Volume Title: Organizations, Civil Society, and the Roots of Development

Volume Author/Editor: Naomi R. Lamoreaux and John Joseph Wallis, editors

Volume Publisher: University of Chicago Press

Volume ISBNs: 978-0-226-42636-5 (cloth); 0-226-42636-X (cloth)

Volume URL: http://www.nber.org/books/lamo14-1

Conference Date: October 24–25, 2014

Publication Date: November 2017

Chapter Title: Banks, Politics, and Political Parties: From Partisan Banking to Open Access in Early Massachusetts

Chapter Author(s): Qian Lu, John Joseph Wallis

Chapter URL: http://www.nber.org/chapters/c13507

Chapter pages in book: (p. 109 – 145)

4

Banks, Politics, and Political Parties
From Partisan Banking to Open Access in Early Massachusetts

Qian Lu and John Joseph Wallis

4.1 Introduction

The United States was the first nation to allow open access to the corporate form to its citizens. The state of Massachusetts was not only one of the first states to provide its members with legally sanctioned tools to create organizations and enable open access but, on a per capita basis, had many more banks and other corporations than other states as early as the 1820s. Early nineteenth-century Massachusetts is a natural place to look for the social processes that enabled societies to create large numbers of independent organizations. By looking closely at banking in the early nineteenth century, we are able to address several central questions raised in this volume in a specific historical setting. We are able to show that banking was dominated by a group of economic and political elites. Moreover, that a faction within those elites, the Federalists, were for thirty years able to successfully limit access to bank charters to themselves and deny them to their opponents, the Democratic-Republicans, even though the opposition elites were powerful individuals themselves. Bank charters were necessary for commercial note-issuing banks to operate and the Democratic-Republican elites were effec-

Qian Lu is an assistant professor at the Central University of Finance and Economics. John Joseph Wallis is professor of economics at the University of Maryland and a research associate of the National Bureau of Economic Research.

We thank Howard Bodenhorn, Eric Hilt, Ethan Kaplan, Naomi Lamoreaux, Peter Murrell, William Novak, James Snyder, Richard Sylla, Robert Wright, and seminar participants at the University of Maryland and the 2013 Cliometric Society meeting for their comments and suggestions on an earlier related paper. Qian Lu thanks Yiqing Xu and the staffs at the Massachusetts State Library and Massachusetts State Archives. Special thanks to Alix Quan of Massachusetts State Library for providing valuable data. For acknowledgments, sources of research support, and disclosure of the authors' material financial relationships, if any, please see http://www.nber.org/chapters/c13507.ack.

tively shut out of banking until 1812. Then we show that a crisis occurred because of limited access. In 1812, the Democratic-Republicans gained control of the state government and threatened to eliminate twenty-two of the twenty-three existing banks, as well as chartering two new Democratic-Republican banks. In the aftermath of the crisis, both factions realized that political competition in a democratic setting threatened valuable economic organizations, and Massachusetts moved to take the granting of bank charters out of the political process. By the 1820s Massachusetts had de facto open access in banking and more banks and more bank capital per capita than any state in the Union.

A large literature describes what happened in Massachusetts, as well as explanations for why it happened. The title of Pauline Maier's (1993) article "The Revolutionary Origins of the American Corporation" gives the flavor of answers: political events in the revolution created the conditions under which democracy emerged and the movement toward modern corporations and open access to those corporate forms almost inevitably followed. The Handlin's classic *Commonwealth: A Study of the Role of Government in the American Economy, 1774–1861* has much the same tone and analysis. The state found itself confronted with political demands for corporate charters from a wide variety of citizens that it simply could not deny.[1] The Handlins' and Maier's explanation that Americans adopted open access for organizations because of the political and economic dynamics set in motion by the movements toward democracy in the colonial experience and the revolution is certainly correct. Something definitely happened to political and economic institutions in Massachusetts that led to open organizational access. The difficulty is accepting at face value the assertion that the forces set in motion during the revolution were the ones that mattered. For thirty years, the Massachusetts Federalists prided themselves on their democratic republic and, nonetheless, systematically denied their political opponents the ability to form banks.

The Handlins, Maier, and many others focus on the emergence of an inclusive political democracy, contested but nonetheless ultimately triumphant.[2] Intraelite conflict does not play a central role in this history. The histories subsume intraelite conflict into intraparty competition in the new American

1. "The public purpose which justified extension of government powers to a bank, to a bridge, and to a factory soon comprehended a wide and ever widening circle of enterprises. The Commonwealth's concern with the entire productive system, its solicitude for the welfare of many diverse activities, all interdependent and all adding to the strength of Massachusetts, quickly put the corporate form to the use of many new ventures. The political balance deflated any notion of keeping the device exclusive; the expansive thinking, the excited spirits of the young state, brooked no casual denial. Charters in steadily mounting volume clothed with living tissues the skeletal hopes for an economy to serve the common interest" (Handlin and Handlin 1969, 106).

2. For recent general histories see Wilentz (2005) and Howe (2007). Inclusive political systems are a key element in Acemoglu and Robinson's (2012) concept of modern development.

democracies (national and state), which can lead us to miss an important set of institutional changes that made inclusive democracy feasible. What political parties would become was an open question in 1800. Would political parties systematically manipulate economic privileges to benefit and tie together their members? The Federalist Party in Massachusetts certainly did before 1812. If most societies fail to develop politically and economically because they cannot solve the problem of intraelite conflicts, including conflicts about the formation of organizations like political parties and banks, then we would like to know how the United States managed to solve the problem. An American history that passes over the intense conflicts between elites in the early nineteenth century hamstrings our ability to understand what happened in Massachusetts, as well as why it happened. If intraelite conflict in Massachusetts produced a political crisis that was resolved by allowing all elites to form organizations, in effect moving from limited to open access to organizational tools, then learning that history should help us understand some of the dynamics involved in opening access.[3]

To be clear, we are not arguing that a competitive electoral democracy was not an important element of what happened in Massachusetts: it was. We are arguing that a competitive electoral democracy was neither self-implementing nor did it produce open access. For the first thirty years, democracy produced a limited-access oligarchic banking system. Banking offers a particularly rich area to explore the dynamics of elite competition because of the close connection between politics and banking. We are able to connect the presidents and directors of banks in Massachusetts with state legislators; they were literally the same people. Before 1812, over 70 percent of the bankers we can identify were a state legislator at some point in their lives; moreover, most of them were Federalists. Individuals who were both a state legislator and a president or director of a bank are taken as the "elites." While the connection between political parties and banking weakened after 1813, the close connection between politics and banking continued. From 1813 to 1860, between 40 and 50 percent of all bank presidents and bank directors also served in the state legislature at some point in time. Unlike the earlier period, however, no political party dominated banking the way the Federalists had before 1811 and no groups complained about systematic exclusion from bank chartering. Banking remained an elite occupation throughout the entire period, but it ceased to be an occupation only available to politically connected elites as evidenced by their party affiliations. Control of bank entry ceased to be a mode of intraelite competition. Open access does not mean elimination of elites, it means that elites stop manipulating the economy to produce economic rents that enable them to coordinate coalitions.

3. For a wider discussion of limited and open access in the early nineteenth-century United States, see Wallis (2005, 2006) and North, Wallis, and Weingast (2009).

We begin by describing the sources of data that enable us to identify elites. Then we recount the history of banking in Massachusetts in some detail, particularly the events in 1811, 1812, and after that produced a political crisis and then the movement to open access. After considering whether Massachusetts bankers remained elites after access opened, some specific explanations for why open access was sustained are considered, in light of the experience of other states. We conclude with connections between Massachusetts and the larger set of issues considered in the volume.

4.2 Historical Sources on Elites, Factions, and Banks

The history of banking in Massachusetts is rich and complicated. This section provides the bare bones historical background, first on politics and then on banking, that we need to track the history. The history of banking policy in Massachusetts falls into four periods. In the first, from statehood until 1811, banking was dominated by the Federalist Party. Of the twenty-three banks that were chartered, all but a handful were connected directly with the Federalist Party. At one point, 80 percent of the bankers that we can identify, either bank presidents or directors, were state legislators at some point in their lives. This was a well-integrated political and economic elite. The second period was the brief interlude between 1811 and 1815. In 1811 and 1812, Democratic-Republican Elbridge Gerry, of gerrymandering fame, was governor and, in his second term, the Democratic-Republicans controlled a majority in the House and Senate for the only time between 1790 and 1830. In that narrow window the Democratic-Republicans chartered two new Democratic-Republican banks and threatened to close all but one of the existing Federalist banks. The third period from 1815 to 1829 saw continued political competition between the two parties, but a gradual opening of access to banking. This culminated in a general regulatory act for banks in 1829. The act required that all bank charters be identical, and that any new privilege granted to one bank must apply to all banks. The last period from 1830 to 1860 was a period of open access, without strong party ties to bank entry.

From the early 1780s on, Massachusetts had an elected government comprised of a governor, a Senate, and a House. Annual elections for all three were held in May, with terms that ran until the next election (so, for example, the legislature elected in the spring of 1811 held sessions in both 1811 and 1812, and the governor served in both years as well).[4] Towns had the opportunity to send representatives or not, so the number of legislators

4. The 1820 Constitutional Convention proposed an amendment that would have moved the beginning of the political year to the first Wednesday in January, but it was rejected by the voters. Ten years later, the voters ratified Amendment X of the constitution making January the start of the political year. After 1832, the legislative sessions start in early January and end in late March or April.

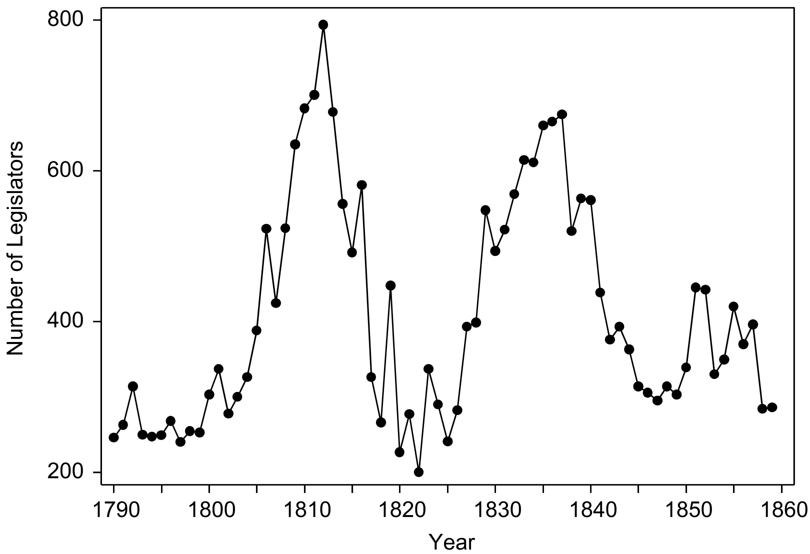

Fig. 4.1 Number of legislators, 1790–1859
Source: Massachusetts Legislators' Biographies, Massachusetts State Library.

fluctuated, sometimes wildly. Figure 4.1 gives the number of legislators by legislative year.

In the early years of the nineteenth century, from 1792 to 1824, the first national party regime was dominated by Federalists and Democratic-Republicans. The second national party regime, from 1829 to 1859, included National Republicans, Whigs, Democrats, Americans, Know Nothings, and other parties. In the first national party system, two parties dominated for roughly thirty years. In the second party system, multiple parties competed with each other, both over time and at any point in time.

The difference in the two party regimes can be seen in the fortunes of parties in the Massachusetts's legislature in figures 4.2–4.5. We take the overall party composition of each legislature from Dubin (2007).[5] Figure 4.2 gives the party composition of the Senate for the first period, 1797 to 1824, and figure 4.3 gives the party composition of the Senate for the second period. Figures 4.4 and 4.5 show the party composition of the House for the two periods as well. We take the party identification of individual legislators from the Massachusetts *Legislative Biographies*. There are no party IDs before 1797, which is when Dubin's data start.

While Federalists dominated the Senate in the earliest years, the Democratic-Republicans were able to compete effectively from roughly 1805 on and controlled a majority in six legislatures from 1808 to 1824. The

5. Dubin's data on party affiliations in Massachusetts begin in 1797.

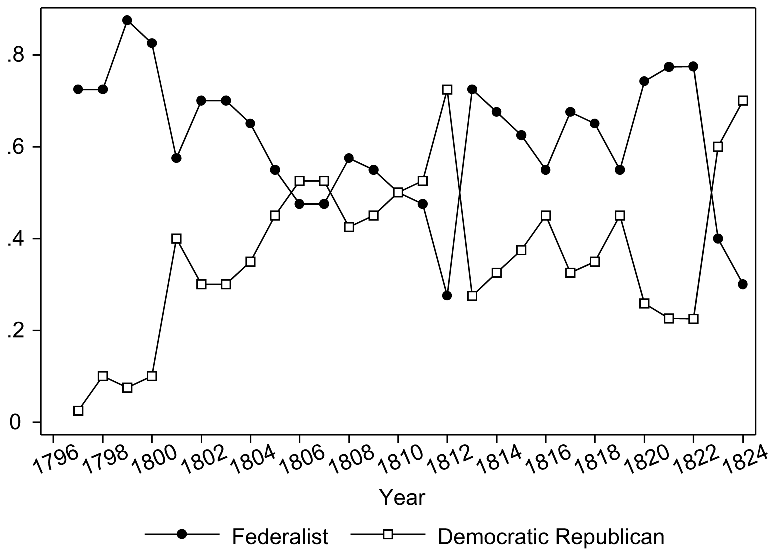

Fig. 4.2 Senate composition, 1797–1824
Source: Dubin (2007).

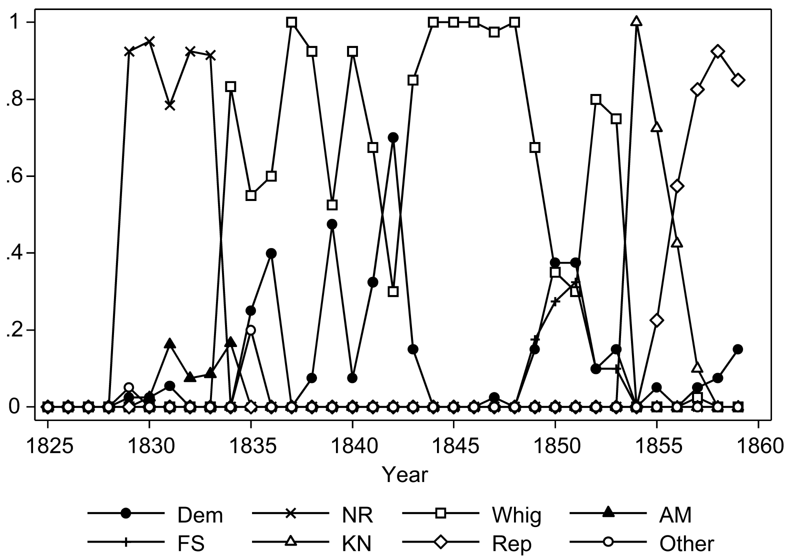

Fig. 4.3 Senate composition, 1825–1859
Source: Dubin (2007).
Note: Dem = Democrat, NR = National Republican, AM = Anti-Mason, FS = Free Soil, KN = Know-Nothing, and Rep = Republican.

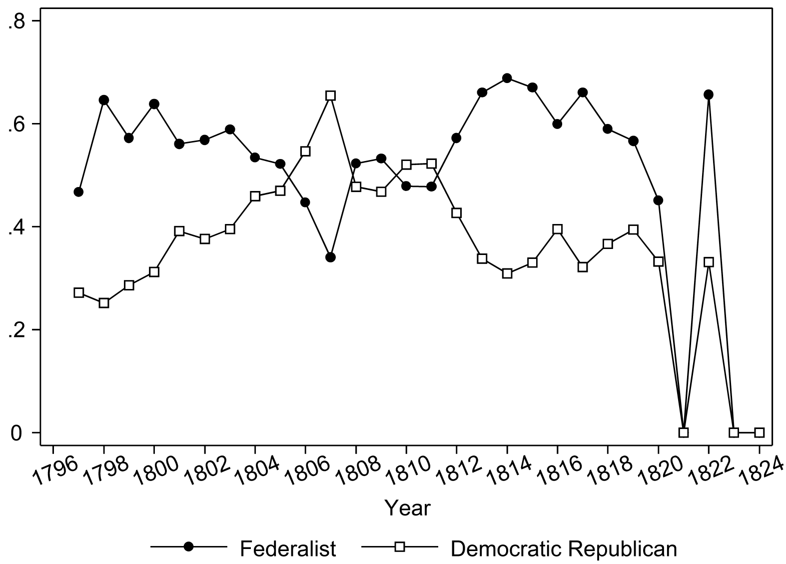

Fig. 4.4 House composition, 1797–1824
Source: Dubin (2007).

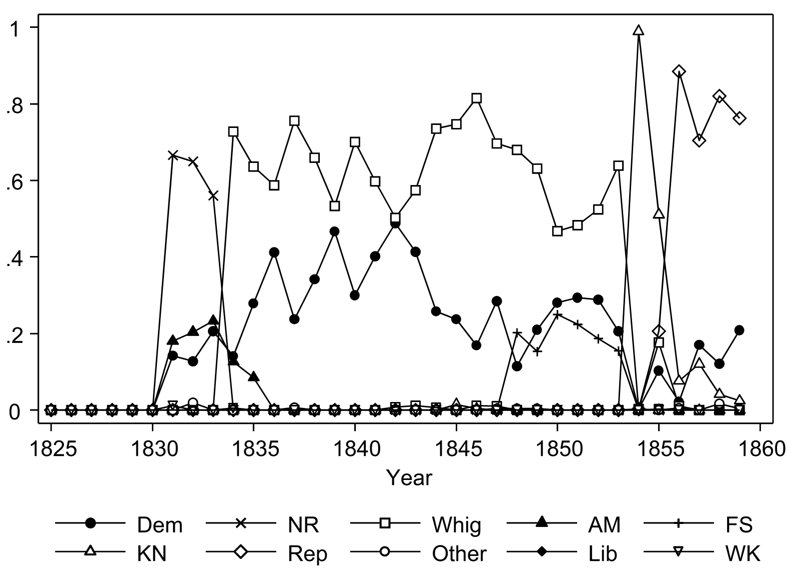

Fig. 4.5 House composition, 1825–1859
Source: Dubin (2007).

House follows roughly the same pattern as the Senate. Federalists dominated the early in the period, but Democratic-Republicans were competitive after 1805, controlling the majority in four sessions. In the second party system, a kaleidoscope of parties contended for control of the Massachusetts Senate and House (figures 4.3 and 4.5). The National Republicans and then the Whigs usually controlled a majority of Senate seats, but in a much more competitive political regime. National Republican, Whig, and then Republican domination of the House is also apparent, again in the context of extensive party competition and entry.

Massachusetts was an innovator in banking as well. Throughout the early nineteenth century, the state had more banks and more bank capital per capita than any other state (Wallis, Sylla, and Legler 1994). The number of banks in operation each year is given in figure 4.6. We take data on banks, bank presidents, and bank directors from the *Massachusetts Registers*. Our count of banks closely tracks the count of banks in operation of Warren Weber, except for the period between 1837 and 1848 when the *Register* does not provide any information on banks outside of Boston. The number of new banks entering the sample each year is shown in figure 4.7. Our sample matches closely the data on bank charters collected by Richard Sylla and Robert Wright, shown in the figure.

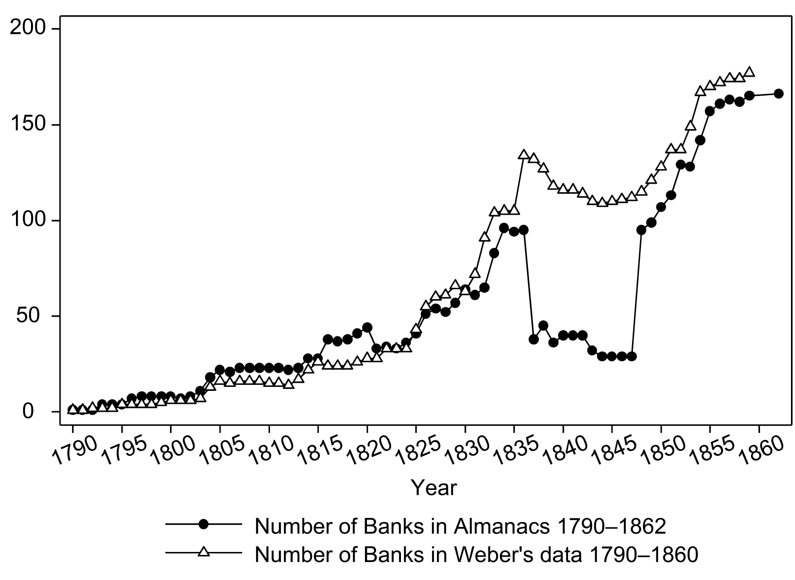

Fig. 4.6 Number of banks in the *Registers* and Weber's data, 1790–1862

Sources: Number of banks in the *Registers* comes from *Massachusetts Registers* (1790–1862), Massachusetts State Library. Number of banks in Weber's data comes from Weber "Census of State Banks" (2015).

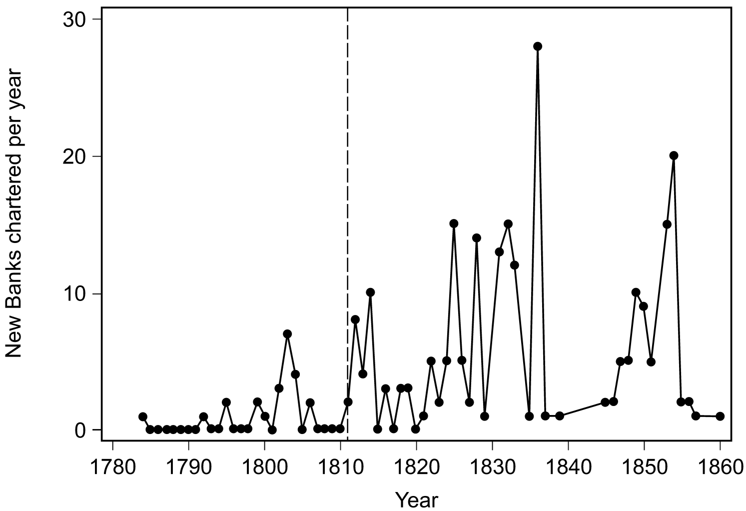

Fig. 4.7 Number of new charters, excluding renewals (1780–1860)
Source: Sylla and Wright (2015).

Tabular data on banks and bankers in presented in tables 4.1, 4.2, and 4.3. In most years, bank directors are only available for banks in Boston. No data was collected on banks outside of Boston, the "country" banks, between 1837 and 1848, as shown in figure 4.6. After 1852, the *Registers* list all the bank directors for all banks in the state. We were able to match individual bankers from the *Registers* to the complete biographies of Massachusetts state legislators. We always have complete data on bank presidents and directors for the Boston banks. In most years we have the names of the bank presidents of banks outside of Boston, except between 1837 and 1848, where we have no data outside of Boston. After 1852, we have a complete sample of all presidents and directors. Although the sample is not ideal, we can compare results from different periods to see if the patterns in one sample are reflected in the others.

Table 4.1 shows the number of bankers in the *Registers* for roughly decade intervals. The numbers are banker years, since a banker can appear in more than one year. The total number of banker years are in column (1), the number of those bankers who were a legislator at some point in their lives in column (2), and the number of bankers who were legislators whose party ID was reported in the legislative biographies in column (3). The share of bankers who were or who were not a legislator at some point in their lives is given in columns (4) and (5), and the share of banker years in each interval for whom we have a party ID in column (6). Party ID matters, since we are using parties to sort the bankers into the competing elite coalitions. The

Table 4.1 **The number of bankers in the *Massachusetts Registers* total, the number of bankers who had been or would be legislators, and the number of bankers who were legislators with a party ID**

Period	Number of bankers (1)	Number of bankers who were legislators (2)	Number of bankers who were legislators w/party ID (3)	Share of bankers who were not legislators (4)	Share of bankers who were legislators (5)	Share of legislators w/party ID (6)
1790–1799	307	233	98	0.24	0.76	0.42
1800–1809	545	391	272	0.28	0.72	0.70
1800–1812	771	562	399	0.27	0.73	0.71
1810–1819	954	664	503	0.30	0.70	0.76
1820–1825	842	475	395	0.44	0.56	0.83
1825–1839	5,036	2,302	1,883	0.54	0.46	0.82
1840–1859	12,599	5,585	5,032	0.56	0.44	0.90
Total	21,054	10,212	8,582			

Source: Data taken from the Massachusetts State Library *Legislative Biographies*, and *Massachusetts Registers*.

Notes: For each time period the total number of banker years is counted, column (1), an individual banker may be included in more than one year. Then bankers who had been or would be legislators are counted, column (2). Then bankers who were legislators and were given a party ID in the *Legislative Biographies* were counted, column (3). Column (4) = ([1]–[2])/(1), column (5) = (2)/(1), and column (6) = (3)/(2).

signal feature of the table is that over 70 percent of all banker years were for individuals who were also legislators at some point in their lives before 1819 (column [5]). After 1820 that share falls steadily to 44 percent in the 1850s. The dramatic increase in the number of bankers in the last row of the table reflects a growth in banking and in the fact that the *Registers* reported all of the bank directors of all the banks after 1852. The full population of bankers after 1852 has the same proportion of bankers who were also legislators than the preceding decades: the under count of country banks does not appear to bias the estimated relationship between bankers and legislators.

The *Registers* provide information on bankers each year, and since some bankers appear in multiple years, the data in table 4.1 give heavier weight to bankers who served longer terms. Table 4.2 includes each banker only once, the year that they first appear in the *Registers* and enter the banker sample. We call this the "new" banker sample. The table lists the number of bankers who entered the sample in each time period, column (1), and whether they were only a banker, column (2), or had been or became a state legislator, column (3), and the shares of those measures in columns (4) and (5). The same time pattern appears in table 4.2 and in table 4.1, but is less marked. Bankers who were also legislators tended to be bankers for a longer period, and thus have a greater weight in table 4.1, column (5), than they do in table 4.2, column (5).

Table 4.2 **Number of new bankers in sample, and number of new bankers who are also legislators**

	All (1)	Banker only (2)	Banker & legislator (3)	Banker only (%) (4)	Banker/legislator (%) (5)
1790–1799	74	25	49	0.34	0.66
1800–1809	81	32	49	0.40	0.60
1800–1812	105	40	65	0.38	0.62
1800–1815	142	54	88	0.38	0.62
1810–1815	61	22	39	0.36	0.64
1815–1819	95	47	48	0.49	0.51
1815–1825	309	171	138	0.55	0.45
1820–1825	214	124	90	0.58	0.42
1820–1829	396	221	175	0.56	0.44
1830–1839	482	286	196	0.59	0.41
1840–1849	176	110	66	0.63	0.38
1850–1859	1,346	749	597	0.56	0.44

Note: All bankers, column (1), are all the individual bankers reported in the *Massachusetts Registers*. In contrast to table 4.1, each banker is only counted once in table 4.2. Bankers only, column (2), are never legislators. Bankers and legislators, column (3), either had been or would become a legislator.

Table 4.3 groups the bankers into three longer chronological periods roughly corresponding to the four periods we discuss below, gives the numbers and share of bankers who were legislators, and for the bankers who were legislators and were identified with a party in the legislative biographies and which parties the bankers belonged to.

Because the sample of bankers reported in the *Registers* varies over time, we organize the data in several ways. We have a complete count of banks, bank presidents, and bank directors for Boston banks throughout the entire period. The number of Boston bankers is shown in figure 4.8. Sometimes we focus on all the banks in the *Registers* even though we usually only have the names of bank presidents for those banks, and are missing many of them from 1837 to 1848. After 1853 the *Registers* began reporting bank presidents and directors for all the banks in the state. The number of all bankers in the state that appear in the *Registers* for the entire period is given in figure 4.9. The large movements in the figure are caused by changes in the banks reported by the *Registers*. The conclusions we draw from the two samples are the same, but it is often easier to see the continuity in the Boston bank sample. The third way to organize the data is by banks rather than by bankers.

The data and sources are described in more detail in the data appendix available from the authors.

Table 4.3 **All new bankers, by legislator or not, and by party or not**

				As share of all bankers			As share of all banker/legislators		
	1790–1815 (1)	1816–1824 (2)	1825–1859 (3)	1790–1815 (4)	1816–1824 (5)	1825–1859 (6)	1790–1815 (7)	1816–1824 (8)	1825–1859 (9)
Bankers	217	218	2,285						
Not legislators	80	121	1,310	0.37	0.56	0.57			
Legislators	137	97	975	0.63	0.44	0.43	1.00	1.00	1.00
With party ID	87	80	857	0.40	0.37	0.38	0.64	0.82	0.88
Parties:									
Federalist	54	49		0.25	0.22		0.39	0.51	
Democratic-Republican	29	17		0.13	0.08		0.21	0.18	
Other	4	14		0.02	0.06		0.03	0.14	
Whig			316			0.14			0.32
Republican			169			0.07			0.17
Democrat			159			0.07			0.16
Nat/Republican			80			0.04			0.08
Federalist			59			0.03			0.06
Know Nothing			25			0.01			0.03
Other			49			0.02			0.05
No party	50	17	118	0.23	0.08	0.05	0.36	0.18	0.12

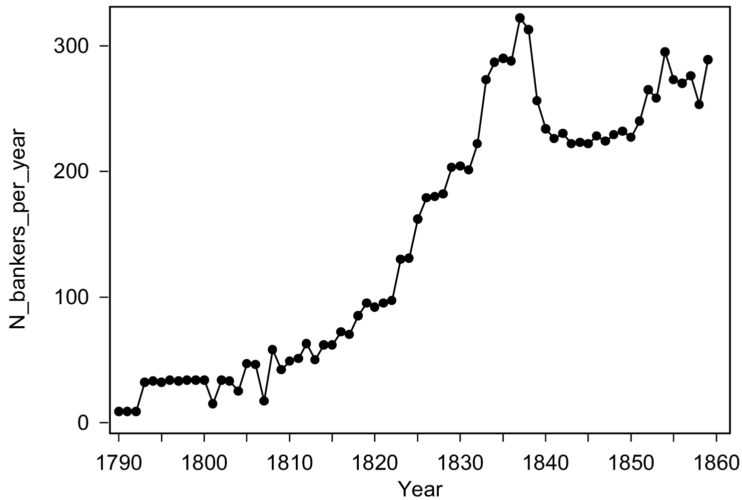

Fig. 4.8 Number of Boston bank directors and presidents in the *Registers*, 1790–1859

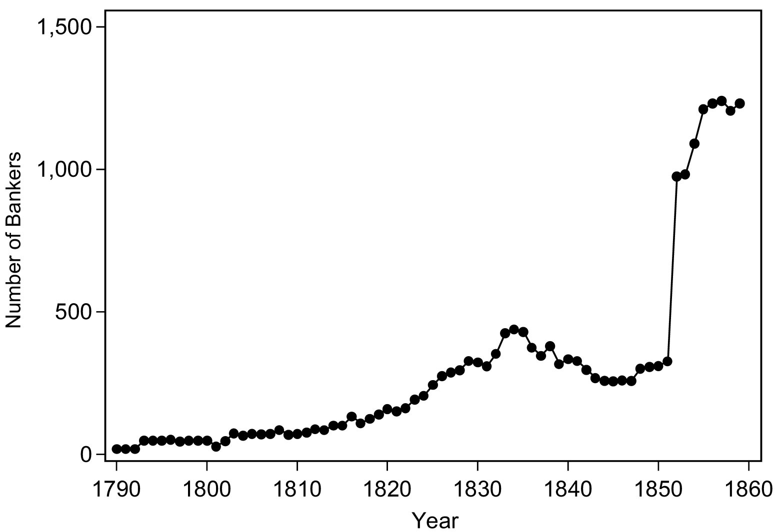

Fig. 4.9 Number of bank directors and presidents in the *Registers*, 1790–1859

4.3 The History

4.3.1 Politics, Parties, and Banks from 1784 to 1811

Massachusetts chartered its first bank in 1784, the Massachusetts Bank. It gave out four more charters before 1799, when the state changed the rules for private banks, prohibiting bank note issue by unchartered private banks.

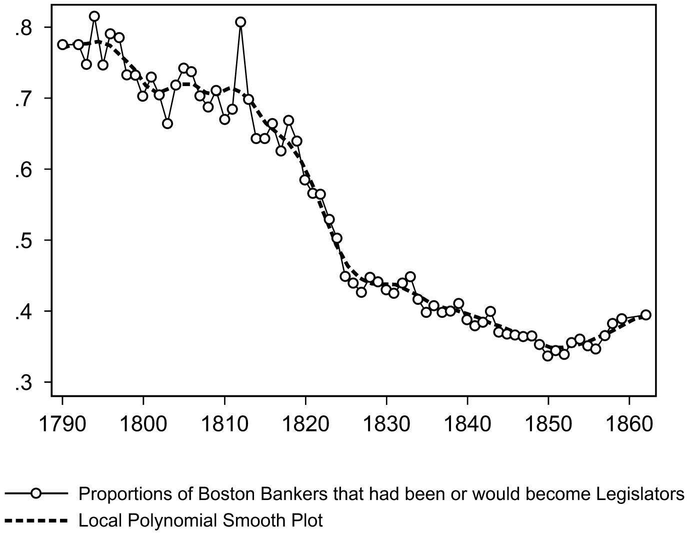

Fig. 4.10 Proportions of Boston bank directors and presidents who had been or would become legislators, and local polynomial smooth plot (1790–1859)

Source: Massachusetts Registers (1790–1859), and *Massachusetts Legislators Biographies* (1780–2003). Both are from Massachusetts State Library.

What followed was an increase in chartering in 1801, 1802, and 1803, as shown in figure 4.7. By 1810, twenty-three banks had been chartered and were in operation.

The Federalist Party controlled Massachusetts politics in the 1790s and 1800s and it showed in the party composition of bankers. Figures 4.10, 4.11, 4.12, and 4.13 use Boston bankers, for which we have all the bank presidents and directors, from 1790 to 1827 (figures 4.10 and 4.11 cover 1790 to 1859). Figure 4.10 shows the share of all bankers in a given year that either had been a legislator already or would at some point in their lives become a legislator. At its peak, the share was 80 percent, and before 1811 fell below 70 percent in only one year. Figure 4.11 divides the bankers into those who became a legislator before they became a banker, and those who became a banker first and legislator later in life. There was only one bank in Massachusetts in 1790, and half of its board of directors had already been a state legislator. All of them were Federalist legislators.

In 1799 the state required all note-issuing banks to have charters, producing a marked increase in charters in 1801, 1802, and 1803. As the new banks acquired charters, many of their directors had not been legislators, but they quickly became legislators. Figure 4.11 gives the proportion of all bankers who had been a legislator before they became a banker, or would become a legislator after they became a banker. The proportion of bankers who had been a legislator falls from 1790 to 1805 as the new banks come on line, and

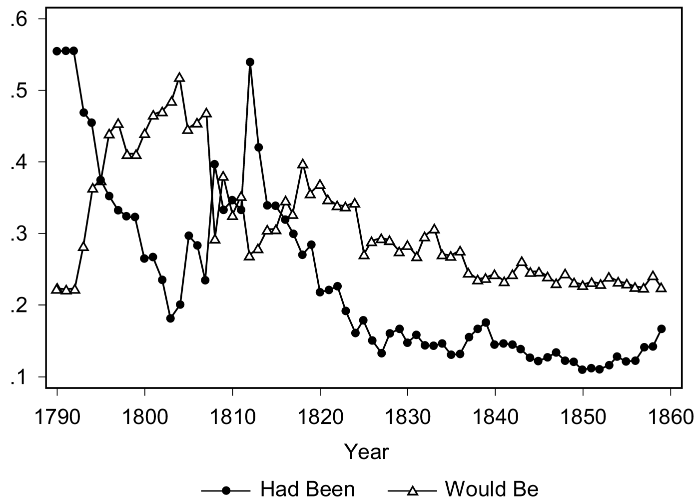

Fig. 4.11 Proportions of Boston bank directors and presidents who had been legislators, and proportions of Boston bank directors and presidents who would be legislators (1790–1859)

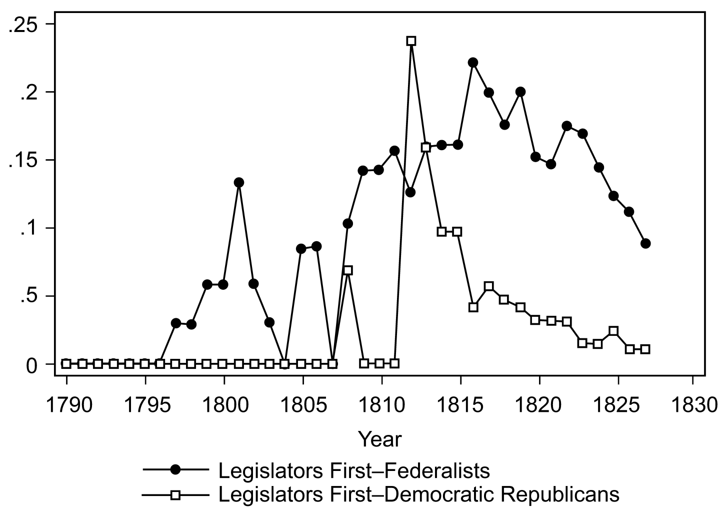

Fig. 4.12 Proportions of Boston bankers that had been Federalist or Republican legislators before they became bank directors and presidents, 1790–1827

the share of bankers who would become legislators rises to 50 percent of all bankers in 1805. The new bankers all ended up in the Federalist Party. Figure 4.12 tracks the proportion of new Boston bankers who were legislators by party (so the existing bankers and legislators in 1790 are not counted). All of the bankers who had been legislators were Federalists until 1808

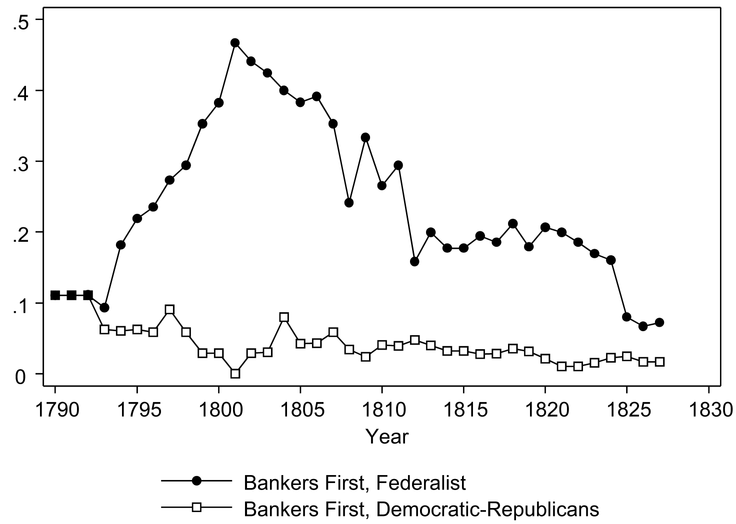

Fig. 4.13 Proportions of Boston bankers who became Federalist or Republican legislators after they became bankers, 1790–1827

(and 1812 when the State Bank was formed with all Democratic-Republican directors). As the number of new bankers increased, they quickly moved into the Federalist ranks in the state legislature, as shown in figure 4.13, which tracks the number of bankers who became legislators after they enter the banker sample.

There is a clear association between bankers and Federalist state legislators and the Federalist Party in the years before 1810. Beginning in 1790, over 20 percent of the bankers who were not legislators when they became bankers eventually would become a legislator, a share that grew through time. Remember that we do not have party IDs for legislators before 1797. In figure 4.12, of the bankers before 1810, only one had already been a Democratic-Republican legislator (out of roughly fifty bankers), while a significant number had already been Federalist legislators. Even more striking, figure 4.13 shows that bankers who were not legislators when they became bankers were much more likely to become Federalist legislators than Democratic-Republican legislators.

Of the sixty-eight bankers in the statewide sample in 1810, including the banks outside of Boston, forty-seven, or 70 percent, had been (33 percent) or would become (37 percent) legislators. Of those forty-seven bankers, four had no party affiliation, thirty-eight were Federalists (81 percent), and five were Democratic-Republicans (11 percent). By 1810 banking in Massachusetts was not quite a Federalist monopoly, but it was close. Of the twenty-three banks in our sample in 1810, only three banks can be identified as Democratic-Republican banks because they have presidents who were

Democratic-Republican legislators. Two other Democratic-Republican legislators were directors in banks dominated by Federalists. Perhaps even more telling, of the twenty-three banks only four did not have a state legislator as president or a director in 1810. Even this is an underestimate, however, since we do not have directors for most country banks. While representation in the House and Senate was roughly 60 percent Federalist and 40 percent Democratic-Republican over these years, the Federalist banks outnumbered the Democratic-Republican banks by roughly a 5-to-1 ratio.

Democratic-Republicans complained bitterly about the Federalists' exclusive control of banking. "Monopolies of all kinds are odious in all countries; but they are more so in a free country like ours; they are here directly opposed to the genius and spirit both of the people and their government. And there can be no monopoly more invidious, than to give exclusive privileges by the acts of government to a few very rich men for improving their money in Banks, and to refuse the same privilege to the active merchants, and to the widows and orphans."[6] Banks were "engines of oppression," enabling Federalists to exploit enterprising merchants and shopkeepers. Federalists monopolized "all the exclusive privileges . . . until the voice of private citizens is lost in the overbearing influence of privileged companies."[7] As long as "combined court parties grant banks and other privileged corporations to favored companies, equal rights cannot exist."[8] The purpose of chartering banks was to give exclusive privileges to federal friends and "every incorporation for wealth and profit is a bulwark to aristocracy."[9] As most bank charters would expire in 1812, "incorporations should not be renewed unless the proprietors of banks consent that every officer of their banks be appointed by the State Government."[10] In 1803, after the legislature refused a petition for a "Town and Country Bank," Democratic-Republicans blamed Federalists and painted them as the champions of bank monopoly, opposed to "every measure calculated to promote the interest of the middling class of citizens."[11] "Will a director of the Boston Bank, or a man, whose 'projects' gripe every monied institution within the town, be advocates for such salutary measures as our situation calls for?" "Let the charters be free for all, if they are granted to any."[12] Before 1811, Federalist elites dominated politics, controlled banks, and excluded the Democratic-Republicans from banking. Democratic-Republicans demanded reforms to allow them access to banking. They seized the chance in 1811.

6. *Columbian Centinel*, Feb. 16, 1803. Quoted in Lake (1932, 32).
7. *Eastern Argus*, Apr. 2, 1807. Quoted in Goodman (1964, 176).
8. *Eastern Argus*, Dec. 13, 1805, Feb. 22, 1805, and Dec. 6, 1805; *Salem Register*, Mar. 30, 1807, and Apr. 2, 1807. Quoted in Goodman (1964, 176).
9. *Eastern Argus*, Nov. 15, 1805. Quoted in Robinson (1916, 103).
10. *Eastern Argus*, Dec. 13. 1805. Quoted in Robinson (1916, 104).
11. *Republican Gazette*, Apr. 27, 1803. Quoted in Goodman (1964, 172).
12. *Boston Democrat*, May 1804. Quoted in Goodman (1964, 173).

4.3.2 The Massachusetts Bank War, 1811–1815

What stands out in many of the figures, most clearly in figure 4.12, is the year 1812. Although Massachusetts had elected Democratic-Republican majorities to the Senate and House before, it was only in the election of 1811 that the Democratic-Republicans held both houses and the governorship. Eldbridge Gerry was elected governor in both 1810 and 1811 and vice president of the United States in November 1812. He died in office in 1814.[13] In his first term as governor, he sought to conciliate the two parties and work out a compromise with Federalists over banking and a number of other issues. He restrained radical Democratic-Republicans who hoped to remove Federalists from office. While Democratic-Republicans held power in the House, the Senate was equally divided. The Federalist leader Harrison Gray Otis was the Senate president and blocked every Democratic-Republican reform. Since they were not threatened, Federalists also adopted a moderate tone.[14]

In 1811, however, Gerry abandoned his conciliatory policy. The admission of Louisiana to the Union had already aroused animosities against President Madison among Federalists, and when Congress approved Madison's Non-Intercourse Act to cease commerce with Britain in March, Boston Federalists organized a mass meeting and protested against the law, denouncing it as tyrannical and oppressive. They threatened to call for measures "short of force," and to elect officers who would "oppose by peaceable, but firm measures, the execution of the laws, which if persisted in must and will be resisted."[15] Gerry denounced the Boston mass meeting, claiming it advocated revolution. He was convinced that if Federalists returned to power, they would nullify the Non-Intercourse Act or resist its enforcement. The result would be: "our constitutions are nullities, our constituted authorities are usurpers, and we are reduced to a state of nature."[16] In his second inaugural address in June 1811, Gerry publically accused Federalists who "excite the spirit of the insurrection and rebellion to destroy our internal peace and tranquility."[17]

In the elections of 1811, Democratic-Republicans captured both houses of the state legislature. The Democratic-Republican legislature helped Gerry implement a series of reforms to capture patronage in the state, to remove Federalists from the office, and to occupy Federalist-controlled organiza-

13. Billias (1976).

14. On Gerry and the issues in 1811, see Formisano (1983, 74–75), Billias (1976, 314–22), James T. Austin ([1828] 2009, 333–42, 346–47), Seaburg and Paterson (1971, 228), Goodman (1968, 154–81), and Morison (1929).

15. "Governor's Speech to the Representatives' Chamber, June 7," *Massachusetts Acts and Resolves* (1812, 184).

16. Ibid., 184.

17. Ibid., 185.

tions.[18] One of the most famous changes was the "gerrymander." In February 1812, Democratic-Republicans passed a bill to divide the state into senatorial districts along partisan lines. This change redistricted the state to make the Democratic-Republican votes count as much as possible and the Federalist ones as little as possible. This practice was not new nor was Gerry an active supporter of the plan, but has long since been associated with Gerry's name.[19]

The legislature of 1811–12 changed the banking policy of the state. It chartered two new banks: the State Bank and the Merchant's Bank of Salem. The State Bank was a very large bank, with three times the capital of any existing bank. All twelve directors and the bank president had been or would be state legislators: eleven were Democratic-Republicans. The sharp jump in the number of Democratic-Republican bankers who had been legislators in figure 4.12 for 1812 was the result of placing Democratic-Republicans legislators on the bank's board of directors.

The State Bank was also intended to be a reform bank. One-third of the $3 million capital was subscribed by the state government, with an option to subscribe an additional $1 million. The bank was to pay the state a tax equal to one-half of 1 percent of its paid-in capital each year. The reform ideas behind both state ownership of stock and the capital tax was that the bank, rather than being a source of private privilege to its owners, would be a source of revenue for the state government.[20]

The other aspect of the Democratic-Republican bank offensive resulted from the unusual fact that the charters of all but one of the existing banks in Massachusetts expired in 1812.[21] In the 1811–1812 legislative session, the Democratic-Republicans refused to renew the charters of any of the existing banks. It was, literally, an existential crisis for the Federalist bankers. Without their charters they would not be able to issue bank notes, a basic function of their banks. The Federalists regained the governorship and the House in the elections of 1812, but the Democratic-Republicans retained control of the Senate as a result of the "Gerrymander." In the fall of 1812 (the 1812–13 legislative session), the charters of the existing Federalist banks were renewed. Significantly, all of the renewals contained the reform provisions included in the State Bank charter, including the bank capital tax.

The political dynamics unleashed by the events of 1811 and 1812 show clearly the intraelite nature of competition over banking. Before 1811, Salem already had two Federalist banks—the Salem Bank and the Essex Bank. Unable to get loans from either bank, a number of Salem's most prominent Democratic-Republicans, led by the Crowninshield family, decided to start

18. For Republican reforms in other sectors, see Goodman (1964).

19. Griffith (1907, 17–21), Austin ([1828] 2009, 322), and Dean (1892, 374–83).

20. The charter of the State Bank can be found in Massachusetts (1812, 501), June 26, 1811, "An act to incorporate the President, Directors, and Company of the State Bank."

21. The original charter of the Massachusetts Bank had no termination date.

a new Democratic-Republican bank. Their petitions for bank charters, however, were rejected by the Federalist legislature for many years. It was not until 1811 that they finally secured a charter, as the minister William Bentley described in his diary, "To give weight to the Republican Interest in Massachusetts, the last Legislature placed several banks into the hands of their friends, and among others, one in Salem, which was completely organized this day, under the name of Merchant's Bank."[22]

The first two presidents of the Merchant's Bank are good examples of the kind of Democratic-Republican elites who were denied access to banking. Benjamin Crowninshield, the first president, left the bank in 1814 to become Secretary of the Navy under Madison. He had served in the state legislature eight times, three in the Senate and five in the House; he would be a national congressman for four terms from 1823 to 1831, and candidate for governor in 1818 and 1819. The man who replaced him, Joseph Story, was president of the bank for the next twenty years. He had been appointed Associate Justice of the Supreme Court of the United States in November 1811, and sat on the Supreme Court for thirty-three years. Men like Crowninshield were powerful elites. Democratic-Republicans did not want for bank charters because they lacked powerful elites. It was the political dynamics of intraelite competition in the early Massachusetts democracy that denied them charters.

The reaction of the Federalists to the Merchants Bank mirrored the charges the Democratic-Republicans levied against the Federalists. Even before it opened on September 10, 1811, the Federalist *Salem Gazette* gave grave censure of the "new bank":

> It requires but little foresight to predict the influence which the institution will, and which the legislature intended it should have on the political circumstances of our Commonwealth, and particularly its elections. Viewing it in this light, it cannot be considered as an institution for the common benefit of our citizens, but on the contrary for the purpose of unblushing political corruption. Federalists will be excluded entirely from accommodation, as they were from the privilege of subscribing for shares, and Democrats only enjoy its benefits. We hesitate not to assert, that (until the Spring elections are over, at least) *any Democrat* (or "friend of the government" as the committee call them) who can bring good proofs of his attachment to the cause, *will be furnished with what money he wishes from this Bank, while federalists, let them be never so competent, will be sedulously refused a discount, except perhaps a few*, who will be held up as a mask to cover their gross, corrupt partially. Let every candid man consider this course of conduct, lay his hand on his heart, and say if he can call it by any other name than BRIBERY.[23]

The State Bank was a much more ambitious project. Throughout its early history, Democratic-Republicans directed the State Bank. Eleven of its first

22. Dennis (1908, 7).
23. *Salem Gazette*, Sept. 10, 1811 (emphasis added).

twelve bank directors had been Democratic-Republican legislators. The first president was William Gray, a leader of the Democratic-Republican Party, the lieutenant governor of the state, as well as a rich merchant ship operator. In the circular of the bank, July 1811, the bank committee said, "the establishment of the present institution should be so conducted that its benefits shall be diffused as extensively as possible among the friends of the government throughout this Commonwealth."[24]

The State Bank drew even more criticism from the Federalists than the Merchant's Bank. The *Columbian Centinel* of July 1811 called the State Bank "the mammoth bank," and denounced it as a "party bank." In the *Boston Gazette* of August 22, 1811, "A Massachusetts Yeoman" addressed a letter to William Gray, "it was beyond all precedent, and wicked in the extreme, to grant a set of men, who have always been borrowers, the whole control of the circulating medium of the State." In the *Centinel*, August 31, 1811, "A Constitutional Republican" said, "1st, That the grant of a charter to the State Bank is a violation of the Constitution; 2d, that those who gave it countenance and voted for it have acted corruptly." The *Worcester Spy* said it was "a bill to secure to Mr. Gray and his political associates, for twenty years, a stupendous monopoly of all the banking privileges of the Commonwealth, or at least of the metropolis. The community would suffer incalculable injury from the uncontrolled speculations of a bank without a rival, and the total loss of confidence in the stability of corporations dependent upon the will of the legislature."

The *Salem Gazette* denounced the bank: "The State Bank is managed as a powerful engine of bribery and corrupt influence. . . . The constitutions and the principles of republican government are derided and contemned . . . It is unblushingly avowed that the new bank is intended as a machine to *create* Democrats and *destroy* Federalists. In this State there has been so much clamor by this very party against banks, bank directors, and exclusive privileges, that consistency required them to discountenance all. It appears that in each county an electioneering committee has been appointed, who through the influence of the new bank are to act as almoners of democratic bribes and commissioners of official corruption."[25]

Such was the state of interelite conflict in Massachusetts in 1811 and 1812.

4.3.3 Moving toward Open Access, 1815–1829

The Democratic-Republican legislature seized the chance in 1811 to implement a series of reforms. However, Madison's unpopular foreign policy cost them subsequent state elections. In 1812, Federalists won back a majority in the House, as well as the governorship, and rechartered the existing banks in 1812. Significantly, all the new charters included a provision specifying

24. Stetson (1893, 13).
25. This and the preceding quotes are from Stetson (1893).

a bank capital tax and allowing the state to make investments in the banks, just as in the State Bank charter.[26]

In 1813, when the Federalists again controlled the state, they denounced the State Bank: "A monied institution was created, founded on the determination to abolish those already existing, and its capital was apportioned to counties and towns, upon a digested scheme of premiums for political corruption."[27] Under the Federalists, Massachusetts began chartering more banks after 1812. According to the report of the Joint Committee on Banks in 1820, for several years the liberal policy had granted bank charters in "almost all cases of apparent utility, leaving it to the actual wants of the community, and to the true perception of interest among its members, to fix the limits of capital, which would thus be employed."[28] The rate of bank formation was high in 1811, 1812, and 1813, when both Democratic-Republicans and Federalists became presidents and directors (figure 4.12). The rate of bank formation slowed during the active part of the war in 1814 and 1815, and the economic recession in 1818. The explosion of banking occurred in the 1820s, as figures 4.6 and 4.7 show. By 1830 Massachusetts had only 4.7 percent of the nation's population, but 20 percent of the nation's banks and 18.5 percent of the nation's banking capital (Wallis, Sylla, and Legler 1994). In his research on free banking of different states, Sylla claimed, "After 1820, Massachusetts had essentially free banking in the general sense of that term, and the state remained a leader in terms of numbers of incorporated banks and capital invested in banking enterprises for several decades" (Sylla 1985, 111).

This was the same period in which the proportion of bankers who had been or would become legislators declined sharply, from roughly two-thirds of all bankers to around 45 percent of all bankers. Unfortunately, the increase in the number of banks occurs just at the time that party identification became problematic. For much of the 1820s, many state legislators were not identified with parties in the *Legislative Biographies*. Figure 4.14 gives the share of all legislators identified in each year with a party. The sharp drop in the late 1820s reflects that disarray of the parties at the national level. Unfortunately, we cannot track the party association of the bankers who became legislators in this important decade.

Nonetheless, there was a distinct break in the connection between bankers and legislators after 1815. Table 4.2 breaks down new bankers entering in five-year intervals in the middle panel of the table. Between 1810 and 1815, sixty-one bankers entered and 64 percent of them had been or would become state legislators. In the next five-year period, 1815 to 1819, ninety-five bankers entered and 51 percent had been or would become state legislators. Between 1820 and 1825, 214 bankers entered and only 42 percent had

26. Handlin and Handlin (1969, 129) and Dodd (1954, 210).
27. Dodd (1954, 209).
28. *Columbian Centinel*, June 17, 1820.

Fig. 4.14 Share of all legislators (not just bankers) who have a party ID in the *Legislative Biographies*

been or would become state legislators. In the decade of the 1820s, when party identification was weakest, so too the association between bankers and state legislators became permanently weakened.

The 1820s also produced a significant and permanent change in the banking policies of the state. The earliest indications were the rechartering of the existing Federalist banks in 1812, which included the same provisions as the State Bank charter. When new banks were chartered after 1813, their charters contained the provision "That the rules, restrictions, limitations, reservations and provisions, which are provided in and by the third section of an Act, entitled, 'An Act to incorporate the President, Directors, and Company of the State Bank,' shall be binding on the bank hereby established."[29] Rather than reverse the "reform" provisions of the State Bank charter, the Federalists embraced them.

This was clearly a shift in policy by the Federalists. Whether the move toward adopting the same charter provisions for all banks played an important role in Federalist thinking is not clear. Unlike the banks chartered up to the State Bank, which sometimes included special provisions and often included implicit geographic monopolies, all the banks chartered after 1812 contained the same provisions. That part of the agreement was codified when new bank charters formally became standardized on February 29, 1829, with the passage of the general regulatory act: "An Act to Regulate Banks and Banking." The act required "That from and after the passing of

29. This is the language used in the charter of the Worcester Bank. Massachusetts, 1821, chapter 26, "An Act to incorporate the President, Directors, and Company of the Worcester Bank," p. 422.

this Act, every Bank which shall receive a Charter, from or by the authority of this Commonwealth, and every Bank whose Capital shall be increased, or whose Charter shall be extended, shall be governed by the following rules, and subjected to all the duties, limitations, restrictions, liabilities and provisions, contained in this Act."[30] The act reconfirmed the bank capital tax and the ability of the state to invest in any bank, as well as borrow from it. The clincher was section 31: "*Be it further enacted*, That if, during the continuance of any Bank Charter, granted or renewed under the provisions of this Act, any new or greater privileges shall be granted to any other bank now in operation, or which may hereafter be created, each and every Bank in operation at the time shall be entitled to the same" (161). The general regulatory act not only guaranteed that all existing bank charters would have the same provisions, but any new provisions introduced in the future would retroactively apply to all existing banks. Massachusetts had adopted an "impersonal" rule for the creation and governance of banks: it was a rule that treated all banks the same.

Massachusetts did not adopt a general incorporation act for banking until the 1850s, but essentially allowed de facto open entry after 1820. Significantly, the complaints by one party that the other party was restricting access to bank charters effectively stopped. As the Handlins noted, the compromise reached in 1812 seems to have signaled the end of banking competition. "The settlement of 1812 had substantially stabilized the banking system, withdrawing it from the grasping hands of a favored few. For a time thereafter, the question of currency was academic only."[31] When the general incorporation act was passed in 1854, only four banks requested charters under the general act.

4.3.4 Politics, Parties, and Banks in the Second Party Regime, 1830–1860

National party politics in the United States fragmented in the 1820s. In three of the four national elections between 1824 and 1836, three or more candidates received electoral votes in the presidential elections. Figures 4.3 and 4.5 show the mix of parties that competed for dominance in Massachusetts between 1830 and 1860. The dominant parties in succeeding elections were National Republicans, Whigs, and Republicans, with a brief period in which the Democrats challenged, and a second brief ascendancy of the Know Nothing Party. The sequence of parties was not one continuous coalition that simply changed its name over time. The National Republicans, Whigs, and Republicans were reconfigurations of existing political alignments.[32] The lack of party IDs for legislators before 1797 and in 1820s

30. Massachusetts, 1831, Chapter XCVI, "An Act to regulate Banks and Banking," Section 1, pp. 145.

31. Handlin and Handlin (1969, 175).

32. The idea that the Whigs were a simple continuation of the Federalist party has a long history, but it appears to be wrong. Holt summarizes the idea: "Even historians routinely echoed

(figure 4.14) and the growing number of political parties makes it difficult to draw a neat comparison between the period after 1830 and the period before 1815. We do not have any party IDs for legislators before 1797, and as we saw earlier, many of the early bankers had been legislators before they became bankers. In table 4.3, of the 217 individual bankers in the *Registers* between 1790 and 1815, 137 were also legislators, but we only have party IDs for 87 of those. Most of the missing IDs are for legislators who served in the 1790s and not later (if they served after 1797 we would be more likely to link them with a party). There were forty-nine legislator/bankers who appeared in the *Registers* between 1790 and 1799.

As shown in the lower panel of table 4.3, legislators with Federalist Party IDs accounted for 25 percent of all bankers between 1790 and 1815 and 39 percent of all bankers who were legislators. The portion that was connected to the Federalists would surely be significantly higher if we had party IDs for legislators before 1797.

We can compare the pre-1815 banker-legislators to the post-1830 banker-legislators by making an extreme assumption: take the Federalist, National Republican, Whig, and Republican legislators as a continuation of the "dominant party" for the entire period between 1825 and 1859. This is a problematic assumption, since combining the four parties gives an overestimate of the number of people in the dominant party. But it biases the results against our hypothesis that party connections played a smaller role in bank chartering after 1830. The combined party legislators account for 28 percent of the bankers after 1825. This is significantly less than the 40 percent of all banker/legislators who were Federalists in the pre-1811 period (which is biased downward by the missing party IDs before 1797). Entry into banking before 1811 was limited by the need for political party connections, after 1830 much less so.

After 1830, Massachusetts appears to have essentially open entry into banking. As we discuss in the sections that follow, banking remained a privileged occupation. Bankers were still likely to be state legislators and they were wealthy, even when compared to other wealthy people, but the partisan aspects of banking competition so prevalent between 1790 and 1811 had all but disappeared.

4.4 Resolving Possible Complications with the Data

Information on bankers and state legislators changed through time. Did changes in the sample of bankers produce the results we have just described? We need to dig deeper into the connection between banks, bankers, and leg-

Democratic propaganda and described Whigs as ex-Federalists. Experts now know better. Massive research in the past forty years has shown that the Whig Party evolved not from the Federalists but from divisions within the Jeffersonian party" (Holt 1999, 2). Holt cites Benson (1961) and McCormick (1966) as examples of a literature "too vast to list here."

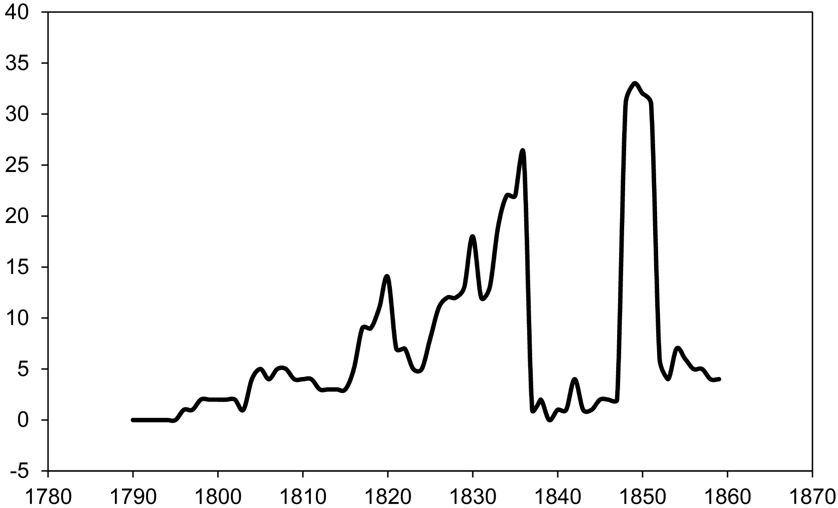

Fig. 4.15 The number of banks with no legislators as president or a director, all banks (whether they have directors or not), 1790–1859

islatures. There are two major problems: the fact that the *Registers* usually only report the name of the bank president for country banks and the lack of most country bank data from 1837 to 1848. Since the *Registers* usually report only the name of the bank president for the country banks, we have only one banker associated with those banks. The fact that the president is not a legislator does not mean that the bank is not associated with the legislature through a director.

Figure 4.15 shows the number of all banks that had no legislators in each year. Figure 4.16 excludes banks without directors reported in the *Registers*, that is, the banks where only the president's name was listed. The picture is much different. Only one bank, the Bangor Bank in 1819 and 1820, reported the names of directors and had no directors who had been or would become legislators among its president or directors. No bank in our sample before the late 1840s that reported directors failed to have a legislator on the board, other than the Bangor Bank.[33]

33. This criterion is narrow. To include a legislator in the board of bank directors may not mean it is an elite organization. For example, it may be that out of its ten directors, nine are ordinary people but they need one famous person on the board to make the banks more influential, build more social connections, or give people more confidence. Besides, if banks were mostly used as a tool for rich people to be able to channel funds to their family business, as claimed by Lamoreaux, it cannot be a bank serving the ordinary people. These banks were commercial banks, not savings institutions or saving banks. Its purpose is not to serve the ordinary people to save their money and get a good investment opportunity. It is not surprising that they were connected to some legislator. One interesting question is, after the saving banks became more important after the Civil War, whether or not they were elite organizations. It is beyond what we study in this chapter.

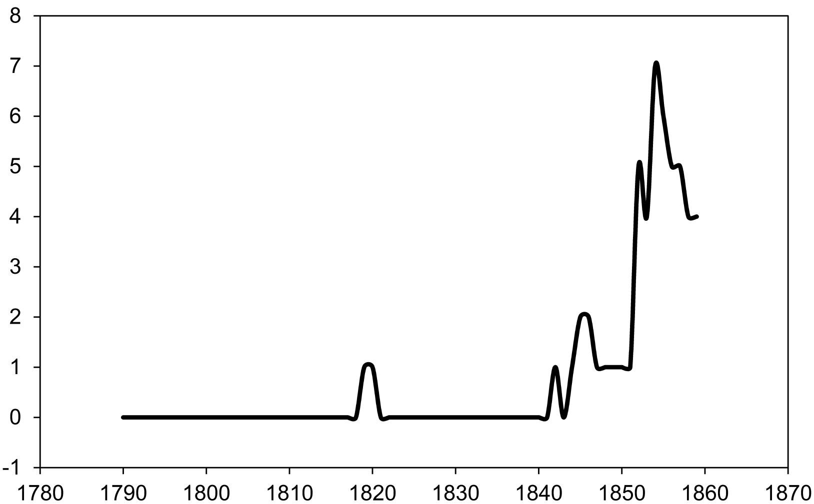

Fig. 4.16 Number of banks with directors who have no legislators, 1790–1859 (This sample excludes banks with only presidents in the *Registers*.)

We cannot follow the share of all banks that have a legislator as a director because the *Registers* do not report bank directors for most of the country banks, and there is missing data on most of the country banks between 1837 and 1848. Beginning in 1852, however, the *Registers* did begin reporting bank directors for all banks, Boston and country, and the number of bankers we can identify jumps from around 350 to almost 1,000, as shown in figure 4.9. One might expect that the addition of over 600 directors of country banks would reduce the share of bankers that had been or would become legislators, and increase the share of banks with no legislators on their boards. But table 4.2 shows that is not the case. Indeed, after 1852 the share of all bankers who had been legislators begins to rise. The country banks were just as likely to have a state legislator on their boards as the Boston banks. In 1859, when we have information on over 150 banks, including all their directors, there are only four banks without a legislator on their boards of directors or their president.

While the association of bankers with political parties weakened, their association with state government did not. When we are very careful to compare apples to apples, using parts of the samples that are consistent and comparable over time, what we find is the same conclusions that we get from the Boston banks with a continuous series on bank presidents and directors for the entire period. In the early years there was a close association between bank officers and state legislators. Before 1811 over 70 percent of the bankers were also state legislators, and most of them were Federalists. After 1820 the percentage of bankers who were also state legislators fell to around 40 percent. It was a significant decline from the pre-1811 period, but still a substantial number. Nonetheless, the association of bankers with the dominant political party weakened considerably. An underestimate of the number of bankers associated with the Federalist Party before 1811 is 40 percent. An overestimate of the number of bankers associated with the series of majority parts after 1825 is 28 percent, and the 28 percent include legislators from four different political coalitions with overlapping, but by no means identical, membership.

Bankers were still elites, still associated with powerful political positions, but no longer was the granting of a bank charter strongly associated with a political coalition. Open access appears to have arrived, but what about the wealth of bankers?

4.5 The Wealth of Bankers

Did bankers suffer a relative decline in wealth as access opened? As we will see later, there is some evidence that the rate of return on bank capital in Massachusetts was lower than it was in other states. We were able to link the names of Boston bankers to the Boston property tax assessments to get a measure of their wealth. In 1826, the City of Boston published a "List of Persons, Co-Partnerships, and Corporations who were taxed . . ."[34] The list was a sample of the wealthiest taxpayers, not of all taxpayers. There are a number of technical issues about the property tax data, but the bottom line with respect to the relative wealth of bankers to all other wealthy taxpayers is clear and robust to a series of adjustments (Lu 2014). From 1829 to 1859, there were an average of 3,845 persons, partnerships, and corporations listed (ranging from a low of 1,836 in 1830 to a high of 5,883 in 1848).[35] We identified all the bankers in the sample whose names we could match, then drew several random samples of nonbankers from the tax lists to compare them to. Our largest random sample includes an average of 1,617 individuals (excluding partnerships and corporations), or a 42 percent sample on average (only in 1833 and 1839 does the sample size fall below 20 percent).

34. The title varied somewhat from year to year, as did the minimum amount of tax paid to qualify a person, copartnership, or corporation from inclusion in the list. The lists of wealthy taxpayers in the city of Boston—from List of Persons, Copartnerships, and Corporations, Taxed in the City of Boston—document a person's or an organization's real and personal holdings and taxes paid between 1829 and 1859 (1831, 1834, 1854, 1855, and 1856 are missing). Only wealthy taxpayers with wealth above certain thresholds are included in the tax lists. From 1829 to 1848, the list includes wealth for individuals taxed \$25 and upward (since the tax rate was roughly 0.8 percent of wealth, the property cut-off was approximately \$3,125); from 1849 to 1853, the list includes individuals whose personal property was \$6,000 and upward, and from 1857 to 1859, \$10,000 and upward.

35. We begin with the 1829 tax lists, as the first few years of the list exhibit too much variation in names and assessments to warrant our confidence.

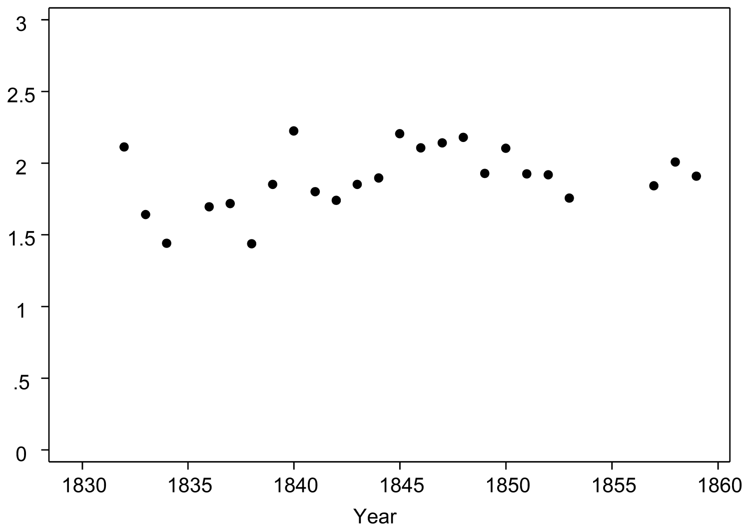

Fig. 4.17 The ratio of average wealth of bankers to wealthy taxpayers

The *Registers* identify an average of 244 bankers in Boston (from a low of 200 in 1829 to a high of 281 in 1859), of which we identify an average of 102, or 42 percent (with identification share below 20 percent only in 1833, 1837, and 1839).

Figure 4.17 shows the wealth of Boston bankers relative to the other wealthy individuals included in the tax lists. There is no trend in the relative wealth of Boston bankers relative to the rest of the wealthy population; it stayed steady at around 150 percent. The wealth of bankers does not appear to have declined relative to other wealthy groups. Steckel and Moehling (2001) match the Massachusetts Census records to property tax lists for the entire population and show that wealth distributions became increasingly unequal between 1820 and 1860. Given the stable relative wealth of bankers to wealthiest taxpayers, we expect that bankers grew wealthier relative to all taxpayers between 1830 and 1860. The wealth data gives us the same picture as the banker-legislator data: banking remained a largely elite preserve from 1820 to 1860.[36]

36. Our results from the Boston tax lists paint a different picture of the relative wealth of bankers in Boston than Lamoreaux and Glaisek (1991), which show that in Rhode Island, new bankers were less wealthy than old bankers. In part, this is the result of different samples. We do not have all the bankers in Boston, just the richest ones. Lamoreaux and Glaisek compare two cross sections of bankers in 1830 and 1845. Hilt and Valentine (2012) analyze stockholding and wealth in New York City from 1791 to 1826 and show that stock ownership was becoming more diversely held by less wealthy households.

4.6 How and Why?

Massachusetts banking provides a clear case of limited access before 1812, opening access afterward, and full access by the 1850s. Why were the reforms in Massachusetts sustained? Why didn't the dynamics of elite competition in an electoral democracy produce more attempts to manipulate access to organizations to create and cement a new political coalition? The Democratic-Republican move to eliminate the Federalist banks might have repeated itself over and over again if control of the government brought with it the ability to dismantle the economic organizations of opposing factions. The answer involves more than banking; institutional changes occurred that changed the dynamic relationship between elites and parties in general, as well as in the operation of the legislature. But, we can see the new patterns in the institutions governing banking policy. It wasn't as though bankers were still not well represented in the state legislature, roughly 40 percent of all the bankers we can identify were state legislators at some point in their lives. Bankers were clearly in a position to pursue their best interests. Why did that turn out to be open-access banking?

Somewhat surprisingly, the arrangements grew out of the charter of the State Bank in 1812. Surprising, because the State Bank was part of an attempt by the Democratic-Republicans to turn the tables on the Federalists and take control of banking. The Democratic-Republicans put the State Bank model forward as a reform bank, but it was also an attempt to shift the economic privileges that the Federalists had enjoyed to the Democratic-Republicans by chartering a very large Democratic-Republican bank closely tied to state finances, and denying the Federalists their banks. The power grab failed the next year, when the Federalists recovered enough influence to recharter their banks. The reforms, however, had lasting effects.

Although all the details of the State Bank charter matter, perhaps none was more important than the requirement that all future bank charters contain the same provisions. The tax on bank capital, for example, was a reform proposal intended to return some of the profits of the bank to the state and the state's taxpayers. "*Provided however*, That the same tax, payable in manner aforesaid, shall be required by the Legislature of all banks that shall be hereafter incorporated within this Commonwealth, from and after the said first Monday of October: *And provided further*, That nothing herein contained shall be construed to impair the right of the Legislature to lay a tax or excise upon any bank already incorporated, under the authority of the Commonwealth, whenever they may think proper to do so."[37] The capital tax applied to all banks. The provision could have been reversed by the Federalists when they came back into power, but it was not. The capital

37. Massachusetts, 1811, Chapter LXXXIV, "An Act to Incorporate the President, Directors, and Company of the State Bank," p. 507.

tax provision was included in all the bank charter renewals in 1812 and thereafter.

Rather than reverse the reform provisions of the State Bank charter, the Federalists embraced them. It is significant that the legislature moved first to treat all banks the same, but still retain the ability to grant or deny charters. Legislators were not immediately willing to give up the privilege of deciding who would get a charter. But the legislative dynamics surrounding banking changed when the legislature effectively tied its hand when it came to manipulating the privileges granted in bank charters. Gradually the legislature stopped limiting entry. In 1851, when a formal general incorporation act was passed, only four new banks were created. There was no pent up demand for bank charters in 1851.

A contributing factor was the unanticipated importance of the tax on bank capital. As Wallis, Sylla, and Legler show, by the decade of 1825–1834, the bank capital tax provided over 60 percent of all Massachusetts state revenues. They developed a "fiscal interest" argument to explain why states that taxed bank capital, like Massachusetts, had a fiscal incentive to create more banks and more bank capital. States that taxed bank capital had many more banks and bank capital than states that owned stock in banks or charged high charter fees. States that owned bank stock, like New York, wanted to maximize bank profits and so limited the number of banks in competition with each other. States that earned substantial revenues from bank charter fees, like Pennsylvania, wanted to limit the number of banks to maximize the entry fees the state could extract. Their analysis was comparative across states and not as detailed as here, but it brings out an important implication of the bank capital tax. Everyone in the Commonwealth, all political interests, even ones without a direct interest in banking or in a bank in a specific town, would find it in their interests to support the chartering of new banks to the extent that it raised revenues for the state that could be expended on other favored projects. The bank capital tax supplied a common interest to Massachusetts elites and nonelites to support more banks, particularly given the significance of the tax to the state treasury.

The Democratic-Republicans intended to create a large state bank that would dominate Massachusetts banking. The state took a significant position in the bank, investing $1,000,000 in the bank's initial capital. They set up a state bank that would compete with private banks. But it soon became apparent that the tax on bank capital was returning substantially more to the state than dividends on bank stock (Wallis, Sylla, and Legler 1994). The state sold off its bank stock and began chartering banks in large numbers.

Naomi Lamoreaux (1994) stressed another important feature of the growing number of small, elite banks in her study of New England banking in the early nineteenth century, *Insider Lending*. Many banks in Massachusetts were established to facilitate the business of local elite manufacturing and commercial interests. The banks were dominated by elite families, but offered the opportunity through stock ownership for nonelites to share in some of the returns of banking. The large number of small banks meant that most banks did not make above normal profits; there was enough competition to prevent that. Warren Weber's work documents that the dividends paid by Massachusetts banks declined after 1812.[38] These small banks were not intended to raise long-term capital investment funds to their owners, they were commercial banks whose benefits consisted primarily in the ability to access commercial credit on favorable terms at low transaction costs.[39] The close connection between banking and manufacturing may help explain why lower dividends on bank stock did not seem to have lowered the relative wealth of Boston bankers.

The pattern of insider lending lay behind the promoters of the Merchants Bank in Salem's complaint that they needed "a new bank in Salem because all the other banks belonged to a different party and refused to lend their money to political opponents" (Dennis 1908, 7). Insider lending was also a feature of land banks in the South (Wallis 2008; Schweikart 1987; Sparks 1932; Worley 1950). This pattern of many small banks closely allied with local economic and political elites was not the pattern in New York or Pennsylvania. Those states chartered a few large banks from which the state extracted revenues (in Pennsylvania) or political organizations extracted financing for political machines (New York).[40] These banks, by necessity, had more outsider lending. What happened in Massachusetts was not that banks stopped lending to insiders, instead, all the important insiders got their own bank. This is consistent with movement toward impersonal rules for banks as well. Every elite group who wanted a bank and was able to exert a minimum level of political influence got a bank, but all the banks would be the same.

As the Handlins noted, the compromise reached in 1812 seems to have signaled the end of banking competition. "The settlement of 1812 had substantially stabilized the banking system, withdrawing it from the grasping hands of a favored few. For a time thereafter, the question of currency was academic only."[41] And "the critical decisions in 1812 had already implicitly circumscribed the capacity to exercise that power [withholding bank charters]" (Handlin and Handlin 1969, 163). Yet, their history of 1812 (113–122) contains no discussion of what those critical decisions were. More or less by chance, the charter of the State Bank in 1812 contained a provision requir-

38. http://www.minneapolisfed.org/research/economists/wewproj.cfm#discounts.

39. As Hildreth (1840, 151–52) notes: "Many of the Massachusetts and Rhode Island banks are constituted and managed much upon this principle. The stock is chiefly held by business men, who hold it, not for the sake of the dividends, which in these States are always moderate, but on account of the business facilities they derive from their concern in the bank."

40. See Wallis, Sylla, and Legler (1994) for the numbers and the history. Schwartz (1987) discusses Pennsylvania, and there is a large literature on New York (Bodenhorn 2006).

41. Handlin and Handlin (1969, 175).

ing that all future charters follow the State Bank charter and levying a tax on bank capital. These were not longstanding demands of bank reformers, but a short-term strategy to get control of banking on the part of the Democratic-Republicans. Both provisions could have been reversed by subsequent legislatures, but they were not. Federalists might have been startled when the state legislature refused to renew the charters of any Federalist banks, and Democratic-Republicans could certainly see what might happen if the Federalists returned the favor in kind when they were in power. What ensued probably began as a temporary arrangement to allow either party to charter a bank under the State Bank charter rubric. The critical decisions of 1812 and the decade that followed was to take bank chartering out of the legislative process altogether.

4.7 Lessons and Conclusions

When we started this chapter, we were very much of the mind that Richard Sylla's conclusion about banking in Massachusetts after 1820 was essentially correct: "Massachusetts had essentially free banking in the sense that entry into banking was open or free, and the state remained a leader in terms of numbers of incorporated banks and capital invested in banking enterprises for several decades" (Sylla 1985). Figures 4.6, 4.7, and 4.12 seemed to clearly confirm the idea that something important happened in 1811 and 1812, events that took a decade or so to work themselves out. The decline of bank presidents and directors who were legislators seemed to offer concrete evidence that an elite coalition of bankers, legislators, and party under the Federalist Party system had given way to open access.

As appealing as that conclusion was and how well it sets with the dominant strain in American history that banking, like other parts of the American economy, opened up to everyone as democracy became more inclusive, the evidence we found did not support that sweeping conclusion. The substantial evidence for a large change in the relationship between banks, legislatures, and parties that occurred in Massachusetts in the 1810s and 1820s seems beyond dispute. The 1820s changes have their roots in the crisis of 1811 and 1812, before the War of 1812 broke out. But as long as we maintain the working definition of elite banks as those banks with a president or director who served as a legislator, we find that almost all the banks up to 1850 were elite banks (keeping in mind the caveat about country banks for which the *Registers* only report the name of the bank president).

Institutional development in Massachusetts followed a path in which the first step toward open access was homogenizing the elite privileges that came with a banking charter. Those privileges were essentially open to all individuals with the economic wherewithal to start a bank or the social standing to be elected to the legislature. By 1829, Massachusetts had moved to impersonal rules for forming and operating a bank. Those rules provided sophisticated and powerful tools to banking organizations. The tools were not just listed in the charters, they were embedded in the economic, political, and legal systems that gave shape and substance to the organizations created by the charters. Nonelites banks (by our measure) did not begin to appear until the 1850s, and they did not spring up en masse even after the free banking law in 1851 had removed any obstacles to bank chartering. Massachusetts moved to open access banking in the 1820s, but it was access that only elites took advantage of.

It would require much more detailed investigation into petitions for bank charters for the entire antebellum period to see if nonelite petitions were denied with higher or lower frequency over time and whether nonelite petitions were common. We have not attempted that very large empirical project, but the narrative evidence suggests that bank charters were readily available after the 1820s. We have shown how the complex relationship between bankers, legislators, and parties in Massachusetts changed to enable public support for private organizations in banking that evolved in a critical time in American history.

Does this history hold more general lessons for the process of development? The central question for this volume is how societies come to provide organizational tools to large blocs of their citizens. That has to be a process that begins with the interests of elites who, in most societies, fail to provide organizational tools to anyone but themselves and the rising elites who demand recognition. What happened in the United States, as exemplified by Massachusetts bankers, was a change in the internal dynamic of intraelite competition. The change produced a set of institutional changes that created a set of impersonal rules for elites. At that point the politics of banking moved from creating special privileges through unique provisions in charters (geographic monopolies, for example) to a system where all elites enjoyed the same organizational tools. Entry was open, but in practice all of the banks continued to maintain a connection with the government in the form of bank officers who were closely connected to the state legislature. Impersonal rules and relative open elite entry produced a large number of relatively small banks. The banks were profitable, but did not enjoy substantial rents from limited entry. Instead, banks were useful in combination with the growing manufacturing and commercial sectors (Lamoreaux 1994). Under those conditions, extending banking privileges to nonelites no longer threatened existing arrangements tying political and economic elites together. When a formal general incorporation act for banks was passed in 1851, there was no rush of banks to take advantage of it. Access to banking was already effectively open to everyone who wanted a bank.

The primary lesson to learn from Massachusetts is that even in a society with a long democratic tradition, with cultural norms that stress the importance of equality and charity, that it is difficult for a society to consciously and deliberately eliminate elite organizational privileges. Support for, and limits on, organizations is a key element in those privileges. Until we understand the dynamics of how elites decide to move to impersonal rules for elites that can genuinely create and sustain open access for elites, we are unlikely to understand how to do it for the larger population.

References

Acemoglu, Daron, and James A. Robinson. 2012. *Why Nations Fail*. New York: Crown Business.

Austin, James. [1828] 2009. *The Life of Elbridge Gerry: With Contemporary Letters to the Close of the American Revolution*, vol. 1. Carlisle, MA: Applewood Books.

Benson, Lee. 1961. *The Concept of Jacksonian Democracy: New York as a Test Case*. Princeton, NJ: Princeton University Press.

Billias, George Athan. 1976. *Elbridge Gerry, Founding Father and Republican Statesman*. New York: McGraw-Hill.

Bodenhorn, Howard. 2006. "Bank Chartering and Political Corruption in Antebellum New York: Free Banking as Reform." In *Corruption and Reform: Lessons from America's Economic History*, edited by Edward L. Glaeser and Claudia Goldin, 231–57. Chicago: University of Chicago Press.

Dean, John W. 1892. "The Gerrymander." *New England Historical and Genealogical Register* 46 (1): 374–83.

Dennis, Albert Woodbury. 1908. *The Merchants National Bank of Salem, Massachusetts: An Historical Sketch*. Hackensack, NJ: Salem Press.

Dodd, Edwin Merrick. 1954. *American Business Corporations until 1860, with Special Reference to Massachusetts*. Cambridge, MA: Harvard University Press.

Dubin, Michael J. 2007. *Party Affiliations in the State Legislatures: A Year by Year Summary, 1796–2006*. Jefferson, NC: McFarland & Company.

Formisano, Ronald P. 1983. *The Transformation of Political Culture: Massachusetts Parties, 1790s–1840s*. New York: Oxford University Press.

Goodman, Paul. 1964. *The Democratic-Republicans of Massachusetts: Politics in a Young Republic*. Greenwood Press.

———. 1968. "Social Status of Party Leadership: The House of Representatives, 1797–1804." *William and Mary Quarterly* 25 (3): 465–74.

Griffith, Elmer Cummings. 1907. *The Rise and Development of the Gerrymander*. Glenview, IL: Scott, Foresman and Company.

Handlin, Oscar, and Mary Flug Handlin. 1969. *Commonwealth: A Study of the Role of Government in the American Economy: Massachusetts, 1774–1861*. Cambridge, MA: Belknap Press of Harvard University Press.

Hildreth, Richard. 1840. *Banking, Banking, and Paper Currencies*. Boston: Whipple & Damrell.

Hilt, Eric, and Jaqueline Valentine. 2012. "Democratic Dividends: Stock Holding, Wealth, and Politics in New York, 1791–1926." *Journal of Economic History* 72 (2): 332–63.

Holt, Michael F. 1999. *The Rise and Fall of the American Whig Party*. New York: Oxford University Press.

Howe, Daniel Walker. 2007. *What Hath God Wrought: The Transformation of America, 1815–1848*. New York: Oxford University Press.

Lake, Wilfred Stanley. 1932. "The History of Banking Regulations in Massachusetts 1784–1860." PhD diss., Harvard University.

Lamoreaux, Naomi R. 1994. *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England*. Cambridge: Cambridge University Press.

Lamoreaux, Naomi R., and Christopher Glaisek. 1991. "Vehicles of Privilege or Mobility? Banks in Providence, Rhode Island, during the Age of Jackson." *Business History Review* 65 (Autumn): 502–27.

Lu, Qian. 2014. "From Partisan Banking to Open Access: A Study on the Emergence of Free Banking in Early Nineteenth Century Massachusetts." PhD diss., University of Maryland.

Maier, Pauline. 1993. "The Revolutionary Origins of the American Corporation." *William and Mary Quarterly* 50 (Jan.): 51–84.

Massachusetts. 1812. *Laws of the Commonwealth of Massachusetts passed at the Several Sessions of the General Court Holden in Boston beginning May 31, 1809 and ending on the 29th of February, 1812*. Boston: Adams, Rhoades, and Co. Usually cited as *Massachusetts Acts and Resolves, 1812*.

———. 1831. *Laws of the Commonwealth of Massachusetts passed at the Several Sessions of the General Court, Beginning May 1828 and Ending March 1831, vol. XI*. Boston: Dutton and Wentworth. Usually cited as *Massachusetts Acts and Resolves, 1812*.

McCormick, Richard P. 1966. *The Second American Party System: Party Formation in the Jacksonian Era*. Chapel Hill: University of North Carolina Press.

Morison, Samuel Eliot. 1929. "Elbridge Gerry, Gentleman-Democrat." *New England Quarterly* 2 (1): 6–33.

North, Douglass C., John Joseph Wallis, and Barry R. Weingast. 2009. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. New York: Cambridge University Press.

Robinson, William Alexander. 1916. *Jeffersonian Democracy in New England*, vol. 3. New Haven, CT: Yale University Press.

Seaburg, Carl, and Stanley Paterson. 1971. *Merchant Prince of Boston: Colonel TH Perkins, 1764–1854*. Cambridge, MA: Harvard University Press.

Schwartz, Anna. 1987. "The Beginning of Competitive Banking in Philadelphia, 1782–1809." In *Money in Historical Perspective*, NBER Monograph, 3–22. Chicago: University of Chicago Press.

Schweikart, Larry. 1987. *Banking in the American South from the Age of Jackson to Reconstruction*. Baton Rouge: Louisiana State University Press.

Sparks, Earl Sylvester. 1932. *History and Theory of Agricultural Credit in the United States*. New York: Thomas Crowell.

Steckel, Richard H. and Carolyn M. Moehling. 2001. "Rising Inequality: Trends in the Distribution of Wealth in Industrializing New England." *Journal of Economic History* 61 (1): 160–83.

Stetson, Amos W. 1893. *Eighty Years: An Historical Sketch of the State Bank, 1811–1865; The State National Bank, 1865–1891*. Boston: Private Distribution.

Sylla, Richard. 1985. "Early American Banking: The Significance of the Corporate Form." *Business and Economic History* 14:105–23.

Sylla, Richard, and Robert E. Wright. 2015. "US Corporate Development 1790–1860." Philadelphia: McNeil Center for Early American Studies. http://repository.upenn.edu.

Wallis, John Joseph. 2005. "Constitutions, Corporations, and Corruption: American States and Constitutional Change, 1842 to 1852." *Journal of Economic History* 65 (Mar.): 211–56.

———. 2006. “The Concept of Systematic Corruption in American History.” In *Corruption and Reform: Lessons from America’s Economic History*, edited by Edward L. Glaeser and Claudia Goldin, 23–62. Chicago: University of Chicago Press.

———. 2008. “Answering Mary Shirley’s Question or: What Can the World Bank Learn from American History?” In *Political Institutions and Financial Development*, edited by Stephen Haber, Douglass North, and Barry Weingast, 92–124. Redwood City, CA: Stanford University Press.

Wallis, John Joseph, Richard E. Sylla, and John B. Legler. 1994. “The Interaction of Taxation and Regulation in Nineteenth-Century U.S. Banking.” In *The Regulated Economy: A Historical Approach to Political Economy*, edited by Claudia Goldin and Gary D. Libecap, 121–44. Chicago: University of Chicago Press.

Weber, Warren E. 2015. Census of Early State Banks in the United States. https://www.webereconomics.com/data-archive.

Wilentz, Sean. 2005. *The Rise of American Democracy*. New York: Norton and Company.

Worley, Ted. R. 1950. “Control of the Real Estate Bank of the State of Arkansas, 1836–1855.” *Mississippi Valley Historical Review* 37 (3): 403–26.