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WALL STREET'S FIRST CORPORATE GOVERNANCE CRISIS: THE PANIC OF 1826

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ABSTRACT

In July of 1826, several prominent Wall Street firms abruptly went bankrupt, amid scandalous revelations of fraudulent financial practices by their management. Although mostly forgotten today, these events represented a watershed in the early development of the corporation laws and investor protections governing Wall Street: in the aftermath of the scandals, New York State enacted an extensive package of legislation designed to protect the interests of investors. These statutes were some of the the very first of their kind, and had a lasting influence. This paper analyzes the causes of the failures, and the evolution of the law in response. The analysis highlights the critical role played by scandal-driven legislation in the evolution of investor protections and financial regulations.

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1 Introduction

When the history of the panic of 2008 is written, its final chapters will likely describe a major restructuring of our legal and institutional framework for regulating financial firms. Innovations in lending practices, financial instruments, and investment vehicles that exploited defects in financial regulations are commonly cited as important causes of the crisis. In response, there have been calls for a new system of financial regulation, in order to prevent a recurrence of the practices that led to the crisis.[1] This suggests that the evolution of financial regulations is a game of cat and mouse: regulations are imposed, then firms innovate, and if the innovations result in failures or scandals the regulations are updated and the cycle begins anew. The Sarbanes-Oxley "Public Company Accounting Reform and Investor Protection Act of 2002," implemented in reaction to the revelations associated with the failures of firms such as Enron and Worldcom, might be seen as the outcome of an earlier round of the game.

It is tempting to think of this dynamic between financial innovations and regulatory responses as unique to our modern financial system, with its breathtaking sophistication and complexity. But this dynamic is an old one—probably as old as the country itself. In fact it is probably a better description of the earliest decades of the nineteenth century, which began with relatively little regulation of any kind, and saw dramatic innovations in the financial practices of corporations. The United States inherited only a rudimentary corporation law from England, and on crucial questions—from the rights of stockholders and creditors to financial disclosures and accounting practice—the law was initially slow to evolve and remained vague, or totally silent, well into the nineteenth century.[2] But in July of 1826, a momentous scandal occurred, which ultimately led the state of New York to implement an extensive series of changes to its corporation laws to safeguard the interests of the investors and creditors of Wall Street firms. These statutes were some of the very first of their kind, and influenced corporation law in other states. The scandals also led to numerous civil suits, and the decisions in some of these cases became significant precedents, including one which created the foundation for the shareholder derivative suit.

[1]At this writing, most research into the causes of the crisis and proposals for regulatory reform are still quite preliminary. But see, for example, Acharya and Richardson (2009) on "regulatory arbitrage" in the banking sector and measures that could be adopted to reduce this. Likewise the findings of Benmelech and Dlugoz (2009) highlight the potential role of ratings-based regulation of financial institutions in some of the practices that contributed to the crisis.

[2]See, for example, Dodd (1954: 195-98), Gower (1956), and Williston (1888: 166).

At the center of the scandal was the sudden failure in July of 1826 of six of the sixty-seven companies whose shares were traded on the New York Stock Exchange; over the ensuing months, another twelve NYSE firms would succumb.[3] Many of the firms that failed were new financial companies, whose shares had risen in value dramatically over 1824 and 1825. The founders of these firms were quite aggressive in their financial practices, and rejected the conservative mode of operation of many of the older New York City banks. These men borrowed tremendous sums, acquired firms through what would now be called hostile takeovers, and formed pyramid-like networks of companies, whose resources they often utilized for their own benefit, rather than the other shareholders'. In a market downturn that began in late 1825, the value of their assets fell precipitously, and they resorted to fraudulent transactions among the companies they controlled to try to keep them afloat. Ultimately the investors and creditors of these firms lost millions.

Once exposed, the conduct of the managers of these firms shocked the public, and threatened to erode confidence in the markets, and in the governance of all financial corporations. Newspaper editorialists wrote of a "most extensive, bold, well-combined, and far reaching system of deception" among the directors of many companies, and expressed concern that the prosperity of the city would suffer if measures were not taken to prevent a recurrence of the scandals.[4] Populist anger at what was perceived as widespread "swindling" produced cries for criminal investigations, to punish the "coldly calculating scoundrels" and clear away "the feculence of Wall Street."[5] The district attorney of New York City quickly obtained a series of indictments against the directors of many of the failed companies for conspiracy, and the subsequent trials captivated the attention of the city for months.

But these prosecutions were mostly unsuccessful, and the scandals of 1826 confronted the political leadership of the State of New York with the realization that the laws and institutions in place to protect the stockholders of corporations were no match for the practices developed by some of the more aggressive financial firms. One might term the events of 1826 a corporate governance crisis, and in response a consensus quickly emerged that "laws must be made that will reach such

[3] Upon its formal founding in 1817, the New York Stock Exchange was known as the "New York Stock and Exchange Board"; its name was shortened in 1863.

[4] *New-York American,* 14 August 1826.

[5] *Niles' Register*, 12 August 1826 and 29 July 1826; and *Evening Post*, 25 July 1826. At the time, *Niles' Register* was among the most influential periodicals in the United States.

cases."[6] In the next legislative session, the state adopted a sweeping package of legislation designed to improve the governance of corporations by prohibiting the manipulations brought to light in the scandals, and introduced financial reporting requirements, rules governing the election of directors and regulations of the acceptable forms for capital contributions, and new legal responsibilities for directors. In addition, the jurisdiction of some of the state's courts was changed to make it easier for aggrieved stockholders and creditors to pursue their claims, and to enable the state to enforce its laws more effectively. In a reflection of the outrage provoked by the scandals, some of the new measures imposed on corporate directors were quite onerous, and were later rolled back when it became clear that they might stifle economic growth.

This paper analyzes the failures that became the focus of the "conspiracy trials" of 1826, and the evolution of the law in response. Using newly-collected data on the ownership structures of New York's publicly-traded corporations, which were matched to securities price data from NYSE trading, I document the extent of the collapse in 1826, and analyze determinants of the failures.[7] I then trace out the evolution of the law in response to the scandals, including the statutory reforms implemented by the state and the case law that emerged from the copious civil litigation initiated by stockholders, and examine the relationship between these legal changes and the determinants of the failures.

The ownership data was collected from the reports filed pursuant to New York State's capital tax, which were matched to lists of corporate directors obtained from contemporary newspapers.[8] The analysis of these data reveals that the directors of some NYSE firms controlled blocks of shares in their companies that were large enough to give them a majority of the votes. But more importantly, some of the shares voted by the directors were actually treasury shares, often purchased by the company from their own subscriptions. These shares, coupled with the blocks of stock held through other corporations they controlled, created an incentive problem familiar today: the control rights of directors often substantially exceeded their true ownership stakes.[9] Unaccountable to the

[6] *Niles' Register*, 14 October 1826.

[7] The securities price data, reported as a percentage of par value, are collected in Sylla, Wilson and Wright (2005) from contemporary newspapers. No volume data are available for this period.

[8] The capital tax of 1823-28 required all operating business corporations to submit a list of their stockholders to the state's comptroller, so that the revenues could be distributed to the counties where the stockholders resided. Many of these reports survive in the New York State Archives.

[9] See, for example, LaPorta et al (1999). The significance of this problem was observed by Berle and Means (1932), who called it the "separation of ownership from control."

other shareholders, these directors used their firms' resources to make investments that benefitted themselves, or other companies they controlled. In the data, the extent to which the directors' control rights exceeded their ownership is strongly correlated with firm failure. And many of the legal reforms implemented in 1827 were intended to prevent directors from creating such ownership arrangements.

The banking panics of the nineteenth century have been the focus of considerable scholarship.[10] But there has been relatively little research into the events of 1826, which are mostly forgotten today.[11] In part, this is likely due to the fact that these events did not constitute a classic banking crisis. Like the panic of 1907, which originated among trust companies, the crisis in 1826 began outside the official banking sector, with insurance corporations.[12] Although devastating to the stock market, the events of 1826 did not destabilize the banking system, possibly because of the efforts of the Second Bank of the United States to aid New York City's banks.[13] Works of financial history have therefore generally not analyzed them in much detail.[14]

The history and evolution of the law has attracted renewed interest by economists, in part because of the relationship that has been found between the historical origins and modern performance of legal systems across countries.[15] Several recent contributions to this literature have begun to develop a positive theory of the evolution of common law, and have analyzed the relationship between statute law and judicial lawmaking.[16] This paper compliments those works by analyzing an important episode in the evolution and Americanization of the corporation law that prevails here.[17] As Angell and Ames noted in 1832, "the statute books of many states will show that an

[10] See Calomiris and Gorton (2000), Friedman and Schwartz (1963), Kindleberger (1996), and Rockoff (2000).

[11] Three exceptions are Riesman's (1989) analysis of the politics of the scandals; Wright's (1997) study of banks and politics in New York, which provides a detailed account of one of the criminal trials that followed; and Govan's (1959) biography of Nicholas Biddle, which mentions some of the failures. A companion paper, Hilt (2009), describes in detail the operations of the most prominent company that failed, Life and Fire Insurance.

[12] On the panic of 1907, see Moen and Tallman (1992), and Odell and Weidenmeir (2004).

[13] Although the Second Bank of the U.S. did act somewhat like a lender of last resort in this context, it did not generally fulfill the role of a true central bank. See Temin (1969).

[14] For example, important banking histories, such as Bodenhorn (2003), Hammond (1957) or Van Fenstermaker (1965), mostly do not discuss these events. Likewise, histories of financial crises, such as Kindelberger (1996) and Chancellor (2000), and histories of the Second Bank of the U.S., such as Catterall (1903) and Temin (1969), discuss the panic of 1825 in Britain, which precipitated the crisis in the U.S., but do not discuss the events analyzed in this paper.

[15] For an overview of this literature, see La Porta, et al. (2008), and the references cited therein.

[16] On the evolution of common law, see Gennaioli and Shleifer (2007). On the relationship with statute law, see Ponzetto and Fernandez (2008), and Glaeser and Shleifer (2003).

[17] Some British commentators would mock the "infinity of regulations for the prevention of fraud" adopted by the American states, believing their own system of simply denying limited liability and corporate privileges to most financial companies to be superior (McCulloch, 1836: 435). For comparative perspectives on the development of

opinion has strongly and extensively prevailed that the common law relative to commercial corporations is not adequate to their proper regulation and government."[18] The events described in this paper were responsible for some of the statutes noted by Angell and Ames, and led the courts, through their much slower process, to innovate as well.

2 Historical context: corporation law and securities markets

In contrast to other areas of the law, the United States did not inherit a well-developed set of legal precedents relating to business corporations from England.[19] The growing use of the corporate form in the American states led to the development of an indigenous corporation law, as courts took up questions regarding the rights of these organizations and their stockholders and creditors, and as the states sought to regulate the enterprises they incorporated. But the development of corporation law was gradual, whereas the proliferation of business corporations was quite rapid.

2.1 Early New York corporation law

In the early decades of the nineteenth century, the states began to incorporate unprecedented numbers of businesses. By the 1820s, thousands of American businesses corporations had been created, and a small but growing number of these firms had publicly traded equity shares.[20] The growing use of the corporate form was particularly pronounced in New York, which incorporated more business than any other state in the years up through 1830. The cumulative total of New York incorporations over this period is illustrated in figure 1. The state went from having only one bank, one manufacturing corporation, and no insurance corporations in 1791 to having incorporated more than 1,000 businesses in 1830, including 150 financial companies.

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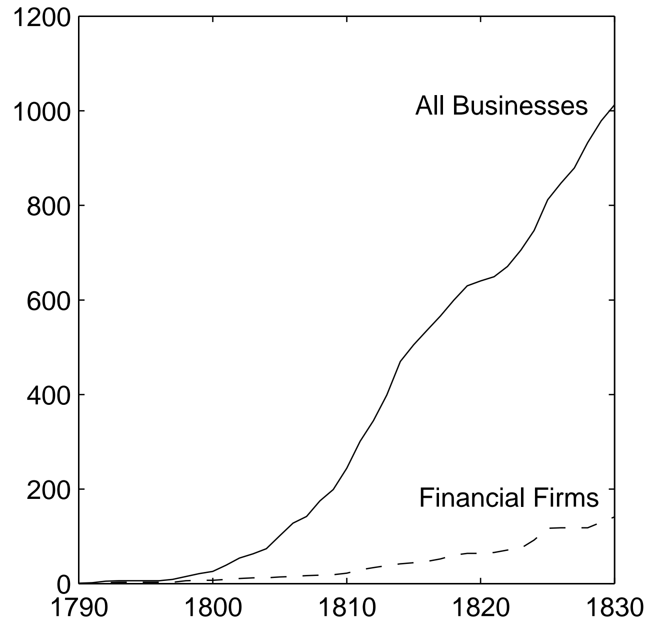
the corporation generally, see, for example, North, Wallis and Weingast (2009), Gower (1956), and Lamoreaux and Rosenthal (2005).

[18] p. 357. Angell and Ames's volume was the first American treatise on the law of corporations.

[19] See, for example, Dodd (1954), Gower (1956) and Hurst (1970). Harris (2000: 117-18) notes that many fundamental questions relating to the rights of stockholders in corporations were not adjudicated by English courts until the 1820s. As many have pointed out, a striking illustration of the state of English corporation law at the end of the eighteenth century is found in Kyd's *Treatise on the Law of Corporations,* which is concerned almost exclusively with charitable and municipal corporations (Kyd 1793). Likewise Blackstone's *Commentaries* includes relatively few details on corporations (Blackstone 1791).

[20] The total number of business incorporations in the United States for any year after 1800 is not known, but the data in Davis (1917), Evans, (1948) and Kessler (1948) indicate that well in excess of two thousand businesses were chartered through 1825 in the large but incomplete group of states covered by those volumes. Rousseau and Sylla (2005) analyze the early development of American securities markets.

Figure 1:
Cumulative Incorporations of Businesses in New York, 1790-1830



Source: Author's calculations from New York *Laws,* 1790-1830, and New York Comptroller's records, New York State Archives. *Note:* Totals include incorporations through New York's 1811 general incorporation act for manufacturing firms. "Financial firms" includes banks, insurance companies, and a very small number of loan companies. New York granted one business charter prior to 1790, to the Bank of North America (1782), but the bank never operated under that charter.

These businesses quickly began to innovate in their financial practices and organization, and on many crucial questions relating to the rights of stockholders and creditors, the law was slow to keep pace. For example, no New York statute or reported case before the 1820s addressed the voting rights of pledged or "hypothecated" shares, of recently transferred shares, or of treasury shares; the question of what constitutes a quorum at shareholders or directors meetings; or voting by proxy. And although the courts recognized that fiduciary law law applied to corporate directors, attempts by minority shareholders to hold directors accountable for misconduct—what we now know of as the stockholder derivative suit—had never been pursued successfully.[21]

There were few statutes intended to protect stockholders or creditors. In general, the legislature had been reluctant to intervene in the internal affairs of corporations, and legislation proposed to define or protect the rights of stockholders was usually rejected.[22] In this era of "special charters"

[21]New York's Chancellor stated that fiduciary law applied to directors in *Attorney General v. Utica Insurance Co.*, 2 Johns Ch. 371 (N.Y. 1817). However, as Dodd (1954: 71) notes, "no court of equity between 1800 and 1830 seems to have had occasion to give relief against corporate directors on the ground that they had violated their fiduciary duties."

[22]For example, a proposal in early 1826 to grant investors holding at least 1% of a corporation's shares the right

granted to corporations, whatever legally enforceable rights were available to shareholders were mostly those specified within the charters themselves, which varied widely across firms. There were no general financial reporting requirements, accounting standards, or statutes regulating capital contributions or financial practices. The state did, of course, impose some regulations on politically sensitive industries, such as banking. But an early attempt by the attorney general to enforce a banking statute by seeking an injunction against a corporation that flouted the law was rejected by the chancellor, who held that the court of chancery did not have the requisite jurisdiction over business corporations.[23] Thus the few statutes in place could not be enforced with injunctions.[24]

Rather than law, traditions and norms probably dictated most of the procedures that were followed in the governance and operations of business corporations. But the 1820s saw the emergence of a new generation of entrepreneurs whose aggressive financial practices departed from these norms and traditions. These entrepreneurs' efforts were aided by a boom in the stock market in the middle of the decade.

2.2 The stock market boom of 1824-25

After experiencing a traumatic banking crisis in 1819, the early 1820s saw interest rates fall to historically low levels in the United States.[25] A rage for shares in new financial companies swept over Wall Street in 1824 and 1825. The boom in New York's securities markets was at least partially stimulated by events in England, which experienced something of a speculative mania in the shares of new companies in those years. In total, some 624 English companies were floated in 1824 and

to fully inspect all the books and property of that business, and to make hypothecated stock ineligible to vote, was rejected in the New York Assembly, 60 to 26, as one legislator remarked that "it was as well to let the Wall-street folks shave in their own way, without legislative interference." New York *Commercial Advertiser,* 15 February 1826. Hurst (1970) concludes that more legislative "attention was directed to the external than to the internal or close relations of business corporations" (p. 48).

[23]More precisely, the court held that it did not have visitorial jurisdiction over business corporations—that is, it could not inquire into their conduct or act to supervise or control them in order to prevent abuses. *Attorney General v. Utica Insurance Co.*, 2 Johns. Ch. Rep. 371 (N.Y. 1817). An injunction is an equitable remedy, meaning that it could only be granted by courts of equity (chancery courts); law courts did not have that power. Over the nineteenth century, states without chancery courts granted equity jurisdiction to their law courts by statute. See, for example, Curran (1951).

[24]The advantage of injunctions is that they can forbid or compel specific acts—in the case of a corporation suspected of fraud, for example, an injunction could be used to halt their operations. On equity jurisdiction over corporations, see Pound (1936).

[25]On the panic of 1819, see Rothbard (1956). Homer and Sylla (1996) document that yields on federal government debt fell from 5.9% in 1819 to 4.25% in 1824.

1825; at the time, there were 156 joint-stock companies in existence there.[26]

During those years, New York's legislature was overwhelmed with petitions for charters of incorporation for financial companies. At the commencement of the 1825 legislative session, 146 such petitions awaited the Assembly and Senate, which collectively would have created firms with a total capital of $52 million.[27] (At the time, the total capital of all operating corporations with financial powers was less than $40 million). Although the incorporated banks in the state effectively opposed most efforts to create new banks, the legislature did grant charters to seven new banks in 1824 and 1825. More dramatic was the number of insurance corporations created. In 1824 and 1825, New York chartered 30 insurance companies, and another five "lombard" or loan companies. Because they did grant the legal authority to issue banknotes, bills to incorporate insurance companies were less politically contentious. But insurance firms did have the power to lend, and aggressive entrepreneurs who could not obtain bank charters often sought insurance charters so that they could operate these firms as quasi-banks.[28]

Figure 2 presents these new financial incorporations in their historical context. Total annual incorporations generally rose over time, accelerating in the years of the War of 1812, and briefly collapsing in the years after the Panic of 1819. The annual number of financial incorporations increased following the expiration of the charter of the Bank of the United States in 1811, and then accelerated in the 1820s, in spite of efforts to curtail the rate at which these corporations were created.[29] The years 1824 and 1825 saw an unprecedented surge in financial incorporations. This was due both to the increase in demand for charters, but also to a political shift in the legislature, which became somewhat more willing to grant financial charters.[30] As a result of the scandals that

[26]See English (1827: 31). A booming market for Latin American debt securities in London preceded this surge in the market for shares in English companies; see Dawson (1990). The British speculative mania of 1825 is analyzed in great detail by Hunt (1936). On the role of the Bank of England, see Neal (1998).

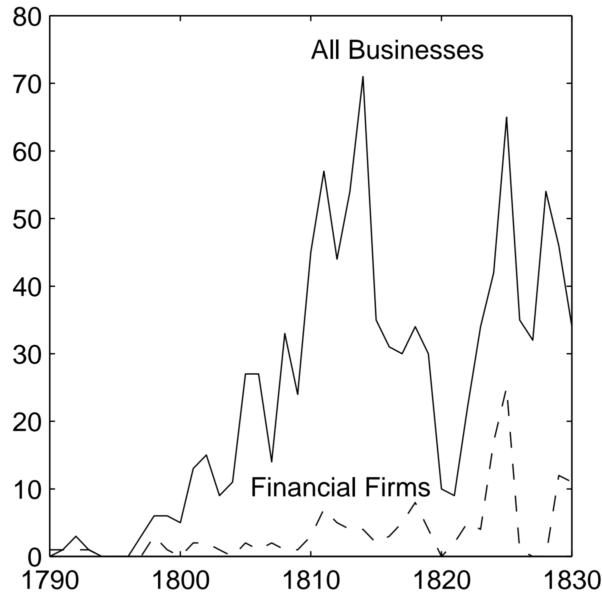
[27]*Shipping and Commercial List*, 2 February 1825.

[28]At the time, there was no government-issued paper money, and the issuance of banknotes was a lucrative practice by banks. On the politics of bank chartering, see Bodenhorn (2006), Hammond (1957), and Wright (1997). Hilt (2009) presents the history of the efforts to use insurance charters to circumvent New York's banking laws.

[29]Article 7, section 9 of the New York Constitution of 1821 imposed the requirement of a two-thirds majority for grants of charters. Kent (1826) laments that this measure "failed to mitigate the evil" of the proliferation of corporations, among which financial corporations were the most controversial. Incorporation in manufacturing was facilitated by the state's 1811 general incorporation act for manufacturing companies. On the use of this act, see Kessler (1940).

[30]The "People's Party," whose backers included many businessmen hoping for corporate charters, won many seats from the Albany Regency (the dominant faction of the New York Republican Party) in 1824. See Hanyan (1996). Opponents of the People's Party claimed that it sent "a body of men unaccustomed to legislation, and filled with crude and speculative schemes" into office after winning the election of 1824 (*New-York Enquirer*, 6 November 1826).

Figure 2:
Annual Incorporations of Businesses in New York, 1790-1830



Source: Author's calculations from New York *Laws,* 1790-1830, and New York Comptroller's records, New York State Archives. *Note:* "Financial firms" includes banks, insurance companies, and a small number of loan companies, which like insurance companies had the power to lend, but did not have the power to issues banknotes.

followed, 1826 and 1827 saw a collapse in financial incorporations.

The first half of 1825 saw the peak of the mania, and the subscription books for new financial companies were opened to overwhelming responses.[31] The demand for new issues was so intense that riots broke out in front of subscription offices, as investors scrambled to add their names.[32] Noting the credulous attitudes of investors toward the new companies, *Niles' Register* observed, "it is strange that no sort of madness can break out in England, without affecting us in the United States. ... *Now* we have it in stock companies. *There will be a smash*—equal to that caused by the blowing up of the banks some time ago."[33] The predicted "smash" did indeed arrive, later that year.

It began in England. In the middle of 1825, the Bank of England began what was effectively a

[31]The "New York Water Works," a firm with a plan to lobby the legislature to obtain banking powers, received orders for shares totaling more than nine million dollars, whereas its capital stock was limited to one and a half million (*Niles' Register,* 22 April 1825). Niles also reported that the New York Dry Dock company, a firm that would later successfully lobby to obtain banking powers, received subscriptions for more than 2 million dollars for its $700,000 capital stock (4 June 1825), and the Commercial Bank of Albany received subscriptions of $1,500,000 for its $300,000 in shares (11 June 1825).

[32]*Niles' Register,* 7 May 1825.

[33]7 May, 1825. Italics in original.

monetary contraction, and in December, several private banks failed, triggering a general collapse in English share prices, and ultimately a deep financial crisis.[34] With many American merchants and banks, especially those in New York, maintaining close financial ties to their counterparts in Britain, the panic there created tighter monetary conditions here in late 1825 and early 1826. A related mechanism which triggered the crisis in England and New York was a collapse in cotton prices. A rapid increase in the price of this commodity—America's largest export—in late 1824 was followed by a collapse in mid-1825, causing financial ruin among many merchants who lent to finance the cotton trade.[35]

There was no generalized banking crisis in the United States, however, at least in part because the Second Bank of the United States worked assiduously with its New York branch to provide credit to the banking community there.[36] Although some small country banks in upstate New York, New Jersey, and Connecticut either failed or suspended payment on their notes in late 1825, in general New York's banking system withstood the pressures of that year reasonably well.[37] The tighter financial conditions in New York did, however, end the period of "wild and exaggerated speculation" in New York's financial markets, which had further repercussions.[38]

Figure 3 illustrates the total market value of the equity of New York corporations traded on the New York Stock Exchange from 1817, the year it was officially organized, through 1830. The upper panel of the figure shows that total market values increased dramatically from early 1824 up until it reached a peak in mid-1825, rising 60% over this period. This increase in value was driven almost entirely by the addition of new companies to the market, and the rising value of those

[34] At the time, the Bank of England did not function as a true central bank, and it effected this contraction out of concerns over its falling gold reserves, and with little regard for the consequences for the British financial system. See Neal (1998).

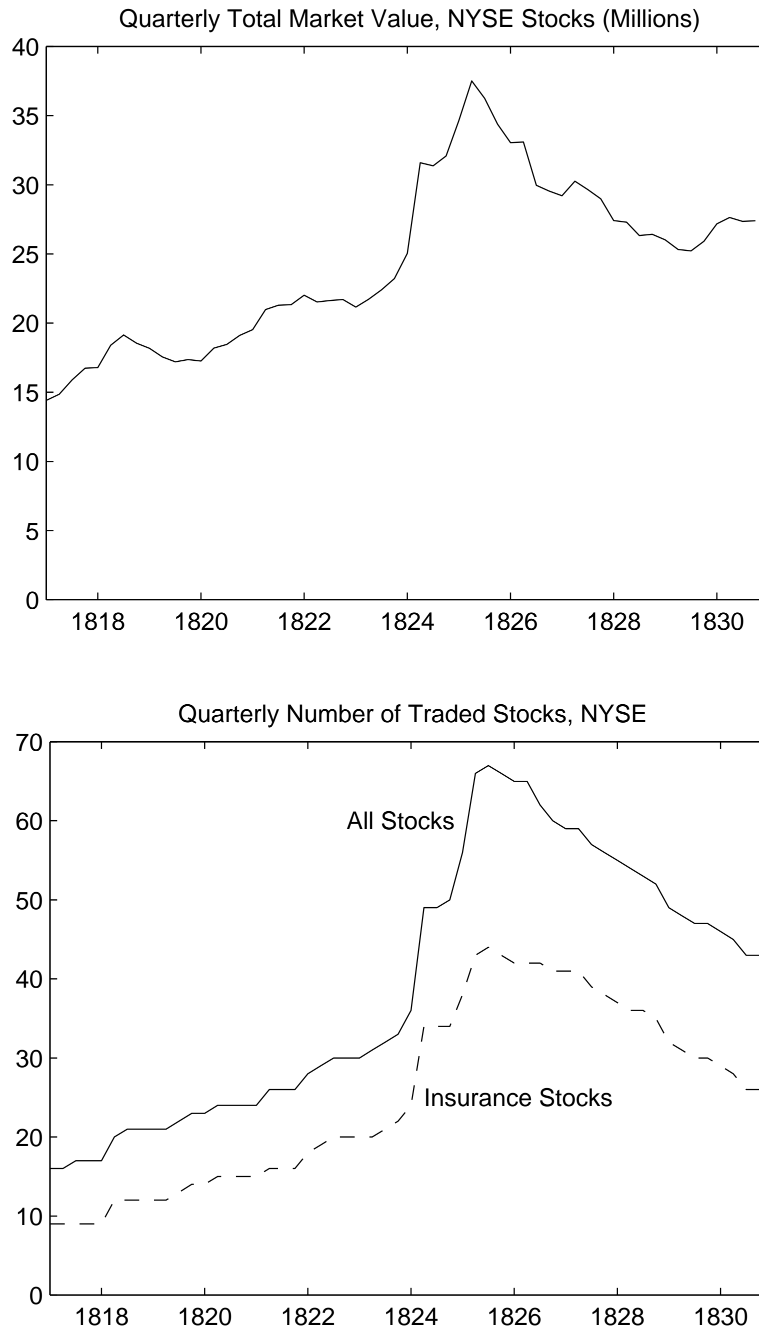
[35] The price of upland cotton in New York rose from around $0.15/lb. in late 1824 to around $0.25/lb. in mid-1825, and subsequently collapsed to about $0.15/lb. again by early 1826 (data in Cole, 1938). One of the directors of the New York branch of the Bank of the United States noted, "many ... are brought to the verge of ruin by the purchase of bills drawn by Cotton shippers" (Robert Lenox to Nicholas Biddle, 9 November 1825, Nicholas Biddle Papers).

[36] The correspondence between Nicholas Biddle, President of the SBUS, and Robert Lenox, throughout 1825 reveals that Biddle monitored financial conditions in New York quite carefully, and in response to the pressure from Britain shifted resources to the New York branch, and increased the bank's loans in that city. See, for example, correspondence with Lenox on 7, 8, and 23 December, 1825 (Nicholas Biddle Papers, Library of Congress Microfilm). Biddle maintained later that his actions saved the nation from serious losses; see Catterall (1903). The *New York American* commended the Bank of the U.S. for its conduct during the crisis (27 October 1826). However, as Temin (1969) argues, the Second Bank of the U.S. in general did not perform the role of a true central bank, because its efforts to discipline the note issuance of state banks limited its ability to increase the supply of liquid assets in crises.

[37] *Niles' Register* mentions the failure of the Eagle Bank of New Haven in October, 1825, the Lombard and Derby banks of New Jersey in November, and the Banks of Niagra and Plattsburg in December.

[38] This is the characterization of Nicholas Biddle. Biddle to Isaac Lawrence, 12 May 1825 (Nicholas Biddle Papers).

Figure 3:
NYSE, 1817-1830: Market Value and Number of Traded Stocks



Note: Top: Author's calculations of market value (number of paid-in shares × par value × market price, in % of par value) for all New York corporations traded on the New York Stock & Exchange Board. Only corporations where transactions were recorded in two or more quarters were included. Because many shares traded infrequently, the average value over each quarter is used (rather than end-of-quarter data, which would be missing for many quarters for some companies.) The number of paid-in shares is taken from the records of the New York Comptroller, New York State Archives, Albany NY. The par value of the shares is from the corporate charters, in New York's *Laws,* 1790-1830. Finally, the market prices, expressed as a percentage of par value, are from Sylla, Wilson and Wright (2005). Bottom: number of stocks, and insurance stocks, used in the market value calculations in the upper figure.

new companies' shares, rather than through appreciations of the shares of existing companies.[39] The figure then shows a consistent fall in market values that continued through 1829. The lower part of the figure illustrates the importance of newly-listed companies, and in particular insurance companies, for both the upward and downward movements in the market. The increase in the number of insurance companies accounted for about two-thirds of the total increase in traded stocks from 1824 through 1825. Then over the subsequent years, the number of traded stocks fell again, and much of this decline was driven by the disappearance of insurance firms.

Most of the firms that stopped trading were liquidated after suffering heavy losses. In some cases, particularly for firms with large amounts of liquid liabilities, their failures occurred quite quickly, and their shares abruptly halted trading. In other cases, firms continued to operate for some time, and as investors learned of the true condition of their finances, their shares fell in value. Appendix table A1 (at the end of the paper) lists the New York companies whose shares were traded on the NYSE at the time, and identifies the firms that failed.

3 The finances and failures of the new firms

Some of the men who founded the new financial companies of the 1820s were wealthy and politically prominent merchants, but others were stock brokers or speculators, including some of "doubtful means."[40] Together, they represented a new generation of financiers, and they broke with established practices in the financing of their companies.

3.1 Innovations in financial practice

When a new financial company was formed, it was accepted practice for stockholders to borrow some portion of the value of their subscriptions from the company after the shares were paid in. These loans were known as "stock notes," and were relatively common among banks and insurance companies.[41] The men who founded the new financial companies of the 1820s exploited this form of

[39] The total value of companies chartered prior to 1823 rose about 8% in total over 1824 and 1825.

[40] *New York American*, 14 August 1826. Among the wealthy merchants were Henry Eckford and Alfred Pell, who were taxed at $100,000 or above in 1828, placing them among the sixty wealthiest people in New York City at the time. (Tax data from Pessen, 1973). Eckford and Pell were leading members of one faction of New York's Republican party, and Pell won election to the State Assembly (Hanyan 1996). But neither was ever influential enough to obtain bank charters.

[41] Hammond (1957) describes this practice among early banks, and notes that even the federal government's investment in the Bank of the United States was lent back in this way (p. 123). See also Bodenhorn (2003), Knodell

lending to acquire and maintain total control over their firms. They would subscribe to a majority of the shares, and pay for them with loans from other institutions.[42] At the first shareholders' meeting, they would then vote themselves into office as directors. This would give them control over the firm's resources, and once in office they would simply lend themselves back the amount of their investment, and repay the initial loan.[43] Critics of these firms would later argue that this was an era of banking on stock notes, rather than sound capital.[44] In some cases, these stock notes were ultimately cancelled by returning the shares to the company. But the directors typically then placed the shares in a trust for the company and named themselves or their allies trustees, or held them in the name of the president of the company. In either case, they continued to vote the shares.[45]

Once they commenced operations, many of the new firms functioned as quasi-banks. Indeed, some were founded simply to enable merchants who could not obtain a bank charter to enter the lucrative banking industry. Several of the new insurance corporations made short-term loans by issuing securities that were similar to banknotes, known at the time as "bonds."[46] Some of the insurance companies created in 1824 and 1825 issued large amounts of these instruments to finance loans to speculators, and were unable to redeem them when the stock market collapsed and their loans became worthless. In this sense, the collapse of some of these firms follows the familiar pattern of banking crises, where excessive issuance of notes by undercapitalized institutions ultimately lead to failure.

But the conduct of the directors of the new financial companies was innovative and perhaps even unprecedented in other respects. Securities trading on Wall Street had become quite sophisticated,

(2006), and Lamoreaux (1994).

[42] In the context of a booming market for these securities, the price of the shares would be expected to rise above the (par) value that was paid for them, so loans of this kind could be readily obtained.

[43] An example of this practice, as utilized by the directors of the Mohawk Insurance Company at its founding in 1824, is described in detail in *Nathan v. Whitlock,* 9 Paige 152 (N.Y. 1841). Testimony at the criminal trial of the directors of the U.S. Lombard Association, as reported in the *Evening Post*, 22 December 1826, indicated that similar practices were followed in the founding of that firm.

[44] Flagg (1868: 4). Allegations of banking on "fictitious capital" were nothing new; Thomas Jefferson had written that "three fourths" of the capital of the banks was fictitious at the time of the panic of 1819 (Letter to Richard Rush, 22 June 1819, in Ford (ed.) (1905). The uses to which these financing techniques were put in the 1820s is what made those years different.

[45] Voting such shares was later held to be illegal (Ex parte *Holmes* 5 Cow 426 (NY Sup. Ct. 1826)), but this practice seems to have been common nonetheless.

[46] These instruments are best characterized as post notes, and unlike banknotes, which were payable on demand in specie, they were payable to order at some future date. Hilt (2009) analyzes the use of these instruments, and presents a description of the transactions by which they were issued. The history of the post note is described in Redlich (1944).

and these brokers and merchants used the ample credit available in securities markets to purchase large blocks of stock in firms, often resulting in bitter contests for control.[47] Critics of these men bemoaned what they saw as the takeover of financial firms by speculators: "sundry *stock brokers*...backed by their wealthy *friends*, have long itched to get the ascendancy over our moneyed institutions; and having selected the company in question, commenced putting the "*screws*" to the directors."[48] Once they held a majority of the shares in a corporation, they would vote for themselves, along with men who could be trusted not to interfere with their plans, as directors. And once control over a corporation's resources was obtained, it could then be used as collateral to borrow in order to finance additional acquisitions.[49] Through such transactions, groups of speculators were able to obtain control, or at least significant influence, in relatively large numbers of corporations.

Figure 4 depicts the holdings of four prominent investors, and the companies they controlled.[50] With large or majority stakes ensuring that their control would be difficult or impossible to contest, these men utilized the firms' resources for their own benefit, and "sacrificed the interest and property of the [other] stockholders."[51] Consider their acquisition of the stake in City Bank, one of the largest banks in New York City. In this audacious transaction, they purchased 16,000 (64%) of City Bank's shares, using $80,000 of N.Y. Coal's assets as payment, which amounted to 10% of the par value of the shares purchased. They borrowed the remaining amount, approximately $760,000, with the City Bank shares as collateral. The City Bank shares, and the debt for the the balance of the cost of the purchase, stood on the books of New York Coal. But since they controlled the majority of the shares of New York Coal, three of them voted themselves directors of City Bank. In late 1825 and early 1826, the price of City Bank stock began to fall, and the shares eventually had to be sold

[47]Two such cases produced significant litigation, because the incumbent directors used illegal tactics to disqualify the shares held by the speculators from voting. One such case involved the North River Bank of New York City (*People* ex rel. *Barker v. Kip,* 4 Cow. 382 (N.Y. Sup. Ct. 1822)), and the other involved Frankin Insurance (*People* ex rel. *Israel v. Tibbets,* 4 Cow. 358 (N.Y. Sup. Ct. 1825)). On trading in securities markets in the early-nineteenth century, see Werner and Smith (1991), Banner (1998), and Wright (2002).

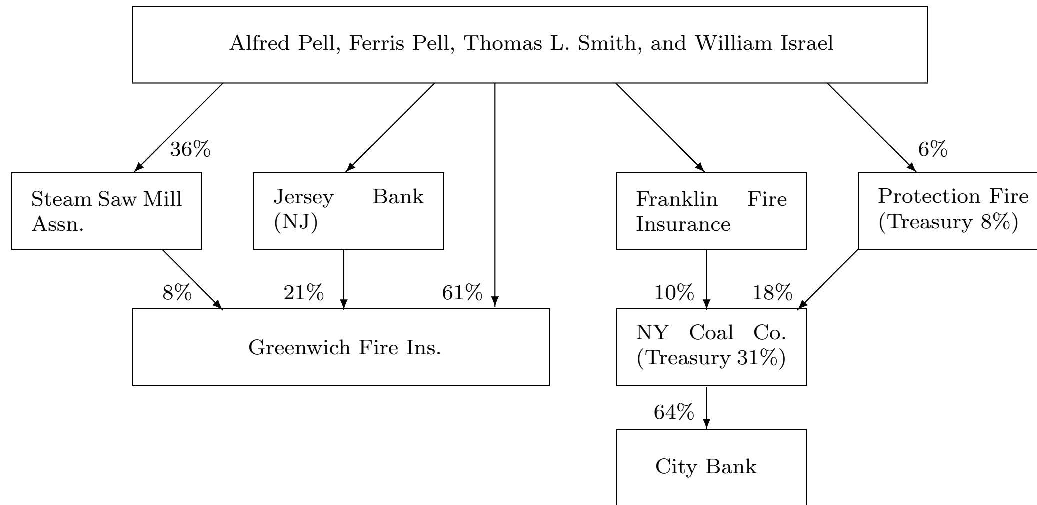
[48]*New-York National Advocate*, 22 January 1825. The editor of this paper, Mordecai M. Noah, labelled one group of speculators the "Screw Party," for putting the screws on directors in this way.

[49]These transactions resembled the process of acquisitions that would later be used to create "chain banking" structures in the early twentieth century. See, for example, Bruner and Carr (2007) and Tallman and Moen (1990). This is also quite similar to the "double gearing" between Japanese banks and insurance companies described by Hoshi and Kayshap (2004:16), wherein banks raise capital by selling securities to insurance companies, but then use the capital to buy securities from insurance companies, producing an increase in reported capital for both firms.

[50]A few additional cross holdings of less than 5% ownership are not depicted in the figure.

[51]Bill of complaint, 5 August 1826, *Robinson v. Smith,* New York County Clerk's Office, ref. R911. This suit was initiated by the stockholders of New York Coal against the directors of the firm in August 1826.

Figure 4:
Ownership Stakes, Four Investors



Note: At least one of the four men held a directorship in all of the companies in the figure, and contemporary journalists characterized the banks and insurance companies as under their control. No stockholder list could be found for Franklin Fire Insurance or Jersey Bank.

to repay the loan. The stockholders of New York Coal lost about $50,000 on the transaction.[52]

The controlling investors also moved assets among their various companies to suit their needs, in exchanges that were often hostile to the interests of the other stockholders of the firms. For example, beginning in late 1825, when a severe contraction in credit markets began, Jersey Bank's finances came under pressure. In an effort to keep this firm afloat, the controlling investors exchanged some of the assets of their healthier companies for assets of Jersey Bank that were of dubious value. They exchanged $40,000 worth of the assets of the Steam Saw Mill Association for shares of stock owned by the Jersey Bank, "for the purpose of sustaining Jersey Bank and its credit."[53] In the exchange, the shares of stock were valued at par, when their market prices were far below that.

Other groups of investors formed networks of stakes in corporations similar to the one depicted in figure 4, including some with larger numbers of firms.[54] Critics and political opponents of

[52]Bill of complaint, 5 August 1826, *Robinson v. Smith,* New York County Clerk's Office, ref. R911. The total authorized capital of New York Coal was $200,000.

[53]Bill of complaint, 29 November 1825, *Smith v. Pell*, New York County Clerk's Office, ref. S-1788. This suit was brought by the stockholders of the Steam Saw Mill Association against the directors of the firm. The total authorized capital of Steam Saw Mill was $50,000.

[54]Stock ownership records and contemporary accounts by journalists indicate that Henry Eckford and a few other investors held direct or indirect stakes in about eight companies, and a number of additional companies were controlled by investors who may have been operating in concert with Eckford. See, especially, the *New-York Enquirer,* 11 July 1826.

these men feared the power that could be wielded through control of large numbers of financial institutions, and suspected an attempt to take over the Second Bank of the United States was planned.[55] But the pressures of the collapse in the market in late 1825 and early 1826 ultimately proved insurmountable for these investors. In some cases, extraordinarily complex transactions among multiple companies were conducted in order to come to the aid of failing corporations within these investors' ownership networks.[56] Journalists would later comment on the "endless shifting of patches, to cover defects and supply deficiencies."[57]

Well before these companies actually failed, rumors of fraud among some financial financial firms spread on Wall Street. Some investors demanded to have the books of the companies that were the subject of the rumors exhibited publicly. But the directors of these firms, who included several wealthy and respected men, simply denounced the rumors as baseless and attacked the credibility of the men responsible for spreading them.[58] The charters of most of these firms did not obligate the directors to produce financial statements, and no other law required them to do so, so they simply refused. Some of these directors offered assurances of the strong and improving state of their companies' finances, in some cases until days just prior to their failure.[59]

The month of July of 1826 saw a sudden rash of failures; Appendix table A2 presents a timeline of the events of that month. The proximate cause of these collapses was a series of runs on the three banks at the center of some of the networks of companies, as depositors panicked over revelations about the financial ties between these banks and other institutions.[60] Once these banks stopped payment, the most vulnerable of the other companies failed in scenes that involved crowds of

[55] A character in the anonymous satirical play, *Wall-Street As It Now Is* (1826), describes a plan to get control of "the nation's bank, the nation's mint and then the nation's treasury." Nicholas Biddle, president of the Bank of the United States, made inquiries into the potential threat to control of the bank, although he ultimately concluded "I do not think that the Bank has anything to apprehend" (14 July 1826, Nicholas Biddle Papers, Library of Congress Microfilm). See also Govan (1959).

[56] Hilt (2009) describes a transaction in May 1826 in which the directors of Life and Fire Insurance issued an enormous bond, which was used to purchase newly-issued shares in Morris Canal Bank, which in turn were used to purchase a block of stock in Fulton Bank, which was given to the President of Mechanic's Insurance and ultimately sold, in order to try to save Life and Fire Insurance.

[57] *Commercial Advertiser*, 27 October 1826.

[58] See, for example, the *New-York National Advocate*, 28 January 1825.

[59] For example, the July 11 issue of the *New-York Enquirer* states that one prominent firm, Life and Fire Insurance, had "reduced considerably" its indebtedness. This firm failed exactly seven days later. Testimony in some of the subsequent criminal trials described many public assurances of the soundness of the finances of the companies; see, for example, Barker (1827).

[60] The *New-York Enquirer,* 7 July, 1826, published a detailed description of the transaction that enabled a group of speculators to control a significant block of stock in the Fulton Bank; on July 8 there was a run on that bank. Then on July 17 the shareholders of the Tradesmen's bank obtained an injunction against the management of that firm; panic quickly ensued among the depositors.

panicked investors and creditors, and some "violent struggles" at the headquarters of the firms.[61] In total, these firms had more than $2 million in outstanding "bonds." Over the following months, many other companies controlled by these investors failed or were shut down. Some managed to continue to operate well into 1828 before ultimately going under; in some cases, the extent of the companies' losses was concealed from investors for some time.[62] Eventually a total of 18 NYSE companies would fail or be shut down in 1826-29; a number of other companies whose shares were not traded on the exchange were also touched by these events, but their fates are more difficult to ascertain.

3.2 Determinants of the failures

As most of the firms were never required to produce regular financial statements, and few of their accounting ledgers survive, it is impossible to systematically evaluate the practices that led to the failures, except in the few cases where detailed records survive from criminal trials or shareholder suits. It is possible, however, to investigate the deeper causes of the failures through an analysis of the ownership structures of the firms.

Lists of the stockholders and directors for the year 1826 for 38 of the 67 New York corporations whose shares were traded on the NYSE were found.[63] For the remaining 29 firms, no stockholder list survives in the New York State Archives.[64] It should be noted that the stockholder lists simply identify the names under which the shares were held, and may not accurately reflect the shares actually controlled by particular individuals. If investors were able to vote the shares of, say, family members or close associates, the data tabulated below would understate the extent of their control. In addition, I have assumed that any shares owned by a partnership, trust or corporation in which an investor was a partner, trustee or director would be voted by that investor. If these shares were

[61] *Commercial Advertiser*, 18 July, 1826 and *Evening Post*, 2 August 1826.

[62] This was the case, for example, with the Franklin Bank, which failed in 1828. See Bartow (1831).

[63] Lists of stockholders were submitted by all New York corporations to the state comptroller pursuant to the state's capital tax of 1823-28. These were found in various record groups in the New York State Archives associated with the comptroller's office, including A0833, A0829, and A0847. The lists of directors were found by searching New York City newspapers from the year 1826 including the *New York Evening Post*, *New York Enquirer*, *New York American*, *Journal of Commerce*, and the *Commercial Advertiser*. These were supplemented with lists of directors found in the minute books of corporations held a the following institutions: Citigroup Archives, New York NY; SUNY Albany Library, Albany NY; and the New-York Historical Society, New York NY. A very small number of these stockholder lists are from years close to 1826.

[64] From the comptroller's records and publications, it is clear that all of the 67 firms submitted ownership lists to the state. The State of New York has not been a good custodian of its early records at times, and many important materials have been lost or destroyed.

Table 1:
Firm Characteristics

	Mean	Std. Dev.	Min.	Max.
Ownership (N=38):				
Number of shareholders	146	99	23	560
Proportion owned within New York City	0.84	0.11	0.47	1
Managerial Control (N=38):				
Proportion of shares under managerial control	0.39	0.22	0.08	0.88
Direct managerial ownership	0.22	0.16	0.03	0.67
Stakes held by other corporations	0.09	0.12	0	0.46
Trusts	0.08	0.13	0	0.62
Firm Characteristics (N=67):				
Firm failed, 1826-29	0.27	–	0	1
Chartered 1824-25	0.37	–	0	1
Insurance industry	0.66	–	0	1
Log authorized capital	13.06	0.65	11.92	14.51

not actually voted, then the data would overstate the extent of their control. The ownership data were then matched to characteristics of the firms, obtained from the charters.

Table A3 in the Appendix compares the characteristics of the corporations for which an ownership list could be found with those that could not. The two groups of firms failed at about the same rate, and a similar proportion of each group was chartered in 1824-25. However, the firms where an ownership list could be found were much more likely to be in the insurance industry and had smaller capitals—essentially, no list could be found for several of New York's very large banks. The analysis that follows will therefore focus on within-industry comparisons and will control for the size of firms' capital stock. However, the validity of the inferences made from the sample depends on the degree to which the included firms are representative of the other firms in their industries, something which is difficult to assess.

Summary statistics for the ownership structures and firm characteristics are presented in table 1. The mean number of owners was just under 150, and 84% of the shares were owned by residents of New York City. This is consistent with a fair measure of financial development; NYSE firms had clearly attracted the participation of relatively large numbers of individuals by this time. The

Table 2:
Firm Characteristics: Failed vs. Surviving Firms

	Means:		
	Firms that did not fail	Firms that failed	$P > \|t\|$
Ownership Structure (N=38):			
Proportion of shares under managerial control	0.31	0.62	0.000
Direct managerial ownership	0.20	0.29	0.144
Stakes held by other corporations	0.07	0.19	0.020
Trusts	0.03	0.13	0.004
Firm Characteristics (N=67):			
Chartered 1824-25	0.29	0.61	0.014
Insurance industry	0.65	0.67	0.919
Log authorized capital	13.17	12.77	0.023

Note: $P > |t|$ denotes the significance level of a two-sided test of difference in means. Firms are coded as having failed if their shares stopped trading on the NYSE between 1826 and 1829.

mean proportion of shares under the control of the directors was relatively high, about 39%, with 22% held in the directors' own names, 9% held by other corporations on whose boards the directors also served, and 8% held in trusts or in the name of the directors on behalf of the firm. The latter category is particularly important, because shares held in this way were not actually the property of the directors, and therefore increased their margins of control with no corresponding increase in their ownership. Moreover, these shares were often transferred to the company from the directors in order to cancel a loan for the original subscription. These holdings therefore also represented a reduction in the capital of the firm.

Table 2 compares the characteristics of the firms that failed to those that did not fail, and illustrates some dramatic contrasts between the two groups of firms. The directors of the firms that failed controlled 62% of the shares of their companies, exactly twice the proportion controlled by the surviving firms. With control of a majority of the votes, the management of the firms that failed was virtually unaccountable to the other stockholders. Moreover, in each of the sub-categories of ownership, the directors of the failed companies controlled larger proportions of the shares compared to the companies that survived. The larger stakes held via other corporations likely indicates that the failed companies were more likely to have become part of a network of

Table 3:
Determinants of firm failure

	Firm failed, 1826-29 (Mean 0.27)			
	(1)	(2)	(3)	(4)
Proportion of shares under managerial control	1.306***	1.405***		
	(0.256)	(0.194)		
Direct managerial ownership			0.964*	1.036*
			(0.487)	(0.536)
Stakes held by other corporations			1.186	1.289*
			(0.730)	(0.746)
Trusts			2.156***	2.313***
			(0.469)	(0.536)
Chartered 1824 or 1825				-0.138
				(0.195)
Log authorized capital				-0.058
				(0.229)
Industry effects	N	Y	Y	Y
Observations	38	38	38	38
R^2	0.41	0.49	0.43	0.45

The dependent variable is a binary variable equal to 1 if a firm's shares stopped trading during the years 1826-29. Robust standard errors in parentheses; ***, **, and * denote significance at 1%, 5%, and 10%, respectively. A constant term (not reported) is also included.

firms controlled by a group of investors. To the extent that these investors' ownership in the corporations holding the shares was not total, these stakes created an increase in the directors control rights relative to their ownership.[65] Finally, the proportion in the shares held in trust was also dramatically larger among the firms that failed.

The firms that failed were more likely to have been chartered in 1824 or 1825, and had smaller capitalizations. This may explain some part of their high ownership concentration; one would expect that larger firms would have less concentrated ownership, and that share ownership would diffuse over time. The firms that failed were not, however, any more likely to be insurance corporations than those that survived.

These correlations are investigated further in regressions presented in table 3. These regressions analyze the determinants of a binary indicator of firm failure, and are estimated as linear probability models. Most of the specifications include industry fixed effects, and thus analyze the variation within industries.[66] All of the results in the table are consistent with the notion that the greater

[65] A simple model of such ownership stakes and the distinction they create between control rights and cash-flow rights is presented in Bebchuk et al. (2000).

[66] The three included industry categories are insurance, banks and loan companies—small banks forbidden from

the proportion of shares under the control of the directors, the higher the probability of firm failure. The first two columns present estimates of the effect of the total proportion of shares controlled by management, with and without industry fixed effects. The estimate in column one indicates that a one-standard-deviation increase in this variable increased the likelihood of failure by 28%, an amount similar to the mean failure rate. Columns three and four estimate the effect of the three categories of managerial ownership separately. All three have positive effects on the probability of firm failure, but the magnitude of the coefficient on shares held in trust is twice as large as those of the other two types of shares, and is highly statistically significant. The estimates imply that a one-standard-deviation increase in shares held in trust was associated with a 30% increase in the likelihood of failure.

Taken together, these results imply that the key to understanding the failures that began in 1826 is the ownership structures of the firms. The directors of many of the failed companies held dictatorial power over the other investors, through the control of large blocks of stock. This control enabled them to use the resources of their firms for their own purposes, and in ways that imperiled the solvency of the firms. In the worst cases, they reduced their ownership in their firms by returning their shares to the companies, while preserving their control over the firms' operations by continuing to vote the shares.

4 Impact on the law

The scandals of 1826 had a profound impact on New York's politics. In his annual message to the New York Assembly in January 1827, Governor DeWitt Clinton discussed the "late alarming commercial convulsions," and concluded that they "inculcate the necessity of avoiding a recurrence...by avoiding the causes which produced them." In addition to admonishing the legislature to show more "circumspection" when presented with petitions for incorporations with financial privileges, he argued that "general regulations are indispensably necessary" for financial companies. Among the measures he proposed were standards for the capital, financial statements, and liabilities of financial institutions, and also regulations for "compelling the attendance and increasing

issuing notes. The final category is utilities. See table A1 in the Appendix for a list of all the companies that were traded on the NYSE.

the responsibility of directors" in these firms.[67] Later that year, the legislature enacted a sweeping package of legislation that followed this broad outline. And indeed, no charters for financial companies were granted in the 1827 session.

But outside the state government, the scandals were greeted with outrage, and the public responded with calls for measures far harsher than mere financial regulations. Opponents of corporations in general, and of incorporated banks in particular, seized on the scandals in their rhetoric.[68] Newspapers printed expressions of distrust in the governance of financial companies, such as this:

> Formerly the directors of a bank knew no other duty than to facilitate the business transactions of the city...They were stockholders and the servants of stockholders, and they were responsible to them. Now a-days, it would seem the object in getting up a bank, is to swindle the public.[69]

The possibility that these "swindlers" might escape any serious legal consequences, and would be protected by limited liability, provoked considerable rancor. For some, the very fairness of American society was called into question. As *Niles' Register* wrote,

> If a *negro* steals a pair of shoes, away he must go to hard labor and solitary confinement—but if a *gentleman* violates his honor and oath, and boldly plunges into the vault of a bank or otherwise steals and carries off 50 or 100,000 dollars belonging to widows and orphans—he rides in a coach and eats and drinks of the best, and keeps "the best" company. There is a great deal in being a rogue of distinction! When will these folks be treated as they deserve? and swindling bankers and bank robbers meet the fate of their humble, but comparatively innocent imitators, the counterfeiters of bank notes or makers of base coin, and the pirates of Cuba?[70]

There were widespread calls for criminal investigations of the directors of the failed firms.[71] And the public's outrage likely drove the legislature to enact regulations of a more punitive nature than they otherwise would have.

[67] *Assembly Documents*, No. 2 (January 2, 1827), p. 9.

[68] For example, James K. Paulding's influential pamphlet *Letter on the Use and Abuse of Incorporations, Addressed to the Delegation from the City of New York* (1827), published anonymously, describes the "vile deception" of the city's financial companies (p. 38). Likewise Thomas Cooper's (1826) anti-corporate treatise on political economy cites legislative proposals from New York in 1825 intended to regulate abuses in financial companies. Gouge's (1835) well-known treatise advocating for a "hard money" system also discussed these scandals at length. On anti-corporate agitation in early America, see, for example, Maier (1993).

[69] *Evening Post*, 15 July, 1826.

[70] 12 August, 1826, p. 411. It is worth noting that the punishment for piracy was death.

[71] On the subject of criminal investigations, for example, the normally temperate *Evening Post* proclaimed "Let us try to purify the atmosphere of these harpies, who practice upon the credulity of the ignorant and fatten upon the spoils of the widow and orphan" (22 July, 1826).

4.1 Criminal trials

In July of 1826, Hugh Maxwell, the district attorney of New York City, began to examine the papers of the failed companies, and in August and September he obtained bills of indictment against a number of their directors. Lacking any better alternative, Maxwell charged the defendants with conspiracy.[72] The common-law concept of conspiracy is extremely vague and expansive, and was often used in England to suppress political dissent. This made conspiracy charges a particularly powerful instrument for prosecutors, but these charges also risked at least the appearance of unfairness to the defendant in the eyes of some judges.[73] Appendix table A3 lists the indictments obtained by the District Attorney, and summarizes the outcome of the trials.

Trials were held beginning in September. The District Attorney began the with the most spectacular case, that of Henry Eckford and seven other defendants, who were charged with conspiring to defraud five different corporations. This trial commenced in September 1826, and continued through October. The District Attorney's opening statement to the packed courtroom accused the defendants of using an extraordinarily complex series of transactions to "divert from their proper objects the funds of the stockholders, ...[and] to employ those funds for the private uses of those who managed the concerns."[74] The defendants were represented by twelve attorneys, including some of the most "eminent lawyers of the age," who raised numerous objections to the evidence presented by the prosecution, and to the charges in the indictment.[75] The dramatic testimony and erudite legal argumentation of the twenty-five day trial captivated the city; New York's most prominent newspapers all printed daily accounts of the proceedings.[76] Newspapers throughout the United States printed accounts of the trial.[77]

The accounts of the affairs of the companies that were presented at the trial included stunning

[72]The indictments charged that the defendants "did conspire, confederate, and agree...by wrongful and indirect means, to cheat and defraud" their companies (Indictment files, New York Municipal Archives, New York NY).

[73]Hurst (1956) discusses what he calls the "uneasiness" of nineteenth-century American judges with the crime of conspiracy.

[74]Statement of District Attorney Hugh Maxwell, 27 September 1826, as reported in the *New-York American*'s "Supplement" containing a summary of all testimony at the trial, 21 October 1826. The trial was held in New York's Court of Oyer and Terminer, which functioned as a criminal court with Supreme Court justices presiding.

[75]MacKenzie (1845: 29).

[76]The *Evening Post*, *American*, *Commercial Advertiser*, *National Advocate*, *Enquirer* and *Spectator* all published near-daily accounts of the trial which included detailed summaries of the day's testimony, in spite of the admonition of the presiding judge that the content of testimony given should not be published until the trials' completion.

[77]For example, in October, 1826, articles describing the criminal trials were printed in such papers as the *Baltimore Patriot*, *Boston Commercial Gazette*, *Macon Telegraph*, *Louisiana Advertiser*, the Richmond *Constitutional Way*, *New Hampshire Sentinel*, and *Vermont Gazette,* among many others.

revelations, of profligate lending to finance speculative investments; of companies being kept afloat through the fraudulent sale of securities; of absentee directors who had never bothered to inquire about the affairs of their firms, while other directors plundered their assets; of extraordinarily complex exchanges of securities among large numbers of companies; and of managers who had not bothered to keep up their firms' books.[78] These defendants were tried three times, and in the end some of them were found guilty.[79] A few of the other indictments were also brought to trial, and those produced some guilty verdicts as well.

But one of these verdicts was successfully appealed to the state's highest court.[80] In the end, the court felt that the indictment was so vague that it violated the principle that "every man is entitled to a specification of the charge against him."[81] Effectively, the court rejected common-law precedent for the appropriate standard for a conspiracy charge.[82] This overturned the convictions that had been obtained, and shut down all prosecutions of these cases.

4.2 Regulations of Financial Companies

The process of reforming the law actually began somewhat before the scandals of 1826, as legislators learned about some of the financial practices of companies on Wall Street. In mid-1825, legislation was passed "to prevent fraudulent bankruptcies" by prohibiting payments for stock subscriptions in the form of notes, and making it "the duty" of the supreme court to act quickly when presented with a complaint about unfair practices in corporate elections.[83] This law may have had some effect on the behavior of corporate directors, but after the crisis in 1826, it was perceived to be totally inadequate.

[78] Much of the testimony is reproduced in Barker (1827).

[79] The first trial ended in a hung jury. This was followed by a second trial, in which the defendants were found guilty, but the verdict was overturned on appeal, on the basis that some of the jurors were prejudiced against the defendants by the first trial. Finally, a third trial was held, beginning in June of 1827, in which one of the defendants was tried separately and found guilty.

[80] This was the Court for the Trial of Impeachments and Correction of Errors. The members of this court include the Supreme Court justices, the Chancellor, and the members of the Senate—and since many of the attorneys representing the defendants in the conspiracy trials were sitting members of the Senate, they were able to vote on the case.

[81] *Lambert v. The People*, 9 Cowen 578 (N.Y. Corr. Err. 1827). The indictments contained no "bill of particulars," and the prosecutors simply described the transactions of the managers of the firms, without specifically naming the acts that constituted the conspiracy.

[82] A dissenting opinion, written by Charles Stebbins, offers an impassioned and detailed (and nearly 50-page) argument that the indictment was sufficient according to the standards of the common law, and in his conclusion, he stated "The common law of England is the law of this land...whatever may be our opinions as to what the law should be, ours is a single duty to administer it..." (p. 82).

[83] The act also limited corporations' indebtedness to three times their capital stock, and prohibited dividends from being paid except out of firms' profits (New York *Laws*, 1825, ch. 325).

In 1827, the legislature approved the Revised Statutes of 1828, which contained major changes to many areas of the law, and in particular added significant new legislation relative to corporate governance. The Revised Statutes represented the outcome of an effort to organize and partially codify the state's laws, which had begun a few years earlier. But the contents of the final product, which was the first-ever such partial codification in any common-law jurisdiction, and was enormously influential in other states, contained several provisions that were written in response to the events of 1826.[84]

The Revised Statutes contain a number of regulations of financial companies and their directors that were designed to protect the interests of the stockholders and creditors these firms.[85] Many of these regulations specifically prohibited the manipulations and exchanges utilized by the brokers and speculators whose networks of companies had collapsed. For example, the first nine sections of the title on financial corporations prohibit: exchanges of capital or securities between corporations; payments of installments on stock subscriptions in the form of securities; purchases of a corporation's own stock, except when using profits from operations; acceptance of a corporation's own stock as payment for debts; loans to stockholders enabling them to withdraw money paid in; or loans to directors equivalent to more than one third of the capital stock. They also mandated that any transfer or assignment of a corporation's property of $1,000 or more could only be made according to a resolution of the entire board. The next sections provide for powerful enforcement mechanisms for these provisions: they stipulate criminal penalties for any violation, and make the directors personally liable from any losses that result from violations.

The new statutes also prohibited the holder of hypothecated shares (shares pledged as collateral for a loan) from voting in corporate elections, and prohibited anyone from voting shares belonging to the company or held in trust for the company. The statutes also required all financial corporations to transmit annual financial statements to the comptroller, and included a detailed description of the content of those statements.

Other provisions held that every corporate insolvency was to be *presumed to be fraudulent*, placing the burden of proof on directors and stockholders to defeat the presumption of fraud. It

[84] On the process of revising the laws, and the innovations produced in New York's Revised Statutes, see Cook (1981), Butler (1889), and Driscoll (1987).

[85] What follows is a discussion of Part I, Chapter 18, Title 2, Articles 1-3 of the Revised Statutes. For a lucid summary of the provisions of the Revised Statutes, see Spencer (1830a, 1830b).

made the directors, and then the other stockholders, personally liable for any losses in fraudulent bankruptcies, with the total liability not to exceed the nominal amount of the shares (thus imposing double liability). Unsurprisingly, this provision was regarded as draconian, and as one observer noted, "responsible parties were indisposed to become directors of moneyed incorporations subject to such a code of laws."[86]

Once the Revised Statutes took effect, in 1828, any financial corporation chartered (or having its charter renewed) after that date was to be subject to those provisions.[87] In 1828 and 1829, a number of insurance companies were created or had their charters renewed, making them subject to the Revised Statutes. However, no bank charters were granted or renewed in 1828.

Many of the existing banks' charters were set to expire in the years 1829-1833, and the directors of these firms hoped to avoid becoming subject to the Revised Statutes. Leading bankers recognized the benefits of somewhat stronger regulation, but regarded the terms of these statutes, in particular the presumption of fraud in all bankruptcies, as "severities."[88] The cashier of the state's largest bank, the Bank of America, argued that all that was necessary was to regulate capital contributions, and ensure that the entire capital of banks was paid-in and not withdrawn.[89] In order to advance their efforts to exempt their institutions from any punitive regulations, the state's banks aided the electoral campaigns of candidates favorable to their interests, and offered to fund popular infrastructure projects.[90]

Ultimately, in 1829 the state enacted a completely new banking law—the safety fund law, which created a coinsurance system among its member banks, and an administrative office to oversee and inspect them.[91] The safety fund law provided that any bank chartered according to its provisions would be exempt from the terms of the Revised Statutes that created the presumption

[86] Cleaveland (1857, p. xli).

[87] Corporate charters were regarded as contracts, so the state did not have the power to modify their terms, and the imposition of these new regulations might be seen as the abrogation of the terms of the charters.

[88] Thomas W. Olcott, cashier of the Farmer's and Mechanics Bank of Albany, letter to George Newbold, cashier of Bank of America, 20 December 1828, in George Newbold papers, New-York Historical Society, New York NY.

[89] "In every instance [failures] have been Banks which had but little or no original Sound Capital...any new provisions of law should [not] regulate the conduct & operations of Banks beyond an ample & efficient provision that the Capital & the *whole* Capital incorporated should be actually paid in." George Newbold, cashier of Bank of America, letter to Thomas W. Olcott, cashier of the Farmer's and Mechanics Bank of Albany, 17 December 1828, in George Newbold papers, New-York Historical Society, New York NY.

[90] See Flagg (1868: 35-38). These efforts began in 1827, when the stockholders of New York City's Phoenix Bank offered to purchase $25,000 of the shares of the Long Island Canal Company, and loan the company $45,000 on generous terms, in exchange for renewal of their charter without restrictions (*Assembly Documents*, 1827, no. 11).

[91] New York *Laws*, 1829, ch. 94. See the discussion in Bodenhorn (2003), Cleaveland (1857), and Wright (2002).

that insolvencies were fraudulent, and that stipulated personal liability for stockholders in the case of any fraudulent bankruptcy. In 1830, the state repealed these terms for all firms (not just those banks created under the safety fund).[92] However, the safety fund banks were made subject to all of the other terms of the Revised Statutes, as were all other subsequent financial incorporations.

4.3 Changes to the Jurisdiction of the Courts

The Revised Statutes also introduced an important change in the jurisdiction of New York's courts, which granted stockholders and creditors, and also the state, a powerful means of pursuing claims against corporations. In response to a petition from the attorney general with credible evidence that a corporation was conducting transactions or businesses not authorized by its charter, the court of chancery was given the power to issue an injunction to halt the operations of the firm, and inspect its books, remove directors, and compel directors who had misappropriated funds to repay them.[93] And for financial companies, the powers granted to the court were even broader. If stockholders, creditors, or the attorney general petitioned the court with evidence that a financial firm was acting in violation of any law, or was insolvent, the court of chancery was given the power halt the firm's operations by injunction, and to appoint a receiver to seize control of the firm's assets, collect all debts due to the firm, and facilitate a "just and fair distribution of the property of the corporation."[94] The receiver was also empowered to enforce the personal liability of directors in cases of fraud.

These provisions were interpreted by the courts as having been enacted "owing to the refusal of the court [of chancery] to intervene" in prior cases.[95] Many of the terms of the provisions were intended specifically to apply to circumstances like the ones that arose with the financial companies that failed.

[92]The repeal was not retroactive; the insurance companies chartered between 1828 and mid-1830 continued to be subject to those terms, and the safety fund banks chartered prior to mid-1830 were subject to the criminal penalty provisions. New York *Laws,* 1830, ch. 71.

[93]The chancellor was thus given what is called "visitatorial jurisdiction" over corporations, overturning an earlier New York precedent that it had no such jurisdiction (*Attorney General v. Utica Insurance Co.*, 2 Johns. Ch. Rep. 371 (N.Y. 1817)). Revised Statutes, Part III, Chapter 8, Title 4, Section 31-35. Pound (1936) analyzes this statute in the context of the evolution of the legal doctrine of equity jurisdiction.

[94]Revised Statutes, Part III, Chapter 8, Title 4, Section 39-50.

[95]*Verplanck v. Mercantile Ins. Co.*, 1 Edw. Ch. 84 (N.Y.1831).

4.4 Shareholder litigation and the derivative suit

For the shareholders and creditors of the companies that failed, the jurisdictional changes to the court of chancery enacted by the Revised Statutes in 1828 came too late. Those measures were intended to empower the investors or creditors of a mismanaged corporation (or the attorney general, acting on their behalf) to use the courts to quickly shut down its operations, and recover as much as possible from its assets. But many firms had already suffered tremendous losses and failed by that time. And the provisions of the Revised Statutes that created the presumption of fraud, and personal liability for directors, did not apply to those firms.

The stockholders and creditors pursued their claims beginning in 1826, without the benefit of the Revised Statutes. As might be expected from the failure of so many companies in such complex circumstances, an enormous amount of litigation was initiated—one judge remarked that "innumerable cases of frauds upon creditors, and many innocent and unsuspecting stockholders of incorporated companies" were brought before the courts.[96] Most of the litigation occurred within the chancery courts, which had jurisdiction over bankrupt corporations. The volume of suits put tremendous strain on the state's court system, and complaints about delays became common.[97]

In some of this litigation, the stockholders of the failed companies asserted the right to sue the directors for breach of fiduciary trust. The significance of the investors' legal strategy is that in the doctrine of fiduciary trust, there is a well-established principle that trustees can be held personally liable for losses resulting from their negligence or malfeasance. The most prominent case in which that claim was made, *Robinson v. Smith*, was initiated by stockholders in the New York Coal Company, who filed suit against the directors of the firm in August 1826, detailing the losses that arose from the securities transactions conducted by the directors, including their ill-fated purchase of a controlling stake in City Bank. The defendants responded that only the company itself had grounds to file the suit, since it was the company that was alleged to have been harmed. If the defendants' argument had prevailed, it would have foreclosed any opportunity for minority investors to pursue such claims against directors, since the directors held majority control of the corporation.[98]

[96] *Nathan v. Whitlock*, 9 Paige Ch. 152. A cynical journalist remarked that these cases were "a fine time for the lawyers!" (*Commercial Advertiser*, 19 August 1826.)

[97] The *Commercial Advertiser* of 29 August 1826 mentions these delays.

[98] This is, essentially, the rule that developed in English courts. See, for example, Boyle (2002).

Ruling in 1832, the chancellor conceded that a suit against directors for breach of trust should be initiated by the company itself, but also recognized that if the corporation were "under the control of those who must be made the defendants in the suit, the stockholders, who are the real parties of interest, would be permitted to file a bill in their own names."[99] This established the principle that minority investors could sue directors for a breach of fiduciary trust. The rule in *Robinson v. Smith* became a general principle of American equity jurisprudence, and marked an important step in the development of what became known as the shareholders' derivative suit.[100]

4.5 The impact of the changes to the law

The regulations imposed on financial corporations in New York's laws in the years following the scandals of 1826 had a lasting impact, both within New York State, and in other states. Although a number of changes were introduced into New York's laws governing financial companies over the years, as the state's administrative agencies became more sophisticated, the provisions of the Revised Statutes governing these firms remained on the books until the 1880s.[101] A few other states emulated New York by introducing similar legislation; New Jersey passed a significant law "To prevent frauds by incorporated companies"[102] in 1829 that was similar to New York's, and Massachusetts passed a new banking law 1829 which contained some provisions that resembled those of New York.[103]

The provision of the Revised Statutes that changed the jurisdiction of the court of chancery had an enduring impact, and is invoked in hundreds of reported New York chancery cases. In particular, stockholders in banks frequently used the provisions empowering them to seek injunctions to halt the operations of financial companies, and to appoint a receiver to liquidate their assets, when firms violated the law or became insolvent.[104] These statutes were even invoked by the shareholders of

[99] *Robinson v. Smith*, 3 Paige 222 (N.Y. 1832).

[100] The right to sue asserted in *Robinson v. Smith* was not "derivative" in nature; later nineteenth-century cases would hold that stockholders had no such individual right, but rather one that was secondary to the right of the corporate entity itself to pursue such a claim. See Prunty (1957).

[101] New York (1909). The entire title regulating financial incorporations was repealed in 1882, and replaced with a new banking law (New York *Laws*, 1882, ch. 402).

[102] *Acts of the General Assembly of the State of New Jersey*, 1829 (second sitting), p. 58.

[103] Massachusetts's banking system was quite different than New York's, and much of the new law was no doubt enacted to reform particular features of its own system. However, the 1829 law does contain provisions regulating capital contributions, limiting loans to stockholders on pledges of their own stock, creating unlimited liability for directors in the case of mismanagement, and imposing criminal penalties for directors using banks' capital for their own purposes. (Massachusetts *Acts and Resolves*, 1829, Ch. 96, p. 144.)

[104] Reported examples include, for example, *Ferry v. Bank of Central New York*, 15 How. Pr. 445 (N.Y. Sup. 1858);

the Erie Railroad.[105]

The powers over corporations granted by the Revised Statutes to the state, on the other hand, were utilized only rarely. The state did occasionally seek injunctions against banks, for example to enforce the limits imposed on loans to insiders.[106] But these laws were written at a time when there was broad consensus that it was an important responsibility of the state to monitor the behavior of corporations, and strictly enforce statutes that regulated their financial transactions. For the most part, the state chose not to exercise those powers in subsequent years. Remarking on these provisions of the Revised Statutes in 1892, one judge concluded that since stockholders and creditors were also empowered to defend their interests, the state "left parties to their own resources."[107] Especially in the second half of the nineteenth century, the legal system became less friendly to the interests of minority shareholders, and the restraint of corporations generally.[108] And as a later commentator put it, "it was felt that corporations should be as free as possible from state supervision."[109]

5 Conclusion

This paper analyzed a series of failures of prominent financial companies, which had been founded and operated by wealthy and politically influential men. These failures were accompanied by scandalous revelations of mismanagement, and provoked outrage among the public. Criminal prosecutions soon followed, and the government ultimately enacted a significant package of legislation to prevent future frauds and protect investors, which was designed to improve the mechanisms of corporate governance. As familiar as this sounds today, these events took place in 1826, and the legal changes that resulted were some of the first ever enacted.

The panic of 1826 was one of many nineteenth century crises, each of which likely had its own regulatory legacy. The rights enjoyed by stockholders and creditors today, and the laws

Gaffney v. Covill, 6 Hill 567 (N.Y. Sup. 1844); and *Gillett v. Moody*, 3 Comst. 479 (N.Y. 1850).

[105]See, for example, *Belmont v. The Erie Railway Co.*, 52 Barb. 637 (N.Y. 1869) and *Ramsey v. The Erie Railway Co.*, 38 How. Pr. 193. As the plaintiffs could not demonstrate that the firm was insolvent, they were unsuccessful. The Revised Statutes grant the stockholders of financial companies much broader power than those of other companies.

[106]*Bank Commissioners v. Bank of Buffalo*, 6 Paige 497 (N.Y. 1837).

[107]*People v. Ballard*, 17 L.R.A. 737 (N.Y. 1892).

[108]See, for example, Glaeser and Shleifer (2003).

[109]Pound (1936: 395). Bloch and Lamoreaux (2008) analyze the conception of business corporations as private organizations that emerged in the eyes of the law over the nineteenth century, and the disappearance of the rationale for state intervention in their internal affairs that resulted.

and institutions in place to regulate financial companies, have evolved through a process of legal innovations in response to crises. The Sarbanes-Oxley Act of 2002 represents the outcome of the most recent step in this long process, which is as old as the country itself. Each new set of regulations has shaped the financial innovations that followed, for better or for worse. The panic of 2008 will almost certainly advance this process another step, as financial regulations are revised once again.

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Appendix Table A1:
Firms Traded on the NYSE, 1826

Firm	Year of Incorporation	Paid-In Capital ($)	Failed or Shut Down ('26-28)?	Firm	Year of Incorporation	Paid-In Capital ($)	Failed or Shut Down ('26-28)?
Insurance Companies				Phoenix Fire Insurance	1823	250,000	
Aetna Insurance	1824	200,000		Protection Fire Insurance	1824	400,000	yes
American Insurance	1812	500,000		Sun Fire Insurance	1824	300,000	yes
Atlantic Insurance	1824	500,000		Traders Insurance	1825	250,000	
Brooklyn Fire Insurance	1824	156,000		Tradesmens Insurance	1825	200,000	
Chatham Fire Insurance	1822	400,000		Union Insurance	1818	400,000	
Dutchess County Insurance	1814	200,000	yes	United States Fire Insurance	1824	263,000	
Eagle Fire Insurance	1806	500,000		Washington Insurance	1814	500,000	
Equitable Insurance	1823	300,000		Western Insurance	1817	230,836	yes
Farmers Fire Insurance & Loan	1822	500,000					
Franklin Fire Insurance	1818	500,000		*Banks, and Firms with Banking Powers*			
Fulton Fire Insurance	1819	270,650		Bank of America	1812	2,049,000	
Greenwich Fire Insurance	1824	250,000	yes	Bank of New York	1791	1,000,000	
Globe Insurance	1814	1,000,000		Chemical Bank	1824	414,000	
Hope Insurance	1818	300,000	yes	City Bank	1812	1,250,000	
Howard Insurance	1825	300,000		Delaware & Hudson Canal	1823	491,000	
Hudson Insurance	1811	200,000	yes	Fulton Bank	1824	554,062	
Jefferson Insurance	1824	250,000		Franklin Bank	1818	500,000	yes
Lafayette Insurance	1825	–		Manhattan Bank	1799	2,000,000	
Life and Fire Insurance	1822	600,000	yes	Mechanics Bank	1810	2,000,000	
Manhattan Fire Insurance	1821	250,000		Merchants Bank	1805	1,490,000	
Mechanics Fire Insurance	1819	500,000		New York Dry Dock	1825	700,000	
Mercantile Insurance	1818	500,000		New York Loan	1825	200,000	yes
Merchants Fire Insurance	1819	500,000		New York Lombard	1824	200,000	
Mohawk Insurance	1824	500,000	yes	New York Mount Hope Loan	1825	300,000	yes
Mutual Insurance	1809	501,150		North River Bank	1821	500,000	
National Insurance	1815	301,800		Phoenix Bank	1812	500,000	
Neptune Insurance	1825	250,000		Tradesmens Bank	1823	600,000	
New York Contributionship Insurance	1822	300,000		Union Bank	1811	1,000,000	
New York Insurance	1798	500,000		U.S. Lombard	1825	300,000	yes
New York La Fayette Fire Insurance	1825	200,000	yes				
Niagara Insurance	1824	500,000	yes	*Companies in Other Industries*			
North River Insurance	1822	350,000		New York & Schuylkill Coal	1823	314,300	
Ocean Insurance	1810	350,000		New York Coal	1824	200,000	yes
Orange Fire Insurance	1819	400,000	yes	New York Gas Light	1823	495,000	
Pacific Insurance	1815	400,000		New York Water Works	1825	–	yes

Sources: Traded companies identified from Sylla, Wilson and Wright (2005). Charter year from New York *Laws*. Paid-in capital from New York Comptroller's records, New York State Archives, Albany NY.

Appendix Table A2:
Chronology of Events of July and August, 1826

Date	Event
6 July	Jersey City Bank stops payment on its notes.
7 July	*New York Enquirer* publishes account of fraudulent transactions between Fulton Bank, Morris Canal Bank, and Hudson Insurance.
8 July	Run on Fulton Bank.
11 July	*New York Enquirer* publishes list of firms believed to be under control of groups of speculators.
14 July	U.S. Lombard and Franklin Manufacturing Company stop payment on their bonds.
15 July	Hudson Insurance Company stops payment on its bonds. Several Wall Street brokers fail.
17 July	Injunction granted against Tradesmen's Bank; panic ensues among holders of its notes.
18 July	Life & Fire Insurance Company fails.
19 July	Several more brokers fail.
31 July	New York Mount Hope Loan Company fails.
1 August	First suits filed against directors of many failed companies by stockholders and note holders.
12 August	New York District Attorney obtains the first of a series of indictments against the directors of the failed companies.

Appendix Table A3:
Representativeness of Sample Firms

	Means:		
	Firms with ownership data	Firms with no ownership data	$P > \|t\|$
Firm Characteristics (N=67):			
Firm failed	0.26	0.28	0.909
Chartered 1824-25	0.39	0.34	0.681
Insurance industry	0.84	0.41	0.000
Log authorized capital	12.87	13.32	0.005

Appendix Table A4:
Conspiracy Indictments and Trials, 1826-27

Corporation(s) Allegedly Defrauded	Trial Date	Individuals Named in Indictment	Outcome of Trial	Key Details
Mechanic Fire Insurance, Morris Canal and Banking Company, Fulton Bank, Life & Fire Insurance, Tradesmen's Bank	September 1826	Henry Eckford, Joseph G. Swift, William P. Rathbone, Thomas Vermilyea, George W. Brown, Mark Spencer, Matthew L. Davis, Jacob Barker	Tried three times. First trial, Sept.-Oct. 1826, hung jury; second trial, of Vermilyea, Barker, Swift, Davis, and Brown only, Nov.-Dec. 1826, guilty, but defendants successfully appealed for a new trial; third trial, Jun.-Jul. 1827, Barker tried separately and found guilty. Eckford and Swift acquitted in separate trial, Dec. 1826.	Life & Fire issued more than $1,300,000 in bonds. Fulton bank and Tradesmen's bank sustained losses more than $100,000 each.
Hudson Insurance, U.S. Lombard Association	December 1826	Thomas Hyatt, Prosper M. Wetmore, S.D. Jackson, Mark Spencer, George W. Brown	Only Hyatt and Jackson tried, Dec. 1826. Hyatt found guilty, Jackson, not guilty. Hyatt sentenced to 2 years in prison, and "absconded." In February 1827 he was found in Vermont, and brought to New York to serve his sentence.	Hudson issued $300,000 in bonds, U.S. Lombard, $600,000
Sun Fire Insurance	December 1826	John J. Lambert, Samuel F. Lambert, Henry B. Lambert, Charles Mowatt, Benjamin A. Waldron	John J. and Samuel F. Lambert pled guilty, along with Benjamin Waldron. Charles Mowatt and Henry B. Lambert were tried in Dec. 1826, and found guilty. Mowatt was sentenced to two years, Henry B. and Samuel F. Lambert to one year.	$260,000 of Sun's capital stock (which totalled $300,000) lost on transactions with directors.
New York Mount Hope Loan, Franklin Manufacturing Company	—	Isaac Lucas, Edward Macomber	Defendants obtained delays until December 1827, when trials were halted.	Bonds totalling "several hundred thousand dollars" issued by the companies.
Greenwich Fire Insurance	—	Ferris Pell, Alfred Pell	Defendants obtained delays until December 1827, when trials were halted.	$230,000 of Greenwich's capital stock (which totalled $250,000) lost on transactions with directors.
Tradesmen's Bank	—	Matthew Reed, Samuel Cox, Samuel L. Gourvernor, Matthew L. Davis	District Attorney delayed trial until December 1827, when the trials were halted.	Tradesmen's bank suffered losses of more than $100,000.

Sources: Indictments obtained from manuscript indictment files, New York Municipal Archives. Outcome of trials complied from the New York *Evening Post*, various issues, 1826-27, and Barker (1827). The indictment of Henry Eckford and others listed above superseded four earlier indictments, in which fewer companies were named.