

**The Demise of Thomas Dyott:
Experimenting with Popular Finance in Jacksonian Philadelphia**

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To ordinary and elite Philadelphians alike, Thomas W. Dyott seemed a respectable businessman. His sprawling four-hundred-acre campus of glass-blowing factories and worker housing, modestly named Dyottville, hugged the bend in the Delaware River just northeast of the downtown business district. Though a self-made man, Dyott seemed moved by many of the same enlightened ideas and concerns that inspired the city's best citizens. In an 1833 treatise entitled *An Exposition of the System of Moral and Mental Labor Established at the Glass Factory of Dyottville*, he claimed to have created a complete "system of combining mental and moral with Manual Labor" that would be "as interesting to the political Economist, as it is exciting to the benevolent inquirer."¹ Dyott explained that he had established a living model for the development of American manufactures, structuring his workers' lives, creating a disciplined hierarchical system of dormitories, an apprentices' library, a temperance society, a school, and a church.² And, perhaps inspired by the philanthropic example set by the venerable Philadelphia Saving Fund Society, he established his Manual Labor Bank and Saving Fund in 1836 "to afford [a] *safe depository* for the Savings of Labor... under an ample Security of his Estate."³ So impressed were some of Philadelphia's most reputable businessmen that they backed his personal bond on the bank.

But just two years later the Manual Labor Bank and Saving Fund failed, robbing its working-class clientele of their life savings. In the trial for fraudulent insolvency that followed, it became clear that Dyott was not the man he had claimed to have been. His glass factory and other businesses had been chronically dependent on Philadelphia's elite merchants for financing. Eager to free himself from dependence on the socially elite and fiscally conservative financial

¹ Thomas W. Dyott, *An Exposition of the System of Moral and Mental Labor Established at the Glass Factory of Dyottville, in the County of Philadelphia* (Philadelphia: TW Dyott, 1833), 6-7.

² *Ibid.*, 10-23; *Preamble and Constitution of the Dyottville Apprentices' Library Company* (Philadelphia: s.n. 1834); *Constitution of the Dyottville Temperance Society* (Philadelphia: s.n., 1833).

³ *Exposition and Terms of the Manual Labor Bank and Six Per Cent Saving Fund* (Philadelphia, 1836).

community, Dyott had petitioned the state for a bank charter as early as 1833. His treatise on the community at Dyottville had been written by a paid ghostwriter with the intention of impressing the legislature and winning him the charter, as had the pamphlet outlining his “Saving Fund” for working-class Philadelphians. Both the “Saving Fund” and Dyott’s glass factory ran into trouble after the Panic of 1837. Desperate to preserve what he could, Dyott funneled his remaining assets to his relatives and claimed to be bankrupt, leaving his depositors with worthless claims on the Manual Labor Bank and Saving Fund.⁴

The demise of Thomas Dyott captured the attention of Philadelphians struggling under the burdens of the depression of the late 1830s in part because it was especially dramatic; here was a case of a businessman with seemingly lofty ideals and rhetoric who had in the midst of the Panic defrauded and deceived the poor and elite alike. But the trial also garnered public attention because it touched on the viability of a set of financial experiments that were changing the economic lives of ordinary Americans. In the two decades leading up to the Panic of 1837, American philanthropists, policymakers, intellectuals and businessmen experimented with establishing a wide array of “savings institutions” designed to allow working people to save for periods of sickness, unemployment, and old age. The promise of such institutions lay in the principle that they could help ordinary citizens gain economic independence from the uncertainties of the market and serve as a bulwark against dependence during times of distress. By the eve of the Panic of 1837, almost thirty “savings institutions” of various sorts had sprung up in Philadelphia alone, promising to husband the savings of the poor. By 1843, almost all had failed, depriving working-class savers of their nest eggs precisely when they needed them most.

⁴ *The Highly Interesting and Important Trial of Dr. T.W. Dyott, the Banker, for Fraudulent Insolvency.* (Philadelphia: s.n., 1839); “Memorial of the Subscriber, Manufacturer and Trader of the Count of Philadelphia for a ‘Dyottville Banking and Manufacturing Company’” (Philadelphia, 1833).

In analyses of the causes and impact of the Panic of 1837 on American economic development, historians have tended to focus on one of two elements of the financial system. One group has centered attention on the monetary history of the boom and contraction of the Jacksonian era, and particularly on the political and economic debate surrounding the central bank and its responsibility for the crisis. The focus here has been on the currency – the medium of exchange – and the relative importance of events and developments that caused a severe contraction in the money supply in the late 1830s.⁵ Another group of scholars have focused on the impact of Jacksonian policies on enterprise finance – how entrepreneurs gained access to credit to develop their ideas and build their businesses. From this point of view, developments in free banking and access to credit play a paramount role.⁶

For many working Americans, however, the problems of monetary policy and enterprise finance must have seemed abstract manifestations of the crisis while the massive failure of local savings institutions and the loss of personal assets were felt close to home. The failure of savings institutions raised a different set of dilemmas and questions than those related to monetary policy and enterprise finance. On what basis could ordinary Americans entrust their financial wellbeing to impersonal financial institutions if not by relying on the supposedly sound reputation of businessmen like Dyott? Were savings institutions' initial goals of promoting economic stability viable given the volatility of financial markets, and especially the riskiness of institutions like the Manual Labor Bank and Saving Fund? How, if at all, could the disparate demands on the

⁵ Richard Timberlake, "The Specie Circular and the Distribution of the Surplus," *Journal of Political Economy* 68, no. 2 (1960): 109-17; Peter Temin, *The Jacksonian Economy* (New York Norton, 1969); Peter L. Rousseau, "Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837," *Journal of Economic History* 62, no. 2 (2002): 457-488; David Moss and Sarah A. Brennan. "Managing Money Risk in Antebellum New York." *Studies in American Political Development* 15, no. 2 (Fall 2001). For an overview of this large literature see Larry Schweikert, "U.S. Commercial Banking: A Historiographical Survey," *Business History Review* 65 (1991): 606-661.

⁶ Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (1957) ; Harold Livesay and Glenn Porter, "The Financial Role of Merchants in the development of US Manufacturing, 1815-1860," *Explorations in Economic History*; Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (Cambridge: Cambridge University Press, 1994).

financial system to promote growth and entrepreneurialism on the one hand and ensure household financial stability on the other be ultimately resolved? To understand this dimension of the crisis, we need to shift our focus from monetary policy and enterprise finance to the realm of personal finance and particularly to the distinct history that led to the creation and destruction of scores of savings institutions like Dyott's Manual Labor Bank and Saving Fund.

* * *

The early American economy benefited from an extensive and vibrant financial system. It boasted of a viable securities market, commercial banks that extended credit to merchants and tradesmen, a functioning central bank, and host of skilled financial entrepreneurs.⁷ Savings institutions, however, did *not* emerge out of this traditional financial sector.⁸ Few commercial bankers considered small savers and borrowers profitable customers because of the high costs of dealing in small transactions. Rather, savings institutions had what might initially seem like surprising origins; they grew out of trans-Atlantic efforts to reform the institutions of the Old Poor Law. British political economists, policymakers, and tract writers developed a set of theories, widely accepted by the early nineteenth century, about how institutional support for and promotion of household saving could prevent pauperism and relieve poverty. American public officials and leading philanthropists followed the work of their British counterparts closely and echoed many of their ideas about saving and social welfare in their own writing.⁹

⁷ For a good overview of the early American financial system see Robert E. Wright, *The First Wall Street: Chestnut Street, Philadelphia & The Birth of American Finance* (Chicago: University of Chicago Press, 2005); Robert E. Wright, *Wealth of Nations Rediscovered* (Cambridge: Cambridge University Press, 2002). On commercial banks, see Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-Building* (Cambridge: Cambridge University Press, 2000); Howard Bodenhorn, *State Banking in Early America: A New Economic History* (New York: Oxford University Press, 2003).

⁸ Here I do not mean to imply that savings institutions did not depend on the pre-existing financial system. Savings banks depended on the payments system and the securities market. But the organizational innovation of the savings bank did not emerge from the existing financial sector.

⁹ On the origins of savings institutions see Emerson Keyes, *A History of Savings Banks in the United States from their Inception in 1816 down to 1874* (New York: Rhodes, 1876-8); Alan Olmstead, *New York City Mutual Savings*

The intellectual foundations for savings institutions emerged out of the critique that indiscriminate charity and public relief undermined personal independence and hence was the cause of pauperism itself. “Poverty and wretchedness have increased in exact proportion to the efforts which have been made for the comfortable subsistence of the poor,” explained Joseph Townsend in 1786, expressing a view that soon gained widespread acceptance among leading intellectuals. “[W]herever most is expended for their support, the objects of distress are most abundant.”¹⁰ By the early nineteenth century, these views had gained scientific credence in large part because of Thomas Malthus’s widely read and cited *Essay on Population*. Insisting that relief violated the “principle of population,” the economist argued that, because land was limited, the food supply always restrained the growth of population through the natural checks of hunger and famine. By distorting the threats posed by these natural checks, poor relief encouraged fertility, expanded the population, and channeled resources to unproductive members of society. Public relief and charity, concluded Malthus, “create the poor which they maintain.”¹¹ Such views quickly gained adherents among intellectuals and institutional reformers in the United States. New Yorker John Griscom echoed Malthus and many of his peers in explaining that “the imprudent and indiscriminate administration of public and private charities [that has] encouraged

Banks, 1819-1861 (Chapel Hill: UNC Press, 1976), 3-19; Rohit Daniel Wadhvani, “Citizen Savers: The Family Economy, Financial Institutions, and Public Policy in the Northeastern United States from the Market Revolution to the Great Depression,” (Ph.D. diss, University of Pennsylvania, 2002).

¹⁰ Joseph Townsend, *A Dissertation on the Poor Laws* (Berkeley: University of California Press, 1971), 20. On the history of welfare and shifting ideas about poverty and pauperism in Great Britain see Lynn Hollen Lees, *The Solidarities of Strangers: The English Poor Laws and the People, 1700-1948* (Cambridge: Cambridge University Press, 1998) Gertrude Himmelfarb, *Idea of Poverty* (New York : Knopf, 1984), 111.

¹¹ Thomas Malthus, *Essay on the Principle of Population*, 1798. Reprinted in EA Wrigley and David Souden, eds. *The Works of Thomas Robert Malthus*, Volume 1 (London: William Pickering, 1986). Quoted in Himmelfarb, *Idea of Poverty*, 111.

pauperism in Great Britain, will have the same tendency here.” It was, he added, a clear lesson “in moral causes and effects, that runs through the history of empires.”¹²

These critics of the poor law experimented with a host of reforms including new organizational designs and rules for poor houses, prisons, asylums and other institutions that were intended to penalize pauperism and reshape personal behavior; but they also entertained ideas for the creation of a new kind of institution designed to encourage personal financial independence and the creation of private buffers against poverty.¹³ By allowing the public to plan and save for old age, loss of work, and periods of illness, they reasoned, such an institution could arguably relieve material misery, re-instill self-discipline and prevent paupers from becoming burdens of state. Joseph Townsend, David Ricardo, Jeremy Bentham, Frederick Eden, George Rose, Patrick Colquhoun, and a host of other British writers advocated such institutions as the cornerstone of a new approach to public welfare. Americans Thomas Eddy, Roberts Vaux, Josiah Quincy, William Ellery Channing, John Griscom, and others echoed the basic sentiments expressed by their British counterparts. Even Thomas Malthus, who remained infamously skeptical of all other organized efforts to relieve poverty, found in such proposals the outline for an institution based on sound political-economic principle and in accordance “with the lessons of nature and providence.” “Of all the plans which have yet been proposed for the assistance of the labouring classes,” he wrote in a revised edition of the *Essay*, “the savings banks ... appear to me much the best, and the most likely, if they should become general, to effect a permanent improvement in the condition of the lower classes of society.”¹⁴

¹² Society for the Prevention of Pauperism (SPPNY), *Second Annual Report* (New York: E. Conrad, 1820), 43. SPPNY, *Documents Relative to Savings Banks, Intemperance, and Lotteries*. (New York, 1819)

¹³ On these institutional reforms see Michael Katz, et al., *Social Organization of Early Industrial Capitalism*, 354-369; Michael B. Katz, *In the Shadow of the Poorhouse* (New York: Basic Books, 1986), 3-6; David Rothman, *Discovery of the Asylum: Social Order and Disorder in the New Republic* (Boston: Little, Brown, 1971).

¹⁴ Malthus, *Essay*, 1826 edition. Reprinted in E. A. Wrigley and David Souden, eds. *The Works of Thomas Robert Malthus*, Volume 3 (London: William Pickering, 1986), 555-557 (pages 407-410 in the 1826 edition).

At first, reformers devoted their energies to tinkering with the existing system of mutual benefit societies. But many soon grew critical of benefit societies as vehicle for institutional reform. The high failure rates of such organizations, their susceptibility to what elite reformers saw as mismanagement, and the extent to which many societies mixed financial benefits with drinking and fraternizing quickly became objects of disdain.¹⁵ By the early nineteenth century, a race was on to design and implement a new kind of prudential institution that broke more clearly with the past and that embodied the principles of economic and financial self discipline sought to be instilled among the general public. Bentham proposed “frugality banks” operated through a network of privatized workhouses as well as small denomination bond issues by the government, while Malthus recommended a system of “country banks” accessible to the general public.¹⁶ In 1806, London Police magistrate Patrick Colquhoun confided to New York penal reformer Thomas Eddy that he was working “in a manner different from other authors” on an idea for “ameliorating the conditions of the laboring people ... [and] economizing human subsistence,” an inchoate concept that later took form as his proposal for a National Deposite Bank.¹⁷ By 1810, a handful of modest institutions called savings banks or provident institutions had been established in England and Scotland. In essence, they worked like small investment clubs for the poor. Depositors could invest as little as one pound. Managers in turn invested these accumulated funds almost exclusively in government debt, the yield on which covered both the expenses of running the institution and dividends paid to depositors. The key principle was that the funds

¹⁵ Wadhvani, “Citizen Savers,” 48-60.

¹⁶ H. Oliver Horne, *A History of Savings Banks* (London: Oxford University Press, 1947), 28-32.

¹⁷ Colquhoun to Eddy, October 10, 1806. Reprinted in Samuel Knapp, *Life of Thomas Eddy* (New York: Conner and Cooke, 1834), 216-220. On Colquhoun’s savings institution idea see Patrick Colquhoun, *Treatise on Indigence* (London: J. Hatchard, 1806), Chapter 4.

were invested safely, and hence readily available during periods of need to reward small savers for their prudence and foresight.¹⁸

American policymakers and poor law reformers followed these developments closely through publications and correspondence with their British counterparts, and launched their own efforts to establish savings institutions on the British model soon after the War of 1812. In 1816, Colquhoun wrote to Eddy that “[w]e are now anxiously engaged in forming a Provident Institution, or Savings Bank, in the western district of the city upon the principle suggested and explained in my *Treatise on Indigence*.” Later in the same year Colquhoun sent Eddy “[a]n account of the different Savings Banks recently established,” to which Eddy responded, “[i]mmediately on receiving from thee an account of the provident institutions in your metropolis I proposed to a number of my friends to establish a similar one in this city.”¹⁹ By 1820, ten such mutual savings banks had been established in the major American cities based on the British model.²⁰

Established in 1816, the Philadelphia Saving Fund Society (PSFS) was the first of these savings banks. The institution’s founders included merchant and diplomat Condé Raguét, public school system originator Roberts Vaux, and attorney and political economist Clement Biddle. In December, the group placed an “Address to the Public” in the *Freeman’s Journal and Philadelphia Mercantile Advertiser* explaining that the goal of the new institution was to “promote economy and the practice of saving amongst the poor and laboring classes of the community.” It would afford small savers a “secure and profitable mode of investment *for small sums* (returnable at the will of the depositor or on short notice) to mechanics, servants,

¹⁸ Horne, *History of Savings Banks*.

¹⁹ Colquhoun to Eddy, April 19, 1816; Colquhoun to Eddy, June 14, 1816; Eddy to Colquhoun, April 9, 1817. All reprinted in Knapp, 248-267.

²⁰ *Annual Report of the Comptroller of Currency* (Washington, DC: Government Printing Office, 1881).

tradesmen, laborers, *and others*.”²¹ PSFS operated two days a week out of the office of its first secretary, attorney George Billington, “at a compensation of Two hundred and fifty dollars per annum for his services and the use of his office.”²² The twenty-one other directors served voluntarily.

As their origins suggest, early savings institutions were more akin to small, voluntarily managed investment funds than to the large financial intermediaries we are familiar with today. They typically operated out of a modest office space and were open for business only one or two days per week. While PSFS operated out of Billington’s law office, the Bank for Savings in New York was given space in an old asylum building, and the Provident Institution for Savings in Boston was based in the Historical Society. Each of these institutions accepted deposits of as little as \$1, upon which the managers declared annual “dividends” based on the yield on the society’s investments for the year. Though savings bank by-laws and advertisements sometimes mentioned that deposits were returnable “at the will of the depositor,” in reality the investments were expected to be relatively long-term and depositors usually had to give advance notice of withdrawal. The Provident Institution clarified that depositors could take their money out “when they pleased” but that “the days of taking it out are the third Wednesdays of January, April, July, and October, and they must give one week’s notice.”²³ Unlike their British counterparts, early American savings banks were at times more liberal in their investment policy. While the principle of investing in low-risk, income yielding assets remained in place, the directors of the American institutions placed the early funds in bank stock, mortgage loans, and other collateralized loans in addition to public debt.

²¹ “Address of the Philadelphia Saving Fund Society to the Public,” reprinted in James Willcox, *A History of the Philadelphia Saving Fund Society, 1816-1916* (Philadelphia: J.B. Lippincott Company, 1916), 25-6.

²² Quoted in Willcox, 57.

²³ *One Hundred Years of Savings Bank Service: A Brief Account of the Origin, Growth, and Present Condition of the Provident Institution for Savings in the Town of Boston* (Boston: Walton Company, 1916), 12

Despite their modest beginnings, savings banks gained almost immediate social and political legitimacy. In no small part, this success was attributable to their founders' efforts to distinguish them from "banks," which had already come under popular and political suspicion. The success was also attributable to the fact that savings institutions had managed to find an unmet need in America's growing wage and cash economy and to fulfill that need with a service that fit easily into the resonant ideological rhetoric of personal independence and virtue. Even staunch defenders of public relief and charity found common ground with relief's critics in their support of savings institutions. In advising "persons in Humble Circumstances," for instance, Mathew Carey lauded the value of savings institutions, recommending to working Philadelphians that they should "avail yourself of the Saving Fund immediately."²⁴ Penal reformer Thomas Eddy wrote that "a more desirable mode of promoting the benefit of the poor cannot perhaps be devised."²⁵ And diarist George Templeton Strong would later refer to them as "the most important of our institutions."²⁶

Within a decade or so of their founding, the early savings banks had proven the economic and financial viability of serving working and poor savers and established the social and political legitimacy of savings institutions in American society. Deposits in savings institutions grew six fold over the 1820s. The managers of PSFS, in fact, had to appeal to the state legislature twice during the decade to increase the amount of deposits they were permitted to accept by their charter, and came close to having to turn away depositors. By 1830, approximately one in ten

²⁴ Mathew Carey, "Advices and Suggestions to Increase the Comforts of Persons in Humble Circumstances," January 25, 1832, Broadside, Goldsmith-Kress Collection, Harvard Business School Archives [hereafter Kress Collection]; Mathew Carey, "To the Public," April 12, 1830, p 2, Kress Collection.

²⁵ Thomas Eddy, Zachariah Lewis, and James Eastburn, "A Bank for the Poor," *Commercial Advertiser* (November 28, 1816), Reprinted in Knowles, 15.

²⁶ Quoted in Olmstead, 148.

Philadelphians (and hence a larger portion of households) held an account at PSFS.²⁷ The directors of the institution laid plans for an impressive, new Greek Revival bank building in the heart of the financial district. The “poor,” it seemed, were a surprisingly robust source of funds.

The rapid growth of mutual savings banks did not go unnoticed. Intrigued by the success of savings banks a host of enterprising individuals rushed into the financial market with their own plans, schemes, and revolutionary designs for promoting saving and wealth accumulation among the masses – at a profit. By the mid 1830s, scores of incorporated and unincorporated “savings institutions” had sprung up in the larger cities, with Philadelphia and Baltimore at the heart of the new experimentalism in popular personal finance.²⁸

Perhaps the most common of the new breed of organizations were the joint-stock savings banks, like the Philadelphia Savings Institution. The latter was established by Major Peter Fritz and associates in 1833. Fritz was not part of the intellectual and business elite that established the early mutual savings banks, nor was he part of the working poor that comprised its clientele. He did, however, see an opportunity. A veteran of the War of 1812, Fritz was a marble mason who owned a quarry where he employed a dozen or so hands.²⁹ Though there is no evidence that he and his associates had any particular experience in finance and banking, the group must have been clearly impressed that savings banks like PSFS could be overflowing with deposits while paying only 4.5 percent in dividends each year. In 1833, Fritz and his colleagues were able to assemble fifty initial stockholders and a capital stock of \$42,250 for an investment fund named the Philadelphia Savings Institution that was designed to allow its stockholders to get high

²⁷ Board of Managers Meeting Minutes, Vols 441-442, Record Group 1, Subgroup 2, Series B, PSFS Collection, Hagley Museum and Library, Wilmington, Delaware. [hereafter PSFS Collection].

²⁸ The growth of savings institutions is documented in Wilcox, 107; *M’Elroy’s Philadelphia Directory for 1837* (Philadelphia: Rackliff and Jones, 1837).

²⁹ On Fritz see, Alexander Harris, *A Biographical History of Lancaster County* (Lancaster: Elias Barr, 1872), 320.

returns by leveraging the deposits of savers. The Institution promised regular depositors 4.5 percent on their savings but invested the fund in slightly higher yielding assets such as discounting notes collateralized upon “stocks, mortgages, and other securities at 6 percent.”³⁰ Because of such leverage, Fritz and the other stockholders in similar stock savings banks stood a good chance of making significantly more money than if they invested their money directly in loans.

To enhance the appeal of depositing in the Institution, Fritz and his colleagues also adopted an innovation that originated and was widely used among savings institutions in Baltimore – the certificate of deposit. Purchasers of the certificates would receive an interest rate on their deposit that depended on its maturity – 3 percent for 30 days, 4 percent for 60 days, and a full 4.5 percent for 90 days. The Institution even permitted cash deposits, payable on demand, and unlike PSFS promised to remain open five days each week. Such innovations were designed to make it as easy as possible to deposit money with the institution with the goal of allowing greater financial leverage for the stockholders.³¹

Fritz’s plan and timing were impeccable. In 1834, he and his colleagues were able to get a charter from the state legislature that protected their own liability and by 1835 the Institution had \$403,000 in assets under management, a nearly ten-fold increase in just two years.³² Though particularly successful in quickly raising a large, leveraged fund, the Philadelphia Savings Institution was not alone. By 1837, similar incorporated joint-stock savings institutions had been established in most of cities in the state, and many unincorporated funds had sprung up.³³

³⁰ “By-Laws and Rules of the Philadelphia Savings Institution” (February 6, 1837). Library Company of Philadelphia, Philadelphia Pennsylvania. [Hereafter LCP]

³¹ Ibid.

³² *Report of the Committee Appointed to Investigate the Affairs of the Philadelphia Savings Institution* (Harrisburg: Theo Fenn, 1836).

³³ Pennsylvania Auditor, “Tabular Statement of the Condition of the Several Savings Institutions in the State of Pennsylvania (1837-8). LCP.

The new stock savings institutions had their critics. “There is a marked difference between this new birth of so called ‘Savings Institutions’, and those which known by that name in England, were many years ago introduced into this country under the name of Saving Fund societies,” noted a special investigative committee appointed by the state legislature. While “the professed object of the two species of institution is the same, the accumulation of the earnings of poor people, by affording a secure place of deposit for small sums and the paying of interest upon them ...the mode of administration is widely different.” The committee pointed out that the profit orientation of the stockholders along with financial leverage and short-term deposits exposed such institutions to risks than the earlier savings institutions had explicitly sought to avoid. “By this operation a variety of hazardous effects are produced,” the report found. “By the discount of notes, the investment becomes a precarious and fluctuating one; by the accumulation of transient deposits, the risks of a panic and a run ... is incalculably increased.” The Committee placed ultimate responsibility back onto the directors of such institutions, allowing that “under *peculiarly* judicious management, and in *peculiarly* propitious times, such institutions may be useful and convenient” but warned that they were susceptible to abuse without “prompt, or at least seasonable detection.”³⁴

While the legislative committee concluded their report by discussing the special talents it took to manage such institutions without abuse, the state Supreme Court was less equivocal in its criticism. “In the charter there are antagonist interests,” insisted the Court in a case that dealt with the Philadelphia Savings Institution. “The interest of the stockholders is in some measure in opposition to the interest of the depositors. It is for the benefit of the one to decrease, and of the other to increase the rate of interest on deposits; and hence, there may be a peculiar propriety in the Legislature to entrust the control of the funds to persons who have no pecuniary interest in

³⁴ *Report of the Committee Appointed to Investigate the Affairs of the Philadelphia Savings Institution*, 9-11.

the corporation.” In the relatively accepting political climate of the mid 1830s, however, few restrictions were imposed on such institutions in Pennsylvania.³⁵

In a few extreme cases, joint-stock savings institutions were exposed to yet more risk, as secondary and derivatives markets developed in the trading of their stocks. In the mid 1830s, for instance, an active futures market developed on the stock of the Philadelphia Savings Institution. In such financial contracts, sellers, who may or may not have actually held the stock, agreed to sell its shares for a specified price at a future date, while buyers of the futures agreed to buy it on the same terms. Perhaps because the stock of the Philadelphia Savings Institution was relatively closely held, it appeared to be manipulated on the futures market by insiders, fluctuating wildly in the mid 1830s. Over the course of a few months in 1835, the stock of the Institution skyrocketed from \$25 to \$75 and eventually to \$100, before plummeting back to \$35.³⁶ Despite the added risks and warnings by critics, however, in the 1830s little seemed to dampen enthusiasm among savers for the new investment vehicle of the stock savings institution.

Joint-stock savings institutions were not the only innovations that tried to capitalize on the savings banks’ discovery that large, low-cost funds could be raised by attracting working-class depositors. Borrowers of funds who hoped to be able to gain access to loans on better terms by attracting both small and large savers organized themselves into “loan companies.” Like savings banks, loan companies had their origins in efforts to improve financial opportunities for poor and working people. As early as 1816, Philadelphia physician and author James Mease had proposed to the City Council a plan for a publicly owned “loan company” that would offer small-denomination loans to working Philadelphians at the legal rate of 6 percent and collateralized on items from their personal estate – essentially a form of public pawn shop that avoided lending at

³⁵ “The Case of the Philadelphia Savings Institution,” in Thomas Wharton, ed *Reports of Cases Adjudged in the Supreme Court of Pennsylvania in the Eastern District*, Vol. 1 (Philadelphia: Hicklin and Johnson, 1836), 461-8.

³⁶ *Ibid.*, 3-5.

high interest rates. Mease, like the founders of savings banks, was proposing the idea based on European precedent. In many of the Catholic countries of Europe, municipalities had long established “Mounts of Piety” that offered small loans upon the pledge of personal property to the poor, which later became closely affiliated with the efforts to establish savings banks. Mease used this precedent to propose that the city establish a public loan company in 1816 and then again put the plan forward in the 1830s, when licensed pawn brokers (who were allowed by law to charge higher than the usury ceiling of 6 percent) seemed to be flourishing.³⁷

Mease’s plea for a publicly owned loan company fell on deaf ears, but others who proposed the idea of establishing *private* corporations along the same lines seem to have gained the approval of public officials. Some of the incorporators of joint-stock savings institutions, for instance, pleaded their case for a charter to the state legislature on the premise that they would “make small loans to deserving poor people, who cannot get accommodations at bank.”³⁸ In reality, few of the loans of the newer institutions actually went to very small borrowers. Rather, the idea of the “loan company” seems to have been appropriated in the United States by middling merchants and businesspeople who had trouble getting loans at banks. Such groups occasionally sought to established “loan companies” for their own purposes, collecting small deposits at moderate rates of interest with the intention of loaning money to *themselves*.

By 1837, at least three incorporated “loan companies” operated in Philadelphia with the purpose of pooling deposits that could be lent to their members.³⁹ The Philadelphia Loan Company, for instance, was “originated with a few individuals of this city, who having become satisfied that a chartered institution for the purpose of loaning money, on hypothecation of

³⁷ James Mease, “On the Utility of Public Loan Offices & Savings Funds, Established by City Authorities” (June 9, 1936), LCP.

³⁸ *Report of the Committee Appointed to Investigate the Affairs of the Philadelphia Savings Institution*, 9.

³⁹ *M’Elroy’s Philadelphia Directory for 1837*.

goods, wares, merchandise, or other adequate securities, on liberal terms, was needed by business men, combined their capital and energies, and succeeded in obtaining from the Pennsylvania legislature a charter, of somewhat novel provisions, and affecting a class of meritorious persons much overlooked by the larger and wealthier institution of the day.” The Company described itself as “making the savings of one portion relieve the wants of another portion of the working orders” by taking in deposits from industrious working Philadelphians and “tendering to merchants, manufacturers, tradesmen, and others, a fair advance upon their goods, with a moderate rate of interest.”⁴⁰ The Mechanics and Tradesmen’s Loan Company was similarly organized by a group of business owners led by Peter Wager, a wine and liquor dealer who had exposure to banking as a director of the Banking of the United States.⁴¹

Not all the newly formed savings institutions in Jacksonian Philadelphia were inspired solely by attempts to gain access to the pooled low-cost funds of working-class depositors. Some attempts at financial novelty and re-engineering seem to have been inspired by curiosity and attempts to solve basic problems in the safety of investments and in the stability of the money supply. This seems to have been part of the motivation shaping the eccentric figure of Constantine Rafinesque, who established his “Six Per Cent Savings Fund” based on his patented “Divital Invention” in Philadelphia around 1832. Rafinesque was an autodidact and polymath who is best known as a botanist and naturalist. Born in Istanbul to a merchant family of French and German origin, he moved to Italy and eventually to Philadelphia, where he first began to collect, categorize and name fauna and other natural specimens and to publish his findings in scientific journals. Though later recognized as one of America’s greatest early naturalists,

⁴⁰ “Philadelphia Loan Company, no. 35 Walnut Street,” 2. LCP.

⁴¹ *An Act Incorporating the Mechanics’ and Tradesmen’s Loan Company of the State of Pennsylvania I* (Philadelphia, 1836); *Constitution of the Manufacturers’ and Mechanics’ Loan Company of Philadelphia* (Philadelphia, 1824).

Rafinesque was personally eccentric, obsessive and excitable about his specimen collections, and socially awkward. These qualities guaranteed his difficulties in landing employment and kept him constantly on the brink of pennilessness. While on an expedition to collect specimens in the Ohio River Valley in 1819, he finally landed a post as a professor of botany, natural history, and modern languages at Transylvania University in Lexington, Kentucky.⁴²

It was while in Kentucky that Rafinesque developed a design for what he called his “Divital Invention,” a plan for an “improved” savings institution on which he managed to receive a patent in 1825. The scientist later explained that he had “paid peculiar attention to the subject” of savings banks and “found some new important principles of it” that allowed for both perfect security and liquidity in a savings institution. His plan called for converting all deposits into stock and in turn issuing depositors interest-bearing certificates that could circulate as currency. The Divital Invention, he promised, would allow the industrious working classes higher returns and absolute security, while creating a divisible issue of certificates that would serve as a perfectly stable currency.⁴³

Rafinesque, who seemed to have genuine interest in the design and organization of utopian societies and seriously considered settling at Robert Owen’s New Harmony, wrote a letter to his fellow scientist William Maclure that was published in the *New Harmony Gazette* and described how his Divital Invention was a perfect fit for organizing property and labor contributions within utopian communities. The value of property, manual labor, and even mental labor contributed to the society could be estimated by assessors and placed “on deposit” with trustees, Rafinesque explained. “As soon as any value is deposited, there shall be given to the

⁴² Charles Boewe, ed. *Profiles of Rafinesque* (Knoxville: University of Kentucky Press, 2003).

⁴³ C.S. Rafinesque, “Statements Respecting a Six Per Cent Savings Bank or Institution to be Established in the City of Philadelphia” (s.n., 1832); C.S. Rafinesque, *Safe Banking, Including the Principles of Wealth: Being an Inquiry into the Principles and Practice of Safe and Unsafe Banks, or Monied Institutions in North America* (Philadelphia, 1837).

depositor, not by name, a certificate or certificates of the same upon the principle of the patent divitial invention, divisible into any required amount, and exchangeable into any other required amount, transferable and available by the bearer for the nominal value in dollars and cents.” The certificates, which would bear interest, would then form a currency as well as a store of wealth for the community that reflected *real* contributions to the collective. “Although the mainspring of this scheme is my divitial invention, which I have patented in order to give it a higher legal claim,” explained Rafinesque, “it is my intention to allow these [utopian] societies to use it at such a trifling rate as benevolent institutions, that I hope no selfish views will be ascribed to me on that score.”⁴⁴

Unable to convince the Owenites of the practicality of his utopian bank, Rafinesque left his position at Transylvania in 1826 to go to Washington, Baltimore, and Philadelphia in order to market his new institution. He hired agents in most of the major East Coast cities and ran a series of weekly advertisements offering any group of incorporators permission to use his Divitial Invention for a licensing fee. These efforts, too, yielded no results for Rafinesque, though he would bitterly claim that the certificates of deposit originated by savings institutions in Baltimore around 1830 were based on his patented plan of issuing interest-bearing certificates to depositors.⁴⁵

Finally, in 1832, the inventor decided to establish the divitial institution himself and began to organize his “Six Percent Savings Bank or Institution” in Philadelphia. Rafinesque, himself, was broke, pulling in only \$262 in income that year by occasionally lecturing at the Franklin Institute, teaching school-level geography, and selling off his specimen collection. But

⁴⁴ George Browning Lockwood and Charles Allen Prosser, *The New Harmony Movement* (New York: D. Appleton and Company, 1905), 122.

⁴⁵ Rafinesque, “Statements,” 2-3.

he was able to convince wealthier friends and associates of the brilliance of the dividual plan, and with their help the institution was established with \$50,000 in capital.

The “Six Percent Saving Fund,” as the name suggested, guaranteed long-term depositors 6 percent interest on their savings “as the poor ought to receive as much as the rich for their earnings.” Referring to PSFS, he noted that “[o]ur Savings Bank gives only four and a half per cent which is wrong.” Savings depositors, in turn, had the option to receive a traditional bank book “or certificates of deposits to order or bearer and divisible on demand.” The divisible certificates were designed to allow depositors to use them as an interest-bearing currency exchangeable for goods and services, which Rafinesque claimed would be more stable and dependable than banknotes because they’d be backed on one-to-one basis by stocks held by the institution. Finally, the design would represent a further improvement in that unlike in other institutions, directors would serve and be compensated at the pleasure of the *depositors*. Of course, Rafinesque himself would need to be a permanent director until the institution was well established. “The original inventor and founder of this institution, who was also the first subscriber, shall be perpetual trustee of the same, as long as he deems it needful, in order to unfold the dividual mode of business,” he explained. By the mid 1830s, Rafinesque’s Six Percent Saving Fund was in operation along side the other savings institutions and loan companies that promised better terms and conditions for ordinary depositors.⁴⁶

Finally, in a few cases, savings institutions were established as “in-house” banks for a single large enterprise. This was the case with Thomas W. Dyott’s Manual Labor Bank and Six Percent Savings Fund. Dyott, like Rafinesque, Fritz Wager and many others who experimented with establishing savings institutions, was not a banker by trade and by many accounts was poor

⁴⁶ Rafinesque, “Statements,” 2-4. For elaboration on his reasoning about the dividual idea, see Rafinesque, *Safe Banking*, 1-27.

at handling the finances of his own business. He was, however, a determined and driven manufacturer and merchant bent on the expansion of his businesses. Though there is little reliable information about his youth, according to legend Dyott had arrived in Philadelphia from his native London in the 1790s “with a few shillings in his pocket.”⁴⁷ He set up a small shoe black business, manufacturing the product himself in the cellar below his small shop on south Second Street. The young entrepreneur had apparently been a druggist’s apprentice in England, and soon expanded his business to include patent medicines, which he sold under the brand name of “Robertson’s Family Medicines.” By 1810, he had affixed the letters M.D. onto the end of his name for what appear to be promotional reasons, and by 1819 “Dr. Dyott” had grown into the largest patent medicine businessman in the country. In both the boot polish and patent medicine businesses, Dyott had relied on glass bottles from the Kensington Glass Works, just northeast of the city, for containers for his product. Eager to control his own supplies and raw materials, Dyott purchased the Glass Factory and surrounding property in the late 1810s. The Doctor renamed the 400 acre complex Dyotville and invested tens of thousands of dollars in expanding the factory and its adjacent housing.⁴⁸

Dyott relied heavily on financing from wealthy local merchants to expand his business. Jacob Ridgway and Captain Daniel Man were the primary source for these funds. Ridgway was one of the most prominent of Philadelphia’s international merchants and had made his considerable fortune as partner in several significant trading companies. Though a dependable source of loans for Dyott over several decades, he charged the Doctor a heavy discount rate on his promissory notes. Captain Man was an even more aggressive financier. “I played the game of the lawyers when they get hold of a fat client, i.e. make as much as they can,” the Captain later

⁴⁷ Carmita De Solms Jones, “Thomas W. Dyott Boot-Black, Glass Maker, and Financier,” *Bulletin of the Pennsylvania Museum* 22, no 106 (1926), 227.

⁴⁸ Jones, “Dyott,” 226-229.

explained in describing his lending relationship with Dyott. “I got always as much from the Doctor as I could from any body else—shaved everyone as close as I could.”⁴⁹ Dyott estimated that he paid about \$50,000 in “shaving interest” on Dyottville alone over a twenty year period and on his various businesses generally “paid usury to the amount of \$15,000 to 30,000 per annum.” The notion of establishing a bank made good business sense, as Dyott explained, in order “to get rid of paying shaving interest.”

Whig Congressman Joseph Chandler introduced Dyott to Stephen Simpson, a man who reportedly could write the pamphlets and memorials to convince the state legislature to grant the doctor a bank charter. Simpson seemed to have the unique combination of banking knowledge, political skill, and capability for rhetorical flourish that Dyott needed. He had been a clerk in Stephen Girard’s bank in the 1820s. When Girard denied Simpson a promotion to the position of cashier, the clerk left the employ of the merchant and subsequently wrote an especially unflattering biography of the man. Simpson next allied himself with the new Workingmen’s Party, which supported him as a congressional candidate in 1830. He proved himself not only an able bank clerk and populist politician but also a man with a flare for popular rhetoric, which was on display in his *Working Man’s Manual* and other popular and journalistic writing he did in the 1830s. His support from the Workingmen’s Party had dissipated by 1832, however, because of his public backing for the Bank of the United States. Simpson was on his way to Washington to take a promised post in the Jackson administration when Dyott approached him about the prospect of writing pamphlets and publishing a new newspaper in order to sway public and political opinion in favor of a bank charter for the Doctor. Simpson agreed to write several

⁴⁹ “Trial of Dyott,” 13

pamphlets on Dyottville and publish the new *Democratic Herald* for the handsome sum of \$3,000 per year.⁵⁰

When the Pennsylvania legislature refused to grant Dyott a charter, Simpson aided him in establishing the private “Manual Labor Bank and Six Percent Saving Fund,” a name he likely copied from Rafinesque’s savings institution, next to his patent medicine shop on Second Street. Dyott’s bank advertised that it was safest of all savings institution because it was backed by the \$500,000 in real and personal estate of the proprietor himself. Dyott’s savings institution went into business in February 1836, accepting deposits at 6 per cent and issuing a small amount in bank notes. The funds were used to start paying down his debt to Ridgway and Man, to finance his current operations, and to make new acquisitions. He soon bought additional property in the vicinity of the patent medicine shop and acquired the stock of Edwards & Veree, a grocer and dry good store, with the intention of expanding his retailing operation . In addition to writing circulars, articles, and other promotional pieces for the new saving fund that promised working depositors the interest they deserved, Simpson served as the institution’s cashier – the position he had been denied by Girard.⁵¹

The Manual Labor Bank and Saving Fund took its place aside the host of new savings institutions and loan companies promising higher interest, new services, and innovative features on the premise of serving working-class savers. At least twelve of these were incorporated by the state. Legislative reports estimated that another fifteen or so unincorporated private savings institutions were in existence. Capitalizing on the precedent set by early savings banks, the new institutions that were established in the 1820s and 1830s sought to turn working-class savers into

⁵⁰ For differing views of Simpson see Edward Pessen, “The Ideology of Stephen Simpson, Upperclass Champion of the Early Philadelphia Workingmen’s Movement,” *Pennsylvania History* 22 (1955), 328-340, and Joseph Dorfman, *The Economic Mind in American Civilization* (New York: A.M. Kelley, 1966). On Simpson’s involvement with Dyott, see “Trial of Dyott,” 6-11.

⁵¹ “Trial of Dyott,” 2-4.

an inexpensive source of funds. Banking and finance, in turn, were rapidly transformed into popular business, accessible to all. As one account put it, “Persons who but a few years since had not dared to think of a bank, but as an engine of aristocratic power beheld almost with wonder their names inscribed in bank books as stockholders and depositors. ‘OUR BANK’ was in every mouth.”⁵² By the eve of the Panic of 1837, saving and investing had become a mass market industry.

The Panic began in the early Spring of 1837. While historians continue to debate whether domestic or international events triggered the crisis after years of inflation, it is clear that by early 1837 there was a significant contraction in the money supply and an increase in the public’s preference for specie.⁵³ Depositors in Philadelphia were lined up at their savings institutions as early as February and by April were draining their accounts at near record levels. The movement of specie out of the banks of the Northeast sent interest rates spiraling upwards, and gold and silver coin trading at a significant premium. Depositors and note holders clamored for their money in coin, destabilizing the savings institutions and loan companies that had only recently been established.

Though few records survive from the scores of savings institutions that failed, the archives of the Philadelphia Saving Fund Society – the one savings institution that did make it through the crisis – offers some insight into the havoc that the Panic and subsequent depression created on the balance sheets of Philadelphia’s savings institutions. PSFS had experienced significant depositor runs in 1829 and 1834. What was different about the Panic of 1837 was the severity of the runs and, even more important, the prolonged loss of public confidence that

⁵² *Three Degrees of Banking, or the Romance of Trade* (Boston: Weeks, Jordan, 1838). 53.

⁵³ Rousseau, 463-83.

followed. The impact was actually felt through a *series* of runs over five years that were intimately linked together by the fact that public confidence was never restored in between them. Between January 1837 and January 1843, PSFS lost nearly a third of its depositors and over half of its deposits. Chart 1 compares this record to other panics that PSFS experienced in the antebellum period by plotting the flow of net deposits (that is, deposits less withdrawals) from the beginning of each episode to the point at which pre-Panic levels were once again achieved. From the point of view of PSFS, no other financial crisis in the antebellum era compared to the Panic of 1837 in its severity and duration. Not even the Great Depression of the 1930s would compare in its magnitude to the Jacksonian Panic's impact on the savings bank.

The impact of the Panic on local savings institutions can only be understood by taking a number of factors into account. “[T]he heavy drainage from our deposits ... must unquestionably be referred to the violent oscillations in our banking system, during the [1830s], and its effects upon our depositors in common with the rest of the community,” explained PSFS’s president to the Board. “It was, moreover, during the same period of excessive expansion and contraction of the currency, that various Savings Institutions successfully rose and sunk in Philadelphia and its suburbs; and by their fall always alarming the fears of our depositors, also aggravated the drainage of our deposits.”⁵⁴ In other words, monetary stringency *combined* with structural weaknesses in savings institutions and a series of high profile failures created a sequence of shocks, each of which led depositors to pull more deposits out of the savings system.

The Panic and depression affected the balance sheet of PSFS and the other savings institutions in two ways. First, the depression led to declining asset prices and underperforming loans. In all, PSFS lost approximately \$127,000 on its investments between 1837 and 1843, or

⁵⁴ President’s Annual Report. 1842. PSFS Collection.

approximately 15 percent of its asset base.⁵⁵ Second, and more importantly, the panics created sudden decreases in the institution's liabilities and the need to rapidly convert investments into money. As Chart 1 shows, PSFS lost approximately \$700,000 in deposits, more than half of its liabilities, through the series of runs that struck institution between 1837 and 1843. The loss was significant not only for its magnitude but also because most of the loss took place in a series of unpredictable, punctuated runs. Of the total deposit loss of \$700,000 in five years, almost \$450,000 can be accounted for by the five months when the worst runs occurred – April and May 1837, August 1839, and March and August 1842.⁵⁶ Such conditions forced the savings bank to convert its supposedly stable long-term investments into short-term cash on short notice. In large part because savings institutions were thought of as investing in long-term assets, the pressure for large-scale convertibility created by the Panic was a situation for which many institutions were not prepared.

PSFS was able to survive the crisis in part because it had the advantage over other Philadelphia savings institutions of a longer history and better reputation. But its survival is also attributable to a particularly skillful president named Clement C. Biddle. Clement was the younger cousin of Nicholas Biddle, the president of the Second Bank of the United States. Born in 1784 into the notable Philadelphia family, Clement had a deep lifelong interest in and understanding of political economy. He was the editor of the English translation of Jean-Baptiste Say's *Treatise on Political Economy*, which remained the authoritative translation into the twentieth century. A lawyer by training, Biddle was one of the founders of PSFS and served on its Board of Directors until he was elected president on June 11, 1834. He served as the

⁵⁵ Ibid. sses took a variety of forms. The savings bank had to sell off state debt at depressed prices in order to meet depositor demands. It had two underperforming corporate loans, to the Schuylkill Navigation Company and the Union Canal Company. And when other banks in the city failed, it lost value on the notes and certificates of those banks that it held as cash.

⁵⁶ Committee of the Month Reports, 1837-1843. PSFS Collection.

institution's president for the subsequent twenty years, overseeing its transformation from an important voluntary organization into a large, professionally managed financial institution.⁵⁷

Biddle made a number of crucial changes at PSFS beginning in the mid 1830s that were essential to its survival. As early as 1835, he started to significantly expand the institution's "contingent fund," the retained earnings that were not distributed to depositors in the form of dividends but rather accumulated as a buffer against investment losses. At the time, the notion of a contingent fund had dubious legitimacy and perhaps even questionable legality. Mutual savings banks, after all, had been established on behalf of depositors and the by-laws of most early institutions included provisions for distributing *all* surpluses to depositors.⁵⁸ Biddle however increased retained earnings and expanded the fund in the boom years of the mid 1830s (by limiting the interest paid depositors) as a way of bolstering the institution against investment losses. He also actively pruned and managed PSFS's investment portfolio, reducing loans collateralized by stock, which were considered risky and marginally appropriate for savings banks. PSFS also moved strongly into mortgage lending which, Biddle pointed out, had remained a relatively strong asset on which the savings bank had experienced almost no losses. Finally Biddle tried to institute investment policies that ensured the convertibility into cash of PSFS's assets in the case of runs. To meet the run in the Spring of 1837, for instance, he was able to quickly sell \$168 thousand of state debt at a loss, "called" \$72 thousand in loans on stocks and liquidated \$50 thousand in maturing mortgage loans.⁵⁹

Even with Biddle's skill and reforms, PSFS barely made it through the depression. While Biddle had increased the Contingent Fund to \$150 thousand by 1842, the institution experienced

⁵⁷ Willcox, 106-7.

⁵⁸ Even PSFS's original articles of incorporation specified that the "the surplus of interest, after defraying the expenses of the establishment, shall be divided every three years, amongst the depositors." Willcox, 158.

⁵⁹ President's Annual Reports, 1837-1843. PSFS Collection.

\$127 thousand in losses during the crisis, leaving a buffer of only \$23 thousand.⁶⁰ Without Biddle's efforts to expand the fund and to enhance convertibility, PSFS would have been insolvent. Under such severe circumstances, the smaller, more illiquid savings institutions that had sprung up in the 1830s were unable to cope with the combination of investment losses and depositor runs. Promising higher interest rates to depositors and investing in riskier assets, most of these institutions had little in the way of a buffer against declining asset prices. Even more importantly, many of them had invested in relatively illiquid assets that made it nearly impossible to cope with sudden and unpredictable depositor demands for cash.

Dr. Dyott's Manual Labor Bank and Six Percent Savings Fund provides an extreme example of the pressures to which these savings institutions finally succumbed. The Manual Labor Bank and Saving Fund had been in operation for just a little over a year when depositors began to demand their money back in specie and high quality banknotes. As at PSFS, the financial pressure began in February and mounted throughout the Spring. Unlike PSFS, however, Dyott had no easy way to convert his assets into cash since he had invested the bank's deposits directly in his various business, buying out the stock of a dry goods merchant named Edwards & Verree, purchasing new properties for his growing retail business and using the funds to finance working capital.⁶¹

Under pressure from depositors, Dyott was once again forced to borrow cash from the elite merchants on which he had long depended. Jacob Ridgway floated Dyott an emergency loan at a rate of approximately 30 percent per annum and agreed to further lending to the total amount of \$50,000 for the coming year. As security, Dyott gave Ridgway a bond on his glassware and other goods, the same property that was "securing" the bank depositors against

⁶⁰ President's Annual Report, 1842. PSFS Collection.

⁶¹ "Trial of Dyott," 2-3.

losses. Dyott used the transaction with Ridgway not only to pay the panicked depositors but also to advertise the personal bond he had issued Ridgway, implying that the highly reputable and wealthy merchant supported the bank and its proprietor's creditworthiness. "The assignment of the bond to Mr. Ridgway, no doubt, contributed greatly to suspend the run upon the Bank," Stephen Simpson later explained. "In May 1837, notices to reclaim deposits from \$30 to \$50,000 were in the drawer, but after Mr. Ridgway became Trustee, not \$1000 was taken up."⁶²

Over the course of the summer months, Dyott sold off some of the stock of his other retail businesses to his sons and nephew. In July he sold his glassware and drug business to J.B. and C.W. Dyott for \$150,000, which was primarily paid for in Manual Labor Notes. And he transferred the grocery and dry goods business to his other son, Thomas, Jr. The Doctor said that he did so in order to raise money, to concentrate on the banking business, and to help his sons get set up in business.⁶³ Since the Manual Labor Bank and Saving Fund was a private bank secured on Dyott's personal estate, however, these transfers potentially weakened the recourse available to depositors in the case the bank failed.

On an October weekend in 1837, Dyott received early word that rumors had begun to circulate about the weakened condition of the Manual Labor Bank and that there was going to be a likely depositor run on the bank. Employing a technique used by other banks, Dyott hired a number of people, mostly loyal workers from his Glass Factory, to arrive at the bank with large packets of money to change or deposit. John Congden, a resident near the Glass Works, explained that Dyott hired him "to take part in the run upon the Bank:"

He gave me a bundle of notes, and told me that ... the object they had in view was to restore confidence in the Bank; it was to take up time; to have us keep the counter as long as possible. I presented the first parcel of notes, according to ...

⁶² "Trial of Dyott," 8; "Conspiracy to Cheat," *Merchant's Magazine and Commercial Review* (1839), 434-6.

⁶³ "Trial of Dyott," 2-3, 6-7.

instructions. The teller miscounted them three times.⁶⁴

As the bank closed for the day, Stephen Simpson, noted to the Doctor that he had saved many thousands of dollars by his technique. Dyott reportedly spun his hat like a top at his success in avoiding failure that day.⁶⁵

In the days and months following the October 1837 run, Dyott shifted his strategy for dealing with the cash demands of his depositors. Unable to pay depositors in large quantities of high quality bank notes and other cash, he instituted a policy of paying them only small amounts – typically less than \$5. Their larger withdrawals were met by paying out “Manual Labor notes” that could be redeemed for goods at one of the Dyott stores. Depositors could redeem the notes for drugs or glassware at J.B and C.W. Dyott’s outlet or Thomas Jr’s dry goods and grocery store, both of which were conveniently adjacent to the bank. Dr. Dyott also kept a stock of various goods at his counting house above the bank, including plush hats, clothes, and shoes that could be purchased with Manual Labor notes. To acquire the goods that he himself did not manufacture (such as dry goods and groceries), Dyott used the Manual Labor Bank to issue “post notes” to his suppliers. Post notes essentially IOU certificates redeemable at a future date to the bearer and could circulate. Dyott’s post note issue was at first modest, totaling only about \$12,000 at the end of 1837. But in the following year he used them to acquire more goods and to pay for services and labor he received. By mid 1838, he had issued \$100,000 worth of post notes. Most of the goods purchased with the post notes were in turn placed in the stores of his sons for depositors to buy.⁶⁶

As the volume of Dyott’s obligations to post note holders grew, however, some began to question again his ability to pay them off in the future, especially given his obligations to

⁶⁴ “Trial of Dyott,” 15.

⁶⁵ “Trial of Dyott,” 8.

⁶⁶ “Trial of Dyott,” 8-9.

depositors as well as to his private lenders, Jacob Ridgway and Daniel Man. By the summer of 1838, the value of the post notes on the open market had dipped to 55 per cent of their face value. Depositors, including his own Glass Works employees, began hounding him, even suggesting that he sell off his assets to pay off the various creditors. Dyott began to make increasingly desperate moves to save himself. He quietly turned over operation of Dyottville to his brother Michael, and reportedly started selling off personal assets to raise cash. He sold his personal furniture to his sister-in-law, Julia, for \$1,000. Rumors also started to circulate that large quantities of goods were quietly being removed from the stores and the Glass Works.⁶⁷

The final events that sent the Manual Labor Bank into bankruptcy took place in the late summer of 1838. First, the Pennsylvania governor announced that he would mandate that financial institutions resume payments in specie, which many of the weaker institutions, including Dyott's, had in limited supply. Even more significant for the Manual Labor Bank, Jacob Ridgway insisted in September that he would re-assign Dyott's bond. He no longer wanted his name associated with the Manual Labor Bank. The developments led to a complete collapse in confidence in the bank and by the Fall Dyott's post notes had negligible value on the market. In October 1838 he announced his intention to file for insolvency.⁶⁸

Dyott's criminal trial for "fraudulent insolvency" took place in the Spring and Summer of 1839, just as the economy was sinking back into depression. The key witness for the prosecution was Stephen Simpson who, along with many of Dyott's other former employees, testified that the Doctor had systematically transferred his assets to his relatives to shelter them from the claims of depositors and other creditors. Simpson, who had remained loyal to Dyott and helped him carry out his plans until the bankruptcy, charged that as early as the summer of 1837 the

⁶⁷ "Trial of Dyott," 4, 9-10.

⁶⁸ "Conspiracy to Cheat," 434-6.

Doctor's plan was to "leave no means by which depositors could obtain legal redress, if they wanted it." He also implicated Ridgway in the conspiracy, suggesting "Ridgway was his banker" and that it was the prominent merchant who had suggested that Dyott hide his assets. Dyott retorted that he had rebuffed Simpson's attempt to extort the Manual Labor Bank just before it failed and was now testifying in revenge. The main defense put forward by the Doctor's attorney, however, seems to have been that Dyott was not conspiring to cheat his depositors but was simply unskilled and unknowledgeable at banking. "Had the Doctor the simplicity of a child?," asked Dyott's defense attorney to a former clerk, to the great amusement of the entire courtroom. "His manners and habits were very plain," the friendly witness confirmed. "The Doctor knew nothing of book-keeping; nor was he in the habit of examining them."⁶⁹

The trial left Philadelphians with two interpretations -- malfeasance or mismanagement -- for understanding the failure of Dyott's savings fund and the other savings institutions that were collapsing around it. Those convinced of a conspiracy could point to many unflattering facts about Dyott and perhaps about the other failed institutions as well: the quiet transfer of assets to relatives, underhanded tactics during the bank runs, the improper use of the names of prominent Philadelphians to imply their support for the bank. But even to those less inclined to conjure up charges of widespread conspiracy, the wholesale collapse of savings institutions highlighted their vulnerability to mismanagement and the devastation caused by their failure during economic downturns when working depositors needed them most. Rather than ameliorating distress among the public and reducing the risks of the market economy, the new savings institutions had managed to structure their organizations in ways that worsened the depression. Promising high returns to stockholders and depositors and investing their funds in illiquid and questionable

⁶⁹ "Trial of Dyott," 8, 19.

assets, the managers of the newer savings institutions stood little chance of making in through the Panic and depression and in fact only made matters worse for all as they failed.

Their record was far more abysmal than that of the city's generally well-run commercial banks. The Philadelphia Loan Company experienced severe runs and had suspended operations by 1839. It is unclear exactly what wiped out the Philadelphia Savings Institution but it was also out of business by 1839.⁷⁰ Perhaps in reaction to the Panics and hard times, the board of the Six Percent Savings Fund forced Constantine Rafinesque out of the organization even though he was the inventor, founder, and supposedly "permanent" director. It appears to have gone under in the late 1830s. Rafinesque died penniless in 1840.⁷¹ The mercantile community was stunned when Jacob Ridgway was tried for conspiring with Thomas Dyott to defraud the depositors of the Manual Labor Bank; he was, however, acquitted of all charges. Dr. Dyott too continued to insist he was innocent. He was sentenced to three years imprisonment at Eastern State Penitentiary. He was 68.⁷²

The widespread failure of savings institutions during the Panic and depression led to extensive reforms in the years that followed. Unlike the reforms in commercial banking that historians have focused on, however, the discourse on savings institutions did not revolve around questions of competition, free banking, and monopoly powers. These issues did not resonate with the public when it came to savings banks. Even in New York, the often-cited example of a free banking state, the notion of promoting free entry and competition by savings banks was summarily dismissed. A New York legislative committee charged with assessing whether free

⁷⁰ The assets of the Philadelphia Loan Company were restructured and it went back into business after a long suspension. *M'Elroy's Philadelphia Directory* (Philadelphia: Rackliff and Jones, 1837, 1843).

⁷¹ "The Last Days of Rafinesque," in Boewe, ed. *Profiles*, 80-96.

⁷² "Conspiracy to Cheat," 436.

banking should be applied to savings institutions concluded that “the salutary influence of competition, usually found so corrective in all the enterprises undertaken for gain, cannot apply to a savings bank, which is only designed as a safe place for the poor man to deposit his surplus earnings, and not a receptacle for the rich man of business.”⁷³ Rather, the critical political-economic issues surrounding savings institutions were the ones that the Panic had highlighted: How could the public’s trust in the sound management of savings banks be re-established and guaranteed? Given the risks that all financial institutions were exposed to, could the savings bank system be constructed to ameliorate economic distress in times of need rather than to exacerbate it?

Many of the savings banks that survived the Panic reacted by instituting internal reforms designed to transform their institutions from small, voluntarily managed investment clubs into large, professionally managed financial institutions. The reforms that Biddle had instituted at PSFS spread to other savings banks. The institutions worked to create robust “contingent funds” and lobbied state legislatures to legalize and even mandate the creation of such buffers against bad investments. Most of the institutions also expanded their paid staff in order to enhance the quality of their investment management. Time-limited charters, including the one that incorporated PSFS, were eliminated as were the restrictions on the size of funds that had originally been designed to prevent the institutions from growing too large. By the middle of the century, some of the largest corporations in the United States in terms of assets controlled were mutual savings banks.⁷⁴

⁷³ Report of the Committee on Banks and Insurance Companies on the Bill from the Assembly for the Formation of Savings Banks (March 28, 1848). Reprinted in Emerson Keyes, *A History of Savings Banks in the State of New York* (Albany: Argus Company, 1870), 293-295

⁷⁴ Olmstead, 4.

The development of an extensive body of public regulations governing savings banks in the decades after 1837 was even more consequential in establishing the foundation for the expansion of saving and investing by the public. Savings banks continued to be subject to the legislative chartering process in order to control competition that might undermine the stability of the institutions. In many northeastern states (though not in Pennsylvania), stock savings banks and private savings banks were prohibited. State legislatures also passed statutes restricting the assets in which savings bank managers could invest and prescribing allowable practices in many aspects of their operations. By the late nineteenth century, courts began holding trustees who violated or allowed these practices personally liable on the basis of fiduciary neglect. Massachusetts Supreme Court justice Lemuel Shaw explained in 1852 that the foundation for such extensive regulation of savings banks lay in the fact that the institutions were entrusted with the funds of “persons who can ill afford to lose it, and who are in no condition to be able to judge of, or provide for, its security.” Hence their “usefulness...very much depend upon their being under the wholesome inspection and control of government.”⁷⁵

The lessons of the Panic hence led to the creation of a novel role for the state in American society in developing an extensive regulatory framework designed to protect small savers against malfeasance, mismanagement, and the vicissitudes of the financial market.⁷⁶ By the 1870s, the American economist Francis Amasa Walker would count the special regulation of savings banks along with public schooling and clean government among the three basic responsibilities of the modern liberal state.⁷⁷ With these reforms, savings banks became the fastest growing financial

⁷⁵ *In the Opinion of the Justices* 9 Cush. 604, 609-611. (1852)

⁷⁶ On the regulation of savings banks, see R. Daniel Wadhvani, “Protecting Small Savers: The Political Economy of Economic Security,” in Richard R. John, ed. *Ruling Passions: Political Economy in Nineteenth-Century America* (University Park: Penn State Press, 2006). Reprinted from *Journal of Policy History* 18, no 1 (2006).

⁷⁷ Francis Amasa Walker, *The Wages Question: A Treatise on Wages and the Wages Class* (New York, 1876), 414.

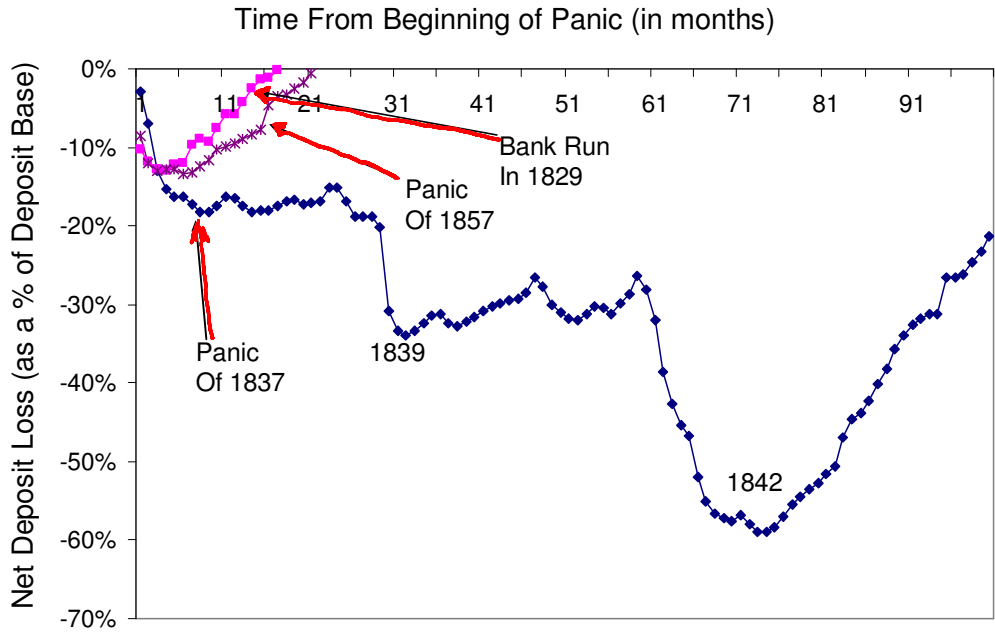
institutions in the American economy in the four decades after the Panic of 1837. By the early 1870s, they controlled nearly a quarter of the assets in the American banking system.⁷⁸

The new regulations accordingly sought to systematically drive financial experimentation and risk-taking out of the savings bank sector. It would be a mistake, however, to conclude that these attempts to stabilize savings institutions on behalf of the public squashed experimentalism in personal finance altogether. Entrepreneurs at the fringes of the formal financial sector in Philadelphia and other cities continued to experiment with new ways to deliver financial services to working people. While the vast major of these eccentric plans were utter failures, occasionally a new innovation would emerge from these experiments – such as building and loan mortgages, the second mortgage, and small consumer loans – that would shake up the industry. Regulation shaped where and how new experiments and innovations took place but it did not squash them. Financial innovations continued to make their way in through cracks in the regulated structure of the industry.

Indeed, the epilogue to Dyott's story suggests that he too found a way to re-create his economic fortunes after the Panic. Following a series of appeals, the Doctor was pardoned by the governor in early 1841. He was immediately put in debtor's detention, until his former creditor Captain Man assumed responsibilities for his debts. After his release from prison at the age of 70, Dyott immediately went back into the drug and patent medicine business, most likely with his son and nephew. By the time of his death in 1861 he had managed to re-build much of his fortune.

⁷⁸ Series X 20-41 and Series X 238 -239 in *The Statistical History of the United States from Colonial Times to the Present* (Stamford, Conn., 1965), 623-625, 641. See also Herman Krooss and Martin Blyn, *A History of Financial Intermediaries* (New York, 1971), 81-82.

CHART 1
P.S.F.S During Three Antebellum Panics
Net Deposit Loss as a Percent of Deposit Base



Notes: Net Deposits is defined as Deposits less Withdrawals. Deposit base is the amount on deposit at the beginning of the crisis.
 Source: Committee of the Month Reports, 1820-1860, PSFS Collection. Hagley Library. Wilmington, DE.