A Note on the Interpenetration of Anglo-American Finance, 1837-1841
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THERE is a widespread impression among students of American financial history that, in the period immediately following the panic of 1837, American financiers engaged in sharp practices amounting to the wholesale deception of British bankers and European investors. This impression has been fostered especially in connection with the well-known episode of the partial or complete repudiation of state bonds by Arkansas, Illinois, Indiana, Mississippi, Louisiana, Michigan, and Florida in the 1840's. According to the charge, the large British bankers originally transacted business in the United States only through old and established bankers and agents. This enabled them to avoid the more speculative securities. Much of the distribution of bonds in England was done through three British firms, which were prominent in the merchant-banking business for the American trade: Thomas Wilson & Co., Timothy Wiggin & Co., and Geo. Wildes & Co.—popularly known as the 3 W's. A change for the worse occurred—so the charge runs—when these firms were forced to suspend payments because of the financial strain in England and the United States in 1837. After the resumption of specie payments in the United States the following year, a more speculative type of American banker, assisted by high-pressure salesmen who were sent to England, was prominent in financiering. These agents were so persuasive that they involved the British bankers in the wildest of schemes, and these bankers, in turn, disposed of American securities to equally innocent investors.[1]

This charge should be treated with great caution in the light of a series of transactions described in heretofore unused material, especially court records. In the North American Trust and Banking Company, which has been cited as a glaring example of the devious practices of American finance, three British financiers, namely, Gabriel Shaw, Melvil Wilson, and Fletcher Wilson—the partners of Thomas Wilson & Co.—played considerable and even dominant roles. And that relationship acquires additional significance because it involved,

[1] Reginald C. McGrane, *Foreign Bondholders and American State Debts* (New York: The Macmillan Co., 1935), pp. 14–19, 251; B. U. Ratchford, *American State Debts* (Durham, N.C.: Duke University Press, 1941), pp. 93–94.

though indirectly, the Bank of England and the merchant-banking house of Palmer, Mackillop, Dent & Co., of which the head was none other than John Horsley Palmer, an influential director and former governor of the Bank of England.

Shortly after suspending payments in June 1837, Thomas Wilson & Co. arranged with creditors to pay a dividend on one third of its debt in September 1838. The payment due the Bank of England, secured by uncollectible promissory notes and bills of exchange of Americans, was approximately $300,000 alone.[2] All three partners began shuttling between New York and London in attempts to unfreeze the firm's assets, which included large real-estate holdings. Shaw came to New York promptly after the settlement, and there was always one member in New York.

Shaw brought with him a circular letter from Palmer's that made him the firm's agent. The printed document stated that events had compelled Thomas Wilson & Co. to suspend its business until it could liquidate its heavy liabilities. Palmer's expressed confidence that within a short time not only would its responsibilities be withdrawn but it would have ample means for the future conduct of its affairs. In the interim, the letter continued, Palmer's, in addition to its regular operations in the China and India trade, would handle whatever commercial and banking transactions the American connections of the Wilson firm would commit to it. Those wishing to be informed about "the principles and system" on which Palmer's proposed to conduct the business should approach Shaw. Shaw added his own comment that he and his partners had made a happy arrangement with Palmer's, whose "chief is so deservedly distinguished for his . . . eminent qualities." They "allow us at once to participate in the benefits of the business, which our friends on this side may direct to them."[3]

John Horsley Palmer himself went even further, for on March 3, 1838, he sent Shaw a letter that made him virtually an emissary of the Bank of England. Palmer declared that the American banks could not wisely resume specie payments with advantage to the general community until they had increased their holdings of bullion. They had already, he said, prudently reduced note issues and accumulated reserves against their general liabilities; but because the previous expansion had resulted in widespread distrust of the banks they would

[2] *Shaw* v. *Leavitt,* 3 Sandf. Ch. 178, at 179 (N.Y. 1845).

[3] A copy of the circular letter is in the Gallatin Papers, New York Historical Society.

need, for resumption, additional specie to withstand the drain of withdrawals for hoarding, while simultaneously affording "extended accommodation to the mercantile interests dependent upon them for support." The banks, continued Palmer, could obtain the necessary additional supply only in two ways. One method would be for them to continue to adhere to the present "restrictive principle." This by "affecting all minor parties acting upon credit & greatly enhancing the value of money" would still further reduce imports from Europe and consequently bring back a considerable amount of bullion in return for the cotton and other exports. But this process, said Palmer, was necessarily slow, and until it was completed the collection of the debts due to the English houses would have to be largely suspended. The more speedy way would be for the banks to transmit to England and Holland such marketable securities as would find a ready sale there, especially state bonds, and take in return British gold coins (sovereigns). Indirectly it could be done by private dealers or holders of the securities adopting that course, and "drawing out from the banks the increased issues of notes for the sovereigns paid into their hands."

Palmer, whose financial importance was well known in the United States, then authorized Shaw to say that since the Bank of England's specie reserves were £10½ million and likely soon to reach 12 million, the bank would not fear the export of two to three million of gold for so important an object as restoring a sound currency in the United States. For until that was achieved, the commercial intercourse between the two nations must continue to be disorganized. "If I individually or the [Palmer] House here can be in any way instrumental in accomplishing so desirable an end, I am sure that your friends & connections may rely upon our assistance." Copies of the letter were duly made in April and sent to such influential figures as Albert Gallatin, Nicholas Biddle, and the leading American banking house, Prime, Ward and King.

To Gallatin, who was leading the movement for resumption in New York, Shaw wrote that Palmer's statement of Bank of England policy could be communicated to the important financial interests in the city and to the state authorities. "They may confidently rely, that the expectations held out . . . will be realized, in case the means proposed, are adopted."[4] Meanwhile resumption was being speeded by the Bank of England's arranging a loan of £1,000,000 in sovereigns

4 Palmer to Shaw, March 3, 1838; Shaw to Gallatin, April 13, 1838, Gallatin Papers.

to Prime, Ward and King on the guaranty of the latter's London correspondent, the Barings.

But resumption did not mean that the assets of Thomas Wilson & Co. could be immediately realized. The situation soon offered an opportunity for Shaw and his partners to attempt to facilitate this. In July a group described as "highly respectable gentlemen" formed, under the recently enacted General Banking Act—or Free Banking Act, as it was popularly called—the North American Trust and Banking Company. Its capital stock was set at a maximum of $50,000,000 divided into $100 shares. Subscriptions could be paid in cash, in state bonds, or in seven per cent private bonds secured by mortgages on unencumbered real estate. The emphasis on real estate was particularly indicated in the stipulation that at least one half the capital stock must be invested in real-estate bonds, and that the remainder might be invested in such bonds or in public debt.

Among its directors were the well-known merchant, founder of the Phelps-Dodge Company, Anson G. Phelps, the future New York postmaster, John Lorimer Graham, who was also the counsel of the company, and Melvil Wilson. Immediately after its organization, Shaw informed Palmer's that the banking company would render "valuable services . . . in assisting the suspended houses, and in alleviating the commercial distress of the country."[5] Palmer's immediately became the chief agency of the company in its heavy foreign business. The members of the Wilson firm were constantly co-operating as Palmer's agents or messengers in the dealings with the company; the court records described them as "mutual friends" of both the company and Palmer's. The company relied especially on Shaw's claim of wealthy English friends for obtaining the necessary cash subscriptions to the capital stock.

The company never had much cash capital, however. Of the total subscription amounting to $3,285,900, approximately $250,000 was in cash. All but $30,000 of it came from English subscribers, including $50,000 from the eminent British economist, Nassau Senior. The rest of the subscriptions were mostly in New York real estate. It may be said that, on the American side, given its greater paucity of cash capital, and on the side of Englishmen with real-estate holdings in America, the speculative tendency was to that extent sharper.

[5] John L. Graham, "Statement . . . in Reply to . . . David Leavitt, Esq., Receiver of the North American Trust and Banking Company," *The Morning Courier and New York Enquirer*, March 5, 1884; *Leavitt* v. *Blatchford*, 5 Barb. 9 at 16 (N.Y. 1848).

The company's business, as it turned out, was substantially restricted to speculations in state bonds. Its first large transaction was to buy $1,000,000 of Arkansas bonds on the advice of Shaw, and this was quickly followed by heavy purchases of Indiana, Ohio, Louisiana, and Florida bonds. It bought on credit, issuing in payment its own negotiable interest-bearing certificates of deposit, bonds, or promissory notes. The largest portion of the state bonds were sent to Europe for disposal, primarily through Palmer's. Most of the bonds could not be sold immediately except at "ruinous discount," and so they were used as security for advances or loans through the medium of bills of exchange, in order to meet pressing claims and continue further operations. In addition to state bonds, the North American Trust and Banking Company sent to Palmer's for disposal its own interest-bearing foreign certificates of deposit and bonds convertible into stock, both payable in sterling. The bonds were for five or seven years; the certificates usually ran for a year.

These negotiable certificates were signed by the president and cashier and made payable to the order of the persons named as depositors of the specified sum in the instrument, and by them endorsed in blank. These certificates, President Joseph D. Beers informed Palmer's, were not designed to obtain capital for the company. They would be based on legitimate business transactions. They would be eminently useful in promoting trade between the two countries and would especially increase the imports of manufactures from England. The importer of British goods, wrote Beers, purchased them on a credit of four months, and he granted a credit for eight months. To meet the deficiency of bank capital in New York, the company had determined to issue "certificates based upon real transactions had with the parties therein named; that is to say that they were issued upon the discount of commercial paper taken by the American importers of British goods from parties to whom they sold such goods in America, and as a means of remittance for payment becoming due to the manufacturers in England." Instead of the "mere private credit of American importers," English manufacturers would hold the instruments "of a sound institution, which are always convertible." Shaw, President Beers added, would explain all the details.

This was the theory, but the New York Court of Appeals found that some of the certificates at least were in fact based on no "real transactions, and were sent directly by the company to Palmer's for sale in the English market, accompanied, however, by statements that

they were to be sold on account of the nominal depositor." The "depositors," it turned out, were often the company's clerks and tellers. The court added that the evidence tended to show that "Palmer's had no knowledge that any portion of them were fictitious instruments." Such certificates ceased to be issued, as their price fell sharply and merely increased the debt to Palmer's, which was bearing seven per cent interest.

And this was not the only dubious operation. The company purchased a half million dollars' worth of heavily depreciated bank notes of southern institutions. These were also bought on credit and eventually resulted in a loss of $200,000.[6]

In the leading transactions of the company the members of the Wilson firm played a most prominent role. Shortly after the company began operations, Shaw returned to Europe to market the state bonds and $1,000,000 worth of certificates of deposit, to raise cash subscriptions, and to arrange for an extension of the Wilson firm's debts to the Bank of England and other creditors. He was not very successful in raising cash subscriptions, although Thomas Wilson & Co. did manage to sell a convertible bond to an official of the Bank of England.[7]

Shaw and Melvil Wilson obtained a two-year extension on condition that the firm obtain from the North American Trust and Banking Company two-year negotiable certificates of deposit equal to the debt and transfer them to the Bank of England. To support these certificates, the Wilson firm deposited with the American company mortgages, stocks, and promissory notes, which Shaw valued at $316,000. In a letter to the company, he stated: "As it is an operation into which you entered to serve Thomas Wilson & Co., and not with a view to profit, it is very properly required by you . . . that you should always be on a footing of perfect security.[8]

The third member of the Wilson firm, Fletcher Wilson, described as a "gentleman of high character and intelligence," was a prime figure in the more spectacular transactions between the company and

6 Joseph D. Beers to Palmer's, January 16, 1839, in *Tracy* v. *Talmage,* in Chancery, E.J. 1860, No. 557, Hall of Records, New York City; *Leavitt* v. *Yates,* 4 Edw. 139, at 180 (N.Y. 1850); *Curtis* v. *Leavitt,* 15 N.Y. 2, at 39 (1857). On Senior's investment see S. Leon Levy, *Nassau W. Senior* (Boston: B. Humphries, Inc., 1943), pp. 284, 421.

7 Thomas Puzey of the Drawing Office of the Bank of England bought through Thomas Wilson & Co. in 1840 a five-year £500 sterling bond at 10 per cent discount.—"Petition of Thomas Puzey," *Tracy* v. *Talmage,* in Chancery, BM-T-983, Hall of Records, New York City.

8 Shaw to Joseph D. Beers, April 13, 1839, in *Shaw* v. *Leavitt,* 3 Sandf. Ch. 178, at 182 (N.Y. 1845).

Palmer's. For example, there was the operation which the New York Chancery Court particularly reprehended: 5,000 heavily discounted shares of the company's own capital stock were bought by it for the "purpose of being sold out again, and, in the meantime, of being used as a means of raising money." It was Fletcher Wilson who persuaded Palmer's to accept the $218,000 in bills of exchange whereby the purchase was made. In the sale of the stock, the net result was again a heavy loss and a further increase of the debt owed Palmer's.[9]

As the affairs of the American company grew increasingly precarious, Palmer's became deeply worried about its outstanding advances to the company of over $500,000. Fletcher Wilson then suggested a scheme that would provide additional security for Palmer's as well as presumably aid the company to obtain more funds. The company transferred assets, mostly real estate, to trustees, with Palmer's as a party to the trusts. Against the transferred assets, a mass of interest-bearing negotiable instruments were issued to the creditors or sold to others.

Several trusts were formed for other British financial houses. On the eve of the company's bankruptcy, in September 1841, the Bank of England Trust was created to hold the collateral previously deposited by the Wilson firm for the extension of its debt to the bank. The largest single item consisted of twenty-three building lots on Ninth and Tenth Streets and Fifth Avenue, valued at $80,000. Included also were bounty lands in Illinois, stock in the Apalochicola Land Company, the New York and Mississippi Land Company, the New York, Mississippi and Arkansas Land Company, the Boston and Chickasaw Land Company, and the New York and Boston Illinois Land Company; and securities of the North American Trust and Banking Company—100 shares of its capital stock and $45,500 of certificates of deposit.[10]

The trusts created in behalf of the British financial houses took practically all the assets of the company. When it collapsed it still owed substantial sums for purchases of state bonds. Then began an almost interminable series of lawsuits throughout the country. The Bank of England as well as Palmer's and other British financial houses engaged in lengthy battles to obtain the collateral assigned under the trust agreements. Unraveling of the company's affairs was com-

[9] *Leavitt* v. *Palmer,* 3 N.Y. 19, at 20 (1849); *Leavitt* v. *Yates,* 4 Edw. 139, at 180 (N.Y. 1850); Graham, "Statement" above cited.

[10] "Blatchford & Talmage Trust (Bank of England Trust)," *Tracy* v. *Talmage* in Chancery, BM-T-983, Hall of Records, New York City; Thomas G. Talmage, "To the Public," *The Morning Courier and New York Enquirer,* March 12, 1844.

plicated by the varied character of its more than $15,000,000 of negotiable paper, payable at a future time. For example, there were certificates of deposit, domestic certificates of deposit, foreign certificates of deposit, convertible bonds, trust notes, and fifteen-month instruments called "Murray debentures," endorsed or guaranteed by Palmer's.[11]

The upshot of the matter was that the financial transactions of the American company involved both British and American financiers in an almost indistinguishable association and manner of operation. It is well to remember that in this period the geographic separation of America and Europe hardly prevented vital cultural and economic contacts. The Anglo-American world had an organic unity that made for the fluid movement of ideas, methods, and men across the Atlantic in both directions. There was room in that world for ever-shifting, interlocking relationships, especially in that most mobile of enterprises, finance. This is sufficiently revealed by the experience of the North American Trust and Banking Company. Finance in both countries had an interest in American land speculation, for American land, urban as well as rural, was then an outstanding source of enterprise. The British financier as well as the economist saw in the vast new lands of the West, and in the rising cities of the East, the promise of great returns. Ill fortune in the form of panic and a depression affected both groups in much the same way and gave rise to much the same shifts to remain solvent.

It is difficult, therefore, to sustain the impression that the tale is simply one of deception of European creditors by American speculators and salesmen; it is a more complex tale. The interpenetration and indeed community of interests of English and American financiers was too intimate to allow so sharp a distinction.

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11 The "Murray debentures" took their name from being issued in behalf of the company by a director, Colonel James B. Murray, while he was its confidential agent in London from the spring of 1839 to July 1841. When Murray was temporarily absent from London, Shaw acted as his deputy. See Murray to Joseph Langdon, September 30, 1840, Shaw to Langdon, December 8, 1840; in *Tracy* v. *Talmage*. In the Matter of the Claim of the Bank of Liverpool C.L. 81, Hall of Records, New York City.