THE MERCHANT BANKERS IN THE EARLY 1830'S

by

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I

Those who are called merchant bankers undertook the loan contracting of British Government stocks during the Napoleonic Wars, and were engaged in the floatation of French Rentes as well as other foreign loans in large amount in the post-war years. During these periods, however, the term merchant banker was not yet in use. This word is conceived to have its origin in the development of the Anglo-American trade in the early 1830s, although different views can be found.

For example, L. H. Jenks has put as follows. "The resources of the Bank of England had been strained to their limit almost from the first (of the Napoleonic Wars—quoter's insert). And the government was obliged to turn more confidingly to the private banks and those merchants of London that began to be known as merchant bankers."[1] It is true that during the said periods some London merchants such as Baring Bros. & Co. and B. & A. Goldsmids[2] played a prominent part in the loan contracting of British Government stocks to be praised as "Pillars of the City"[3] and on account of their foreign trade of extensive scale they were called "Prince of Merchants."[4] Yet, for the argument of Jenks' that the term merchant banker originated during this period, no sources to prove it are indicated. In addition we can find no traces of popular use of the word during the Napoleonic Wars.

It appears to be by the "*Circular to Bankers*," a financial weekly for country

1) Jenks, L. H., *Migration of British Capital to 1875*, New York and London 1927, p. 18.
2) This house was driven to failure three times—during the Napoleonic Wars, in 1825 and in 1832—being re-established after each failure. At the time of the last failure, they were engaged in wheat trade with northern Europe (*Circular to Bankers*, Feb. 17, 1832).
3) Jenks, *op. cit.*, p. 19. This was quoted by Jenks from *The Times*, London, Sept. 29, 1810.
4) Nolte, V., *Fifty Years in Both Hemispheres or Reminiscences of the Life of a Merchant*, 2nd ed., London 1854, p. 158.

bankers,[5] that the term was used for the first time. Its issue of October 5, 1832, pointed out that English capitalists had invested in a large sum in the public works of the United States and made huge profit, adding the following comment. "If no great and unforeseen obstacles arise, there must arrive a time when the success that has attended all such transactions of the British *merchant bankers* (quoter's italics) will have caused capital to be forced into this new channel (i.e., investment to America—quoter's insert) so freely and considerately as to cause thriftless and improvident application of it." Maybe this paragraph first used the term merchant banker.

The *Circular to Bankers* mentioned the term merchant banker again in the issue of March 21, 1834. After reporting that "a few opulent firms in London"[6] exerted vigorous investments in the Continent and the United States, it states as follows. "We do not assert that all the American houses are equally circumstanced for obtaining the necessary securities for their advances to their trans-Atlantic correspondents, and for commanding the resources of the London Money-market; but taking them as a class, there cannot be any doubt of the ability of the merchant-bankers of England, connected with the American trade, to afford assistance to their friends, nor of their determination to render that assistance in an effectual manner."

In view of the two remarks of the *Circular to Bankers* we could infer that the term merchant banker has its origin in the Anglo-American trade of the early 1830s.

II

The merchant bankers actively working in the early 1830s were so numerous as to form "a class."[7] However, those who had high confidence and hence enjoyed high appreciation in the London money market were limited in numbers. Influential were the houses of Baring Bros. & Co., W. & J. Brown & Co., Thomas Wilson & Co., Timothy Wiggin & Co., George Wildes & Co., Lizardi & Co., Ewart,

5) The writer was unable to investigate *The Times* prior to 1832 for this paper. So it is possible that the word had already appeared for the said period in it. And as for the worth of this weekly as historical material we will quote from Jenks: 'The weekly *Circular to Bankers*, from 1828 to 1846, is the most penetrating running commentary on the money market" (Jenks, *op. cit.*, p. 347).

6) "It is well known that the combined exertions of a few opulent firms in London have been found sufficient to relieve any European Government from embarassment, and it is almost entirely upon this class of British capitalists that the burden of sustaining the credit of our enterprizing and sanguine customers in America must fall, it would be irrational to doubt either respecting their determination or their ability to administer the requisite succour." (*Circular to Bankers*, March 21, 1834).

7) *Circular to Bankers*, March 21, 1834.

Myers & Co., Huth & Co., Reid, Irving & Co., and Fletcher, Alexander & Co.[8]

As Timothy Wiggin stated, on a Select Committee of the House of Commons, "The business I am engaged in is that of a foreign banker, chiefly on American account,"[9] commodity consignment business was only of a low ratio for his house. This was, however, exceptional among most of the merchant bankers. Wilson & Co. managed extensive business of commodity consignment.[10] So did also Ewart, Myers & Co.,[11] Baring & Co. and W. & J. Brown & Co.

Among the merchant bankers mentioned above the houses of Baring and Brown were most distinguished. "In London and Liverpool a group of eight houses, of which Baring Brothers and Brown Brothers were the most active, handled practically all of the exchange and credit relations with America."[12] As regards to capital, Baring & Co. was most prominent, with 700 thousand pounds as of 1830.[13] The partners of the house were all rich, wealth of one of them being said to exceed 300 thousand pounds.[14] Compared with this, the capital was only 80 thousand for Wilson, 120 thousand for Wiggin, and 30 thousand for Wildes.[15] W. & J. Brown & Co. equally shared the Anglo-American trade of the early 1830s with Baring & Co. W. & J. Brown & Co. was "the closest competitor" of Baring.[16] Indeed W. & J. Brown & Co. was counted into "3 B's" in the raw cotton import from America side by side with Baring and Humphreys & Biddle,[17] the latter acting as agent for the Bank of the United States. Then, how did Baring and Brown, two houses of the 3B's, enter the trade with America? By tracing their business history we could get an overall view of the Anglo-American trade of the merchant bankers which made the base of their acceptance business.

8) Buck, N. S., *The Development of the Organization of Anglo-American Trade*, 1800–1850, London and New Haven, 1925, pp. 8–9. Clapham, J., *The Bank of England*, Vol. 11, Cambridge 1945, pp. 151–152. Hidy, H. W., *The House of Baring in American Trade and Finance*, Cambridge (Mass.) 1949, pp. 78–79, 93–94.

9) Report from the Select Committee on Manufactures, Commerce and Shipping, House of Commons, 1833, Minutes of Evidence, QQ. 1928–1929. (In the below this material will be shown simply as Q).

10) QQ. 1467, 1496.

11) QQ. 3986–3987.

12) Jenks, *op. cit.*, p. 68. The eight houses mentioned by Jenks include, beside the said two, those of Wilson, Wiggin, Wildes, Lizardi, Morrison and Rothschild. It was in 1835 that N. M. Rothschild & Sons participated in the Anglo-America trade. In this year they succeeded Baring & Co., as the general commercial agent of the U.S. Government. (*Ibid.* pp. 359–360 n. 13).

13) Hidy, *op. cit.*, p. 129.

14) *Circular to Bankers*, Jan. 13, 1832.

15) Hidy, *op. cit.*, p. 93.

16) *Ibid.*, p. 123.

17) Buck, *op. cit.*, pp.95–96. "Hereafter the American trade in cotton will be controlled by the three B's; the Biddles, the Barings, and the Browns. The day of 3 W's (Wilson, Wiggin and Wildes—quoter's) is past and gone forever" (*ibid.* p. 96, this was quoted by Buck from *Financial Register*, 1838, II, p. 140).

III

The houses of Baring and Brown were two big capitalists engaged in the Anglo-American trade of the early 1830s. Yet their processes of coming into this field were quite contrastive.

Since their foundation in London in 1763, Baring and Bros. & Co. has been closely related with North America of the colonial age and the United States after independence. They long held the position of general commercial agent of the U.S. Government until the mid-1830s when it was ceded to Rothschild, conducted close transactions with the First Bank of the United States, and further played an important role in the establishment of the Second Bank of the United States.[18]

The relations between Baring & Co. and the United States increased closeness still more, by the late 1820s. A factor relevant to this change was the dispatch of its partner, Thomas Baring, to America. He went to America in 1828 where he strived for improving the relations with the Second Bank,[19] arranged floatation of the State Loan of Louisiana for establishing a bank through negotiation with the Consolidated Association of the Planters of Louisiana,[20] and cultivated many new business correspondents.[21] Furthermore, he selected Thomas W. Ward for the general agent of the house to provide for future expansion of trade between the two countries. Ward was given competence to represent Baring & Co. in the United States.[22] On the other hand, also in the home country measures to facilitate smooth trade were taken. First, the house added Joshua Bates, an American, to the partners. Coming to England in 1817, he set up Bates & Baring in 1826 together with John Baring. Soon in 1828 this firm was merged into Baring & Co. by which Bates became a partner of the latter.[23] By his detailed evidence on the above-referred Select Committee, it is thought, he managed the American trade of the house. Secondly, the house of Baring established a branch office in Liverpool for the aim of more speedy deal of consignment business and

18) Detailed descriptions of the Baring's activities during this periods are found in Shortt, A., *The Barings* (unpublished typescript in the Public Archives of Canada) and in Hidy, *op. cit.*, Chaps. 1–3.

19) *Ibid.*, pp. 97–98. The business relation of Baring & Co. and the Second Bank began to get worse since 1827. As of September 1827 the bank placed a balance of 245,000 pounds for the house, which showed a sudden turn to a debt of as large as 350,000 by April 1828. Taking such situation as dangerous, the house asked for reduction of debt. This case was settled once at last by personal talks with Nichlas Biddle, President of the Bank.

20) Jenks, *op. cit.*, p. 360 n. 25; Hidy, *op. cit.*, p. 96. Barings agreed upon floatation of State loan amounting to 2,500,000 dollars, which they contracted at 1,666,667 dollars. Payments of interest were to be made at a fixed exchange rate, which was the first case for loans, whose interest payment was made in London.

21) *Ibid.*, pp. 95–96.

22) *Ibid.*, pp. 98–102.

23) Bourne, H. R. F., *English Merchants, London* 1886, p. 456 n. 1; Hidy, *op. cit.*, pp. 82–84.

saving in commissions to pay to the agents. Another reason for opening the branch was competition with W. & J. Brown & Co.[24] Thus already at the beginning of the 1830s "Baring Brothers & Company was then in a position to offer better service and a reduction in costs to consignors, as well as to exercise through its American agent and its Liverpool house, closer supervision over the buying and selling of merchandise forwarded by aid of credits granted from London."[25]

On the other hand, W. & J. Brown & Co. started from the Liverpool agent of Alexander Brown & Sons, an American exporter. Alexander Brown, senior partner of the house in America, had been carrying on auction sale of linen in Ireland at the close of the 18th century, while engaging in trade with Philadelphia. He moved to America when the relations between England and Ireland became serious, and in 1800 founded the said house of Brown. This firm conducted mainly importation of Irish linen, holding an exclusive position in this trade there until about 1818.[26]

The house of Brown had a thorough knowledge about business correspondents in England, better than other Baltimore traders did. So they came to conduct acceptance of export bills as well as selection of English bills in Baltimore. So, for the aim of developing trade with Britain, partner William Brown was dispatched to Liverpool in 1810, shortly before the Anglo-American War. There he founded William & James Brown & Co. to manage supervision on goods transported from Baltimore and ships running between the two countries.[27] While thus giving help to the Baltimore traders, for the purpose of developing the Anglo-American trade of its own the house added to partners Joseph Shipley who was acquainted with circumstances of America.[28] Along such intensification in England, also in America J. A. Brown & Co. was established in Philadelphia in 1818[29] and Brown Bros. & Co. in New York in 1825.[30] In this way, under the close co-operation with three brother houses in America, W. & J. Brown & Co. of Liverpool had grown to a merchant banker comparable with Baring & Co.

The merchant bankers expanded the business of commodity consignment under intimate connections between England and America as was seen in the two most influential houses above. This trend of growth is observable by the "*Circular*" published by Baring & Co. The distribution of the *Circular* was

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24) *Ibid.*, p. 106.
25) *Ibid.*, p. 107.
26) Brown, J. C., *A Hundred Years of Merchant Banking, A History of Brown Bros. & Co., Brown, Shipley & Co. and the Allied Firms*, New York, 1909 (privately printed) pp. 3–18.
27) *Ibid.*, pp. 58, 64–67.
28) *Ibid.*, pp. 73–76. Shipley was the senior partner of W. & J. Brown & Co. from 1836 to 1850. In 1839 the house changed its name to Brown, Shipley & Co.
29) *Ibid.*, p. 167.
30) *Ibid.*, p. 184.

supposedly commenced by Bates & Baring, which was merged into Baring & Co. Bates & Baring, before the merger, had been carrying on the business of American exports to England mainly on American account.[31] They conveyed information on business conditions in London to American exporters, their correspondents, to enable them to evade risks. An extant issue of the *Circular*, dated December 18, 1827,[32] describes market conditions of wares which were supposedly handled by the house, along with a commodity price table. These are ten items including sugar, coffee, raw cotton, Indian indigo, rice, tobacco, lime, pepper, nitre and hemp. Weight seems to have been placed on stocks, price fluctuations in Britain and output conditions in the producer lands.

After the said merger of the two houses the contents of the *Circular* increased richness. The annexed price table became more complete and the items were extended over products of all over the world, that is, Europe, the United States, British North America, West Indies, East Indies, South America, Manila, China, Japan and so on. The *Circular* was principally for the circles related to the Anglo-American trade. This is shown by the list of share and stock quotations of London added to the end of the price table. They all were American securities such as the shares of the Second Bank of the U.S., Union Bank of Louisiana and Canal Bank of New Orleans as well the loans of the States of New York, Pennsylvania, Ohio and Alabama.[33] Furthermore, the items of commodities were increased. The issue of January 14, 1833, published, in addition to the above-described, dyestuff, copper, opium, wheat flour, hides and skins, iron, China cotton, oil, spice, tin and woolen fabrics.[34] The issue of June 22 further added cocoa and mercury,[35] and that of October 22 brandy, medical compounds and lumber.[36] On the latter two issues not only market conditions of goods but also comments on general situations and speculations were inserted.

Such increases in the numbers of listed goods suggests expansion of consignment business of Baring & Co.[37] Its flourishing activities afforded materials for foreseeing the markets and served as guides for many merchants. This is evident by the following paragraphs of the *Circular to Bankers*. It writes: "The large quantity (of corn—quoter's) recently taken out of bond for sale was, we believe, thrown upon the market by the opulent house of Baring & Co.: it was, probably, held by them as a consignment from some of their numerous correspondents abroad. Whether it was their own property or that of their correspondents, is, in this case, a matter of insignificant moment. We are not aware that any prospect opened in any quarter which afforded the means of bringing

31) Hidy, *op. cit.*, p. 79.
32) *Baring Papers Printed Maters*, pp. 80056–80057.
33) Extant numbers of the *Circular* are only three for the first half of the 1830s, that is, Jan. 14, June 22 and Oct. 22, all of 1833.
34) *Ibid.*, p. 80124.
35) *Ibid.*, p. 80128.
36) *Ibid.*, p. 80146.
37) Hidy, *op. cit.*, p. 173.

the commodity to a better market: it was, probably, the best termination that an intelligent and experienced merchant (Baring & Co.—quoter's) could under existing circumstances (drop of corn price—quoter's), bring the speculation to."[38] It is easy to infer, from the growth of the Anglo-American trade, that many of the merchant bankers were extending consignment trade and becoming more and more influential in this field at this period.

IV

Most of the merchant bankers kept their offices both in London and Liverpool.[39] For example, Wilson & Co., while placing their base in London, held a office in Liverpool to receive consignments from America.[40] Ewart, Myers & Co. of Liverpool had a sister firm, Ewart, Taylor & Co.,[41] in London. The merchant bankers kept close contact with the London money market through London houses, while managing in- and out-flow of consignments through Liverpool affiliates, Liverpool having industrial Lancashire as its background area. In other words, the axis business of foreign trade was managed in Liverpool while the business of trade finance was conducted in London.

In warranting the right of bill-drawing to a correspondent, the merchant bankers firstly strived to confirm his credit and business positions. The above-cited evidence on the Select Committee on Manufactures, etc., proves how well they were acquainted with the commercial and industrial situations of England. And the collection of information in America was performed by their agents there, as may be known from the examples of Baring and Brown. According to such investigation credit positions of correspondents were classified into some grades. In the case of Baring & Co. the grades were three.[42] The first was correspondents of "unquestionable solidity credits."[43] These were not required to tender bill of lading, bill of insurance or reference to the value of the merchandise in asking for an advance. This scheme of advance was called "uncovered or open credit" because bill of lading or the like was unnecessary, and was employed

38) *Circular to Bankers*, Oct. 5, 1832. Buck *mentions* Baring & Co. as "the American Commission Merchant" (Buck, *op. cit.*, p. 6). He gave this term supposedly because the house conducted the Anglo-American trade on the risk of correspondents and on commissions. The goods said in *the Circular to Bankers* may have been unsold ones, either owned by the house or managed by it for clients. The step of undercutting sale may tell that the ownership was in the hands of the house, or else the sale was conducted by the order of clients at their risk.

39) Brown & Co. was exceptional. This firm opened London office in 1863 (Brown, *op. cit.*, p. 147).

40) Q. 1469.

41) Q. 3986.

42) Hidy, *op. cit.*, p. 139.

43) *Ibid.*, p. 139.

44) Jenks, *op. cit.*, p. 86. Hidy, *op. cit.*, p. 136. Already by the early 1830s such a situation had been reached as: "Almost every American import merchant has

increasingly in the Anglo-American trade of the 1830s.[44] The second-grade correspondents were those of "considerable wealth but doing a large business."[45] These were given similar treatment with the first grade up to a certain amount, but for advances exceeding it bill of lading and bill of insurance had to be offered. The third group were correspondents "of small means but respectable"[46] who were granted advances up to 75 per cent of the value of commodity on presenting such documents. The second and third schemes were called "covered or closed credit."[47] In addition to such grading, Baring & Co. prohibited correspondents to deal with other merchant bankers, refused receipt of promissory notes, and gave no advance beyond the resources of a correspondent.[48]

Baring & Co. opened two kinds of accounts for their correspondents graded as above. The one was "accounts of the drawers." This account was utilized by banks and merchants of high credit such as the Second Bank of the U.S., Union Bank of Louisiana, City Bank of Boston, Yeatman, Woods & Co. and so on. The profit and loss of these correspondents were settled on their own accounts.[49] The other was "joint exchange accounts." On this account both the correspondent and Baring Co. were to join profit and loss.[50]

On these two accounts the house permitted correspondents to draw bills up to a certain limit. The correspondent had to deliver to the house beforehand a balance matching to the limit, in specie in principle. If transfer of specie was impossible, shares or stocks in place of it could be presented. This delivery of securities was actively employed to obtain warrant of bill drawing. Little American securities were transacted on the London Stock Exchange, but they were sold in the local cities of Britain as well as Continent cities through the hands of the merchant bankers. Especially shares of influential banks such as the Second Bank were treated equally with Consols and Rentes and easily sold in the European cities. So the merchant bankers readily accepted them as

now a credit agreed upon with some one or more of the leading English merchants connected with the United States; and we believe it to be not an uncommon thing for a credit of from forty to fifty thusand pounds to be given by opulent English houses to their American correspondents, without a particle of security beyond the known or acknowledged stability of their debtors" (*Circular to Bankers*, March 14, 1832).

45) Hidy, *op. cit.*, p. 139.
46) *Ibid.*, p. 139.
47) *Ibid.*, p. 136.
48) *Ibid.*, pp. 141, 143.
49) *Ibid.*, p. 134.
50) *Ibid.*, p. 135.
51) "Supposing, therefore, the Bank of the United States to require an accession of capital from England, or to find it inconvenient to discharge their debt to Baring & Co. in silver—the balancing money of merchants—they place in the hands of Baring & Co., the shares of some tempting project for forming a canal, or a rail-way, or some public work of utility, for sale in England" (*Circular to Bankers*, Jan. 13, 1832). Again "its stock (of the Second Bank of the U.S.—quoter's) is now, one of those public Securities which are readily sold, upon all the principal Exchanges of Europe (as well as those of America), as French Rents, English Consols, or the stock of any of the National Banks of Great Britain or of the European Continent" (*ibid.*, Dec., 23, 1831).

security for warrant of bill drawing.[51] When the offered specie or securities had decreased below a certain limit transaction was suspended, unless immediate delivery was made by correspondents. But it was reopened at once if the amount was recovered. This device was called "running or revolving credit,"[52] which seems to have contributed to the stability of business for the merchant bankers.

The merchant bankers managed trade finance by way of such a method. It rendered possible the speedy dealing and easy expansion of the Anglo-American trade. The development of trade was further promoted in accompany with the increasing weight of the uncovered credit in place of the covered credit. The covered credit, which had been long used in the Anglo-American trade, had gradually disappeared until late in the 1830s, and it was replaced by the uncovered.[53] The principal cause for such shift was the growing competition in the trade and another reason was the increasing confidence placed on American merchants.[54] Thus bills on the merchant bankers began to follow the road of increase in accompany with the extended use of the uncovered credit. So, we must describe what position these bills came to hold on the London money market.

V

There existed close connections between most of the merchant bankers and the London money market.[55] The closeness was increased especially since 1830 when Overend, Gurney & Co. and other bill brokers were granted to open discount accounts on the Bank of England.[56] Under these situations the merchant bankers were able to utilize the money market at will.

52) Hidy, *op. cit.*, p. 133.
53) Buck., *op. cit.*, pp. 155–156.
54) McGrane, R. C., *Foreign Bondholders and American States Debts*, New York, 1935, p. 12.
55) Brown & Co., with its business base in Liverpool, had intimate relations with the Bank of Liverpool. This was a joint-stock bank founded in March 1831 (Bourne, *op. cit.*, p. 437; Brown, *op. cit.*, p. 127; King, W. T. C., *History of the London Discount Market*, London, 1936, p. 43. King says the establishment was in 1830, but this paper relies on the works by Bourne and Brown), J. C. William Brown of Brown & Co. played an essential part in the establishment of this bank and acted as the first chairman of the board of directors. (Bourne, *op. cit.*, p. 437; Brown, *op. cit.*, p. 127). In view of such relations it is easily supposable that the house discounted bills on them at this bank. As is well known, the Bank of England had been authorized to have branches already in 1826 and opened three in that year and twelve in 1834 (King, *op cit.*, pp. 50–51). Although discount business by the branch banks was under strict rules, facilities of re-discount were afforded to the joint-stock banks of Manchester, Liverpool, etc. that did not issue bank notes (*ibid.*, pp. 51–52, 56–57; Clapham, *op. cit.*, pp. 139–142). So Brown & Co. is supposed to have had such facilities of rediscount by the Bank of England through the Bank of Liverpool.
56) King, *op. cit.*, pp. 68–69, 89–90; Clapham, *op. cit.*, p. 142. The opening of discount account was granted only to a few bill brokers suh as Overend, Gurney & Co., Sanderson & Co., Alexander & Co., James Bruce & Co., etc. However, this led to such a state as "London credits are now used to a much greater extent in carrying on all commercial transactions than at any former period" (Q. 2014).

That is to say, firstly, when the merchant bankers had received bills on them from correspondents other than American, they were able to discount them on the London money market and thus to provide money to American correspondents. This operation was further accelerated by the higher interest rate in America than in London.[57] Secondly, when resources became scarce they drew accommodation bills to discount on the market. Discounting bills of this sort was promoted by the abundance in the London money market, but at the same time an important factor was high confidence placed on the merchant bankers.[58]

The connections between the merchant bankers and the London money market became still closer after 1833. This was because the Bank of England exempted bills at date less than three months from application of the Usury Act and began advance against them.[59] The usual date of bill in the early 1830s was three months.[60] Hence this step of the Bank, side by side with the said opening of discount accounts for bill brokers, worked to help buoyant dealing in bills on the merchant bankers in the market. However, there was a difficulty in the market, that is, shortage of first-rate bills.[61] So, bill brokers discounted any bill on the merchant bankers of high credit, whatever the date might be.[62] Thus, favored treatment to the influential merchant bankers such as Baring & Co. was born. For example, the *Circular to Bankers,* March 14, 1834, has pointed out as follows. "This credit (from England to America—quoter's) is usually taken by bills at four months' date; but in special cases, for houses of eminent reputation and great business in the United States, it is extended to bills at six months' date. This system has grown out of facilities of obtaining discount at a low rate in London, where bills upon such houses as Baring & Co. and so on have been discounted at three or two-and-a-half per cent." This represents sub-

57) Baring & Co. received bills on them from merchants of Petersburg, Hamburg, Paris and so forth. So, "they could discount them with the House of Gurney Co., at a fraction under the Bank-of-England rate of four per cent. In this manner, funds would be placed in their hands, at a low rate of interest, to enable them to continue, and to augument, their advances to the Bank of the United States, at a high rate of interest" (*Circular to Bankers,* Jan. 13, 1832).

58) "When the time arrives, that Baring & Co. want to replenish their coffers, what shall prevent them using the credit is always at their command; and either borrow money directly from the money-broker in London, or, which is the more independent course, draw bills, at a long usance, upon Houses in Paris, Hamburgh, or Amsterdam, and sell them in the market." (*ibid.,* Jan. 13, 1832).

59) King, *op. cit.,* p. 68, Clapham, *op. cit.,* pp. 136–137.

60) For instance, "In the cotton trade the credit is three months" (Q. 1474).

61) Complaints of the discount market are reported, for example, in the *Circular to Bankers* of Jan. 13, Feb. 17, May 25, June 22, August 3, August 10, Sept. 21, Oct. 12, Nov. 9 and Dec. 14 of 1832. On August 3, "There is great scarcity in the Discount-Market, of unexceptionable commercial paper"; on Dec. 14, "there is a great want of mercantile bills of the highest reputation."

62) Samuel Gurney, for example, said "we discount bills at long dates" (Q. 57) and no difficulties lay in dealing with them (Q. 58).

stantial favored treatment as against usual cases of those days for both date and rate.[63]

Such treatment about discount, being accelerated by the abundance in the money market, shortage of first-rate bills and the expansion in Anglo-American trade, gave birth to an abnormal case as was reported by *The Times*, London, of March 19, 1834, "A bill was recently drawn, it seems, by the United States Bank, six months after sight, on the house of Baring Brothers, for the sum of 300,000 pounds and offered to an eminent capitalist by the party into whose possession it came, was discounted at the rate of 4 per cent. By the same capitalist, however, as the current statements allege, the same bill was offered at the Bank of England, and there discounted at the rate of 3 per cent only." According to the practice of the Bank of England, then the date was three months and the rate was 4 per cent.[64] So, the described transaction was a deviation from it and a favored treatment to the influential merchant bankers, especially in view of the sum of the bill.

This report was subsequently somewhat amended and supplemented. That is to say, the drawer was not the Second Bank of the U.S. but the U.S. Government, the sum was not 300,000 pounds but 350,000, and the rate was not 3 per cent but 2.5 per cent. By this the favored treatment became more apparent.[65] Against this news both Baring & Co. and the Bank of England denied the presence of such dealing and strongly protected.[66] Yet *The Times* of March 21, confirmed its truthness and stated: "We can only say, in his defence and our own, that the existence of such a bill has been very generally believed in the money-market, though the other circumstances relating to it had only been circulated, as has been already stated, in quarters where such information is usually to be obtained in the most correct shape."

This case tells that already in the early 1830s the merchant bankers, represented by Baring & Co., were holding intimate relations with the London money market and the Bank of England, its axis, through bill brokers. About such relation the *Circular to Bankers* describes as follows. "The farmers and traders of Norfolk and Suffolk, in good times, by industry and frugality, save money; which they deposit with the Norwich and Suffolk bankers, who send it to their agents in London (Gurney & Co., who lend it to Baring & Co., who lend it to the Bank of the United States."[67]

63) The discount rates assessed by Overend, Gurney & Co. were, on annual average, 2.81% in 1830, 3.69% in 1831, 3.15% in 1832, 2.73% in 1833, 3.38% in 1834 and 3.17% in 1835 (King, *op. cit.*, p. 80).

64) *Ibid.*, p. 80. "An eminent capitalist" in this report seems to denote Overend, Gurney & Co. This house assessed 4 per cent on bills on Baring & Co. So, it is meant that the Bank of England gave this capitalist a profit of 1 per cent.

65) *The Times*, London, March 20, 1834.

66) To this protest the Times replied; "the explicit assertion by the Governer of the Bank of the "falsehood" of the original statement, is far from having produced the effect he probably anticipated from it."

67) *Circular to Bankers*, Jan. 13, 1832.

Such relations led later on to cause expansion of consignment business for the aim of obtaining advances, a reversal of matter, being accelerated by the above-said extension of uncovered credit. As the result in the late 1830s, the merchant bankers had to be faced with a grave trial.[68]

68) Buck, *op. cit.,* pp. 156–157; Jenks, *op. cit.,* p. 86; McGrane, *op. cit.,* p. 12.