PHILADELPHIA AND THE PANIC OF 1857

BY AUSTIN E. HUTCHESON
Philadelphia, Pennsylvania

The letters printed below are from the correspondence of Baring Brothers and Company, the London international bankers.¹ The firm of Baring Brothers was founded about 1770, and rose to become one of the greatest banking houses in the world during the Napoleonic wars when it took the leading part in financing the British government. For a time it also aided Napoleon through an agreement with Hope and Company of Amsterdam,² and after the Peace of Vienna it was largely responsible for floating the Bourbon loan.

Alexander Baring, son of the founder and second head of the firm, added $900,000 to his own large fortune by his marriage in 1798 to the daughter of Senator Bingham of Philadelphia, a founder of the Bank of North America, who was then considered the richest man in America. This was also the Baring who in 1842, as Lord Ashburton, negotiated with Daniel Webster the Northeast Boundary Treaty. A leading member of the firm for many years, from 1828 until his death in 1864, was an American, Joshua Bates of Massachusetts, who had an active part in managing the firm’s American interests.

The Barings were not only bankers for many private firms in the United States, but were fiscal agents in England for the federal government—except under Jackson and Van Buren—almost from the adoption of the Constitution, among other services financing the Louisiana Purchase.³ They also served in a similar capacity, at various times, for several state governments and for the Bank of the United States.⁴

¹ From the Baring Papers (Miscellaneous Collection, 1857), now in the Public Archives of Canada, Ottawa. Printed with the permission of the Archivist, Dr. A. G. Doughty.
² Founded by a Boston Loyalist, Henry Hope.
⁴ For information on the Barings and their American connections, see manuscript Baring Papers at Ottawa; and V. Nolte, Fifty Years in Both
The letters printed here are from the Philadelphia firms with which the Barings had frequent business dealings and correspondence. The London house also had special American agents, not only for the management of business transactions, but commissioned for the transmission of intelligence of a business or political nature. Among the latter, in 1857, was a former Assistant Secretary of State, on intimate terms with President Buchanan and his frequent guest; and in turn himself a lavish host to congressmen and other high officials, from whom information might be obtained or upon whom high powered lobbying might be practiced. "Preferred lists" were known in those days as well as these. Even Daniel Webster, while Senator and Secretary of State, sent private advice to the Barings and received their fees in return.

The accompanying documents throw interesting light on the 1857 panic in Philadelphia, as seen through the eyes of leading businessmen of the city, in the form of reports transmitted to the Barings, then probably the foremost international banking house of the world. Such reports—on business conditions, prices of commodities and securities, money rates, and forecasts of future developments, often including tips from responsible government officials—were regularly sent by Baring agents or by leading financial houses in each of the principal American cities.

The Barings naturally chose as their associates in any city the keenest financiers and businessmen they were able to discover. Their reports reveal the causes and growth of the panic, not only in Philadelphia but in New York and throughout the country, showing some interesting parallels to our present depression and not omitting even the departure of a leading bank president for

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Europe with episcopal blessings. One of the letters gives an enlightening discussion of the forces back of the crash as seen through the eyes of a man able to recall and compare the similar crisis of 1837. Other letters portray the actual operation of internal and export financing in that period, and the relation of state legislation to normal and crisis finance.

The causes of this particular panic have been called by a present day historian "unusually obscure." Not only Horace Greeley but many more recent high tariff advocates have pointed to the Democratic tariff reductions, both of 1857 and as far back as 1846, and the resulting "unfavorable" balance of trade as the chief cause. More careful economists, however, point to various other factors which contributed, as immediate or remote causes, to the final crash, and make its explanation less simple.

The sudden increase in the world's gold supply by new discoveries in California and Australia had induced inflation and speculation. Too much circulating capital had gone into fixed or "frozen" form—in the United States especially by the overbuilding of western railroads, between the Alleghenies and the Mississippi, not justified by the population and production of this region; in England by over-construction of railroads, factories, and buildings. In this country the banking system approached the anarchic in its lack of uniformity or regulation, with "wild cat" banking and note issue especially rife in the west. A rapid rise in prices of both securities and commodities brought general derangement of values, with extravagant living standards and importation of luxuries from abroad, accompanied, as during the late lamented era, by reckless borrowing, foolish investment and speculation, and general belief in unparalleled and permanent prosperity. A great expansion of bank credit, with unconcerned borrowing to sustain bankrupt and unprofitable enterprises, especially railroads, was followed by a too rapid and unreasonable credit contraction. By 1857, also, had come a marked decline in gold production.

 Materials for a crisis had been long prepared, both here and in England, but it was the general bank suspension in Philadelphia, the first large city in which this occurred, which marked the complete disappearance of confidence and which gave the final impetus to the spread of panic psychology throughout the country, and thence abroad.

Although there had been for some weeks a decline, especially in railroad stocks, on the New York Exchange, the initial major failure was that on August 24th of the “Ohio Life Insurance and Trust Company,” so-called. For like the Holy Roman Empire, which as Voltaire pointed out was not Holy, Roman, nor an Empire, this company was not a life insurance company since it never sold a policy, and much of its loan business was carried on in New York rather than Ohio. This failure was the signal for a stock market crash and several days of panic on the exchange, followed by a severe contraction of bank loans. Failures spread rapidly between August 24th and September 25th, but few were of banks save in the west, and also until after the latter date there were few or no serious bank “runs” in the larger cities. The main run on New York banks did not occur until mid-October.

As to events in Philadelphia following the failure of the Bank of Pennsylvania on September 25th, as well as the forces at work and general conditions in the country as a whole, the letters below perhaps best speak for themselves. On the night of September 25th, after the Bank of Pennsylvania had closed its doors, all Philadelphia bank presidents met and unanimously agreed upon a general suspension of coin payments. They also agreed to stop cashing checks, although a few banks proved “chiselers” and this agreement was not strictly adhered to. The news from Philadelphia was spread by telegraph and banks followed suit the next day, with a few exceptions, in Pittsburgh and elsewhere in Pennsylvania, and in most of Maryland, Virginia and Rhode Island.

New York held out until October 14th, Boston and the rest of New England until the 15th. A few banks never did suspend,

7 It is significant that this was the first United States panic in which the telegraph played a part, by the instantaneous nation-wide transmission of news, thus fanning the panic psychology. The telegraph made possible the widespread closures occurring within a twenty-four hour period, on the 26th, following the action of the bankers in Philadelphia.
chiefly in Kentucky and New Orleans, and Canadian banks also held firm. From this country the fever then spread to England. Though causes there had been long generating, it was the crash in the United States which brought them to a head. And as in most crises, unemployment and popular distress followed the banking and commercial panic.

25th, Sept. 1857. Philadelphia. Gentlemen: . . . Today our Bank of Pennsylvania suspended payment which has caused a run on all our Banks and much specie has been paid out—we have no idea that any one can eventually lose by any of our Banks but the panic is great and Bank notes of all description avoided—in this dilemma there are some suspensions and must be more before our currency is reinstated.

The president of the Penn Bank who succeeded Mr. Trotter has been very indiscreet as well as some of the Directors; he has lately drawn largely on Mr. Peabody at very low rates supposed as a financial operation to save himself but it has not availed.

The American letters not yet received. Stocks of all kinds very low and nominal. Sugar without sales. Yours Truly,

Grant & Son

Phila. Sept. 25th 1857. Gentlemen: I telegraphed Mr. Ward early this morning, that the Pennsylvania Bank stopped payment today. Of course you will be advised of [this] but as I had correspondence upon the subject with Mr. Ward, known to you—I write to inform you.

As far as the State of Pennsylvania is concerned it happens at a fortunate period, as it is so soon after the payment of

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8 Included are all pertinent letters from Philadelphia touching on conditions during the banking crisis.

9 George Peabody, of London, was born an American and had earlier done business in Baltimore. His London firm was later taken over by his junior partner, J. S. Morgan, so that Peabody may be considered the founder of what later became the house of J. P. Morgan and Co. Peabody and Morgan, with influential American ties, were strong competitors of Barings and Rothschilds for American business.

the August Interest that there can be very little if any of the money of the State there.\footnote{The Bank of Pennsylvania was founded in 1793 to bear the same relation to the state government as the Bank of the United States to the federal government. The state until 1843 owned one-third of the stock, while the bank in return made loans to the state for public improvements on demand, and held during most of the period a monopoly over deposits of state funds; by the revised charter of 1830 four of its sixteen directors were elected by the state legislature. In 1843 the state sold its bank stock, but the bank remained the fiscal agent of the Commonwealth until its liquidation in 1857. J. T. Holdsworth, \textit{Financing an Empire, a History of Banking in Pennsylvania} (4 vols., Philadelphia, 1928), I, p. 133-154; II, 580-583; J. J. Knox, \textit{History of Banking in the United States} (New York, 1900), 443, 458.} Your Obedient C. H. Fisher.


Gentlemen: I beg leave to trouble you with the collection of the enclosed draft for 103 72/100 francs, being the 19th dividend upon the wreck of a St. Domingo plantation. Please place the proceeds to the credit of Messrs. Tatham & Br\textsuperscript{\textdegree}, New York.

The country is now suffering from a total collapse of the credit system. Of course the great cause which made this event possible was the expanded condition of credit, but the immediate cause of the revulsion was the violent course of the Banks in the city of New York, who, yielding to a pressure from the sugar and other interests, expanded their loans in July from 117 to 122 millions of dollars, and then becoming alarmed by the loss of gold, endeavoured to see how quickly they could contract to 100 millions.\footnote{The recent loss of one large gold shipment by shipwreck had helped promote current gloom psychology and lack of confidence here referred to.}

They have made very fine \textit{time}, but very bad \textit{work}. They have brought down four fifths of the Banks in the country, and have so completely deranged the exchange, that their merchants are quite unable to collect their means. They have raised the rate of interest to a frightful extent. They have succeeded in dishonoring 12 to 15 millions of their own assets, and finally they have created such a panic and distrust of themselves, that it seems impossible they should stand much longer.

The New York city banks have not much circulation, and what there is, is now held by the people, but with the country banks in that state it is different. They have large issues
of circulation, secured by deposits of State stocks, with the comptroller of the state at Albany. The holders of their small bills are calling upon them to redeem, and, as fast as their circulation returns upon them, they lend the redeemed notes to Albany, and take up their stocks, which they sell in the New York Market. They then draw the gold for the proceeds, and carry it to the little country bank to redeem more notes. Of course many of these banks fail, upon which the comptroller sells out their stocks, and redeems as far as he can. In this way the city Banks of New York are merely a reservoir to supply gold to redeem the circulation of the Country Banks.

A judicious expansion, by restoring public confidence, might possibly untie the whole knot, as in England in 1847, and 1825, but the managers of the New York Banks appear not to view it so.

The state of the law in Pennsylvania, and New York, in the contingency of a suspension of specie payment of the banks, may interest you.

In Pennsylvania the law of 16 April 1850, declares that a failure, or refusal to pay in gold or silver coin "shall be deemed and held to be an absolute forfeiture of the charter of said Bank"; and a following section describes the forms to give legal effect to the forfeiture. Our legislature is now in session, called for the purpose of suspending the operation of the law.

I enclose a copy of the clauses of the constitution, and laws of New York, touching a similar contingency there.

It would hardly be fair to close this letter without noticing the grounds for hope which exist. A timely arrival of gold from England, which is just commencing, and from California, whence it is daily expected, would perhaps give strength to the Banks, and confidence to the people. An expansion in any shape, to give relief, and with the failures, would probably produce the same effect. The turning point once reached the reaction would be rapid.

In the worst event, we may feel assured that this country contains great solid wealth. Of all the elements which combined to produce the disaster of 1836/7, the only parallel which now exists is found in the land speculation of the North and West, and the extension [of] credits connected with railway
operations. Even the railroads are generally cheaply and judiciously made, and in course of time, must work through their embarrassments. The error was, in making them too fast.

In 1836, the crop was a bad one, and we imported wheat. Now, we shall be large exporters.

Then, there was little gold in the country. Now, it is abundant though rather invisible. And now, we are a gold producing country.

Moreover our Government finances, which, in 1836, were conducted upon a paper system, which the Government was the first to discredit, are now based only upon gold. They are paying out freely, and collecting little.

On the whole, therefore, I do not anticipate a great and permanent depreciation of values. The position of our house is a strong one. Our engagements, for the remainder of the year, unprovided for are small, and well spread, being in the aggregate about equal to our payments during September last, and there is not a dollar of the obligations of the House outstanding, given for any other purpose than for our lead business.

But, we feel obligated to keep strong for any contingency. We expect to make some bad debts, and to suffer by a fall in the price of lead, but we believe that on ordinary profits of the year will cover any possible loss.

I trust gentlemen that your interest in the subjects of this letter will entitle me to your excuse for addressing it to you, & I am, Very respectfully

W. P. Tatham.

(Enclosure)

Constitution of the State of New York. Article 8. Section 5. The legislature shall have no power to pass any law sanctioning in any manner, directly or indirectly the suspension of specie payments by any person, association or corporation issuing bank notes of any description.

Act of April 5th 1849.

An Act to enforce the responsibility of Stockholders in certain banking corporations and associations, as prescribed by the constitution, and to provide for the prompt payments of

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13 This forecast was correct, and the analysis shows keen insight.
demands against such corporations and associations. (Sections 7, 8, & 9 are enclosed).  

I have yours of the 9th instant. I have kept Mr. Ward advised about the Pennsylvania Bank and he of course has written you.

The examination into the affairs of the bank is progressing—but very slowly. They say today it looks rather better than they anticipated. If it should prove that the bank is solvent—it will be placed in good hands. A very short time must determine whether it can go on or must be wound up.

Messrs. Geo. Peabody & Co. are much censured here for not accepting £20,000 of its Bills.

They had a credit of £150,000 and only £15,000 used.

It is true that Mr. Peabody had private information they were in trouble. Still, it is thought, he ought to have responded to his authorized credit.

The total want of confidence here is most severely felt upon all railroad co.'s owing floating debt. Unfortunately the Penna. R.R. Co. is caught with one of about a million. They feel confident with their large business they can meet and carry their debt, but they will be compelled to pass their dividend next month—which will produce unpleasant results as the City of Philadelphia holds 4 million of stock—and rely upon the dividend, to meet the interest on their Bonds issued for the subscription to the Stock.

Very respectfully yours

C. H. Fisher.

Private, 27 Oct.

Our currency remains deranged and consequent failures and suspensions from the impossibility of realizing assets to meet engagements.

The Pennsylvania Bank was the first to suspend here and so sudden and unexpected was the act a general panic followed and there was not a possibility to stay the consequences. Our

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Sections 7, 8, & 9 were inclosed, which provide that any creditor with claim of $100 against such banking houses may, on refusal of payment, secure a supreme court injunction declaring the bank or company insolvent, and restraining its officers from any financial transactions until full examination of accounts has proved solvency.
state has now passed a law to aid the Banks but as yet they have not accepted but will do so within the time required. The Penn. Bank is as yet a mystery, no explanation having been made. Their shares are nominally $10 to $25 but no buyers—their notes are in bad repute at a considerable discount and Mr. Allibone the late president left in the Niagara for your side; his Bills on Mr. Peabody are expected back to large amt's and it is well for Mr. P. that he refused acceptance. What has been actually done is a mystery to the public and the stockholders generally. It is presumed President Allibone will never return. Our crops are good and resources great but without a currency no calculation can be made and every day some times every hour has a change. Our manufacturers had their agents to whom they sent their goods and drew at 4 months—the factors or agents sold the goods to jobbers and dealers at 6 and 8 months to very large amounts. The manufacturer raised his money by passing his agent's acceptance thro' Bank and the factor met his acceptance by passing the jobber's notes thro' same channel after their time had partly expired and they all became "shingled" over that, the jobber not being able to pay fell back upon the agent or factor who in turn being unable to meet engagements reaches the manufacturer and all the parties having to meet their own engagements, and take up the paper they had discounted are compelled to suspend, wind up their establishments, close their factories &c. &c.

We presume Bro. & B. have as much as they want to attend to as they decline to draw or grant credits any more at present and are known to be very deep in their exchange operations and credits among others Dawson & H.

How these times are to end cannot be confidently calculated upon. Our present relief act is a temporary measure intended for a few months when our legislature will assemble and the whole subject no doubt be taken up by them and revised for better or for worse as in their wisdom they deem best. Grant & Son. Phila. 27 Oct.

10/1857 (See 21/10/1857). By some extraordinary means the whole capital of the Bank of Pennsylvania has disappeared. Our City Banks to sustain her have $1,000,000 of her notes of
indebtedness. This has happened under the Presidency of Mr. Allibone who embarked for your side for the benefit of his health. There is much mystery in the whole matter and a very natural conclusion of gross fraud.

(Grant & Sons)


It seems to be understood that the examination into its affairs gave little or no hope of the ability to resuscitate it, and therefore conclude that it will be put in liquidation.

If time is important therefore in getting the powers of attorney to collect the Interest charged, it might be well to attend to it; if the delay until the next steamer makes no material difference, I shall be able to write you more definitely. It is only a few moments ago, that Mr. Welsh declined, and no definite action has yet been taken.

The Pennsylvania R. Road is doing well. I do not apprehend they will have any trouble with their finances, tho’ they will be compelled to pass their dividend, applying the profits to the payment of the floating debt. Very respectfully yours

C. H. Fisher.

Phila. Oct. 30th 1857. Gentlemen: I confirm my letter of the 27th instant and regret to say that the affairs of the Pennsylvania Bank turn out far worse than even I expected. There is no possibility of their being able to pay their debts—and I presume they will make an assignment within a few days.

It fully appears that the late President. Thos. Allibone, not only managed the Bank wildly, improperly, and destructively, but that he systematically used it fraudulently for his own purposes, and that the deficiency owed by him to the Bank is very large. Your Obedient

C. H. Fisher.

Phila. Nov. 2d 1857. Gentlemen: Enclosed please find money articles of our Phila. Ledger which gives about the figures of the Penna. Bank, as far as ascertained.

They have not yet made an assignment but our other Banks
have made oath to their insolvency so they will continue ruled out; and I should think would assign in a few days.

I deeply regret to say it is the most disgraceful case that ever occurred here and has disappointed every one.

Many knew the Bank was wildly and recklessly managed, and believed that much of the capital was destroyed, but no one was prepared for the fact now clearly proven that Mr. Allibone was insolvent when he was elected President, and that he immediately abstracted large sums for his own purposes—and continued to do so for himself and his friends—during the whole of his career. The result is an actual deficit (nothing to show for it, not even worthless paper) of $1,200,000 or nearly 3/4ths of the capital of the Bank. The losses on the assets will more than wipe out the other 1/4th so the capital is entirely gone.

He deceived every one to the last, standing high in the church—and actually attended to the boat by our Good Bishop. It is a heavy blow to the credit and standing of all our Institutions here.15

Your obedient

C. H. Fisher.

(Enclosure) 2/11/1857 Ledger & Transcript (Phila) extract “The Money Market.”

As in other similar crises, unemployment and popular distress followed the banking and commercial panic. In Philadelphia a demonstration meeting of ten thousand unemployed in Independence Square, demanding that the city or state government give them work, resulted in a mild local public works program to supplement private charity during the winter, after which conditions were much improved. Neither in Philadelphia nor in the country as a whole, however, was distress in 1857 as severe or as long extended as in 1837, 1873 or 1893, and the 1857 crash has been

15 For Allibone, cf. Evening Bulletin (Philadelphia), “Men and Things,” June 21, 1920; J. T. Holdsworth, Financing an Empire, I, 154. Long after the failure of the bank Allibone returned from Europe and was brought to trial with one of the directors, but was acquitted. The defense was in the hands of four of the leading Philadelphia lawyers of the day—William M. Meredith, George M. Wharton, F. Carroll Brewster, and M. Russell Thayer. The evidence, however, showed conditions much as here described.
perhaps well called "a panic rather than a financial crisis." But it is interesting to note that the spectacular failure of a Philadelphia financial house, Jay Cooke & Company, which set off the crash of 1873, had in some measure a Philadelphia counterpart in 1857.