The House of Baring and the Second Bank of the United States, 1826-1836

Baring Brothers and Company of London and the Second Bank of the United States were institutions of major importance in their respective spheres. Baring Brothers had maintained connections with American businessmen and governmental institutions since before the American Revolution and was the leading Anglo-American merchant banking firm from 1815 to 1860, a period when a large proportion of American economic development depended upon English credit. The Bank of the United States under the management of Nicholas Biddle was without a peer among the financial institutions in the young republic during the period under review. An analysis of their relations, therefore, illumines the general economic history of both countries and affords to the business historian an example of the manner in which conflicting policies of two prominent firms were reconciled to mutual advantage.

Connections between the two institutions began in 1817. In that year the Barings, in conjunction with Reid, Irving and Company, also of London, aided in acquiring a part of the specie reserve for the

1 Prior to the Revolution the firm had transacted business with various firms in Philadelphia and New York. These initial relations had been enhanced by a visit of Alexander Baring (later Lord Ashburton) in the 1790's and by his subsequent marriage to a daughter of William Bingham, one of the leading citizens of the United States. Under Alexander Baring's management from 1803 to 1828 the firm acted as London agent for the First and Second Banks of the United States, paid the coupons upon a large amount of bonds of the Federal government held in England, served the American Departments of State and Navy from 1803 and 1815 respectively, and granted commission facilities of many kinds to scores of American merchants from New England to Louisiana. Adam Shortt, "The Barings," unfinished manuscript in the Public Archives of Canada, 25-29, 45-66; Baring Letter Book (Library of Congress), Sir Francis Baring & Co. to Rufus King, February 18, 1803, Sir Francis Baring & Co. to Albert Gallatin, April 25, 1803; Baring Brothers & Co. to A. J. Dallas, November 20, 23, 1815; L. H. Jenks, The Migration of British Capital to 1875 (New York, 1927), 66, 358.

2 Unfortunately evidence sufficient for a detailed analysis has been found only for the period after 1825.
Bank. At the same time Baring Brothers and Company became the London agent of the American institution. Hope and Company and Hottinguer and Company performed the same function in Amsterdam and Paris respectively. Inasmuch as the bulk of the Bank’s foreign business centered in the English metropolis, however, the burden of meeting its demands fell largely upon the Barings.

During the early years the terms of the account were very simple. No credit was extended by either firm, but the nature of the arrangement indicated that the Bank of the United States was expected to do almost all the drawing and remitting of bills of exchange. The Barings charged a commission of one-half per cent for paying acceptances and receiving and collecting remittances. On cash balances they credited interest at four per cent and on overdue balances debited interest at five per cent per annum.

Under Biddle’s direction the Bank of the United States soon assumed a dominant position in foreign exchange dealings. He was led into this naturally through the necessity of financing both American imports and exports. In extending credit to aid exporters the Bank came into possession of cotton and other produce bills in the South. These foreign bills were drawn chiefly on English dealers and banking firms. Using these as remittances Biddle embarked upon the more extensive sale of bankers’ bills to American importers and others wishing to make payments abroad. One unusual feature was the beginning in 1825 of the issuance of “180 days sight” drafts for

3 John Sergeant was sent to England by the Bank officials to buy specie for the new institution. In March, 1817, he effected a joint loan from Baring Brothers & Co. and Reid, Irving & Co. for £745,000 ($3,195,000, calculating the dollar at four shillings and eight pence). One half the amount was to be in Spanish dollars and the other half either in Spanish dollars or gold, deliverable in the United States within six months. The loan was to run until January 1, 1819, and was to bear interest at the rate of 5 per cent, payable semi-annually, the first payment to be made on September 1, 1817. A deposit of bonds of the government of the United States served as collateral security. Should the collateral have to be sold to repay the loan at maturity, the contractors agreed to charge no commission on sales. Etting Collection, Bank of the United States Papers (H. S. P.), John Sergeant to William Jones, March 14, June 24, 1817; Baring Brothers & Co. to Sergeant, June 20, 1817.

4 At that time no clear cut distinction was made between commercial and bankers’ bills, although “finance bills” held the same meaning then as now. See A. H. Cole, “Evolution of the Foreign-Exchange Market of the United States,” Journal of Economic and Business History, I, 404.
use by American merchants in the Far East. Also, because the seasons for payment for exports and imports did not coincide, because Biddle did not choose to be limited by sending remittances in advance of drafts, and because money was cheaper in England than in the United States, he requested and received an open, running credit from his English agent. Under this system the Bank netted profits of $60,000 per year from 1826 onward from foreign exchange operations.

By 1831, therefore, the account between Baring Brothers and Company and the Second Bank of the United States showed some changes from that of 1817. The volume of business was much larger, special 180 day sight drafts were being issued by the Bank, and it enjoyed a credit of £250,000 on the house of Baring. For paying acceptances and collecting remittances up to the limit of the credit for any one year the Barings charged a commission of one-half per cent. On any sum drawn beyond the £250,000 they received only one-fourth per cent commission. Interest on uncovered balance was still debited the American institution at five per cent per annum, but only three per cent was credited on cash balances of the Bank with the Barings.

Baring Brothers and Company had agreed to these changes somewhat reluctantly. The entry of new firms into the field of financing

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6 That is, the terms of the credit permitted the Bank to draw bills in advance on Baring Brothers & Co. to any amount as long as the amount uncovered by remittances of bills of exchange or specie or other coverage did not exceed the stipulated sum of the credit at any one time.

7 Catterall, op. cit., 111–112, and citations.

8 Baring Papers, Letter Book (Public Archives, Ottawa, Canada. Hereinafter cited BPLB), Baring Brothers & Co. to T. W. Ward, their resident agent in the United States, November 14, 22, 1831, November 14, 1835, February 6, 1837; Catterall, op. cit., 111–112. Several features of the account were unusual for an Anglo-American account at the time. The Navy Department account was conducted under this open credit, whereas normally government accounts were kept separately, with the Treasury depositing funds in advance of drafts. Secondly, no other American firm sold 180 day sight drafts at that time. Furthermore, the credit of £250,000 was larger than any other granted by the Barings for exchange operations. Finally, four per cent rather than three per cent was credited to interest on cash balances on most accounts of American firms with the Barings and commissions on most exchange accounts were computed at one per cent for paying and receiving, rather than one-half per cent.
American trade made competition increasingly keen. The account of the Bank of the United States as the leading institution in American banking and exchange operations aided the Barings in attracting other American correspondents. Nevertheless, as a long established, conservative firm, the house of Baring did not believe that chartered banks should usurp the function formerly held by merchants as the chief dealers in bills of exchange. Although the Barings performed banking functions, they were still regarded by themselves and by others in London as merchants. In addition to this new development in their relations with the Bank, Biddle’s rapid expansion of services and increasing demands for credit aroused suspicion that he was overextending the Bank. Moreover, exchange accounts, according to the Barings, should be operated steadily. Buying and selling should be done by every sailing, even on a very narrow margin of profit, instead of being carried on as a speculation. Although Biddle said profits were secondary to stability in the exchanges, the Bank would not by underselling competitors usurp the market when the supply of bills was so large and the demand so small as to produce a very narrow margin of profit or an actual loss.

Wide variations, occasioned by large remittances in advance of drafts, or by large drafts in advance of remittances, appeared in the accounts of the Bank with its foreign representatives. The tables of Catterall show the following shifts in the foreign balances over a five year period:

<table>
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<tr>
<th>Year</th>
<th>January</th>
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<tr>
<td>1827</td>
<td>$180,000</td>
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<td>1828</td>
<td>$1,111,000</td>
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<td>1829</td>
<td>482,000</td>
<td>1,447,000</td>
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<td>1830</td>
<td>1,530,000</td>
<td>3,756,000</td>
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<td>1831</td>
<td>2,383,000</td>
<td>144,000</td>
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<td>1832</td>
<td>1,356,000</td>
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The Barings naturally noted the points of widest variation and grew irritated that this account should so disturb their plans for maintaining stability in other phases of their business. For example, on

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September 30, 1827, the Bank had to its credit with the Barings approximately £245,000, but by April, 1828, the London firm had advanced some £350,000. This the managing partners considered a "violent fluctuation."

Steps taken by the Barings to guarantee steadiness to the account were far from successful. During 1828 they sought to require that the open credit of the Bank should be limited to £100,000. This amount the Bank considered "an insufficient fulcrum for its operations" and arranged with Fletcher, Alexander and Company for an additional credit in London. This arrangement violated the rule of Baring Brothers and Company that none of its correspondents should have an account with more than one London merchant banker. Affairs drifted until Thomas Baring visited the United States in 1829, when he agreed that the open credit should be £250,000, provided the Bank received no credits from other London houses. For several years the Bank made practically no use of its credit, and during the later part of 1828, 1830, and the early months of 1831, kept large cash balances with the Barings. By September 30, 1830, the sum held by the Barings for the American institution had risen to £522,000. During the process of the accumulation of this balance the Barings came to the conclusion that "without running speculative risks" no more than three per cent could be earned on the money. Consequently, in July, 1830, they notified Biddle that from January 1, 1831, the house would allow the Bank only three per cent on sums to its credit. Upon this footing the partners thought that the account would work satisfactorily. The purpose of the Bank, they surmised, could neither be answered by leaving large deposits at a low rate of interest in London nor by paying a high rate (five per cent) for advances. With "a little foresight" the Bank could prevent the occurrence of either situation.10

All too soon the Barings discovered that even the new limitation would not serve to keep the Bank within bounds as regarded drafts on London. In 1831 the bills of the Bank on the Barings totalled £1,670,000, or more than three times the total amount drawn in 1830. On September 30, 1831, the uncovered engagements of the

Bank equalled £283,000, or £33,000 more than the open credit permitted. By December 30, the American institution had overdrawn its account £360,000, of which about £230,000 was in sixty day sight bills and approximately £130,000 in long bills sent to the Orient. The report of the Bank of the United States in January, 1832, listed a total debit balance with European bankers of $1,356,000.\(^{11}\)

In reality this state of its account with the foreign bankers was merely one phase of the perilous situation in which the Bank found itself in the fall of 1831. It had expanded everywhere more than was wise, the dealings in domestic exchange in the West and Southwest being particularly extravagant. By October 1, 1831, loans were also larger than ever before, specie in the vaults had lessened, exchange on London was at such a premium as to cause specie to be shipped out of the country, and the overdraft on Baring Brothers and Company limited decidedly the funds upon which the Bank could draw to increase the supply of exchange in the United States and thus redress the balance. To add to the pressure, on September 29, 1831, the Secretary of the Treasury notified Biddle that the commissioners of the sinking fund had decided to retire a part of the public debt in 1832. All the funds for this were to come from the deposits of the government with the Bank. Nicholas Biddle thus found himself in a very embarrassing position.\(^{12}\)

He began a contraction of the business of the Bank in the United States and turned to the Barings for additional funds. On October 7, in a circular to all the branches of the Bank, he instructed them to diminish discounts and to purchase bills of exchange for remittance to the eastern branches and to the parent office. These measures had little or no effect until May 1, 1832. Necessarily, then, the Bank needed aid from some other source. The day before the circular had been sent to the branches Biddle notified Thomas Wren Ward, the

\(^{11}\) BPLB, Baring Brothers & Co. to Ward, November 14, December 22, 30, 1831, January 21, May 5, 1832; Catterall, \textit{op. cit.}, 502. The sum for 1831 included about £40,000 for the Mediterranean agencies of the Navy Department and £250,000 from the continent, probably drawn by Hottinguer & Co. or Hope & Co., or both. The overdraft was £288,000 on December 22, £360,000 on December 30, but was reduced to approximately £325,000 on January 21, 1832.

\(^{12}\) \textit{Ibid.}, 145, 146, and note 4 on p. 146; 22 Cong. 1 Sess. \textit{House Report no. 460}, pp. 542-543; Louis McLane to Biddle, September 29, 1831. The total payments on the public debt for 1832 were estimated to amount to $18,080,057, much of which expenditure Biddle could foresee late in 1831. But McLane set no definite date for beginning the operation.
American agent of the Barings, that the Bank would be compelled to draw to the limit of its regular open credit and asked for an additional credit of £200,000. According to the estimate of the Barings the Bank was already overdrawn £33,000!

Biddle's request prompted Thomas Baring to summarize the extent and nature of the irritation which his firm felt regarding the account with the Bank.

Now just observe how this account works [he wrote to Ward]. By the large amount of funds left in our hands when everybody's hands are full of money we are almost forced into speculations & investments, in order to make some part of the interest which we are obliged to pay, and that too at a time when the abundance of money makes all prices high and then, when money is really valuable we have tremendous pulls upon our cash and that for a commission that at best averages £2000 a year, and for this we are constrained to give up in a great measure the profits of joint exchange accounts from the certainty that our friends would draw at the same time as the Bank. Let us observe too that as our house has never discounted its remittances we are debarred from the resource of making cash of a portfolio of long Bills.

It is, as you are aware, an account subject to enormous fluctuations and one as difficult as possible for us to work upon its present footing without incurring great losses because as we have no share in its management we are entirely at the mercy of the Bank which views us in the light of a reserve fund to be used to any extent when the state of the internal circulation of the country requires it, and it always happens from a natural and intelligible sympathy between all money markets that it employs largely our cash at times when money is useful to us and overwhelms us with funds when money is a drug. This system is evidently very useful to the Bank as it answers all the purposes of an additional amount of specie in its coffers without the loss of interest, and may be very profitable from its particular advantages in buying bills, but it is equally obvious that in many instances our pockets must pay a great share of the profits.

Other practices of the Bank also displeased the Barings. For example, they felt that the Navy Department account should be kept separate from the general account with the Bank. Biddle's unsuccessful attempt in 1832 to shift the State Department account to the general account caused added annoyance. Sending 180 day sight bills to the Far East interfered with the practice of the Barings of granting directly long term credits to American merchants trading in the Orient, and the partners considered the one-half per cent com-

13 Catterall, op. cit., 146–147, and note 5 on p. 146; Biddle Mss., Biddle to Ward, October 6, 1831.
14 BPLB, Baring Brothers & Co. to Ward, November 14, 1831. If commissions averaged £2,000 per year, as stated above, the annual drafts should have totalled about £550,000. The total for 1830 was £505,000.
mission on those bills insufficient return for the risk and time involved. Furthermore, they stated that the Bank should not remit funds to make interest payments due foreign holders of American securities at “about 1% above the rate of first class bills.” Even though the “dividends” were nominally collected free of charge, the Bank by this device was really charging one per cent commission.\(^\text{15}\)

The Barings were tempted, in fact, to terminate their connection with the Bank. They admitted to Ward that prestige and expediency, not profit or expectation thereof, had prompted the retention of the account since 1829. The partners had “long despaired of making the account profitable in a direct manner”; but when Thomas Baring was in the United States in 1829 they had thought that it might be indirectly profitable by making the house “more favourably known in the United States and that its transfer to another house might be prejudicial.” By November, 1831, they thought that its loss would not be a “heavy blow,” but that the imminent withdrawal of capital by Alexander Baring, managing partner of the house from 1803 to 1828, rendered inadvisable the severing of the connection at that particular moment.\(^\text{16}\)

It was with some misgivings, therefore, that the Barings acceded to Biddle’s request for the full £200,000. At first Ward granted a temporary extension of £100,000 on the open credit and wrote to London for guidance. Believing that £250,000 in the form of an open credit, the use of which was beyond the control of the London house, was all that the Bank could reasonably expect to have permanently at its disposal, Baring Brothers and Company proposed to Biddle that in the prevailing emergency the firm would hold “from any fixed date which you may be pleased to mention, and for such fixed period as you may determine, the further sum of two hundred thousand pounds at the disposal of the Bank which sum will on the day ap-

\(^{15}\) *Ibid.*, November 29, 1831, February 28, March 6, 7, 14, 16, 1832; BPOC, Ward to Baring Brothers & Co., July 7, 9, August 4, November 5, 1833 (and enclosures).

\(^{16}\) BPLB, Baring Brothers & Co. to Ward, November 14, 1831. Alexander Baring had remained as a silent partner after the reorganization of the firm effected in 1828. The Barings also held the opinion that the real importance of the London account of the Bank was exaggerated by Biddle and by their English competitors. It would be a good policy, commented the partners in 1832, to let Biddle “undeceive himself by a trial of the sincerity” of the offers of other merchant bankers. Since the Barings felt that “not another House in London” would keep the account six months, they had no fear of losing it as long as they were disposed to keep it. *Ibid.*, February 6, 1832, and November 22, 29, 1831.
pointed be carried to the credit of the Bank on a separate account." This account was to be charged with interest at five per cent on £200,000 for the whole period fixed and debited with one-half per cent commission on the amount of drafts passed against it. On the other hand, interest was to be credited at three per cent on the portion unemployed and on the remittances made to cover the account when due. Later negotiations set the reimbursement date at not later than January 1, 1833, the terms of the loan to be considered as one year. Biddle was to receive no facilities from any other London bankers and Ward was not to permit any delay in remittances unless expressly authorized by the Barings.\(^\text{17}\)

Even the added facilities failed to keep the Bank within the specified limits. On March 6, 1832, Baring Brothers and Company estimated the total uncovered drafts of the Bank to be £523,000, exclusive of £51,000 to be drawn by naval agents and of £145,000 in drafts of which the firm had been advised, but which had not yet appeared for acceptance. The house figured the overdraft at that date to be approximately £125,000. Five weeks later Biddle had overdrawn £200,000, had advised the Barings of £180,000 more to come, and the partner in London knew of £50,000 in credits for which they might be liable.\(^\text{18}\)

These winter months of 1831-1832, however, witnessed the peak of disaffection between the two banking institutions. Before the end of the year a new mutual interdependence had developed. The Bar-

\(^{17}\) Ibid., November 14, 29, 1831, January 6, February 6, 28, March 6, April 21, 1832; Baring Brothers & Co. to Biddle, November 28, 1831, March 6, 1832. Agreement on the above terms was not automatic. The November 28 letter of the Barings was not answered by the Bank until January 31, 1832, a longer lapse than the Barings thought necessary. The cashier in his first letter accepting the terms estimated that the £200,000 would not be needed to meet his drafts until July, 1832, and that therefore the loan should begin at that date. The Barings, however, were in the habit of considering the advice of the issuance of drafts as the beginning of the employment of a credit and of the funds of the firm. Inasmuch as the Bank had already overdrawn more than £100,000 on the total £450,000, the cashier was told to estimate the account "not according to the amount of drafts which the Cashier may calculate to have appeared, but including all credits or drafts which have been advised to us as if we were actually under engagement for the whole." And since the funds were already in use under the overdraft the Barings insisted that the loan should be considered in operation as of January 1, 1832. On the other hand Biddle did not accede to the request of the Barings that he open credits of £50,000 each with Hottinguer & Co. and Hope & Co. in favor of Baring Brothers & Co. for use in case of emergency.

\(^{18}\) BPLB, Baring Brothers & Co. to Ward, March 6, April 14, 21, 1832; Baring Brothers & Co. to Biddle, March 6, 1832. The overdraft totalled only about £160,000 on April 21, 1832.
ings acquired a larger measure of control over the actions of the Bank and a more accurate estimate of the needs of that institution for more than a year in advance. By a credit of $5,000,000 they assisted the Bank in the celebrated affair of the "postponed and purchased" three per cent bonds of the government of the United States while the Bank in its turn aided the London firm in making payments on a $7,000,000 loan for the Union Bank of Louisiana.

The causes for this new departure were the embarrassed situation of the Bank of the United States and the decision of the government to retire all its outstanding three per cent bonds. When advised on March 24, 1832, that one half the "three per cents," would be paid off on July 1, Biddle hastened to secure postponement of the operation till October 1 on condition that the Bank would pay the interest on the bonds for the quarter. Relieved for the moment, Biddle soon learned that the government intended to pay off two-thirds of each three per cent certificate on October 1 and the remaining one-third on January 1, 1833, thereby involving payments by the Bank of $13,000,000 on this single item before the end of 1832. Action had to be taken at once. 19

A general plan had already been adopted. On March 13, 1832, the board of directors of the Bank had authorized Biddle and the committee on exchange to make "whatever arrangements with the holders of the three per cent stock of the United States which may, in their opinion, best promote the convenience of the public and the interests of this institution." 20 This constituted a blanket permission to defer the payment on a part of the bonds. On this basis according to Catterall, the following plan was adopted:

The certificates of foreign holders of the stock were to be surrendered to the bank and by it passed over to the government as evidence of the payment of the debt. The bank itself, however, would not pay the principal, but borrow it from the original holders of the debt, continuing the loan for another year in place of the government and paying the interest during the continuance. The payment of $5,000,000 was thus to be deferred. 21

Having formulated the plan, Biddle soon sought through Ward the aid of Baring Brothers in executing it. After unsuccessful negotiations

21 Catterall, op. cit., 269-270.
in New York, the president of the Bank approached the agent of the Barings and at first received a decidedly lukewarm response. The London merchant bankers insisted upon first-class security and stated, "We do not think that we are called on to put ourselves out to assist this obvious over-trading, and we shall be surprised if they [the directors of the Bank] take or you assent to any further extension of their drafts." Nor were the partners tempted to follow the suggestion of Ward that they borrow in London on their own responsibility and lend the funds thus raised to the Bank at one per cent or one and one-half per cent higher interest. Furthermore, the Barings could not understand how Ward could treat with so "little remark" the critical disclosures of the committee of the House of Representatives investigating the affairs of the Bank of the United States.

But Biddle had another arrow for his bow. Unable to achieve his ends by dealing with the agent of the Barings in the United States, he sent Thomas Cadwalader as the agent of the Bank of the United States to London. The agreement signed by Cadwalader and Baring Brothers and Company on August 22, 1832, provided for the equivalent of a loan of $5,000,000 to the Bank. According to the first article the Barings were to "invite" the holders of the United States "threes" to retain their certificates until October 1, 1833, the Bank engaging to pay the same rate of interest quarterly until that time. In the second article Baring Brothers engaged:

To buy up the said Three per cent. stocks, on the best terms at which they can be obtained, both here and in Holland, at prices not exceeding Ninetyone per cent.: or as much higher as the running quarterly interest, in case of need. The cost of which stock to be placed to the debit of the Bank of the United States in a separate account chargeable with whatever rate of interest Messrs Baring Brothers & Company may be compelled to pay (Expected to be four per cent.) The Certificates of stock so purchased to remain with Messrs Baring Brothers and Company.

The third article merely guaranteed to the Bank the use of a total of $5,000,000. In case the total of purchased and deferred "threes" was less than $5,000,000, Baring Brothers agreed that the Bank

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23 BPLB, Baring Brothers & Co. to Ward, May 5, June 6, 1832. The Barings were referring to the contents of 22 Cong. 1 Sess. House Report no. 460.
24 Baring Papers, Miscellaneous Correspondence (hereinafter cited BPMC), Biddle to Baring Brothers & Co., July 18, 1832; 22 Cong. 2 Sess. House Report no. 121, pp. 117, 124-125. For the contract see BPMC, August 22, 1832.
might sell drafts on the firm for the difference, "or any part thereof." On this difference the Barings were to charge the same interest as on the general account of the Bank. All funds advanced by the London firm were to be repaid by October, 1833, and the commission was to be one-half per cent on the entire operation of $5,000,000.

Baring Brothers acted at once upon the terms of the agreement. By October 31 the house had purchased for account of the Bank bonds to the amount of $1,788,597.57 and had secured the postponement of a still larger sum—$2,376,481.45, of this $1,704,016.18 was held in England and $672,465.27 in Holland. Here ended the first stage of the operation.

At that point the Barings learned that Biddle had been compelled to disavow Cadwalader's contract. That document contravened the law of agency by withholding the certificates from the government of the United States for a year after the liquidating payments had been made. It also violated that part of the charter which forbade the Bank to own securities of the government. Even Cadwalader's statement to the Barings, that "it was as far from my intentions as from your own to involve in our agreement any question touching the powers of the Institution under the charter," could not alter the facts of the case.

After receiving his agent's early letters on September 29, Biddle ordered the cessation of the general contraction begun in October, 1831. He received the formal contract on October 12, the contents of which appeared in the newspapers. The significance of the provisions of the document was immediately recognized and Biddle was forced to repudiate the actions of his agent.

After the disavowal in America he wrote on October 15 to Baring Brothers that the whole of the certificates of foreign holders must be

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25 Cadwalader also agreed that Dutch holders of postponed "threes" should be reimbursed on October 1, 1833, at the rate of forty cents per guilder. BPMC, September 7, 1832; 22 Cong. 2 Sess. House Report no. 121, p. 104, is the same agreement, but is dated September 13, 1832.

26 BPOC, Ward to Baring Brothers & Co., September 6, 1833, "Memo. Account of purchase of 3 per cent. U. S. Stock," and attached documents. Catterall gives $1,428,974.54 "purchased threes," but leaves the date vague. His other figure $2,376,481.45, seems to be correct. The figure in the text was checked with the purchases mentioned by the Barings in communicating with Biddle. 22 Cong. 2 Sess. House Report no. 121, pp. 105-108.

27 BPMC, Cadwalader to Baring Brothers & Co., December 10, 1832. The best discussion of the affair, with particular reference to the degree of Biddle's responsibility, is to be found in Catterall, op. cit., 270-273, especially in note 4, p. 271. The Baring Papers throw no new light on the controversy.
transmitted without delay. These documents were necessary to a satisfactory completion of the government order. In the case of the postponed “threes” the Barings were permitted to substitute “some other certificate” “for an amount equal to what they [the holders] respectively surrender to you.” The purchased portion was to stand in the name of Baring Brothers and Company and to continue to draw interest at the stipulated rate, payable quarterly. The original certificates were ordered to be sent to Philadelphia. If the Barings desired immediate reimbursement from the Bank, Biddle was willing to acquiesce in that. On the other hand, if Baring Brothers needed funds in New Orleans to meet payments on the recently acquired $7,000,000 loan of the Union Bank of Louisiana, the whole amount disbursed to purchase “threes” might be considered applicable to that object.

Although they were very doubtful that holders of postponed “threes” could be induced to part with the certificates prior to reimbursement, Baring Brothers and Company agreed to undertake the enterprise on Biddle’s terms. A circular was issued explaining that the Bank needed the certificates to settle the accounts with the Treasury. Baring Brothers and Company would be glad to receive the certificates with the necessary power of attorney, the house engaging to give the usual letter that the documents had been received for transmission and to obtain for each holder individually an acknowledgment from the Bank of the United States that the amount had been passed to the credit of the erstwhile holder of “threes” on its books. This money would be either held at the disposal of the client or remitted in a bill at the usual time on October 1, 1833. The Bank also engaged to pay the interest to that date. Moreover, the circular stated that should the holder prefer an “immediate remittance, both of interest accrued and capital, the bank will of course comply on receiving your instructions to that effect.” Baring Brothers and Company took in the certificates, in a large number of

28 BPMC, Biddle to Baring Brothers & Co., October 15, 1832. Letters from Biddle, October 19, 31, 1832, add nothing except urgent requests to send the certificates.
30 Ibid., 112. Catterall, op. cit., 272, says that the Barings “now concluded to buy” the postponed “threes” also if the holders would not consent to the revised terms of the bank. Actually in spite of the legal fiction that the bonds were to stand in the name of Baring Brothers & Co. the London firm acted as agent of the Bank in paying for and receiving the bonds.
cases paying immediately the principal and accrued interest. For the
sums thus disbursed, Jaudon, the cashier of the Bank, usually sent
remittances in bills of the Bank as soon as he had received advice of
such advances. Among the bills remitted were those drawn by Ward
on the Barings to repay the Bank for funds advanced in New
Orleans to aid in paying for the Louisiana bonds then being marketed
for the Union Bank.31

One very serious obstacle appeared to the rapid settlement of the
account covering the bonds purchased for the Bank under the agree-
ment with Cadwalader. On September 1, 1832, Baring Brothers and
Company had sent $750,000 of the “threes” to be held by Overend,
Gurney and Company as collateral for a loan of £150,000 to be repaid
September 1, 1833. The lenders were to be paid interest on the loan
at the rate of four per cent and had promised the Barings to continue
the loan two months beyond the year if necessary. In reporting the
matter to the cashier of the Bank, Ward said that the house had
proposed to Overend, Gurney and Company to substitute other
securities for the “threes,” but had found that the lender had re-
borrowed on the same certificates in part. By the middle of March,
1833, however, Ward had received the last of the purchased bonds
called for under the original agreement.32

At any rate the profits had been sufficient and the measure of con-
trol inclusive enough to induce the Barings to talk no longer of drop-
ning the account of the Bank.33 Greater profits and a measure of

31 See 22 Cong. 2 Sess. House Report no. 121, pp. 108-125, and note 34; BPOC, Ward to
Baring Brothers & Co., January 6, 20, 28, February 5, 12, 28, March 16, 1833. In ibid., Septem-
ber 6, 1833, on an attached paper, the Barings state that $467,406.75 of the postponed “threes”
had been subsequently purchased and forwarded to the Bank, leaving $1,236,609.43 to be
paid on October 1, 1833.

After January 6, 1833, Ward assumed most of the responsibility for presenting the views
of his firm to the Bank and of making revisions in the accounts. The certificates and powers of
attorney for transfers were dispatched to Ward in care of Prime, Ward and King of New York
and were then transmitted to the Bank.

32 BPMC, Baring Brothers & Co. to Overend, Gurney & Co., copy, September 1, 1832;
BPOC, Ward to Baring Brothers & Co., January 28, 1833 (enclosure), March 16, 1833.

33 Commissions and interest on the transaction netted a tidy sum for the Barings. The com-
m ission of one-half per cent on the $5,000,000 in the Cadwalader contract equalled £5,062.10.0,
computed at the exchange rates of January 10, 1833. Interest on disbursements for the “pur-
chased threes” computed to December 31, 1832, totalled £5,689.12.6. These two sums, added
to the amount of the disbursements, totalled £374,948.13.0, on which, subtracting remittances
upon arrival, interest from January 1 to June 24, 1833, was charged at five per cent per
annum. From the income thus derived the Barings must needs deduct £500 given to Ward for
control would probably have been cause enough for the changed attitude, but other reasons also prevailed. For one thing, the Bank during the whole adventure of the "three per cents" had been giving aid to the Barings.

Shortly before the final accounting on the better known transaction another operation between the Bank and the London firm had been closed. Under a contract signed on August 14, 1832, with the Union Bank of Louisiana, Baring Brothers and Company had engaged to transfer $7,000,000 to New Orleans. Through money transfers offset by book credits, through purchases of large sterling bills as special favors, and through loans upon promissory notes the Bank advanced aid to the Barings to the extent of more than £600,000, all but approximately £55,000 of which had been repaid in January, 1834. As noted, in some cases these sums owed by the Barings in the United States were used to cover the amounts owed by the Bank to them in England.\(^34\)

By dovetailing these two operations—"threes" and the Union Bank loan—the Bank of the United States managed to keep its foreign accounts in excellent condition throughout the latter half of 1832 and the whole of 1833. According to Catterall's figures, its credit balances with European and English bankers stood at $630,000 in July, 1832, at $3,106,000 on January 1, 1833, at $1,911,000 in July, 1833, and at $1,801,000 in January, 1834.\(^36\) The Barings could be all the more satisfied because they had had a definite idea throughout the period as to what their obligations with the Bank would be.

These two transactions represented the peak of activity in the relations between the Bank of the United States and the Barings. The next two years were a sort of delayed honeymoon. The connection was one of amiability and mutual concession. The Barings had raised the commission on 180 day sight bills to three-fourths per cent in 1833, and said nothing at all about the high rates on bills remitted to

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\(^{36}\) Catterall, *op. cit.*, 502.
pay interest on securities of the Bank and of the Federal government held abroad. 36 The directors of the Bank, for their part, made no objection to the shifting of the Navy Department account to a separate account in 1835.

In like manner the Bank used sparingly the open credit on the Barings during the years 1834 and 1835. Drafts on the general open credit of £250,000 were practically suspended from September, 1832, to September, 1833, and even at the end of the latter year Ward could see no real reason for the Bank to use it further. 37 Accordingly on March 1, 1834, he asked Biddle not to draw thereafter on the open credit. Pleading that the exigencies of the prevailing business recession might force the Bank to avail itself of its foreign credit to aid the commercial community, Biddle refused to accede to the request. Under the circumstances his reasoning had the ring of soundness, and nothing more was said. The Bank used the credit sparingly however. The Barings estimated that drafts on it approximated only £82,000 on April 4, 1834, and by November of that year the Bank had £166,000 to its credit in London. 38 Moreover, in order to make certain that the account could be covered at any time, at the end of the year a credit of five million francs was opened with Hottinguer and Company in favor of the London house. It was hoped that the Barings would be able to negotiate "30 days Bills at a not less favorable rate than 25.50 fr." per pound sterling. Jaudon ended his letter announcing the credit with the remark, "It is not our intention to become your debtors, in any event." 39 That the Bank adhered to this

37 22 Cong. 2 Sess. House Report no. 121, pp. 105-112, letters of Baring Brothers & Co. to Biddle, August 20-October 29, 1832; BPOC, Ward to Baring Brothers & Co., January 10 (attached memorandum), February 28, December 23, 1833; BPMC, Jaudon to Ward, January 10, 1833. A few long bills had been sent to the Far East during 1833.
38 Biddle Mss., Biddle to Ward, March 10, 1834; BPLB, Baring Brothers & Co. to Ward, April 4, 22, November 22, 1834.
39 BPMC, Jaudon to Baring Brothers & Co., December 31, 1834; BPLB, Baring Brothers & Co. to Jaudon, January 30, 1835; BPOC, Ward to Baring Brothers & Co., March 1, 20, April 23, May 21, July 14, 30, September 28, October 10, 13, 28, 1835. Balances with foreign bankers to the credit of the Bank were $1,801,000, $3,827,000, $1,922,000, $2,378,000, and $73,000 on January and July, 1834, January and July, 1835, and January, 1836, respectively. After its Pennsylvania charter was granted the Bank had begun to expand and on March 3, 1836, the debit balance with Barings was $371,777. Catterall, op. cit., 502 and 371 (note 4).
stated policy is borne out by reports from Ward throughout 1835 and by the semi-annual reports of the Bank.

In truth, the policy was advantageous to both parties. During the boom years the Barings needed all their funds in order to compete successfully with the other merchant bankers of London in the financing of American trade and the marketing of American bonds. At the same time the gesture was easy for Biddle to make because he was in the process of winding up the affairs of the Bank under its Federal charter.\(^{40}\)

Thus the connection between Baring Brothers and Company and the Second Bank of the United States under its Federal charter terminated amicably. A general expansion, paralleled by increasing demands upon each other, characterized the actions of both firms throughout the period from 1826 to 1836. Between 1827 and 1832 these policies produced conflicts of interest which led to discontent, special negotiations, and almost to the severance of the relationship. In the latter year, however, the extensive needs on the part of both institutions were resolved in mutual aid and in a better understanding of the requirements of each. Out of such maneuvering is the ebb and flow of capital fashioned.

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\(^{40}\)Ibid., 359–375.