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1 The Beginning of Competitive Banking in Philadelphia, 1782–1809

Two capital banks operating in one city . . . might, perhaps, act in opposition to each other and, of course, destroy each other.—Pelatiah Webster (1786).

The founders of commercial banking in this country doubted seriously that several banks in one community could get along together, especially that the initial bank could survive if one more intruded upon its domain. They reasoned that each new bank would embarrass the established institutions by drawing on their specie reserves to build up its own. A corollary of this argument for monopolistic banking was that each newcomer must of necessity reduce the profits of the others.

But in Philadelphia, the home of the country's first bank, it was demonstrated—as one rival after another opened its doors in the face of the opposition of older institutions—that competition did not impede their growth. Yet no sooner did a bank win friendly recognition from its elders than it fell prey to the same fear of newcomers. In New York and Baltimore (and possibly also in Boston),[1] as in Philadelphia, a new institution was looked upon as a threat to the security of intrenched banking interests. Only after considerable experience did the banks learn how to minimize the impact of the immediate repercussions of the establishment of another bank, and also how to conduct themselves in their relations with it. This experience, its effects lightened by an expanding demand for bank accommodations and fortuitous accretions to their specie holdings, made the banks generally realize that a competitor's advent did not necessarily mean their eclipse.

1.1

In May 1781, when the Continental Congress approved the establishment of the Bank of North America, it recommended that, for the duration of the war, no other banking institution be chartered by any state. There was nothing, however, in the charter granted the Bank of

North America in March 1782, to suggest that it had been accorded an exclusive right to banking in Pennsylvania either during or after the war. Yet, for a decade after the war ended, the bank was able to preserve its monopolistic position in both Philadelphia and the state.[2]

Early in 1784 the Bank of North America was faced with the prospect of a rival. The first two years of its existence had been extremely profitable; it paid $8\frac{3}{4}$ percent on its shares in 1782 and $14\frac{1}{2}$ percent in 1783.[3] This handsome return in itself was sufficient inducement for others to engage in banking, but there was another motive. The closed character of the ownership of the bank's stock and its board membership gave rise to an opposition group among the merchants. Quaker businessmen in Philadelphia were excluded from bank proprietorship and claimed that the directors' partiality to insiders prevented them from obtaining bank loans.

Their demands evidently compelled the Bank of North America to issue more shares. Meeting on January 12, 1784, stockholders agreed to sell one thousand additional shares at $500 each (although the par value of the original shares was $400) and to treat the new and the old shares as equal.[4] If we can judge by what Thomas Willing, the president of the bank, wrote William Bingham, his son-in-law, before the stockholders' meeting, the subscription was intended only for outsiders during the first six months: ". . . you'll be excluded as well as myself from any more shares before the 1st Aug. next . . . unless you get some other person to act for you in the Matter."[5] But when the sale of the new shares started, they were offered to stockholders as well as to the general public.

The terms of the proposed increase in the bank's capital did not cancel plans, announced nine days after the stockholders' meeting, for a new institution, to be known as the Bank of Pennsylvania. Shares were priced at 400 Spanish milled dollars. On February 5, when seven hundred shares had been subscribed and apparently paid for,[6] the holders elected a board of directors, composed mainly of Quaker merchants whom the opposition press satirically dubbed "rigid Presbyterians," "unshaken Quakers," and "furious Tories."[7] On February 10 the subscribers applied to the Assembly for a charter, and the petition was favorably received by the committee to which the matter was referred. When the legislature tabled a request of February 26 by the Bank of North America to be heard in opposition to the new charter, and two days later appointed a committee to bring in a bill,[8] the bank hastily called a stockholders' meeting for March 1.

The meeting passed a resolution increasing the amount of the new subscription from one thousand to four thousand shares and reducing the price to $400. Those who had subscribed to five hundred shares at $500 per share were to be refunded the difference. In a statement to the public—signed by Willing; James Wilson, counsel; Thomas

FitzSimons and Gouverneur Morris, stockholders—the original advance in the price of the shares was defended. It was claimed that the price was now reduced not out of private considerations but in the public interest, since a new bank would injure commerce.[9]

The bank's revised stock offer appeased the discontented merchants who had planned forming a rival institution. On March 16, when the bill creating the Bank of Pennsylvania was reached, its directors obtained leave to withdraw their application for a charter.[10] The general subscription to the Bank of North America was so well received that by the end of March its capital, though less than half of the possible $2 million, had more than doubled. One hundred and thirty new stockholders subscribed six hundred shares; the rest were taken by old stockholders or those who had subscribed before March 1.[11]

The Bank of North America's anxiety about the scheme to establish another bank cannot be explained simply in terms of the supposed effects that sharing the market would have on its profits, although that apprehension was undoubtedly at the root of its opposition. It also feared for its specie holdings. Subscribers to the proposed Bank of Pennsylvania could pay for their shares with specie in general circulation or with Bank of North America notes. Most of them had chosen the latter. As its notes were at once presented for redemption, the Bank of North America was drained of gold and silver. William Seton, the cashier of the proposed Bank of New York, who was visiting in Philadelphia, wrote to Alexander Hamilton on March 27: "Gold and silver had been extracted in such amounts that discounting was stopped, and for this fortnight past not any business had been done at the bank this way. . . . Therefore, for the safety of the community at large, it became absolutely necessary to drop the idea of a new bank, and to join hand in hand to relieve the old bank from the shock it has received."[12]

Hamilton, who had originally favored the incorporation of the Bank of Pennsylvania, now saw the competition in a different light. He wrote Gouverneur Morris: "I had no doubt that it was against the interests of the proprietors; but, on a superficial view, I perceived benefits to the community, which, on a more close inspection, I found were not real."[13] Robert Morris, concluding that there was not enough capital in the country to support several banks, wrote Jefferson on April 8, 1784: "The establishment of so many banks, instead of aiding credits and facilitating operations, will for some time to come have a contrary effect, and it is not without great difficulty that they will each collect a capital sufficient to support its own operations. The struggle to get such capital places these institutions in a degree of opposition to each other injurious to them all."[14]

At the time Morris was writing, exports of specie exceeded imports, owing to an unfavorable balance of trade and the payment of the claims of English creditors for debts contracted before the war.[15] The consequent tightening of the specie supply seemed to confirm his gloomy foreboding that the creation of a new bank would lead to disaster. But he knew, as he indicated two years later, that the flow of specie from this country would soon be reversed.[16] When the balance of international payments shifted in our favor, gold and silver were bound to become more generally available. Morris' argument against a new bank had at best only temporary cogency.

A real fallacy was his assumption that a new bank could obtain specie for its reserve only from the vaults of the preexisting institution. He ignored the fact that only a fraction of the country's specie was held by the Bank of North America; that if a rival drew on its reserve, it could hope that is holdings would be replenished by deposits of gold and silver in the public's possession.[17]

Had the Bank of Pennsylvania's capital consisted entirely of Bank of North America notes and had there been no transfer to it of specie held by the public in strong boxes, the Bank of North America might indeed have suffered by the redistribution of its holdings.[18] But if we assume that the credit supply would have been more rationally distributed when two banks instead of one were in operation, the community might have benefited from the opening of a second bank even if it added no specie to the amount already in vault and the total credit supply remained unchanged.

The proposition against competitive banking generally, as stated by Morris, seems indefensible. Specie kept in strong boxes would have found its way to the new bank, presumably just as it did to the older bank when it increased its capital. If enough capital could not be scraped together for two banks, as Morris asserted, it is difficult to understand how the subscription of the older bank was doubled.[19]

In short, the crux of the Bank of North America's opposition to a potential competitor was concern over its specie holdings, but, had its relations with the Bank of Pennsylvania been amicable, an agreement would have been reached at the outset concerning the acceptance of each other's notes. And the run on the Bank of North America for specie, described by Seton, might have been avoided.

1.2

During the decade 1784–93 the Bank of North America modified its attitude. On its own initiative it established good relations with out-of-state banks and submitted, willingly or unwillingly, to the authority of the Bank of the United States. And when the legislature chartered a second bank in 1793, the Bank of North America discovered that its operations were not crippled.

At the same time that it was resisting local bank competition, it was encouraging the founding of banks outside Pennsylvania. To help Boston merchants who proposed opening the Bank of Massachusetts, Willing in January 1784 described his experience in running his bank. In March, Seton went to Philadelphia bearing a letter of introduction from Hamilton to FitzSimons, requesting his advice concerning the operation of a bank.[20]

Thus, while the management of the Bank of North America looked upon another bank in Philadelphia as an interloper, it tolerated banks outside the state, even admitting that they might be useful: first, because subscriptions to a bank in Boston or New York were not likely to be paid for in Philadelphia bank notes that would recoil on the issuer; second, the banks would operate within their own local markets, without affecting the demand for and supply of loans in Philadelphia; third, they would accommodate Bank of North America customers who had payments or collections to make in their vicinity.[21] In contrast to its behavior toward a newcomer in Philadelphia, the Bank of North America's relations with banks in other cities were exemplary.

The smooth course of the organization of the Bank of the United States in 1791 afforded other evidence of how harmoniously the situation might have been managed in Philadelphia in 1784. By opening the subscription books for the national bank, the Bank of North America surprised the skeptics who expected it to be antagonistic; Willing was one of the commissioners.[22] Philadelphians subscribed heavily; some even were disappointed, so keen was the demand for shares.[23] There must have been repercussions on the specie holdings of the Bank of North America, but when Willing was chosen to head the national bank, it became obvious that a *modus vivendi* would be found.[24] The Bank of the United States opened on December 12, 1791. On February 6, 1792, the Bank of North America adopted a resolution providing for a daily exchange of notes with it and on March 23 one providing for the appointment monthly of a committee of three to consult with a similar committee from the Bank of the United States, "for the purpose of communicating freely upon the business of both, as well to prevent improper interference with each other as to promote the accommodation of the citizens."[25]

The attitude of an elder sister institution toward a newcomer in the local banking field was of crucial importance. Its opposition to the proposed Bank of Pennsylvania in 1784 had caused a crisis in the Bank of North America's affairs. But, because the state bank cooperated, all went smoothly when the first Bank of the United States was organized.[26] Yet it lost some local business as well as the accounts of the federal government, which had been exceedingly profitable. The services the Bank of the United States rendered the merchant business order were acknowledged to be more important than any possible loss its competition might entail.[27]

Whether Bank of North America stockholders suffered is problematical. The bank paid 13½ percent in 1791, 12½ percent in 1792, 12 percent for the next six years, and never less than 9 percent as long as the first Bank of the United States was in existence.[28] However, in July 1792, after an exceedingly good year, the dividend committee of the Bank of North America recommended a payment at a lower rate than the bank's financial situation warranted. Taking for granted that the competition of the new bank would lower profits, it warned that another dividend at a high rate might raise false hopes which would have to be dashed. But the committee had an ulterior motive in urging a low rate: "Another probable consequence of two successive high dividends deserves consideration; would it not be likely to induce others to engage in a business that yielded so large a profit, and if the Legislature of the State had an advantageous offer made to them, would they not be likely to grant another charter?"[29] Preventing the creation of a new bank meant holding the legislature as well as the commercial elements in the community at bay.

At this time a Treasury surplus challenged the attention of Pennsylvania state authorities. After the entire public debt had been liquidated from the proceeds of sales of public lands and paid-up back taxes, a tidy sum remained unappropriated. The high dividends paid on bank stock attracted notice in political quarters. Governor Mifflin on August 13, 1792, proposed to subscribe, on behalf of the commonwealth, to a substantial quantity of Bank of North America stock.[30] On January 29, 1793, the stockholders agreed to admit the state on terms to be set by a committee to be appointed to confer with the governor.[31] Its offer seems to have been a $750,000 subscription at the rate of $400 for each share, half to be borrowed from the bank.[32]

The negotiations were unsuccessful. Merchants, perhaps because they were dissatisfied with their accommodation at the Bank of North America and the Bank of the United States, seized on the political circumstance of the state's search for an investment for its surplus to promote a bank.[33] The state struck a bargain with the new institution, the Bank of Pennsylvania, which it incorporated for twenty years on March 30 and used thereafter as its fiscal agent. To the bank's authorized capital of $3 million the governor subscribed $1 million on behalf of the state, paying part with public stock of the federal government owned by the state at the value fixed by the legislature; part in specie; and the rest with the proceeds of a $250,000 loan from the bank.[34]

Possibly in deference to the view that a competitor would impair the profitability of the Bank of North America, the Bank of Pennsylvania's charter stipulated that two thousand shares at $400 each should be set aside for Bank of North America stockholders, if they decided to relinquish their charter within three months after it was granted. The Bank of North America turned down this suggestion; evidently a year and a half's profitable operation alongside the Bank of the United States had changed its views on competitive banking.[35] It had no cause to regret the decision to retain its identity. "It appears . . . that establishment of the Bank of Pennsylvania hath not *upon the whole* lessened the business, but hath increased it in several departments," reported a committee appointed by the directors of the Bank of North America to examine the possibility of reducing the staff.[36]

There is no evidence that the Bank of North America and the Bank of Pennsylvania did not get on well. The Bank of the United States also established friendly relations with the new bank, including it in the arrangement for the daily settlement and exchange of notes. A joint committee of the three banks, meeting on March 2, 1797, adopted the rule that "after March 31, all bills made payable at sight or on demand must be paid on the same day they are presented" and agreed that no bank would discount a note from which the qualifications "without defalcation" or "without set-off" were omitted. Joint action was proposed in June when the Bank of North America appointed a committee to meet with committees which the Bank of the United States and the Bank of Pennsylvania might appoint "to attend to the bill depending before the House of Representatives of the United States for levying a stamp duty and to report their opinion thereon." Committees from the three banks conferred again in May 1799 on "the prevailing distress of the mercantile interests of this city."[37]

The older institutions probably could not risk harassing a rival with which the state was identified; moreover, they were no doubt learning that mutual trust was a *sine qua non* of a successful banking community. The regularization of interbank relations was a prerequisite to the expansion of credit merchants required for the carrying trade. Mercantile houses combining importing and exporting multiplied as the Napoleonic wars, until the embargo period, opened business opportunities for Americans. The shipment of colonial produce to the several belligerent mother-countries—as well as its purchase for their own account in the French, Spanish, and Dutch colonies—engaged the energies of a growing merchant class. American firms also imported European manufactures, especially British, and the manufactures and produce of the East Indies and China for re-export to the West Indies, the Spanish colonies in South America, and Europe. They got the British products on longterm credits but—in order to purchase ships and domestic produce and also to speculate in land and securities—had to borrow from American banks.[38]

Without an effective banking community, ambitious businessmen during the Napoleonic era would not have been able to go so far as they did. Interbank claims were inevitable; and the merchant business order could not thrive unless banks trusted one another. City banks, not only in Philadelphia but also in other coastal cities where merchants organized banks to further their business interests, had to accept and adapt themselves to competitive banking. Their compliance was reluctant. Despite the experience afforded by the formation of the Bank of the United States and the Bank of Pennsylvania, "Civis" noted in the *Aurora General Advertiser* on December 21, 1801: "On the propriety of establishing a banking house there exist various sentiments; without at present hazarding an opinion upon it, I can venture to say, that the banks now in this city will not approve the establishment. From this quarter there will presumably proceed the greatest opposition."

1.3

When the Philadelphia Bank began operations as an unincorporated association in September 1803, the wisdom its predecessors had acquired in interbank relations was put to the test. Merchants who had gone into business for themselves after the start of the Napoleonic wars, and who claimed that they were being unfairly treated by the banks, had a prominent share in the new institution's organization. Designed to appeal to men of smaller means than those who had invested in the older banks and were their customers, its shares were priced at $100. The strength of investors' demands may be gauged from the ease with which the new bank accumulated capital. By December 31, 1803, $1 million was fully paid in.[39]

To avoid antagonizing other banks in the city the Philadelphia Bank received and paid out their notes along with its own. Yet the other banks refused to reciprocate.[40] On September 21 the board of directors of the Philadelphia Bank resolved: "That so long as the Banks of the United States, Pennsylvania, and North America continue to refuse the notes of this Bank, that the Cashier apply every day to the said Banks for Specie in exchange for such of their notes as may be on hand in this Bank."[41] This retaliation brought to heel all except the Bank of Pennsylvania, which continued prey to the fears that had exercised the Bank of North America a decade earlier. "Anti-Monopoly" wrote: "That the Pennsylvania Bank is opposed to the policy and prosperity of Pennsylvania is obvious—for though they have refused the paper of the Philadelphia Bank, the Banks of Boston, Hartford, New York, Baltimore, Delaware, and Alexandria accept them—and their acceptance was voluntary. Jealousy and the spirit of monopoly of the Pennsylvania Bank opposes the credit of citizens of Philadelphia."[42] Before its quarters offered suitable protection, the Philadelphia Bank had placed a box of money for safekeeping in the Bank of Pennsylvania. As a rebuke to the latter it now moved the box to the Bank of the United States and ordered Bank of Pennsylvania notes to be presented for redemption immediately upon their receipt.

In this atmosphere of uncertain acceptance by the local banking fraternity, the Philadelphia Bank applied to the legislature for a charter on December 13.[43] This action put the state in a dilemma: as a stockholder in the Bank of Pennsylvania, its interests presumably coincided with those of the private investors in the bank, but as arbiter of the public welfare, it had to consider the views of the promotors of the Philadelphia Bank. These conflicted with the ambitions of Bank of Pennsylvania stockholders. The contradictions implicit in the state's position were stated in a resolution read in the House at a later date:

> Whereas, the intimate connexion and union of pecuniary interests between a government and great monied institutions, tends to create an influence, partial to the latter and highly injurious to the former. It being the duty of government to consult the general will and provide for the good of all, embarrassments must frequently be thrown in the way of the performance of this duty, when the government is coupled in interest with institutions whose rights are founded in monopoly, and whose prosperity depends on the exclusion and suppression of similar institutions. The government in such cases becomes identified with these establishments, and the means of promoting and extending commerce, manufactures and agriculture equally over the whole state for the general good are too often lost sight of by this dangerous and unnatural union.[44]

In resolution of these conflicting interests a committee appointed by the Philadelphia Bank's stockholders made various proposals to compensate the state for the charter: to pay $15,000 outright for a ten-year charter or $20,000 for a fourteen-year charter. For a fourteen-year charter it offered alternative terms: The bank would agree to lend the state $100,000 for three years, without interest, "on condition that if the legislature should, at any time hereafter, impose a tax on banks, that the interest so remitted should be considered as a set off against any tax which the legislature might be disposed to lay on this institution." Finally, it suggested that the legislature authorize a $500,000 subscription to its stock, payable in Bank of Pennsylvania stock held by the state, at par, on the transfer of which the Philadelphia Bank would pay by June 1804 $125,000 in specie as a premium.[45]

The House committee, under the chairmanship of Adcock, to which the Bank of Philadelphia's petition was referred, favored the fourth proposal because it contained the largest spot-cash offer and did not impair the state's equity in the banking business. Although the committee was unwilling to express an opinion regarding the ultimate effects of the "multiplication of Banks" on the general public interest, it approved the petition for incorporation.[46]

On December 17, the day after Adcock's committee reported, six Bank of Pennsylvania directors (including Matthew Carey) appointed by the legislature sent a letter to both houses requesting that nothing be done about chartering a new bank until a memorial then being prepared was laid before them. They asserted that another bank in Philadelphia would "materially injure the property of the state in the Bank of Pennsylvania, and the interest of the community at large. We also believe there are no terms on which a charter could be granted, that would compensate the state for the injury it would sustain thereby."[47] The memorial duly submitted by the Bank of Pennsylvania on December 29 stated: "Immense injuries must inevitably arise to the institution and the state, should the legislature incorporate the said bank."[48]

The House had postponed a second reading of the Adcock report but, when the Bank of Pennsylvania submitted its protest, referred both the report and it to a new committee, for which Maclay was spokesman.[49] Aware of the pressure the Bank of Pennsylvania was bringing to bear on the legislature, the Philadelphia Bank revised its four proposals with a view to making them more attractive.[50]

The Maclay committee reported on January 20 against the incorporation of the Philadelphia Bank. It argued that more banks would mean smaller profits for all and hence reduce the value of the state's investment in the Bank of Pennsylvania. No premium which the Philadelphia Bank might pay for a charter could offset this loss. The committee, furthermore, was skeptical of the bank's ability to live up to its proposals and doubted the accuracy of its valuation of the various premiums: "Banks already chartered . . . are fully competent to the business of the state and . . . [their] protection, more especially of that one where the property of the state is lodged, is of more utility . . . than the chartering of new ones."[51]

Having disposed of the Philadelphia Bank's application, the Maclay committee indorsed a measure proposed by the Bank of Pennsylvania. If the state would extend its charter for fourteen years beyond 1813 (the expiration date under the act of incorporation), the Bank of Pennsylvania would pay the state $200,000 in specie or bank notes.[52] During this time (*a*) no other bank (except the Bank of North America) should be chartered by the state; (*b*) no incorporated association with more than ten members in Philadelphia or within the state of Pennsylvania should be permitted to carry on banking or issue notes; (*c*) stockholders should be personally liable for the debts of an unincorporated company; (*d*) the Bank of Pennsylvania should not be subject to taxation.

The House took no immediate action on the Maclay report. In the Senate a resolution was introduced on January 24 to discharge the committee appointed December 13 to consider the Philadelphia Bank's petition.[53] The chances for a charter looked slim. The stockholders of the Philadelphia Bank, however, again memorialized the House, presenting three rejoinders to the Maclay report: (*a*) the paid-in capital proved that the bank was fully capable of carrying out any proposals it had made; (*b*) as its specie holdings equaled its circulation, the bank was in a sound condition; (*c*) the bank's proposals had been misunderstood; it was ready to pay into the state treasury $145,000, $154,000, $152,000, or $400,667, depending upon which of the four proposals was accepted. The stockholders had some additional bait with which to tempt the state: "As banks must necessarily increase with our growing population and industry; we are willing should the legislature wish that at the end of every four years the state may subscribe two hundred thousand dollars to the Philadelphia bank at par, and dispose of the same, for the sole emolument of the commonwealth."[54]

On January 27 the House, in committee of the whole, reported against the Maclay resolution and recommended that a committee bring in a bill of incorporation for ten years under the terms of the bank's first proposal. The report was adopted fifty to thirty-five, and on January 31 a bill was introduced and read the first time.[55]

In the form in which it was reported with amendments by the committee of the whole and ultimately adopted, the bill required the Philadelphia Bank to pay a cash gratuity of $135,000 to the state for a ten-year charter; the state was privileged to subscribe $300,000 by paying that sum in 6 percent stock of the United States (but if the bank should fail, the United States stock was to be retransferred to the state); the state had the right to subscribe an additional $200,000 at par at the end of four years and a like sum at the end of eight years; and, whenever required by the governor, the bank was obligated to lend the commonwealth $100,000 at 5 per cent for any period not exceeding ten years.

When the second reading of the bill was reached in the House, the Bank of Pennsylvania approached the legislature with an offer of a $100,000 interest-free loan for one year, to be repaid in 6 percent stock of the United States, at par, provided the Philadelphia Bank was not granted a charter before the next session of the Assembly. Postponement was urged to give the Assembly time to make inquiries concerning the injury already done the Bank of Pennsylvania, which would be aggravated by the incorporation of a new bank, and to permit the representatives to consult their constituents.[56]

The Bank of Pennsylvania's efforts to block the bill in the House were fruitless; the bill progressed through its second reading uneventfully and was finally passed by a vote of forty-five to thirty-five.[57]

The Senate ordered a second reading of the House bill for February 21. Residents of Lancaster borough and county presented a petition expressing regret that the bill had passed the House: "Reflecting on the extensive interest which the state holds in the Bank of Pennsylvania, they cannot too seriously consider the probable baneful effects of an additional chartered Bank at this period, on the fiscal concerns of the state and on the banking system."[58] The next day a petition by Lancaster residents favoring the chartering of the Philadelphia Bank was read. A letter from the Bank of Pennsylvania to the legislature confirmed the offer made ten days earlier of an interest-free loan for a year and, in addition, proposed another scheme to reward the state if the bill to incorporate the Philadelphia Bank was postponed. Though the Bank of Pennsylvania calculated the monetary value of its new offer to be $440,000,[59] the legislature was apparently no more pleased than it had been with the offer embodied in the bill chartering the Philadelphia Bank; perhaps not so much, since the Bank of Pennsylvania attached many conditions.[60] Despite attempts to amend the House bill, the Senate passed it without change by a vote of thirteen to ten.[61] The legislature thus supported an expanding and competitive banking system, which existing institutions perforce had to accept.

1.4

Once the Philadelphia Bank had been incorporated, opposition to the creation of rivals steadily dwindled. Even while it lasted, the existing institutions did not try to tie the hands of a new bank by obstructive tactics.[62] Committees appointed by each bank conferred upon subjects of common interest; e.g., they fixed the values at which foreign coins would be taken after September 1804. And by cooperative action the banks made possible the multiple expansion of credit on a given specie base.

The argument that additional competition would diminish profits was once again advanced in 1807–8 when the fourth bank, the Farmers' and Mechanics', appeared on the scene. Unlike the older banks, which had been organized by merchants predominantly, the Farmers' and Mechanics' Bank was founded by a mixed group—merchants, manufacturers, and mechanics.[63] The older banks appealed to the selfish interest of the commonwealth itself in their profits in the hope that it would deny the new bank a charter. The emptiness of the argument became obvious when business expanded—there was enough for all. Thus in approving one of seven offers to remunerate the state, together with the Farmers' and Mechanics' Bank's petition for incorporation, the House committee on banks remarked in 1808 that the Bank of Pennsylvania was not injured by the Philadelphia Bank, nor was either of them affected by the operation of the Farmers' and Mechanics' Bank as an unincorporated association.[64] Moreover, the business drawn to banks of adjoining states did not reduce their profits.

The offer of monetary inducements for the granting of a charter, which began as a voluntary solicitation of the legislature, came to be looked upon as a necessary accompaniment of a petition for incorporation. The committee reported that, since the petitioners sought a charter for profit-making purposes, the state had a right to require a payment for the privileges it conferred.

The rationale of a competitive banking system was also elaborated.

> The banking system, being once introduced, (its) evils, if they have any real existence, will probably find their most effectual remedy in the rivalship which an increase of the number of banks to a proper extent is calculated to create. . . . An extravagant emission of bank paper will be prevented by the fear of being called upon for specie, and partiality in the distribution of loans, destroyed by the anxiety each will feel to secure to itself the best customers. And if (which no former experience seems to warrant) there was real ground to apprehend that a bank might, by extending or withholding accommodations, acquire a power over the conduct and independence of individuals, the danger would, perhaps, be best counteracted by a fair competition, depriving the several institutions of the ability to command custom, and obliging them to merit and attract it by their conduct.[65]

The incorporation of the Farmers' and Mechanics' Bank by the Act of March 16, 1809, heralded the coming of a decade of unlimited increase in the number of Pennsylvania banks.

1.5

Between 1784 and 1809 Philadelphia banks moderated their resistance to competition. The oldest successfully opposed the formation of any state-chartered rival during the first ten years of its existence but managed to adjust itself to the conditions created by the opening of the national bank in 1791 and, two years later, of a bank in which the state was the largest stockholder. It discovered that it could prosper despite, or perhaps with the help of, the newcomers. Opposition to the charter of additional banks did not, however, cease. In 1803–4 it was led by the state-supported bank. But expanding trade proved too strong; by 1809 the restrictive drive had collapsed.

The privilege of banking was not to be confined to one or two large institutions. A competitive unit-banking system seemed more desirable both to businessmen and the state. New bank incorporation provided them with profitable investment outlets. The state, moreover, favored a unit-banking system because the grant of a charter served as an opportunity to secure a payment for the valuable right conferred. Dissatisfaction on the part of groups of businessmen with the loan policies of existing institutions also encouraged the formation of rival banks.

Increments to the country's specie supply, which the carrying trade yielded, reduced the tensions of bank competition that Robert Morris and Hamilton had pictured.[66] A new bank was a source of specie deposits, which extended the basis of loans for the whole system, not a threat. The issue of monopoly or competition in commercial banking became extinct.

Notes

1. I am not sure that, in Boston, the initial bank or banks actively opposed the addition of members to the banking community. N. S. B. Gras comments: "From time to time other banks were established in Boston (in addition to the Boston branch of the first Bank of the United States), but apparently they rarely or never received from the Old Massachusetts anything but a doubtful welcome and hard terms" (*The Massachusetts First National Bank of Boston, 1784–1934* [Cambridge: Harvard University Press, 1937], p. 37). I have not, however, found any explicit references to the problems of the adjustment of the first Boston bank or banks to newcomers. See Edwin A. Stone, *A Century of Boston Banking* (Boston: Rockwell & Churchill, 1894), pp. 8–12.

2. James Wilson, *Considerations on the Bank of North America* (Philadelphia: Hall & Sellers, 1785), p. 4; *Pennsylvania Statutes, Laws Passed 1781–82,* chap. ix.

3. Lawrence Lewis, Jr., *A History of the Bank of North America* (Philadelphia: Lippincott, 1882), p. 152.

4. Bank of North America stock was closely held in 1783 by wartime associates of Robert Morris—largely non-Quaker businessmen related by marriage to the Willing family—and non-Pennsylvanian capitalists. The directors were well-born and wealthy, with common religious, social, and business interests (R. A. East, *Business Enterprise in the American Revolutionary Era* [New York: Columbia University Press, 1938], p. 290). "It is notorious," Gouverneur Morris, a bank supporter, wrote, "that if the directors had not been under compulsion, they would not have extended the subscription beyond the first four hundred thousand dollars" (Jared Sparks, *Life of Gouverneur Morris* [Boston: Gray & Bowen, 1832], III, 462). *Pennsylvania Gazette,* January 21, 1784, reported the stockholders' meeting on January 12, 1784.

5. Willing to Bingham, November 29, 1783, "Provincial Delegates," V, 17, in the Historical Society of Pennsylvania.

6. *Pennsylvania Gazette,* January 21, 1784; *Freeman's Journal,* February 11, 1784.

7. Quoted from the *New York Journal,* March 18, 1784, by East (*op. cit.,* p. 291, n. 24).

8. *Journal of the Assembly,* VIII, 54, 123–24, 156–57.

Incorporation was not at this time a statutory requirement for banks in Pennsylvania. Why, then, did the promoters of the Bank of Pennsylvania seek a charter? We may conjecture that they sought to place the proposed new institution on the same footing as the Bank of North America with respect, for example, to its expectancy of unlimited life and its capacity for suing and being sued and for holding and transmitting property.

The strenuous efforts of the Bank of North America to defend its charter against revision by the unfriendly legislature of 1784–86 and to regain it upon its repeal in September, 1785, indicate the value placed on legal incorporation. See Matthew Carey, *Debates and Proceedings of the General Assembly of Pennsylvania, on the Memorials Praying a Repeal or Suspension of the Law Annulling the Charter of the Bank* (Philadelphia: Seddon & Pritchard, 1786), *passim.*

Oscar Handlin and Mary F. Handlin have shown ("Origins of the American Corporation," *Journal of Economic History,* V, 1–23) that, at its origin in Massachusetts, the business corporation was not characterized by the attributes it later acquired: unique economic efficiency, limited liability, and perpetual freedom from state interference. They argue that the corporation was conceived as an agency of government, designed to serve a social function for the state, and therefore was used in the organization of business activities determined by the community, not the enterprising capitalist—e.g., turnpikes, not trade; banks, not land speculations. The applicability of this interesting thesis to the use of the corporate form in Pennsylvania requires special study.

9. *Pennsylvania Gazette,* March 3, 1784.

10. *Journal of the Assembly,* VIII, 186.

11. Directors' Minutes, March 1, 1792, "Bank of North America Papers" in the Historical Society of Pennsylvania.

12. J. C. Hamilton, ed., *The Works of Alexander Hamilton* (New York: J. C. Trow, 1850–51), I, 417.

13. Hamilton to FitzSimons, March 21, 1784; to Morris, April 4, 1784, *Hamilton,* I, 416, 418. The switch in Hamilton's views may be judged from a letter he wrote William Seton under date of January 18, 1791, regarding a projected rival to the Bank of New York. " 'Tis impossible but that three great banks in one city must raise such a mass of artificial credit as must endanger everyone of them, and do harm in every view." He was sure that the combined force of the Bank of New York and the Bank of the United States branch would "remove the excrescence which has just appeared."

It seems strange that a man with Hamilton's aggressive business instincts should have assumed that businessmen would go to a new bank for additional credit for speculative purposes only. Such a view could more easily be ascribed to Jefferson.

14. Jared Sparks, ed., *The Diplomatic Correspondence of the American Revolution* (Boston: Nathan Hall and Gray & Bowen, 1830), XII, 485.

15. Pelatiah Webster, *Political Essays* (Philadelphia: Joseph Crukshank, 1791), p. 267, n. 448.

16. Carey, *op. cit.,* pp. 82 and 89.

17. Pelatiah Webster estimated the country's specie stock in 1780 to be $10 million. There were large accessions from 1780 until some time in 1783, due to expenditures by foreign troops, the French loans, and the profitable trade with the Spanish Islands. See *Political Essays,* p. 267 n.

Brissot de Warville wrote of Pennsylvania: "It was from their farms that the American and French armies were principally supplied during the last war; it was from their produce that came those millions of dollars brought from the Havanna after the year 1780—millions which laid the foundation of the Bank of North America, and supported the American army till the peace" (*New Travels in the United States of America Performed in 1788* [London: Jordan, 1792], p. 336). See also W. G. Sumner, *The Financier and the Finances of the American Revolution* (New York: Dodd, Mead, 1892), I, 99–100.

When the bank was opened, the United States subscribed $254,000 in specie; other stockholders, $70,000; but it is not clear how this amount was paid. Thomas Paine refers to a transfer of subscriptions from the Pennsylvania Bank of 1780—which functioned for a year and a half apparently as a government purchasing agency rather than as a bank—to the Bank of North America. Individual subscriptions to the latter institution may have consisted of bills of exchange, drawn on the Ministers of the United States in Europe in favor of the directors of the Pennsylvania Bank—not of specie. See Carey, *op. cit.*, p. 48; M. D. Conway, *The Writings of Thomas Paine* (New York: Putnam, 1894–96), II, 153; W. M. Gouge, *A Short History of Paper Money and Banking in the United States* (Philadelphia: T. W. Ustick, 1833). pp. 34–35.

At the end of 1793, the first date for which a figure exists, the Bank of North America held $462,000 in coin and specie. End-of-year figures for 1794–1810 were considerably lower, ranging from $102,000 to $312,000. See "Bank of North America Papers."

18. The effect would, however, have been mitigated (if we take for granted that Bank of North America loans did not exhaust the demand) by the possibility of further expansion of bank credit on the given specie base. Erick Bollmann (*Paragraphs on Banks* [Philadelphia: C. & A. Conrad, 1811], p. 38) pointed out, on the other hand, that two banks doing the same amount of business formerly done by one might require larger specie holdings than a single bank: "The most favorable situation of a bank therefore would be to be the only one in the country and to have for customers all the merchants in it, because then all payments would be made in checks on the same bank and the call for notes would be extremely limited. . . . As banks increase the custom naturally divides, which tends, as we have seen, to cause an issue of more paper and though this operates both ways, putting one bank as often in possession of the paper of the other banks as its own is held by them—yet it admits of fluctuation and prudence will require to be prepared with a greater quantity of specie."

19. The new capital was doubtless only partly paid in specie. But Morris did not decry the enlargement of the bank's capital.

20. Willing's letter, dated January 6, 1784, to "Messrs. Wm. Phillips, Isaac Smith, Jona. Mason, Thos. Russell, J. Lowell, S. Higginson of Boston" ("Bank of North America Papers"). See Hamilton to FitzSimons, March 21, 1784. *Hamilton*, I, 416.

21. On April 14, 1794, for example, the president of the Bank of North America was requested to arrange with the Bank of New York a mutual credit of $40,000 "for the accommodation of the respective customers of both banks in remitting moneys between New York and Philadelphia" (Directors' Minutes, Bank of North America).

22. *General Advertiser*, June 24, 30, 1791. Pelatiah Webster was outraged by Willing's promotion of a rival institution (*To the Stockholders of the Bank of North America by a Citizen of Philadelphia* [Philadelphia: Joseph Crukshank, 1791]), *passim*.

23. Hamilton had discussed converting the Bank of North America into a national bank (*Report on a National Bank . . . Treasury Department, December 13, 1790* [60th Cong., 1st sess., Senate Doc. 379]) as an alternative to forming the Bank of the United States. The Bank of North America showed no interest in Hamilton's suggestion. See Fisher Ames to Hamilton, July 31, 1791, *Hamilton*, V, 473.

Bingham may have planted the proposals concerning conversion of the state into a national bank. See J. O. Wettereau, "Letters from Two Business Men to Alexander Hamilton on Federal Fiscal Policy, Nov. 1789," *Journal of Economic and Business History,* III, 681–82. Bingham was uneasy lest the price of his Bank of North America shares decline if a national bank entered the field. See M. L. Brown, "William Bingham, Eighteenth Century Magnate," *Pennsylvania Magazine of History and Biography,* LI, 405.

24. Only one-quarter of the private subscription ($8,000,000) to the stock of the Bank of the United States had to be paid in specie; the rest was paid in stock of the United States. To pay for its subscription ($2,000,000), the United States borrowed from the bank.

An unsigned article ("On Banks," *Gazette of the United States,* March 10, 1792) repeated the orthodox fears respecting bank competition. "A new bank produces no new deposits of specie. There is not a dollar more money added to the circulation. A new bank divides the deposits of specie and of course diminishes the advantages of credit. For it is manifest that two banks with small capitals will do less than one bank with both capitals. Besides the ordinary banking risks, each institution is in danger from the others." For the opposite view see Russell, "On Banking Companies in the United States," *American Museum,* XII (September 1792), 144–45.

25. Directors' Minutes, Bank of North America.

26. There is, nevertheless, some evidence that in the beginning interbank relations were strained. Hamilton wrote Seton, August 17, 1792: "Large payments into the Bank of North America on account of the State of Pennsylvania subscriptions to canals, etc., and large calls upon the Bank of the United States for the service of government, joined to liberal discounts, had produced a considerable balance in favor of the Bank of North America which rendered it expedient to draw a sum of specie from New York, not to leave the National Bank in any degree in the power of the Bank of North America, which once manifested a very mischievous disposition, that was afterwards repaid by acts of kindness and generosity" (*Hamilton,* V, 521).

27. The Bank of North America's operations declined considerably between 1791 and 1792, according to year-end reports. But the rate of dividends was relatively unaffected. In 1792 the par value of the bank's outstanding stock was only $742,800, compared with $946,800 seven years before. The difference represented stock bought in at one time or another. See Directors' Minutes, March 1, 1792.

	1791	**($000's)**	**1792**
Discounts	2,557		1,771
Circulation	1,000		531
Deposits	1,293		953

28. Lewis, *op. cit.,* p. 152.

29. Directors' Minutes, Bank of North America, July 2, 1792.

30. An Act of April 10, 1792 (*Pennsylvania Statutes: Laws Passed 1791–92,* chap. lxxvi), empowered the governor to apply certain moneys "in the procuring of shares in the Bank of North America for the use of this Commonwealth, provided the same may be obtainable at par."

31. *Senate Journal 1792–93,* pp. 90–91; Stockholders' Minutes.

32. *Senate Journal 1792–93,* pp. 180–81; Anthony Morris (a director of the Bank of North America, 1800–1808) made this proposal in a bill he read in the

Senate after moving to postpone the House bill incorporating the Bank of Pennsylvania.

33. While the older banks financed principally merchants engaged in foreign trade, the customers of the Bank of Pennsylvania were described as chiefly retail shopkeepers. See Henry Adams, *The Writings of Albert Gallatin* (Philadelphia: Lippincott, 1879), I, 80. Thomas Leiper, the tobacconist, was dissatisfied with the accommodation he received at the Bank of the United States and transferred his business to the Bank of Pennsylvania, of which he became a director. Cf. a speech by James Lloyd, United States Senator from Massachusetts, *Annals of Congress*, XXII (11th Cong., 3d sess., Senate), 165.

34. *House Journal 1792–93*, pp. 142, 156–57; *Pennsylvania Statutes: Laws Passed 1792–93: Act of March 30, 1793*, chap. xxix, sec. xi; *Senate Journal 1793–94*, p. 44.

A select committee of the Senate noted in 1809: "The object of the legislature in the establishment of this bank was to promote the regular, permanent and successful operation of the finances of the state, so as to be productive of benefit to trade and industry in general" (*Senate Journal 1809–10*), p. 67. Henry Adams quotes Gallatin: "The apprehension that this (the surplus) would be squandered by the Legislature was the principal inducement for chartering the Bank of Pennsylvania" (*The Life of Albert Gallatin* [New York: Peter Smith, 1943], p. 86). *Gazette of the United States* (March 9, 1793) published the following rhyme of opposition:

"ANOTHER BANK

"The State, in cash 'tis said abounds,
To th' amount of many thousand pounds;
Snug in the banks the treasure lies—
A sure defence should dangers rise;
For while 'tis hid from public view,
It mocks the grasping, scheming crew;
But cunning now exerts its springs,
To give the dormant eagles wings;
Hence a new banking plan is form'd,
And soon the bolted vaults are storm'd,
On paper plumes they mount the air,
And fly—the Lord alone knows where;
Meantime the Sharks of speculation,
Laugh at the sages of the Nation!"

35. Stockholders' Minutes, Bank of North America, May 28, 1793; *Senate Journal 1809–10*, pp. 67–80. In Baltimore in 1795 a proposal to establish a new bank was also coupled with a clause providing for the consolidation of the Bank of Maryland with the new institution, if both parties consented. The clause was not accepted, and the Bank of Baltimore was chartered as an entirely separate institution. See A. C. Bryan, *History of State Banking in Maryland* (Baltimore: Johns Hopkins Press, 1899), pp. 20–21.

36. Directors' Minutes, June 2, 1794.

37. J. T. Holdsworth, *The First Bank of the United States* (Washington: Government Printing Office, 1910), p. 41; Directors' Minutes, Bank of North America, March 2, June 26, 1797; May 16, 1799.

38. Adam Seybert, *Statistical Annals* (Philadelphia: T. Dobson & Son, 1818), p. 60; "Minutes of Evidence . . . respecting the Orders in Council," *Parliamentary Papers, 1808*, X, No. 119, 2, 3, 9, 15, 35, 48, 143; Alexander Baring

Ashburton, *An Inquiry into the Causes and Consequences of the Orders in Council* (2d ed.; London: J. M. Richardson, 1808), p. 62.

39. *House Journal 1803–4,* p. 258; Stephen N. Winslow, *Biographies of Successful Philadelphia Merchants* (Philadelphia: James K. Simon, 1864), pp. 167–69; Abraham Ritter, *Philadelphia and Her Merchants* (Philadelphia, 1860), pp. 49, 70; *Observations on the Principles and Operation of Banking with Strictures on the Opposition to the Bank of Philadelphia by Anti-Monopoly* (Philadelphia, 1804).

40. Joel Cook, *The Philadelphia National Bank: A Century's Record, 1803–1903, by a Stockholder* (Philadelphia: W. H. Fell, 1903), p. 23.

An analogous situation developed in New York. For fifteen years the Bank of New York had no rival. When the Manhattan Company was incorporated, ostensibly to supply water to the City of New York but in reality to carry on a banking business, the directors of the Bank of New York at a special meeting on August 22, 1799, resolved not to accept its notes. The resolution was rescinded on April 15, 1800. See H. W. Domett, *A History of the Bank of New York* (New York: G. P. Putnam's Sons, 1884), pp. 57–58. The Bank of New York must have learned that an aggressor was no more immune to attack than its victim.

41. Cook, *op. cit.*, p. 30.

42. *Observations . . .* , p. 15. Because street money rates declined as bank loans increased, the author claimed that usurers were among the most violent opponents of the new bank.

43. In Baltimore the atmosphere was similarly hostile to the formation of the third city bank. The application of the Union Bank for a charter from Maryland in 1804 was bitterly opposed by the Bank of Maryland and the Bank of Baltimore. Bryan, *op. cit.*, pp. 23–24.

44. *House Journal 1812–13,* p. 193. The resolution, which was defeated, proposed either to sell the state's stockholdings in incorporated banks, the receipts to be lent to the federal government, or to transfer the stock to it on terms agreed upon.

45. *House Journal 1803–4,* pp. 67–68.

46. *Ibid.*, pp. 66–67.

47. *Ibid.*, pp. 83–84; *Senate Journal 1803–4,* pp. 52–53.

48. *Ibid.*, p. 71.

49. William Maclay, who served as United States senator from Pennsylvania, 1789–91, was Jeffersonian in outlook before the party came into existence. The Hamiltonian system was exceedingly distasteful to him, but his efforts to curb it were unsuccessful. A quotation from his diary, dated January 1, 1791, reveals his views on banks. "This day the Bank [of the United States] bill reported. It is totally in vain to oppose this bill. The only useful part I can act is to try to make it of some benefit to the public, which reaps none from the existing banks" (E. S. Maclay, ed., *The Journal of Maclay* [New York: A. & C. Boni, 1927], p. 353).

50. It added two supplements to each proposal: (*a*) to permit the state to subscribe $300,000, paying in at par 6 percent stock of the United States, then selling at a discount; (*b*) to lend the state not over $100,000, whenever required, for the term of its charter, at not more than 5 percent interest. It advanced the premium it was prepared to give under the fourth proposal (for an exchange of $500,000 of Philadelphia Bank stock for Bank of Pennsylvania stock) from $125,000 to $166,666.67 and guaranteed to pay within six months $100,000 above the par value of the Philadelphia Bank stock the state would thus acquire,

if the legislature should pass a law within one year relinquishing the stock. Moreover, it suggested that the state have the right to appoint directors in proportion to its stockholdings. See *House Journal 1803–4*, pp. 257–58; *Senate Journal 1803–4*, p. 273. (The state owned thirteen twenty-thirds of Bank of Pennsylvania stock but had power to appoint only six twenty-fifths of the directors. When the Philadelphia Bank was finally incorporated, the state owned three-thirteenths of its stock and was represented by three-elevenths of the directors.)

51. *House Journal 1803–4*, p. 252.

52. *Ibid.*, pp. 260–61. A bill embodying the measure proposed by the Bank of Pennsylvania was printed, without authority, to accompany the Maclay report, and distributed in handbills to members; see *ibid.*, pp. 348–52. This minor scandal was, however, suppressed.

53. *Senate Journal 1803–4*, p. 168.

54. *House Journal 1803–4*, pp. 285–87.

55. *Ibid.*, pp. 298–300, 304–5, 319.

56. *Ibid.*, p. 379; *Senate Journal 1803–4*, pp. 250–51.

57. *House Journal 1803–4*, pp. 387–88, 392, 396.

58. *Senate Journal 1803–4*, pp. 249, 257, 269–70.

59. *Ibid.*, pp. 272–74. The Bank of Pennsylvania would give the state and permit it to subscribe $200,000 at par. The state would make a profit of $120,000 by taking advantage of its right to subscribe a further sum of $300,000, in exchange for 6 percent United States stock at par. At the end of one year, if the state wanted to sell the stock, the bank would purchase it at a 40 percent increase in price. At the end of five years the state would also receive $120,000, the estimated excess of payments over par from the sale of $300,000 of unsubscribed stock.

60. With one addition, the conditions were the same as those the Maclay committee had reported and indorsed. The bank now further demanded the return of $200,000 of the state's stock, at par, should the legislature grant another charter for a bank before 1827; see *ibid.*, p. 274.

61. *Ibid.*, pp. 277–84, 287–89.

62. The notes of the private bank which Stephen Girard founded in Philadelphia in May, 1812, with a capital of $1,200,000, were at first refused by some banks, but opposition collapsed early in 1813. The chartered banks were possibly indignant that Girard had ceased paying out their notes, as had been his practice until his own were printed. Nonacceptance of his notes had a basis in law, as the Act of March 19, 1810, prohibited the issue of bank notes by unincorporated Pennsylvania banks. Government agents evidently did not initially accept them, but to Girard's subscription, exceeding $5 million, to the United States loan of 1813, there was a proviso that the private bank be placed on the same footing as chartered banks in Philadelphia. David Lenox, a trustee of Girard's bank, who was elected president of the Philadelphia Bank in January, 1813, is said to have been instrumental in arranging to have Girard's notes honored by the chartered bank. See Stephen Simpson, *Biography of Stephen Girard* (Philadelphia, 1832), p. 114; K. L. Brown, "Stephen Girard's Bank," *Pennsylvania Magazine of History and Biography*, LXVI, 36–42; Cook, *op. cit.*, pp. 55, 58.

63. From then on banks were controlled by and offered accommodation to others besides merchants in foreign trade. See *General Advertiser*, February 11, 12, 16, 1807, and February 3, 1808; James Robinson, *The Philadephia Directory for 1807*.

64. *House Journal 1807–8,* I, 194–95. The chairman of this committee was John Sergeant, whose legal talents were early enlisted in support of banks and commercial interests.

65. *Ibid.,* p. 197.

66. C. J. Bullock, J. H. Williams, and R. S. Tucker, "The Balance of Trade of the United States," *Review of Economic Statistics* (1919), I, 215–17.