans would undoubtedly owe money to their creditors in Britain. Without a

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<sup>66</sup> *Times* (London), 13 October, 1836. Timothy Wiggin's letter circulated in the New York papers in late September indicating that news of the BOE’s August decisions had just reached the United States. New York newspapers from late September arrived in London on October 27 – two weeks after the BOE reconsidered its policies.

nationalized financial system, Americans were not prepared to deal with this reality. The confederate nature of America's financial system produced no institution analogous to the BOE. In the U. S., international pressure and panic would be perceived on personal and local levels. From the viewpoint of American merchants, the global economy of 1836 operated in the borderless transnationalism of the Atlantic world.

Despite American cosmopolitan ideals, geography mattered. The information lag of trans-Atlantic sail power ensured that Londoners were unaware of the ramifications of the BOE's policies in America when the Directors became nervous, once again, about gold. By mid-October, the BOE's vaults had lost a further million pounds of gold.<sup>67</sup> True to the public rumor, the Directors decided on more drastic measures to draw specie back into their vaults. The Court of Directors passed a resolution requesting the Governor and Deputy Governor to advise seven American Houses that the credits provided by these firms were "objectionable so far as the Bank of England is concerned." The BOE required that the firms check the "system which [the Directors] deem to be prejudicial to the currency of the country." This demand threatened the business and the reputations of the American Houses and gave credence to the public's diminishing confidence in the money market.<sup>68</sup>

Meanwhile, due to adverse winds, Americans knew very little about the crisis brewing in England. "We are now a long time without advices from Europe," wrote a New Yorker to his New Orleans correspondents. The packet ships were more than two weeks late, leaving Americans in the dark concerning the BOE's latest dealings as well as declining Liverpool cotton

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<sup>67</sup> Andreades, *Bank of England*, 265.

<sup>68</sup> Minutes, 26 Oct 1836, Committee of Treasury Minute Book, vol. 22, G8.29, Bank of England Archive.

prices.<sup>69</sup> Without news, Americans experienced a “pause” from the wild fluctuations of stocks and the pressure of the money market.<sup>70</sup> Commerce waited for the winds, literally.

Without international news, national politicians brokered confidence. Congressmen and Senators debated repealing the Specie Circular producing long speeches for publication in the nation’s presses.<sup>71</sup> Most of these speeches, like the policies they debated, were based on political opinion without reference to economic principles. As one spectator observed of the only senator who brought Adam Smith’s theories on banking into the debate, “he stood as an oracle dispensing knowledge on a very complicated & ill understood subject.”<sup>72</sup> From his office in Philadelphia, Nicholas Biddle weighed in on the debate by writing a letter to former President John Quincy Adams. When this document was published in New York’s papers, it “infused a species of confidence into the public mind, that operates exactly like a strike of galvanism.” Wall Street, at least for two or three days, rallied.<sup>73</sup>

On December 23, “long-looked-for” news from London arrived and the pressure returned. As Bennett reported to his readers, “London, Liverpool and the manufacturing districts have felt the effects of the recent conduct of the Bank of England as much, if not more, than Wall Street or New Orleans.” British and American financiers all struggled with declining confidence.<sup>74</sup> Unlike the crisis in 1835 or the more recent bank runs created through the machinations of political and financial speculators, no one seemed to be controlling the pressure in late 1836. This meant that there was no easy target for blame and no easy cure for the

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<sup>69</sup> Moses Taylor to R. Growing & Co., 19 December 1836, Moses Taylor Letter Book, vol. II, Moses Taylor Papers, Special Collections, New York Public Library.

<sup>70</sup> *New York Herald*, 19 December 1836.

<sup>71</sup> Henry Van Der Lyn to Mary Van Der Lyn, 20 December 1836, 22 December 1836, Henry Van Der Lyn Collection, New York Historical Society.

<sup>72</sup> Henry Van Der Lyn to his sister, 9 January 1837, Henry Van Der Lyn Collection, New York Historical Society.

<sup>73</sup> *New York Herald*, 13 Dec 1836.

<sup>74</sup> “Wall Street,” *New York Herald*, 24 December 1836.

“unhealthy” state of money markets.<sup>75</sup> “In consequence of this news from England,” wrote Bennett, “the market in Wall street opened yesterday in a depressed state of feeling.”<sup>76</sup>

Not everyone attributed increasing pressure in the money market to the arrival of news from London. Hard-money advocates, like Democratic newspaper editor William Leggett, insisted that “*the pernicious bank system of our country is the cause!*” Leggett assured his readers that his opponents could no longer “lay all the difficulties of the money market to the account of certain orders of the Treasury Department” or “ascribe the evils to the necessary operation of the distribution law.” He was convinced that the appeals of merchants and bankers to relieve the pressure ought to be ignored because they “have to learn that there is but one relief for an overtrading nation, and it must wait for that to be applied by the slow hand of time.”<sup>77</sup> While Leggett wanted the nation’s commerce to contract, others looked to the government for a form of relief that would sustain existing businesses. During the presidential election, a Philadelphian correspondent of Van Buren confirmed that “the amazing scarcity and high price of money” was “attributed, as all things always are, to the operations of the government.” Without a mention of the BOE’s policies or banks, this letter confirmed that many Americans perceived both their anxiety and the difficult market conditions as deriving from Jackson’s economic policies.<sup>78</sup> The Rothschilds’ New York correspondents reported that “our money market is still suffering under pressure owing entirely to the Circular of the Government.”<sup>79</sup> They believed national politics caused the pressure; ironically, given the ideas motivating the BOE’s

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<sup>75</sup> “Wall Street,” *New York Herald*, 7 November 1836.

<sup>76</sup> “Wall Street,” *New York Herald*, 24 December 1836.

<sup>77</sup> William Leggett, “Thoughts on the Causes of the Present Discontents,” *Plaindealer*, 10 December 1837, in ed. Lawrence H. White, *Democratick Editorials: Essays in Jacksonian Political Economy by William Leggett* (Indianapolis: Liberty Press, 1984), 97, 99 (emphasis his).

<sup>78</sup> Henry Toland to Martin Van Buren, 9 November 1836, Reel 21, Martin Van Buren Collection, Manuscripts Division, Library of Congress.

<sup>79</sup> J. L. & S. Josephs to NMRS, 31 October 1836, XI/38/15, Rothschild Archive.

policies, in a way, they were right. The Bank War had inspired British doubts of American financial security, and after two more months of intensifying pressure, the pressure transformed into panic.

By the end of February 1837, people in New York, New Orleans, and London suffered from a state of “madness.” For several months, the pressure squeezed, afflicted, and depressed not only markets but also human minds. The value of stocks and paper promises fluctuated with the arrival of news on every trans-Atlantic packet ship. As Bennett of the *Herald* reported less than a week before the first of the commercial failures that spread panic on both sides of the Atlantic, “we are only in the ‘beginning of the end.’”<sup>80</sup> In America, failed mercantile and financial businesses found little support from banks or governments. Commercial paper depreciated to such an extent that banks throughout the nation defended the value of their paper money by refusing to release the coins in their vaults. Before news of this suspension of specie payments by America’s banks reached London, the most overextended of the American Houses – later termed the 3 Ws – received support from the BOE under the assumption that Americans would send coveted specie as payment for debts. Finally, as the panic reached its peak in June 1837, the Directors refused to renew their loans to the 3 Ws. In their failures, these merchant bankers dishonored tens of millions of pounds of commercial paper drawn by financiers in Liverpool, Glasgow, New York, Boston, Philadelphia, New Orleans, Montreal, Hamburg, Antwerp, Paris, Bordeaux, Buenos Aires, Mexico City, Calcutta, and Canton – among many others.<sup>81</sup> As the London *Times* reported shortly after the Ws collapsed, “it must be a very long time, years perhaps, before the entire effects of these failures is known for they will extend more

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<sup>80</sup> *New York Herald*, 18 February 1837.

<sup>81</sup> For sample of cities represented by creditors, see: “Balances 30 April 1837” C5.238, Bank of England Archives.

or less over the whole world.”<sup>82</sup> Indeed, for the next seven years, Americans of all races, classes, genders, and sections would experience the worst economic depression they had ever known.<sup>83</sup>

Longer still, in the 1880s, the BOE was still pursuing the legal claims on the property pledged by the then deceased partners of firms that failed shortly after the pressure of 1836.<sup>84</sup>

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Despite daily musings in newspapers, diaries, and private correspondence, the underlying economic causes of the pressure, like the panic and depression that followed, could only be assessed retrospectively. Without this perspective, contemporaries convinced themselves that they understood the origin of the pressure. Andrew Jackson’s politically inspired economic policies confused and concerned investors. The Bank of England Directors’ misunderstanding of macroeconomics and their dogmatic protection of British specie transformed doubt into policy. Slow winter travel allowed hopes to rise and fall on both sides of the Atlantic.

Everyone except the Directors of the Bank of England and Andrew Jackson’s administration seemed to understand that the international pressure would bring about hardships of an unprecedented scale. One English periodical’s editor thought that “in a matter so momentous as that of commercial confidence and the circulation of credit, one would have expected to see the most unequivocal manifestations of anxiety exhibited by the Directors of the Bank of England on the first symptom of approaching danger.”<sup>85</sup> Even after the warnings of Bates and Brown, the BOE Directors were so eager to fill their vaults that they sacrificed

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<sup>82</sup> *Times* (London), 3 June 1837.

<sup>83</sup> For a valuable depiction of the variations of depression life in the 1837-43 period, see: Samuel Rezneck, “The Social History of an American Depression, 1837-1843,” *American Historical Review* 40, no. 4 (July 1935): 662-687.

<sup>84</sup> The enormous paper trail of the in-house law firm of the BOE for the W cases remains at the BOE archive in the Freshfields Collection. For an example, see: “Inland Revenue,” 12 May 1881, F12.8, Bank of England Archives.

<sup>85</sup> *The Circular to Bankers* (London), 2 December 1836, 161.

international economic stability. Across the Atlantic, Andrew Jackson believed so strongly in his policies that he dismissed the power of the pressure to undermine national finance. In December 1836, during his final annual address to congress, Jackson congratulated the nation on “the high state of prosperity” and admitted to “no causes at home or abroad to lessen the confidence with which we look to the future.” Jackson saw the pressure as a necessary evil and had no intention of preventing the looming disaster.<sup>86</sup> But, by May 1837, leaders on both sides of the Atlantic found themselves blamed for causing a financial crisis that threatened the currencies of the United States as well as Great Britain. The BOE Directors faced a Parliamentary investigation. Andrew Jackson would be remembered for quashing a period of unprecedented prosperity.

For the Rothschilds, the personal and financial pressures of 1836 eclipsed the Cohen’s gift. Until an archivist discovered the President in the financiers’ basement, the portrait lingered amidst the dusty files with the anonymous title “American Soldier.” Similarly, historians have ignored the Panic of 1837 for the last thirty years despite its previous significance as a symbol of the importance of central banking, the end of the Jacksonian Era, and the proof of America’s global economic significance. But, this event has been recently rediscovered. The Twenty-first Century has invested both the portrait and the Panic with new meanings. Hanging on the walls of Nathan Mayer Rothschild and Sons, the painting now represents the firm’s historical affiliation with a twentieth-century powerhouse. As the previous pages and this conference indicate, the panic in 1837 offers insight into a vital new topic – the culture of capitalism during the market revolution. Whether histories of economic events, portraits of Presidents, or congressional speeches, context determines the meanings of texts and these ideas have consequences.

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<sup>86</sup> Andrew Jackson, “Eighth Annual Address to Congress,” 5 December 1836, <http://www.synaptic.bc.ca/ejournal/JacksonEighthAnnualMessage.htm> (accessed 21 May 2006).