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BILLS ON MERCHANT BANKERS IN THE LATER 1830S

by

Norio Tamaki

(I)

The merchant bankers played an essential part in the development of the Anglo-American trade in the middle of the 1830s. Their business was believed to rest on solid ground, so solid that "...to expect their failure would be something like contemplating the stoppage of the Bank of England."¹ A change occurred in such a situation, however, when in September 1836 the Bank of England embarked upon countermeasures against the excessive trade between Britain and America.

The first measure of the Bank was an increase in the interest rate to 5%,² by which it was intended to deal a blow against trade which took advantage of the differing rates of interest between the two countries,³ and thus to check the enormous gold outflow which had been continuing since April of that year.⁴

1) *Circular to Bankers*, Sept. 2, 1836.

2) Only shortly before this, in July, the Bank rate had been raised from 4% to 4½%.

3) "...the new kind of traffic with the United States in shares, and the employment of merchants' credit for drawing away gold from England to be coined in that country, did constitute the most formidable obstacle to the free and satisfactory administration of the affairs of the Bank upon the present system of our currency" (*Circular to Bankers*, Oct. 21, 1836). Therefore the aim of the Bank's step was "to restrict the operations of all who are concerned in administering the currency and promoting the credit of the country to that point which shall, in great measure, for a time, check commercial transactions, and leave the course clear for Exchange-merchants to bring back gold to replenish the coffers of the Bank" (*Circular to Bankers*, Sept. 16, 1836).

4) The amount of gold efflux from the Bank of England from April to August reached £875 thousand. Referring to this J. H. Palmer testified: "I believe that the export of gold and silver from Europe to the United States, during the summer of 1836, was equal to the amount lost by the Bank of England; a portion of the extended negotiation of American bills upon England during the period alluded to, under the excessive credits granted by some of the leading American houses in this country (another term for the merchant bankers—quoter's insert, see Section 2 of this paper), (Select Committee on Banks of Issue, 1840, *Minutes of Evidence*, Q. 1298. Below only the relevant number will be shown).

The second measure was refusal of advance against the acceptance bills of the merchant bankers. This step, which had been taken in London prior to September of that year, was extended to Liverpool, the base of the Anglo-American trade,⁵⁾ and the Bank indicated by name the houses of merchant bankers in these two cities to whom advance was to be rejected.⁶⁾ When this stricter policy was annouced, "The money-dealers and discount-merchants immediately turned round, and unceremoniously rejected the paper for which they had the moment before so great a liking."⁷⁾ Thus, "The dread of a panic similar to that of 1825 almost universally prevailed."⁸⁾ This was the beginning of the 1836-7 panic."⁹⁾

"The first discredit arose on Ireland, the second was the northern and central bank, and the third in London."¹⁰⁾ That is, in November 1836 the Agricultural and Commercial Bank of Ireland failed, in December of this year as did the Northern and Central Bank of Manchester, and then in January 1837 Esdiale & Co. of London.¹¹⁾ These bank failures in the London and Lancashire districts deepened the difficult position of the merchant bankers further. Three of their houses (Wilson & Co., Wiggin & Co. and Wildes & Co.) stopped payment in June 1837 despite relief given from all quarters of the financial circle, including the Bank of England.¹²⁾

Later an evidence on the Select Committee on Banks of Issue, 1840, stated: "It is hardly possible to suppose that the excessive credits given to the merchants of the United States at that period were not in some degree extended by the extraordinary facilities of the money market in this country."¹³⁾ What generated

- 5) "...it found that it had on its hands acceptances for large sums from a group of seven firms, English or Anglo-American, all of which were closely associated with the floatation of American loans or the financing of American trade" (Clapham, J., *The Bank of England*, Cambridge 1944, Vol. II, p.151).
- 6) "...in the month of September last, after receipt of the intelligence of the commencement of the revulsion in America, the Governor of the Bank wrote to the agent of the Bank's branch in Liverpool, instructing him, consistently with the rule to be observed in London, to reject the paper of the American houses, which were specified by name!" (*Edinburgh Review*, July 1837, p. 233).
- 7) *Ibid.*, p. 233.
- 8) Gilbert, J. W., *The History, Principles and Practice of Banking*, ed. by E. Sykes, London 1907, Vol. I, p. 304. Gilbert continues to write: "Those men who had money were unwilling to part with it—trade became suddenly stagnant—the prices of all commodities fell considerably, and numbers of commercial houses, chiefly of the second class, suspended payment. Many railway and other projects now fell into oblivion" (*ibid.*, p. 304).
- 9) Many studies in the history of panics refer to the 1837 panic, among which one of great relevance to this paper is R.C.O. Matthews, *A Study in Trade-Cycle History, Economic Fluctuations in Great Britain, 1833-1842*, Cambridge 1954, in which the Anglo-American trade is investigated in detail.
- 10) Q. 1278.
- 11) Gilbert, *op. cit.*, pp. 306-307.
- 12) See Section 2 of this paper as regards these three houses.
- 13) Q. 322. This is an evidence of T. Tooke. W. T. C. King has mistaken this witness for Samuel J. Loyd, and further made an erroneous quotation of the number of the evidence. See his *History of the London Money Market*, London 1936, p. 91.

these "extraordinary facilities" was abundance in the money market. The merchant bankers circulated their acceptances by making use of such money capital and promoted brisk transacton in the money market. As a result their acceptances overwhelmed the market and aroused excessiveness in the Anglo-American trade. It should be noted that such active operations brought about further development of their acceptance business itself. In other words their acceptance business established itself under the expanding Anglo-American trade in the later part of the 1830s, and caused a great change in the English system of financing overseas trade.

This paper intends to clarify the actual state of the acceptance business of the merchant bankers in this period focusing on this point.

(II)

The name merchant banker was already in use in the early 1830s.¹⁴⁾ However, there were several different terms attached to the merchant bankers throughout the 1830s. These terms can be broadly classified into two sorts. The first sort is that of terms used in relation to America and the second those used in relation to their specific function. Among the former group the most frequently used was that in which 'America', as a prefix, the main business connection, was used, on which the *Circular to Bankers* writes.

"If this gentleman (Mr. Wiggin—quoter's) gave no attention to the signal of raising the rate of interest in July, we venture to assert that he is the only American merchant who did not perceive in that circumstance an unequivocal symptom of forthcoming difficulty."¹⁵⁾

This journal again refers to Mr. Wiggin.

"Messrs. T. Wiggin and Co. are the only firm of all the great American merchant-bankers who have come forward, or have been brought forward, before the public."¹⁶⁾

It is evident from these two remarks that the term "American merchant" was a different one for the merchant banker. Other terms of this sort were "American house, or firm" and "Anglo-American firm, or house."¹⁷⁾

One of the reasons why the merchant bankers were called "American merchant" was that the Anglo-American trade they carried on was an important, dominant factor in the overseas trade of Britain in the 1830s. According to R. C. O.

14) "If no great and unforeseen obstacles arise, there must arrive a time when the success that had attended all such transactions of the British merchant bankers will have caused capital to be forced into this new channel (investment to America—quoter's) so freely and considerably as to cause thriftiness and improvident application of it" (*Circular to Bankers*, Oct. 5, 1832).

15) *Circular to Bankers*, Nov. 4, 1836.

16) *Circular to Bankers*, April 14, 1837.

17) These last-mentioned two terms were often used in the evidences of the Select Committee and others.

Matthews, "The proportion of export proceeds derived from sales in the United States was, as has been said, on the average 15% (to total British exports—quoter's); but if we reckon instead the proportion of the average year-to-year changes in total exports, the figure is 50%. And in the course of the period there was only one year—1834—when total exports and imports to the United States moved in opposite directions. The state of the American market was therefore the most important single factor in bringing prosperity or depression to British export industries. For this reason it is appropriate to deal with it first in discussing fluctuations in exports."¹⁸⁾ The second reason was the influential power they were displaying in such Anglo-American trade. Thus, "...it will be found we believe, that eight-tenths of the trade in British manufactures is carried on by the first class—the merchant bankers—and not more than two-tenths by the other."¹⁹⁾ The merchant bankers almost monopolized the Anglo-American trade expelling others through sharp competition.²⁰⁾ In short the above-mentioned differing terms derived from their prosperous business in the important Anglo-American trade.²¹⁾

The second type of terms, those referring to their function, includes the following three. The first one is the term "exchange merchant" on which there is the following description. For example:

"When they (Baring Brothers & Co.—quoter's) resolved to take no bills but such as were "endorsed by substantial houses to remitters," thereby in great measure excluding the customary exchange-bills, they knew that two of the extensive Exchange-merchants (Wilson & Co. and Wiggin & Co.—quoter's) must suspend payment—however their resources might prove to discharge their

18) Matthews, *op. cit.*, pp. 43-44.

19) *Circular to Bankers*, June 23, 1837.

20) "Notwithstanding the intense competition that prevails in this country in all departments of trade, the business, which for some years past had been reckoned equally safe and lucrative, of making advances on American account, was almost wholly confined to about seven houses, six in London and one in Liverpool" (*Edinburgh Review*, July 1837, pp. 230-11).

21) Just how closely the merchant bankers' American trade was related to the interests of the Lancashire industrial district is described in the *Circular to Bankers* as follows. The crisis of the merchant bankers was of so great an influence as to stagnate the Anglo-American trade. "The credit put into circulation by the merchant bankers connected with America was the principal means of pushing that trade to its late unexpected extent and importance; it constituted the bridge over which the whole of our immense traffic with the United States was made to pass freely. This bridge has now been so violently disturbed in its foundations, that it may almost be said to have been broken up, as far as commercial intercourse between England and the United States is concerned" (*Circular to Bankers*, April 28, 1837). From this fact it may be said to have been natural that Palmer argued about the relief measures to recover exports to America to the effect that "I think it was one of those special cases which might justify a departure from the strict rule, looking to the advantage of the trade between Great Britain and America" (Q. 1332).

obligations—unless the Bank of England came forward to assist them.”²²⁾

The second one is the term “broker of capital.” For example:

“It (advance of the Bank rate—quoter’s) was a measure which struck immediately at the source of his power as a broker of capital, that source being the cheapness of money in England.”²³⁾

The third was “credit and exchange merchant.” For example:

“It is, we apprehend, because the basis of the operations of American credit lies in the manufacturing districts, that the opulent credit and exchange merchants (Wilson & Co., Wiggin & Co. and so on—quoter’s) were led apparently to exhibit so remarkable a disinclination to pay due attention to the first significant warning of the Bank of England.”²⁴⁾

These different terms suggest that the merchant bankers were developing a particular type of financial transaction, and were no longer mere foreign traders. At the same time these terms reveal that their business was developing very diversely under the expanding Anglo-American trade. All in all, at this time the term ‘merchant banker’ had already become a symbolic name for those who combined exchange transactions, transfer of capital and credit business in the Anglo-American trade of the 1830s.

What, then, constituted the houses that actually existed in the later 1830s and engaged in these three kinds of operations under the name of the “merchant bankers”? Again from the Circular to Bankers this point becomes clear as follows:

“There have been for several years five or six leading and principal firms engaged in Exchange and loan and credit operations with the United States. The most eminent of these are Messrs. Brown and Co. of Liverpool, Messrs. Baring and Co., T. Wilson and Co., George Wildes and Co., T. Wiggin and Co. of London. The success of these firms in this new branch of traffic—new in its extent, ramifications and importance—has latterly brought other firms into the same field, and the houses of Rothschild and Co., Lizardi and Co., and Morrison and Co. have now entered with great confidence and spirit into competition with the older houses.”²⁵⁾

It is known from this article firstly that the so-called merchant bankers were the eight firms mentioned here. This is obvious also from the above-mentioned monopolistic position of the merchant bankers. “A substantial number of subordinate firms”²⁶⁾ operating kindred businesses were far behind these eight firms

22) *Circular to Bankers*, April 28, 1837.

23) *Circular to Bankers*, Nov. 4, 1836.

24) *Circular to Bankers*, Nov. 4, 1836.

25) *Circular to Bankers*, Oct. 7, 1836.

26) “In the American trade the manufacturers of Britain have two class of debtors for the products of their industry. The first consists of the merchant-bankers whom recent circumstances have brought so prominently forward into public view, with some score of subordinate firms who never pushed their credit to such extravagant length” (*Circular to Bankers*, June 23, 1837).

in the scale of business.²⁷⁾ Secondly, there were two groups divided according to the period in which they advanced into the field of financial business attendant to the Anglo-American trade. In fact the five firms including the Brown et al. were called "old houses" and the houses of Rothschild et al. were "new houses."²⁸⁾ So in the next section we must observe the acceptance business of the former group.

(III)

The merchant bankers were active in issuing letters of credit in²⁹⁾ 1835 and 36 for the conduction of acceptance business.³⁰⁾ A letter of a well-known British merchant reads as follows:

"The European letters of credit were constantly increasing in amount until last October ; and it is very plain that if the old houses, as Baring, Brown,

- 27) Refer Note 19. It was L. H. Jenks who first clarified the eight firms known as merchant bankers utilizing the *Circular to Bankers* dated Oct. 7, 1836 (*The Migration of British Capital to 1875*, New York and London 1927, pp. 68, 356). Jenks says that in 1837 two other firms entered the field of the said eight firms, yet such names are not found in the *Circular* he depends on. In addition the March 25, 1837, issue of this journal is not extant (*ibid.*, p. 359). And according to R. J. Tryptil (*British Banks and the London Money Market*, London 1936, p. 129), "A great number of the merchant bankers date from the commencement of the nineteenth century," which gives an impression that the merchant bankers of as many as sixteen firms were dwelling in Britain (*ibid.*, pp. 131, 133). However, his argument depends on inquiry into the periods when the existing merchant bankers settled in Britain. Yet he does not indicate the source which sheds light on their activities, and no description of such firms is found in the *Circular to Bankers*, the most precise record of the time. Therefore their activities are unknown, with exception of a few firms. Further R. H. Hidy gives the impression that a group of second-class merchant bankers subordinate to the eight existed (*The House of Bearing in American Trade and Finance*, Cambridge (Mass.) 1949, pp. 75, 195). No particular sources are shown for this either. My paper takes merchant bankers to be those of the eight firms mentioned in *Circular to Bankers* because I think this is one of the oldest publications that made this name well known to the public.
- 28) See Note 31. The basis of the distinction between old and new is whether or not the house engaged in business before 1835. The year 1835 is important because there was the sharp rise in American trade at this time and Rothschild became the general agent for the U.S. Government (Hidy, *op. cit.*, p. 159).
- 29) "During the next two years (1835 and 36—quoter's) of the inflationary boom, half a dozen aspiring houses supplanted the Barings in the American market, and they issued a tremendous volume of credits on exceedingly liberal terms.... The audacity of issuers (of the letters of credit—quoter's) climaxed during the summer of 1836" (Perkins, E. J., *Financing Anglo-American Trade, The House of Brown, 1800-1880*, Cambridge (Mass.) & London 1975, p. 118).
- 30) "The person signing the order is the drawer of the bill, the person to whom it is addressed is the drawee, who, after he has admitted his liability by 'accepting' the bill, becomes the acceptor (Gilbart, *op. cit.*, p. 225). The history of the acceptance business is as old as that of bills of exchange." For example, "On the back of the Datini bill is written, 'Accepted, 11 Jan. 1400, Franceso da Prato & Co., Barcelona,' again in strict accordance with modern practice" (Morgan, E. V., *A History of Money*, revised ed., 1969, p. 132).

Wiggin, &c, increased their credits, and new houses, as Morrison, Ligardi, &c, entered upon the same business, with the same desire to extend it, the operation was equivalent to an increasing permanent loan."³¹⁾

Among the above-mentioned "old" houses those of Baring and Brown were most outstanding. The Baring was the oldest house that issued a large volume of letters of credit adherent to Anglo-American trade,³²⁾ and had a unique system of issue.³³⁾ The Brown had already begun issuing letters of credit by 1820³⁴⁾ and had become one of the biggest issuers in the trade.³⁵⁾ Baring's system was called "running or revolving credit." This meant the granting of the right to draw up to a certain amount and during a certain period, and if the bill was paid during the period the right was renewed.³⁶⁾ In view of such revolving credit it is considered that the business of acceptance conducted by the merchant bankers had reached a stage of maturity.³⁷⁾ There is no extant material showing

31) *Circular to Bankers*, April 21, 1837.

32) Perkins, *op. cit.*, p. 118. Perkins made an estimation of the volume of credits for 1857-60 which Hidy worked out on the basis of the Baring Papers (Hidy, *op. cit.*, p. 469).

33) Hidy, *op. cit.*, p. 142. Some letters of credit of about 1837 are extant.

34) Perkins, *op. cit.*, p. 117. He shows no specific source for this.

35) *Ibid.*, p. 92.

36) Hidy, *op. cit.*, pp. 133-138. His description on the revolving credit depends on the Baring Papers and the Ward Papers of Thomas Waren Ward, agent of Baring in America.

37) King attaches a title "Abuse of Bill Credit in the 'Thirties'" to a section of Chap. 3 of his books (King, *op. cit.*, p. 91). Further, he has written as follows in a later chapter. "One other factor making for bill market expansion may be noted—the spread of the system of acceptance credit. The system was not, of course, new, and was very widespread in the forties; but in the succeeding decade it was practised on a much larger scale than ever before, and was extended to trades and areas in which it had previously been only exceptionally used. It was especially important in all classes of trade with America, Scandinavia, China and the East, and in the colonial trades" (*ibid.*, pp. 176-177). In this description King assumes that the acceptance business had already been established in the 1830s. He says that it expanded in the 1850s. As previously explained the merchant bankers had been actively issuing letters of credit, on the basis of which the system of revolving credit was begun. The system was very much similar to the modern method of bill acceptance. For example, to taken an explanation given by the Gillett Bros. Discount Co.: "In other words, William Caxton (an imaginary merchant banker—quoter's) agree to accept bills up to a running maximum of £100,000 drawn on them by you (an imaginary British exporter—quoter's), at three months sight. Such a credit may be granted 'until further notice' or, by arrangement, for a fixed period such as one year, during which any bills that mature and are paid off may be replaced by other bills, when it is known as a Revolving Credit" (Gillett Bros. Discount Co., *The bill on London*, 3rd revised ed., London 1964, p. 31). Again according to the explanation by the Hambros Bank, Ltd., there is no doubt that the merchant bankers applied the revolving letter of credit to foreign trade, and the criterion on which the banks based its decision to issue the revolving credit letter is trust worthiness in granting credit and the continuous emergence of transactions (based on study by the research staffs of the Mitsui Bank). Taking this into account, any view

the extent of their business.³⁸⁾ On the other hand, as regards three of the old houses excluding Baring and Brown (hereafter abridged as 3W's) the actual state of affairs can be observed. This is because these three published their balance sheets after their stoppage of 1837.

The crisis of the 3W's rapidly deepened in the spring of 1837.³⁹⁾ Despite relief measures by the whole money market they suspended payment in June of this year. The balance sheets shown in Table 1 were published at this time at the request of creditors. As can be seen, on their balance sheets assets greatly surpass debts. Therefore, "In ordinary times, statements exhibiting such a surplus of property above paying all obligations would undoubtedly afford great

Table 1. Balance Sheets of the 3W's
Thomas Wilson and Co.

Liabilities	Assets
Bills payable in June £585,600	1. Debtors' accounts covered
July 158,800	or available:
Ditto August to December 191,900	Partners' private assets ... £ 85,400
Private creditors not on	Available property in
acceptance 100,000	England and upon
Bank advance uncovered	the Continent 522,200
at June 1 220,000	Securities in America 333,100
Net assets 923,000	Bank accounts to be
	covered 88,100
	Bills of lading to be
	received against accept-
	ances of foreign bills 331,900
	2. Debtors' accounts uncovered:
	Exchange accounts £358,700
	Dry goods accounts 384,900
	Commission and interest ... 75,000
<u>£2,179,300</u>	<u>£2,179,300</u>

that takes the 1850s or 60s as the period of the birth or establishment of the merchant banker's acceptance business is not correct. This is also true in view of the above-mentioned description by King.

38) Hidy and Perkins used various Baring Papers and Brown Papers, yet even in their studies material about acceptance business in the 1830s seems to be inadequate.

39) "...there are not, as far as we know, more than three, or, at the most, four of the eight enumerated firms (merchant bankers—quoter's) that have sought assistance from the Bank; and we never heard a doubt expressed of the responsibility and safety of those that have sought it. The amount wanted by our firm, was found, however, to be so large and so immediately requisite, that the Directors hesitated about affording it, until they should have obtained an ample guarantee for its repayment" (*Circular to Bankers*, March 24, 1837).

T. Wiggin and Co.

Liabilities	Assets
Bills payable in June £276,500	1. Debtors' accounts covered
July 176,600	or available:
Ditto August to December 221,600	Cash and bills, May 15 ... £ 43,800
Private Creditors 33,400	Securities assignable
Advance per Bank on note 200,000	in America 156,200
Net assets 614,700	Bills of lading to be
	received against accept-
	ances of foreign bills ... 203,900
	2. Debtors' accounts uncovered:
	Manufactures shipped
	to America £1,118,900
<u>£1,522,800</u>	<u>£1,522,800</u>

G. Wildes and Co.

Liabilities	Assets
Bills payable in June £272,000	1. Debtors' accounts covered
July 136,000	or available:
Ditto August to December 97,000	Bank accounts to be
Private creditors 25,000	provided for £ 45,000
Bank uncovered advance	Collateral securities
at the 1st of June 90,000	in America 500,000
Net assets 613,000	Bills of lading to be
	received to cover accept-
	ances of foreign bills 65,000
	2. Debtors' accounts uncovered:
	For manufactures, &c,
	shipped to America 623,000
<u>£1,233,000</u>	<u>£1,233,000</u>

Source: *Circular to Bankers*, June 9, 1837.

Notes: a) Figures are as of the first decade of June 1837.

b) In the original source the form was of statements which the quoter revised into the account form as is shown.

Table 2. Acceptances and Commodity Transaction of 3W's

Item	Wilson	Wiggin	Wildes	Total
a) Acceptances	£ 936,300	£ 674,700	£ 505,000	£2,116,000
b) Bills of lading	£ 331,900	£ 203,900	£ 65,000	£ 600,800
c) a/b	2.8	3.3	7.8	3.5
d) Exports to America	£ 384,900	£1,118,900	£ 623,000	£2,126,800

Source: Calculated from Table 1.

satisfaction to the creditors of the suspended firms, and would give those creditors entire confidence in the solvency of their debtors. But the present times are the most extraordinary ever known; and, far beyond all preceding, such as to render all attempts to determine the final issue of embarrassment a problem of singular perplexity and difficulty."⁴⁰⁾

The reason for such an "extraordinary" situation was that 75% of the total debts of the 3W's were accepted bills, and the sum to which of such bills amounted was 3.5 times greater than the face value of bills of lading. Therefore the possibility of payment by the 3W's depended on the assets of American merchants who had drawn bills on the 3W's. Hence there arose a need of "Men most acquainted with the laws in the several States of the American Republic touching the more or less prompt and efficacious methods of recovering assets from debtors (drawers of bills on the 3W's—quoter's)."⁴¹⁾ In fact J. Bates, an American-born partner of the Baring, frequently gave advice on the request of the Bank of England,⁴²⁾ and the Bank even went as far as dispatching a director to America to carry out an investigation.⁴³⁾

Such a situation reveals that bills accepted by the merchant bankers circulated at so great a rate that they exerted a great effect on the British money market. So, in the next section we shall observe how these bills overwhelmed the money market.

(IV)

The bills accepted by the merchant bankers grew "so enormous as to have amounted at certain periods of 1835 and 1836 to no less than fifteen or sixteen millions sterling!"⁴⁴⁾ The first reason for such a vast amount was that these bills were regarded as of primary importance in the money market. The *Circular to Bankers* says: "...the preference evinced by the bill-brokers for the acceptances of six or eight American merchants (these acceptances were supposed to be not only secure beyond all doubt, but the most current and marketable of all Bills of Exchange) had the effect of causing much other paper of equal responsibility, but of less marketable currency, to be rejected by the same bill-brokers."⁴⁵⁾ As

40) *Circular to Bankers*, June 6, 1837.

41) *Circular to Bankers*, June 6, 1837.

42) "Mr. Bates, of the eminent firm of Baring and Co., has been much consulted by the Directors of the Bank of England ever since they were first called upon to give support to the firms placed in jeopardy, with the intention of enabling the Bank to appreciate the degree of risk they would encounter by making the large advances of cash required to pay the bills accepted by the embarrassed houses." (ibid.).

43) This is Melvil Wilson. Acres, W. M., *The Bank of England from Within*, London 1931, Vol. II, p. 625.

44) *Edinburgh Review*, July 1837, p. 231.

45) *Circular to Bankers*, April 14, 1837.

Table 3. Circulation of Bills Accepted by Merchant Bankers

(a) 1835~36	£15~16 million
(b) Autumn of 1836	9~12 "
(c) Spring of 1837	7~8 "

Sources: (a) *Edinburgh Review*, July 1837, p. 231;
 (b) *Circular to Bankers*, Oct. 7, 1836;
 (c) do, March 24, 1837.

Table 4. Circulation of Bills Accepted by 3W's

Period	House A	House B	House C	Total
Jan. 1, 1834	£ 861,000	£ 680,000	£ 813,000	£2,354,000
Jan. 1, 1835	753,000	560,000	731,000	2,044,000
Jan. 1, 1836	1,070,000	1,147,000	1,504,000	3,721,000
Jan. 1, 1837	1,539,000	1,922,000	2,112,000	5,573,000
May 15, 1837	—	—	—	2,116,000

Sources: (a) Up to Jan. 1, 1837, *Edinburgh Review*, July 1837, p. 235.
 (b) May 15, 1837, prepared from Table 2.

Tables 3 and 4 show, although the circulation decreased as the panic advanced, bills to the sum of about £5 million, even excluding those of the 3W's, are supposed to have been floating "safely" in the market. Of course, one can be sure that this active circulation at the time of panic occurred partly because in "When difficulties accumulated on the American interest, they (bill brokers—quoter's) were compelled to neglect other customers in order to apply their strength to the support of the class (that of American merchants—quoter's) with which they were so deeply involved."⁴⁶⁾

The second reason for such a huge circulation was that among their acceptances there were mingled uncovered bills with no bills of lading attached and accommodation bills. To take the above-mentioned case of the 3W's, against acceptances of over £2.1 million the bills of landing amounted to only £0.6 million. Thus more £1.5 million of their acceptances were uncovered bills. And, as for the 3W's, to compare the movement of their acceptances with those of two other indexes—exports to America and total bill circulation in Britain—it is clear that the increase in the former surpassed that of the latter in 1835 and drew widely away in 1836 (Table 5). The widened difference between the 3W's acceptances and the exports to America is especially suggestive of the appearance of accommodation bills in the Anglo-American trade. What, then, were the reasons why uncovered and accommodation bills emerged enormously especially in this trade? The first reason was the method of "open, or uncovered, credit" the merchant bankers employed. Formerly they had used to secure bills of lading or others as security in accepting the bills of American merchants, that is,

46) *Ibid.*

Table 5. Exports to the United States (a), Acceptances of 3W's (b) and the Circulations of bills in England and Wales (c).

(1833=100)

years	(a)	(b)	(c)
100	100	100	100
89	87	87	99
139	158	158	106
163	237	237	127

Sources: (a) Calculated from Porter, G. R., *Progress of Nations* (ed. 1851), pp. 359~67 in; Matthews, *op. cit.*, p. 70.

(b) calculated from Table 4.

(c) calculated from W. Leatham's estimation in: King, *op. cit.*, p. 96.

"closed, or covered credit." This cautious practice, however, came to be neglected with the expansion of the Anglo-American trade. This was because, while the maturity of their acceptances was four months, export goods were transported over the Atlantic in one month and their sale was completed within two months. Hence merchants in America were able to pay bills with composure.⁴⁷⁾ Accordingly so long as the trade advanced favorably, "It seemed to be unnecessary to require any such collateral security from American houses of undoubted wealth and known prudence in the conduct of their affairs."⁴⁸⁾ Thus uncovered bills came to prevail. The increase in uncovered bills by this method proved at the same time to be the beginning of an increase in accommodation bills.⁴⁹⁾ The second reason was that some of the merchant bankers permitted their clients to draw bills on other merchant bankers or the like, that is, tacit approval of "double or triple accounts."⁵⁰⁾ J. W. Gilbert, in pointing out the dangers attendant to double or triple accounts, asserts that receipt of accommodation bill or kite can be prevented

47) "The bills drawn by the American agents and accepted by the English houses were, as already stated, at four months; and as the goods paid for by means of these bills were sent to America generally within a month, and sold within two, there was ample time for remitting funds to England before the bill became due" (*Edinburgh Review*, July 1837, p. 230).

48) *Edinburgh Review*, July 1837, pp. 229-230.

49) Gilbert discusses this as follows. "It is the object of banking to give facilities to trade, and whatever gives facilities to trade gives facilities to speculation. Trade and speculation are in some cases so nearly allied, that it is impossible to say at what precise point trade ends and speculation begins." (Gilbert, *op. cit.*, p. 152).

50) Cautious men amongst the merchant bankers prohibited multiple accounts in principle (Hidy, *op. cit.*, p. 194). Again Gilbert warns: "It is considered to be not advisable to take the account of a party who has another banker, especially if he opens the account for the purpose of getting additional discount. The object of a party keeping two bankers is usually to get as much accommodation as he can from each" (Gilbert, *op. cit.*, p. 241).

by a precise investigation of the confidence of the acceptors.⁵¹⁾ Yet it is inconceivable that many people should cast doubts on the acceptance of the merchant bankers who were influential in the Anglo-American trade. It was especially so before the enforcement of the second step by the Bank of England in September 1836. Also Gilbart found that, "Indeed it is only people in good credit that can pass fictitious bills."⁵²⁾

The third reason for enormous circulation lay in the policy of the Bank of England. The Bank opened up to the City the deposits increased by the disposition of the assets of the East India Company and the instalment payment of the West India loan. This caused over-exuberant in the money market.⁵³⁾ The above-mentioned advance was conducted by the active proposal "by the Bank,"⁵⁴⁾ "to the bill brokers, with one or two exceptions."⁵⁵⁾ The amount reached £6.7 million, combining £4.7 million of the almost total deposit of the East India Company⁵⁶⁾ and £2 million relevant to the West India compensation loan.⁵⁷⁾ This huge advance was doubtless a powerful factor to produce "over-trading to China and America, importation of American securities and stock, transactions in American accommodation bills, which may be called 'kite-flying'."⁵⁸⁾

What caused the Bank of England to promote such advance was, of course, the demand aroused by the acceptances of the merchant bankers, yet accelerating factors existed in the Bank, too. That is, firstly the Bank was forced to pay interest on the deposit of the East India Company. For this sake the Bank was driven to profiting on the deposit.⁵⁹⁾ Secondly, "They (the Bank directors—quoter's) are, by intercourse, most intimately connected with the great commission

51) "The best way for a banker to guard against loss from this practice (drawing the fictitious bill—quoter's) is to inquire in all cases about the acceptors of the bills that he discounts" (*ibid.*, p. 252).

52) *Ibid.*, p. 252.

53) "But it was the almost unprecedented ease in the money market which made the absorption of so large a volume of paper possible, and for this the policy of the Bank of England was clearly responsible. Actually, the Bank claimed that it never did more than return to the market the funds which special operations—notably the liquidation of the commercial assets of the East India Company—had immobilized; but it is clear that if the East India Company had employed the fund itself, only a proportion of them would have remained in the short money market" (King, *op. cit.*, p. 95).

54) Q. 1170.

55) Q. 1168.

56) "It was (advances of the Bank of bill brokers—quoter's), or very nearly so, certainly not exceeding it (deposit of the East India Co.—quoter's)" (Q. 1171).

57) "...on the 5th of January (1836—quoter's) the advance stood at 2,000,000 L upon stock, against the West India compensation of 6,600,000 L" (Q. 1204).

58) Q. 859.

59) On the course of this matter Palmer stated as follows. "A tender was made to the Bank of that money, at interest, with a view of their lending it to the public upon their responsibility instead of that of the East India Company" (Q. 1156). It was from the 19th of December 1835 that the bank began to pay interest on this deposit (Q. 1160).

houses who are employed to transfer the capital of England to be permanently fixed for use in the United States."⁶⁰ In fact among the creditors of the house of Wilson were included three active directors of the Bank and a partner of the West India House managing it together with the active director.⁶¹ In addition the former Governor Palmer acted as the administrator of the House of Wilson that had fallen into insolvency,⁶² and furthermore ever after the 1837 panic some of the directors were actively carrying on transactions with the United States "in their individual character as merchants."⁶³ Only from these facts it becomes clear why the Bank, while on one hand taking strict steps, on another hand was so earnest in procuring funds for the merchant bankers as to sell Exchequer Bills in hand.⁶⁴ And also it becomes apparent why the former Governor Palmer intended to escape responsibility by shifting the cause for panic of 1837 to America.⁶⁵

60) *Circular to Bankers*, Oct. 14, 1836.

61) These active directors are John Cockerell, Henry Porcher, and William Thompson. And John Irving, a creditor, was managing the Reid, Irving & Co., engaging in the West Indian trade with an active director John Rae Reid (*Circular to Bankers*, June 9, 1837, Acres, *op. cit.*, p. 625, and relevant items in Frederic Boase, ed. *Modern English Biography*, London 1892, rep. 1965).

62) *Circular to Bankers* June 9, 1837. Palmer had been a director from 1811 to 57, during which he took office of Deputy-Governor from 1832 to 33 and Governor from 1833 to 34. (Acres, *op. cit.*, p. 624).

63) "Bonds of all kinds issued by the Bank of the United States, by the various States in the Union, and by numerous private undertakings, were poured upon the English market and found eager purchasers. Several of the directors of the Bank of England, in their individual character as merchants, became agent for the distribution of these securities" (Gilbart, J. W., *An Inquiry into the Causes of the Pressure on the Money Market*, in *J. W. Gilbart's Works*, Vol. IV, London 1866, p. 252). Such activities of the Bank's directors were exposed to criticisms. For example, a merchant of Manchester said: "I object, moreover, to a national bank being managed by merchants, those engaged in extensive mercantile transactions" (Q. 528).

64) The assistance of the Bank of England to the merchant bankers had been given prior to the two steps of September 1836. Palmer stated: "I do not consider that any material excess existed prior to August 1836, from which period the export of bullion ceased; from that time until the spring of 1837, the Bank made considerable advances in aid of some of the principal commercial houses trading with America, and also in support of some leading banking interests in England and Ireland" (Q. 1255). And "the advances by the Bank exceeded 6,000,000 L sterling" (Q. 1285). By the huge advances to the merchant bankers the Bank increased securities it held. Accordingly, "Between April 1836 and February 1837 they (the Bank—quoter's) appear to have sold about 3,299,000 L of Exchequer bills" (Q. 1268).

65) Palmer testified as follows: "The first effect of the American government determining not to renew the charter of the American bank, was to throw the deposits of the Bank into the hands of numerous other private banks in the States, while engendered extension of credit in America, and encouraged imports to an enormous extent, in excess of former years; the importations so arising were fostered by undue credits given by considerable American houses in this country, not furnished with adequate means to uphold such extensive engagements

On account of these reasons the acceptances of the merchant bankers rapidly increased. Then, who were the participants in the transaction of such acceptances? Among the creditors of the house of Wilson there were included private bankers of London such as the Glyn, Mills & Co., Roberts & Co., Jones Loyd & Co., and Overrend, Gurney & Co., a great bill broker.⁶⁶⁾ The relation of these firms with the merchant bankers was not confined to such a special cases as in relieving 3W's. It had been already established. On this point the *Circular to Bankers* reads as follows.

"In attempting to arrange this extraordinary business of obtaining funds from the Bank of England to secure the punctual payment of all floating American bills accepted by English merchants, the mercantile and manufacturing public are, we believe, greatly indebted to the eminent firms of Messrs, Glyn and Co. banker, and Messrs, Overend, Gurney, and Co. bill broker. These houses from the extent of their own customary business with some or all of the American firms named in the foregoing extract (that is, the Oct. 7th issue of the *Circular to Bankers*—quoter's), as well as from their transactions with the Lancashire and Yorkshire Banks, where much of the American paper centres, were naturally the fittest of all to take the lead in averting an impending danger to commercial credit."⁶⁷⁾

Again the *Edinburgh Review* reads as follows:

"...down to this period,—that is, to August last (1836—quoter's)—all or almost all the vast amount of discounts required by the American houses, had been furnished to them principally by the money-dealers of London; but latterly also, to a great extent, by the joint-stock banks."⁶⁸⁾

As these two articles tell, the acceptances of the merchant bankers floated through private bankers and bill-brokers of London as well as joint-stock banks in the country. Especially remarkable was the effect "By the encouragement they (joint-stock banks—quoter's) gave to the discount of that paper (American bills—quoter's)."⁶⁹⁾ As the result, "The magnitude of the amount of bills of exchange then in circulation, connected with the American trade, was such as to cause

if discredited" (Q. 1273). On this point King criticizes: "Horsley Palmer sought to throw the initial blame upon America" (*op. cit.*, p. 94).

66) The list of creditors describes the names of partners of respective firms, excepting about Jones Loyd & Co. Excluding these firm names, above-mentioned Governor the Bank and Bates of the Baring, business status can be identified for only one name at present, that is, John Cryder of the Morrison, Cryder & Co. (*Circular to Bankers*, June 9, 1837).

67) *Circular to Bankers*, March 24, 1837.

68) *Edinburgh Review*, July 1837, p. 231.

69) Q. 1300. The "over-banking" of joint-stock banks of this period is studied in Thomas, S. E., *The Rise and Growth of Joint Stock Banking*, London 1934, Chap. VIII. According to her study, to the eyes of the public of that time it seemed like that "the joint stock banks were often accessory to the creation of accommodation bills" (*ibid.*, p. 312).

great and serious alarm for the consequences throughout the north of England."⁷⁰ It may be said that up to this stage the acceptances of the merchant bankers had established a solid status in the money market of the later 1830s.

(V)

The voluminous acceptances of the merchant bankers were an evidence for the development of the acceptance business. And this development had had great influence on the system of the Anglo-American trade of the 1830s. The *Circular to Bankers* says as follows.

"Supposing the merchant-bankers, whose credit was brought into extensive operation to carry the trade in British manufactures, to be free from risk—and, excepting at a crisis like the present, they have been proved to be so, not a single eminent firm having failed for upwards of ten years—the change (that is, from the trade by the consignment system to that by the merchant-bankers' credit—quoter's) was from a trade of great hazard, uncertainty, and perplexity, to one of perfect safety and regularity. And by the nature of its arrangement and knowledge, experience, and property brought to its support, it had great advantages over the consignment system, and also over the system of agency, which brought the British manufacturers into direct contact with the storekeepers who sold the goods to the customers."⁷¹

Furthermore, according to the *Circular to Bankers*, the merchant banker's acceptance business was not confined to the Anglo-American trade, and extended over the trade with other regions, again completely outstripping the consignment system.

"Now, the export trade is in great measure sustained by a few opulent firms of great resources, who accept bills at long dates for their correspondents—the importing merchants—of America, Australia, India and China, as well as of Africa and Europe. Trade has, in this respect, undergone a great change during the last ten years; weak and struggling manufacturers no longer consign goods to commission-houses at New York, Philadelphia, Hamburg, Frankfurt, or St. Petersburg, but those who supply the consumers in the countries where the

70) Q. 1285.

71) *Circular to Bankers*, June 23, 1837. The consignment system in the Anglo-American trade declined in the late 1830s, excepting for export of American raw cotton to Britain. Regard as this Perkins writes: "After 1830, however, the auction system in the United States lost some of its vitality; more goods entered the country on the account of American merchants who now specialized in importing activities. The leading Anglo-American merchant-banking houses aided the trend through the issuance of letters of credit to U.S. importers. Thereafter, representatives of American importers traveled abroad and purchased merchandize directly from English manufacturers. Both buyers and sellers were thereby able to bypass British commission merchants. As a result of this change in the distribution system, few English goods were entering the United States on consignment by the middle of the century" (Perkins, *op. cit.*, p. 87).

great commercial cities are situated, come to our markets to select and purchase their own goods, and they pay for them by the aid of the wealthy and powerful firms connected with their respective localities. The agents who are called into operation to effect mercantile transactions are changed from commission-merchants to commission bankers, and though they pass, under the name of merchants, all their pecuniary affairs are of the nature of banking commissions, charged for affording credit facilities. They have nothing to do with the purchase or sale of goods which are the subject of traffic."⁷²⁾

Above quoted article proves that the merchant bankers had got out the bound of mere traders in accompany with the growth of their acceptance business. Pioneering other institutions, they applied acceptance business to the British trade with remote regions and established it. It does originate from this that today they are called the "accepting houses."

The merchant bankers were engaged in the business of securities floatation, their another main business. "The agencies for transmitting it (British capital—quoter's) and receiving the accruing dividends or interest, have been among the most lucrative sources of mercantile profit for our Merchant-Bankers in London and Liverpool."⁷³⁾ The first cause that fostered their floatation business for the American securities was a widely differing rate of interest between Britain and the United States. At one time it showed as high as 8%.⁷⁴⁾ The cause for such a differential lay partly in the Bank of England as described already. The second cause was that the American importers utilized American stocks and bonds for payment of the imported goods. According to the words of a British merchant residing in New York, "A large part of the goods imported from Europe, in the last three years, was paid with Stocks, and States and Corporate Bonds."⁷⁵⁾

Backed up by these causes, floatation of the American securities flourished, as was reported "...transatlantic shares and stock are almost as current among bankers and money dealers in England as the shares in the Birmingham Railway or Bank-Stock."⁷⁶⁾ For example, the Bank of the United States "borrowed on their bonds in London, through the houses of Baring and Co., Overend, Gurney and Co. acting as agents for the latter (the Bank of the United States—quoter's),

72) *Circular to Bankers*, Sept. 2, 1836.

73) *Circular to Bankers*, Jan. 27, 1837.

74) "While the American merchants could procure money in England at or under four percent, and lend it in the United States at seven, eight, and sometimes twelve percent per annum, they could not fail to arise an extensive traffic in money" (*Circular to Bankers*, Oct. 7, 1836).

75) *Circular to Bankers*, April 21, 1837.

76) *Circular to Bankers*, Oct. 14, 1836. A picture of active transaction of American securities is reported as follows. "If the banks or public companies of the United States can establish a daily market in Capel-court for their credit in exchange for our gold, the operations that may grow out of it must be a thousand times more riskful to the Bank of England than the practice of the Joint-Stock Banks selling their credit in the same market, and forcing it into circulation by means of the bill-brokers" (*Circular to Bankers*, May 5, 1837).

a million sterling.””” The second market for the American securities was Liverpool. The transaction was so active as to make one suppose that, “The headquarters for the sale of American public securities is likely in a few years to be in Liverpool.””” The various kinds of securities were dealt on these markets, and among them those of the Bank of the United States were outstanding.”” This may be partly because this Bank utilized the Baring, a confidential merchant banker. The form of this Bank’s bond was as shown below by the late 1830s.

Bond of the Bank of the United States

No. 86

£1,200

The President, Directors, and Company of the Bank of the United States promise to pay the bearer, on the first day of April, 1838, Twelve Hundred Pounds Sterling, at the Counting-house of Messrs. Baring, Brothers, and Co. in London.

L.S. Witness the seal of the said Company, and the signatures of their
President and Cashier.

S. Jaudon, Cashier. H. Biddle, President.

Source: Circular to Bankers, April 28, 1837

The merchant bankers developed their business availing themselves of the expansion of the Anglo-American trade. Further they played an indispensable role in the growth of the money market and of the Stock Exchange through their business. In addition, already by the later 1830 their activities had come to be to convey the movements in the British money market to the banking centres in the Continental. Their business operated the function of developing the City

77) *Circular to Bankers*, Jan. 27, 1837.

78) *Circular to Bankers*, Nov. 4, 1836. This was an epoch for securities exchange in Liverpool because in April 1836 the Liverpool Share-broker’s Association was founded (Thomas, W. A., *The Provincial Stock Exchanges*, London, 1973, p. 17). Such development was helped by the expansion of the Anglo-American trade. “From 1834 onwards, the pace of company promotion in general increased considerably throughout the whole country, culminating in the boom promotions of 1836. These were induced by the general improvement in trade after 1833, especially trade with the United States” (*ibid.*, p. 11).

79) “Here is an amount of British capital exceeding we believe three millions and a half—for almost all the Properties of the old Bank (the Second Bank of the United States—quoter’s) accepted the new stock—invested in one American Bank (the Bank of the United States—quoter’s). A proportion of banking capital, probably nearly approaching to this, is held by Englishmen in several other Banks at Boston, New York, New Orleans, and other Atlantic cities; and then there are the bonds of the State-Governments, the shares in Railways, Canals, Mines, conducted on the public proprietary system, which have also tempted the wealthy men and women of the old country to improve their incomes by offering higher interest for investments” (*Circular to Bankers*, Jan. 27, 1837).

of London into the international money market. This is fully expressed by an article in the *Circular to Bankers* below:

"We have no doubt that this direction of the sudden strain caused by the measures of the Bank of England (advance of the Bank rate in Sept. 1836—quoter's) induced the Governors of the great Banks of France, Holland, Hamburgh, and Vienna to take into immediate consideration the expediency of raising the rate of interest in order to counteract the operations of the Bank of England. And though some of these Banks might, and others might not determine to advance it, that is a circumstance which detracts but little from the important bearing of such a fact as illustrative of the magnitude and fearful importance of the credit which the Bank so suddenly, indiscreetly, and so hazardingly interfered with. We believe this is the first time that the action of the Bank of England had had force enough to strike simultaneously with consternation the Directors of all the great Banks of Europe. And this effect we attribute to the prompt operations of the wealthy credit and Exchange-merchants who would have recourse to every available means of obtaining supplies."⁸⁰⁾

To summarize, through the establishment of an acceptance business and the development of other important types of business by merchant bankers in the later 1830s, the London money market was set on the road towards becoming an international financial centre.

—— I am debted to Prof. Toyoji Kotake, for preparing this paper, as well as Associate-Prof. Shoji Kasai for working on the balance sheets of the 3W's. ——

80) *Circular to Bankers*, Oct. 21, 1836.