

Baring Brothers
and the Birth of
Modern Finance

Peter E. Austin



Number 3

BARING BROTHERS AND THE
BIRTH OF MODERN FINANCE

FINANCIAL HISTORY

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BY

Peter E. Austin

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NOMENCLATURE

Capitalized 'House' refers to Baring Brothers and to other financial institutions.

'American Houses' refers to specific British merchant banks having large interests in the United States. Though global, Baring Brothers was an 'American House' for the period of this book.

Capitalized 'Bank' refers to the Bank of the United States or the Bank of England.

Threadneedle Street refers to the Bank of England, and reflects an address.

CHRONOLOGY

- 1763 Baring Brothers & Company established at Exeter and London.
Peace of Paris ends Seven Years War.
- 1777 Francis Baring assumes management of the firm.
- 1796–1803 Alexander Baring (later Lord Ashburton) tours the United States.
- 1798 House of Rothschild establishes a presence in England.
- 1803 Louisiana Purchase.
- 1810 Alexander Baring assumes leadership of the House.
- 1814 Barings acquires Hope & Company.
Treaty of Ghent (Belgium) ends British-American war (December).
- 1815 Congress of Vienna ends war in Europe.
- 1816 Argentina declares independence from Spain.
Second Bank of the United States chartered.
- 1817–19 French reconstruction loans.
- 1821 Mexico becomes an independent state.
- 1823 President James Monroe appoints Nicholas Biddle president of Second Bank; closes American continent to colonial settlements by European powers (Monroe Doctrine).
- 1824 Erie Canal completed in the United States.
- 1825 American gross national product tops \$1 billion for first time.
- 1825–6 Financial panic; Rothschild assists Bank of England.
- 1827 Alexander Baring hires Joshua Bates.
- 1828 Second Baring partnership formed; Thomas Baring tours United States.
Andrew Jackson ('Old Hickory') elected seventh United States president.
Business cycle trough.
- 1829 Jonathan Goodhue recommends Thomas Wren Ward for Baring agency.
- 1830 Belgian difficulties.
France captures Algiers.
Year of revolutions across Europe.
- 1831 Belgium crisis.
Polish rebellion.
Ward remarks to Bates that severe problems develop every '5–7 years'.
- 1832 English Reform Bill.
Liverpool to Manchester Railroad opens.
Jackson vetoes Bank of the United States charter.
South Carolina nullification; 'compromise tariff' (Daniel Webster's 'pretty little bill').

- Barings' Liverpool office opens, booms; Bates calls '3Ws' envious.
 Barings' agreement with Russell & Company in Canton (Houqua).
 Biddle arranges for Barings to lead Union Bank of Louisiana floatation.
 House of Representatives reports Bank of the United States more solvent than Bank of England.
- 1833 French indemnity problems.
 Calcutta indigo 'Great Houses' fail.
 Belgium festers.
 Bank of England rechartered.
 Deposits moved from Bank of the United States to 'pet banks' (Kendall).
 Unusual rise in the American cotton price: Rothschilds corner?
 Ward restless with Baring rules.
 Barings' first American trimming.
- 1834 Financial pressure; Biddle clamps down.
 Webster describes United States economy 'Like a strong man chained'.
 Gold Coinage Act (August).
 East India Company monopoly abolished.
- 1835 Transatlantic boom; American demand unleashed.
 United States government switches account agency to N. M. Rothschild.
 United States federal debt extinguished.
 Ward concerned about American import surge ('imbalances correct themselves').
 Barings' China relationships yield results; purchases/builds ships.
 Ward explores Canadian business opportunities.
 Union Bank warning; Bates apprehensive; Baring syndicates state loans.
 Barings sells Maine lands acquired by Ashburton in 1796.
 Bates detects psychology shift; lower prices.
 Barings' second American trimming (Ward: 'top of a wave, takes care in descending').
 New York fire (December).
- 1836 French indemnity problem solved; war averted.
 Hezekiah Niles becomes bullish.
 Surplus Distribution Act (June).
 Urban real estate boom; public land boom; railroad share floatation boom.
 '3Ws' reported to be accommodating freely.
 Bates and legacy.
 Specie Circular (July) – 'specie moving about the country like bills of exchange'.
 Bank of England detects over-discounting among American houses; raises bank rate (August).
 Bank of England indiscreet letter to Liverpool (September).
 British joint-stock bank failures (November).
The Times warns of very fragile American situation: cotton fall?
 Bates advises Bank of England; Biddle strengthens ties to Barings.
 Jackson's eighth State of the Union address.
- 1837 British prices break in the first quarter; American in the second quarter.
 Continental banks tighten in response to Bank of England.
 Herman & Briggs fails in New Orleans; Josephs in New York (March).

- Bank of England assist '3Ws' and Brown Brothers (March).
 Martin Van Buren inaugurated eighth president of the United States.
 Biddle and New York banks look for liquidity (substitute credit of the Bank of the United States for private credit); Barings as underwriter of London offering (April).
 Liverpool and London waits for remittances.
 Van Buren refuses accommodation on Specie Circular (May).
 New York banks suspend (May).
 Loco-Foco backlash against 'Barings and Biddle Bank'.
 Bank of England refuses further aid to American Houses (June).
 Victoria becomes Queen of England (June).
 Biddle attempts to corner cotton market; improve American balance of payments.
- 1838 American states aggressively market debt in London; *The Times* sceptical. Barings cuts ties to Biddle.
New York Herald is first United States newspaper to employ European correspondents.
 Barings guarantees gold to United States in effort to reflate American economy.
- 1839–42 First Opium War.
- 1839–43 Depression in the United States (debt defaults by states).
 Ward coordinates campaign to effect state debt repayment (1839–40).
 Barings syndicates loans to Bank of the United States on European bourses (1839).
 Barings manages Bank of France loan (1839).
- 1842 Webster-Ashburton Treaty defines Canadian frontier.
- 1846 Repeal of British Corn Laws.
 Mexican War in the United States begins.
- 1848 Year of revolutions in Europe.
- 1856–60 Second Opium War.
- 1858 First transatlantic telegraph communications.
- 1861–5 American Civil War.
- 1867 Confederation of Canada.
- 1873 Edward Baring (later Lord Revelstoke) assumes leadership of the House.
- 1886 Baring Brothers floats Guinness & Company shares.
- 1888 Revelstoke takes Buenos Aires Drainage & Waterworks shares.
- 1890 Baring Crisis; Bank of England assists (Lidderdale).
- 1965 Singapore becomes an independent republic.
- 1996 'Big Bang' deregulates London Stock Exchange.
- 1989 Peter Baring appointed Chairman of Baring Group; Barings hires Nicholas Leeson ('a clerk').
- 1992 Leeson sent to Singapore to manage floor operations and back office of SIMEX.
- 1993 Christopher Heath fired; Barings Brothers Bank & Baring Securities combine.
- 1994 Leeson wins 'Trader of the Year' award.
- 1995 Leeson flies to Thailand (22 February).
 Barings collapses under £869 million liability; sold to ING (27 February).
- 1999 Leeson released from Singapore jail; returns to England (3 July).

There is a mystery about Barings
that time alone must unravel.

James Morrison (London) to Richard Alsop (Philadelphia), 5 May 1837,
Morrison Cryder Papers, Guildhall Library, London, MS 11,720, folder 1

INTRODUCTION

The Republic has Degenerated into a Democracy!

‘Richmond Whig’¹

Nobody cares a damn for the House of Lords. The House of Commons is everything in England, and the House of Lords is nothing.

The Duke of Wellington²

This is the story of the financial panic of 1837 and its remarkable outcome for the British merchant bank Baring Brothers & Company. It is the story of a bank’s response to unusual events during the transformation of American life in the 1830s, and the effect of this transformation on Barings and global finance long term.

Events of the 1830s took place amidst changes that began before the French Revolution, and accelerated in England, Continental Europe, the United States and elsewhere around the world with the end of the Napoleonic Wars.

The years 1770–1815 put in place that clutch of marvels of the Industrial Revolution involving textiles, steam, patent protection, coal, machines and factories that made Great Britain the first nation in history to achieve sustained economic growth. The French Revolution started the process in France to sweep away privilege that would give that country a politics sufficiently liberal to follow a growth path similar to England’s. When the long eighteenth century came to peace in 1815, the energy and talents of so many – distracted by war for so long – were freed, and the world could pursue in full measure those aspects of industry, technology and trade that peace allowed.

Free from war in Europe, the western powers scrambled for land worldwide, and human activity spread to all quarters of the globe. Russia expanded to the south and east. Canadians and Americans went west. Britain committed itself to India and the subcontinent, fortified its wartime base at Singapore and thrust inland from coastal enclaves in South Africa and Australia to create in rough form the nations we see today. The Dutch continued their turbulent presence in Indonesia after the war, and established a small commercial settlement at Nagasaki in the 1820s. France captured Algiers in 1830 to begin its African empire, and

considered expansion of its settlements in south-east Asia. Even the north and south poles saw a string of explorations in the immediate post-Napoleonic years. Advances in ship design and engineering, railroads, and the telegraph made geographical expansion more possible than ever before, and helped overcome what the Australian historian Geoffrey Blainey called 'the tyranny of distance'.³

Changes were palpable. But they paled against the coming of the greatest theme of the age: democracy. In the first half of the nineteenth century, agitation for political reform stirred monarchies and parliaments across almost all Europe. Newspapers multiplied as an outward and visible sign of a widening freedom of expression. In 1830, Paris alone supported six dailies; London nine. The slave trade in the Atlantic and Indian oceans was stopped by law and by the vigilance of the British fleet. With the coming of peace, reform spread to economics. The case for free trade which Adam Smith made famous in 1776 could now be turned into policies which, by the 1840s, unlocked new commercial opportunities throughout Asia and the Atlantic world.⁴

While Europe bubbled, the greatest theatre of democracy was the Americas. Independence movements throughout the Latin world set back the imperial states Portugal and Spain after 1815, and stood out as examples of decolonization in an age of empire-building. But in the first decades of the nineteenth century, most eyes focused on the large and restless United States developing north of Mexico which, until 1815, had been moulded largely by forces from Europe, and would now set its own course.

Few were more interested in the progress of the United States than Baring Brothers & Company. First a merchant house, then a bank, Barings had built a high reputation since its founding in 1763. Its aspirations were as global as the British Empire, and this included the growing market of the United States – colony or not. Its involvement was at first professional, then familial with the marriage of two partners into Philadelphia society in 1798 and 1802. When it was an emerging market at the start of the nineteenth century – as China, India or Brazil are today – the American Union was a slapdash mix of risk and reward. And Barings experienced both in a relationship that lasted for a remarkable 200 years.

The House did not cause or directly prompt the industrial, political and economic forces unleashed after 1815. Instead, Barings was an unusually successful example of a new breed of merchant-turned-banker who quietly provided the credit instruments that turned the wheels of investment, commerce and innovation. Barings epitomized British confidence after 1815 and many viewed Britain itself as the model of what a successful nation might be. After Napoleon, Britain stood alone, possessed of a financial and industrial paramountcy that, for a time, was unique; and in the nineteenth century most of world trade and finance went through London in one form or another.

Barings committed formally to the American market in the form of a new partnership in 1828. By this time, the United States had transformed itself from a struggling ex-colony to a nation on the move – curious to Europeans and the world for its vigour and style, and for its experiment in republican government. By 1828 the United States was well into an industrial revolution of its own which would match and later exceed Britain's in scope and scale; and it made sense in the nineteenth century that Barings would ride – indeed facilitate by finance – the wave of progress and change wherever it might lead.

To match the economic exuberance of the young nation, the late 1820s saw the rise of a new kind of American to political power. In the four years after 1824 vast numbers of voters, many with little or no property, were added to the electoral rolls in the United States, and these new participants in the political process elected General Andrew Jackson their president by a large margin in 1828. Not only did this end the elite Virginia-Massachusetts line of presidents since Washington, it swept Jackson into office with a mandate for reform unprecedented in the history of the American republic to that time. The kind of man that an Adams or a Jefferson or a Baring called unlettered and ill-suited to rule, was the same man that President Jackson – this 'Napoleon from the Woods', this 'Old Hickory' – called honest, virtuous and wise. Out were the genteel politics comfortable to European sensibilities. In was a more abrupt, ordinary, levelling, boisterous and practical pattern. Moreover, this democracy of the common man was coupled with a muscular American assertion of rights on the world stage that would grow ever more confident as the nineteenth century progressed.

In the main, the United States turned from the trappings of aristocratic leadership in 1828 just as Barings increased its commitment. Welcome or alarming, democracy at this time became the permanent engine of American expansion and growth at home and abroad. It became the unmistakable fact of the American scene and – to the extent the United States set a sort of 'rough and tumble' standard and style in economics, politics or finance outside its borders – it became an unmistakable fact on the world scene as well.

This study of the Panic of 1837 illustrates part of the tidal wave of change after 1815. It is also a contribution to the Jackson literature with a much-needed foreign view of America in the 1830s, and a look at the financial aspects of these years in a global context. It is a work of history relevant to international business and management as an example of a superb business institution adjusting – or not adjusting – its approach to changing events, information and norms.

But it all began with a question: how the pre-eminent British bank of the time, Baring Brothers, managed to avoid significant harm from the terrible troubles of 1837 – indeed to emerge with increased prestige and influence – when others did not. Specifically, it seeks to find when and for what reasons the bank decided to pull back from its commitments in the United States. Importantly, this book also contrasts the success of the House during the 1830s with that of the House in

later years, when Barings encountered great difficulties and finally collapsed from mismanagement, hubris, ignorance and nonchalance.⁵ By a close-up view of what happened in the 1830s it hopes to illustrate larger themes.

Economic events, that is to say, 'what' happened in the 1830s in the United States, are not at issue historically. An inflation developed in the early part of the decade, after two decades of falling prices. Prices rose moderately from roughly the first quarter of 1830 to the fourth quarter of 1833, then backed off in a mild contraction in 1834. American commodity prices then rose sharply for two years, as did urban real estate, exchange-traded securities, the number of state-authorized bond issues, slaves and, in the last stages, money itself.

The years 1835–6 were characterized in the United States by what may be called a boom psychology – for example in public land sales. The psychology followed a common panic pattern, generically described as follows: after a period of some restraint (1833–4), new profit opportunities are perceived (1835–6), and people move to take advantage of them. This stimulates business, and various forms of credit come into play (e.g. bank notes, bills of exchange, hypothecated bank deposits) to enable people desiring to borrow to do so. At a certain point, some kind of shock or 'displacement' occurs that changes expectations as to a given set of investments.⁶ Business euphoria, credit expansion and speculation falter (gradually or all at once) because it becomes clear to a few, then later to many, that credit positions are extended beyond what are sustainable in the long run. The objective becomes to preserve any gains one has to this point, and usually involves getting out of whatever assets one owns before others do. The end of 'overtrading', in Adam Smith's word, was followed by what Smith called 'convulsion', or in current finance parlance, 'distress'. In this study, the latter occurred with a vengeance, as the financial events of 1837 (panic) became the deflationary economic events of the years 1839–43 (depression).⁷

In the 1830s the troubles were transatlantic, indeed international, though the focus of the present study is Great Britain and the United States. The British displacement occurred when the Bank of England discovered that four merchant banks, nominally under its supervision, had extended themselves a bit too far in the American trade. The Bank moved to restrain credit in the summer of 1836, having a great effect on the fortunes of the firms to which the British Houses were connected in the United States. Though made nervous by the Bank of England's action, Americans did not move to topple the United States boom right away. The American displacement came later from the failure of several New Orleans cotton commission Houses in March 1837.

The problem of 'what' happened as to the panic is settled. The actual etiology of the panic – the 'why' – is less so. The years of the Jackson presidency (1829–37) were ones of bitter political partisanship, and years indeed went by before a dispassionate historical account was penned. Most twentieth-century studies stress one or more internal American factors as the panic's cause – the veto of

the recharter bill, the deposits removal, the proliferation of banks, the 'Specie Circular', the Distribution Act to allocate the federal surplus – in general, the policies of the Jackson administration.⁸ More recent studies claim these political problems are overemphasized in explaining the inflation of the 1830s, and look rather at the Anglo-American trade system within the larger world economy, including supplies of specie, and conditions in the international capital market.

Contributions by economists and economic historians Walter Buckingham Smith, Peter Temin and Hugh Rockoff emphasized global influence and balanced the explanations that focused mainly on the domestic side.⁹ Added to the rocky domestic scene of Jacksonian politics and banking reform initiatives in England, these later accounts detail the evolution of new patterns of capital flows in the early 1830s that involved trade credits between the United States and Great Britain, and changes in specie flow patterns to and from China and Mexico. The combination of so-called 'real factors' (Jacksonian politics) and monetary ones (specie and money flows) caused a destabilized situation in the late 1830s.

The questions of what happened, and why, are provided here for historiographical context. The present study, however, is concerned with these considerations only as they affected what contemporaries thought, and what made them act the way they did. In these terms, Baring Brothers certainly paid close attention to the 'real factors' such as Jackson administration policies, but as a bank of international scope and commitments, the 'monetary factors' of flows of money, specie and credit were givens as well. The prime consideration was always survival in a business that Barings' American agent considered 'inherently hazardous'.

Though not literally hazardous of course, unravelling past events in business history is nonetheless difficult – financial history particularly so. In contrast to those of other fields, personalities attracted to commerce and money tend not to be as expressive, impressionistic or prone to lengthy description in the sense they tend to see value in action rather than thinking. There are exceptions of course, but there is a reason why a favourite aphorism of the notoriously terse Pierpont Morgan was the Provençal phrase: *pense moult, parle peu, écris rien* ('think a lot, say little, write nothing'). The high-stakes business of merchant banking required strict confidentiality and discretion.

Nevertheless, the historian intent on getting at answers is sometimes left only with the third item of Morgan's triplet. Certainly this is the case with Barings, in whose correspondence there tend to be many actions but few explanations; many orders, but little theory or elaborated reasons of actions. The present author has, therefore, taken what he has described as an 'aspirin approach'. That is to say, like drug action, one may see a striking effect or outcome, perhaps repeatedly, but not know the reasons for such results. Therefore, in the 1830s, while six other British merchant banks required assistance from the Bank of England, Barings did not. We know this is true, but are not sure why. Indeed, we know Barings was healthy

enough to coordinate a rescue of ailing banks. But the evidence for Barings' motivation is circumstantial and fragmentary, and must be pieced together.

This investigative approach is very different from other historical studies of Baring Brothers, of which there are three of note. Ralph Hidy's *The House of Baring in American Trade and Finance* (1949) is a meticulous account of Barings in the United States to 1861. Philip Ziegler's *The Sixth Great Power* (1988) is Barings' official history, and an elegant survey of the House from its founding to 1929. John Orbell's *Baring Brothers and Co. Limited. A History to 1939* (1985) is a slim but highly-informed volume by the current archivist of ING Barings in London. All provide masterful descriptive overviews of the House, but few provide reasons for partner decision-making. This is what the present study attempts to do. It magnifies one episode within the House's long history – albeit a pressurized one – and seeks to explain in detail what the partners believed and why they behaved as they did.

In this regard, this book will argue four reasons for Barings' pull-back from the United States before the 1837 downturn. These weave as themes through the chronological text. First, Barings was uneasy about the democratic administration of Andrew Jackson, and what they considered to be a disruptive lack of propriety developing in the United States – different in spirit from earlier days of doing business in America. Second, the firm had an instinctual sense of caution and conservatism about it. The London partner most in charge of American affairs, Joshua Bates, appears to have possessed the personal quality of 'changing before he had to'. This resulted in acting too early at times, but allowed the firm to maintain initiative and control. Others, more propelled by circumstances, were surprised by the suddenness of events. They lost control or transferred control to someone else – in our case, the Bank of England. Historical caution and conservatism kept the firm in good stead in the 1830s but, as we shall see, doomed their ultimate leadership in the rough-and-tumble American market, and indeed the world, longer term.

Third, this study posits that the firm pulled back from the United States simply because they were able to do so. Barings' operations had terrific geographical spread. The United States, though important, was not its only venue. In this regard, the House of Rothschild was similar. It was fabulously successful yet did not commit to the United States until relatively late. Though chary about Latin America in this period, Barings' diversification efforts into South Asia, Canada and the Far East are clear.

The fourth reason for Barings' American pull-back had to do with the issue of maintaining continuity from one generation of partners to another. Continuity translated into a sense of legacy, and a created a gentle pressure to perform honourably. Throughout our period, Barings maintained a posture of self-conscious leadership, as if watched; as if somehow a different set of standards applied to a firm of such pedigree. This may have been one source of Barings' caution, of

‘changing before one had to’, of arranging its affairs in a way that precluded cavalier behaviour and gross failure. Once again, an organization can take this inclination too far so as to stifle innovation and daring, but in the 1830s, it served Barings well.

Elements of the story of Barings in the nineteenth century will strike readers as familiar, though nearly two centuries old. Some of these include the ongoing importance of the Atlantic economy in the history of the United States, and the connection of London and New York; the rise of Liverpool and the development of the American south and west; issues of moral hazard and lender of last resort; overseas trade versus domestic economic development; tariffs; bank regulation; balanced government budgets and budget surpluses; the participation of China and Mexico in the world economy; international trade and investment flows; the role of central bankers; politics’ effect on markets; fixed exchange rates; the importance of people in decision-making in an age of machines and technology; and, finally, the ability of smart people close to the best information to make mistakes.

Chapter 1 provides an overview of Barings’ early history, prestige derived from the French Wars, the avoidance of disaster in the excesses of 1825, and the bank’s connections to the United States before 1828. Chapter 2 describes the members of a new Baring partnership formed in 1828, its rules and standard procedures, and provides macro-economic data on the Anglo-American trade economy. Chapter 3 describes the new business connections which the partnership established in the United States, highlights the House as a ‘value’ player that committed when markets were at low points, describes Barings’ increasing options worldwide, and the House’s relationship to the influential Second Bank of the United States.

Chapter 4 describes a bundle of economic and political problems between 1832 and 1834 that created tension in the financial community. In these years, Barings was unnerved by what it learned about the Andrew Jackson administration. Chapter 5 sees the ‘problems’ of Chapter 4 swept away, the American economy boom in 1835 and 1836, the pressure of competition on Barings in the United States, and the decision of the Baring partners to reduce their American position based on what it considered unsustainable values in real estate and commodity prices. In the autumn of 1836, the Bank of England discovered excesses among several merchant banks doing large business in the United States. The Bank raised its borrowing rates and, with the counsel of Barings, curbed these merchant banks’ activities – taming, at the same time, certain speculative excesses in the British economy. Chapter 6 recounts the ripple effect of the British moves on the American economy which continued its boom into the early spring of 1837, but which had become vulnerable by this time to unexpected shocks. An American downturn began in March 1837. Healthy for its early exit, Barings assisted where it could, but the Panic of 1837 began an extended period of American economic distress lasting until 1843.

In closing, this study discusses Barings' triumph in the 1830s in terms of the serious lapse of the House in 1890 and the mortal difficulties in Singapore in 1995. It argues that Barings' impulse to reject the American democratic style of the 1830s saved the partnership by causing its timely pullback from the United States. It argues also that – ironically – the very values and behaviour that enabled the House to triumph in the 1830s foretold Barings' inability to compete long-term with more flexible financial institutions in later years, and led to its destruction in the late twentieth century.

The years covered in these pages to approximately 1840 constitute what the author has come to consider Baring Brothers' 'American moment'. The House continued its contribution to American development for several decades after this time, but never again would it be so preoccupied with the United States or have a 'lock' on its business. Competitors in the emerging United States took Barings' place as American financial institutions matured. With the possible exception of the Panic of 1873, never again would foreign credits and business play so large a part in an economic disturbance as they did in the events that triggered the Panic of 1837.

In 1830 the Duke of Wellington noted the winds of change blowing through the English Parliament. Five years later, an American newspaper in Richmond, Virginia, also commented on big changes in American politics. On both sides of the Atlantic, men once thought inappropriate for positions of influence or leadership were coming to power amidst the relentless forces creating a modern world. Companies, however distinguished their pedigree, ignored these forces at their peril.

1 GROWTH OF CONFIDENCE (1763–1828)

Strong, sensible, self-reliant men, with a profound belief in themselves, in their family and in their country – eminently just and fair; no trace of hypocrisy or cant; not only solid and square but giving the impression both of solidity and squareness ... not subtle or agile, but endowed with that curious combination of character which lends authority even to doubtful decisions, and makes those who possess it respected in counsel and obeyed as rulers.

Viscount D'Abernon on Barings¹⁰

The early history of Barings reflects the early history of merchant banking in general, and the foundations the banker must lay if he is to garner trust and a good reputation among traders, manufacturers, correspondents and, on occasion, governments. Before the turbulence of the 1830s, Barings had been in business for nearly seventy years. These years involved finance in war and peace, European reconstruction loans in 1815, and a widespread financial panic in the middle of the 1820s. The Barings, particularly Sir Francis and his second son, Alexander, were also among the first British merchant bankers to realize that westward across the Atlantic, in America, lay a land of very large possibilities. Barings forged its American connection almost before the United States was a nation.

This chapter will show, in outline, the characteristics of Barings' early experience and operations, which provided continuity with later years, and likely benefited the firm. In sequence, the narrative includes the establishment of the firm, the anchoring of the firm's reputation in Great Britain and Europe, contact with America, the 1825 downturn, and formation of the third Baring partnership that navigated the events leading to the troubles of 1836–7. From the start, the firm was not local or regional in orientation, but international. It made influential financial and political contacts, including those by marriage. It exhibited caution, made mistakes, and incited fear and envy among peers and those outside the banking community. Above all, the illustrious position which it established firmly in its early years allowed Barings to play a coveted role of objective helpfulness in questions of high finance in both the United States and Great Britain in the first important decades of the nineteenth century.

Establishment and Early Reputation-Building

The House of Baring is a classic example of an international merchant and trading firm which, over time, changed into an organization almost wholly devoted to finance. It began modestly as a manufacturer and dyer of serge cloth under Johann Baring (1697–1748), who emigrated from Bremen to Exeter, Devon, in 1717.¹¹ After Johann's death in 1748, business continued under his wife and three sons, John, Francis and Charles. The end of the Seven Years War in 1763 promised increased commercial opportunities, and the firm reorganized into Exeter and London offices. The Exeter firm continued the emphasis of the original cloth business, whereas the London House was an import and export commission operation from its inception, albeit having as its most important client its Exeter complement. Through its London partner, Exeter bought raw materials from the Continent for its own and other Exeter manufacturing enterprises. It also secured wider markets for its merchandise, and an effective agency for negotiating bills of exchange on the major money market in London.¹² In its earliest years the firm forged ties to the Low Countries and northern Germany in the textile trade, and made contacts in Spain, Portugal and the Canary Islands for imports of spirits.

John Baring's grandson, Francis (1740–1810), de-emphasized the merchant aspects of business when he took over from his older brother John in 1777, and established Barings as a world banking force. Francis steered the London operations, which soon eclipsed Exeter in importance and influence. Francis started from meager resources, sharing perhaps £4,200 with Exeter, but he established the contacts for the firm which opened doors and provided diversification, safety and options in future decades.¹³ He made connections with commercial Houses throughout the Mediterranean, northern Europe, the Baltic and West Indies. Among these was the well-known Dutch banking and trading House, Hope & Company of Amsterdam, whose relationship provided an important fulcrum into Continental commerce, countering the growing influence of Rothschilds. The London branch of the House had always bought and sold commodities on commission for correspondents and for its own account. Now it did a growing business in exchange as well, with Continental Houses and with its long-standing Exeter correspondents.¹⁴ Only later, after years of mercantile service and an enhanced reputation in the wake of the Napoleonic indemnity, would Francis fully establish the acceptance business that proved so lucrative to the House.

From 1777 until the outbreak of the French Wars in 1793, capital of the House grew threefold to £61,177, and rose as high as £75,891 in 1792. Profits from trade fluctuated wildly – from as low as £352 in 1784 to as high as £13,268 in 1792. On the other hand, commission income increased steadily from £4,248 to £10,448, and the direction of business becomes clear from the dramatic expansion in acceptances. Liabilities on acceptances rose from £41,608 at the close of 1777 to a staggering £121,202 in 1793.¹⁵

Increases in business complemented the House's expanding political contacts and associations. Not long after arriving in London, Francis Baring was appointed a director of the Royal Exchange Assurance, the leading insurance company in the City. Baring investments in the East India Company began in 1776, were followed by a directorship for Francis in 1779, and the chairmanship in 1792. Francis's developing international knowledge and experience interested a growing list of politicians and organizations which enlisted his advice on matters of money and politics. His circle of associates in politics included William Pitt the Younger, the Duke of Rockingham, Edmund Burke, Henry Dundas and Jeremy Bentham. During the American War, the Earl of Shelburne chose Francis as an adviser on American commercial and financial matters.

Government wartime contracts led to Barings' heightened reputation by the 1820s. The House had secured its first significant assignment as contractor for public loan subscriptions to finance the rebellion in Britain's American colonies, placing stock among the public and its private client list. This was new ground for the House, but turned out to be a lucrative revenue stream that complemented more volatile income from trade. Between 1780 and 1784, loan contracting yielded Barings £19,000 and accounted for over half of overall profits. Throughout the American war, commission and acceptance income from trade grew 90 per cent.¹⁶

Barings distanced itself from its merchant banking peers most of all, however, by its participation in Britain's financing of the coalition wars against France and funding the French indemnity loans thereafter. France declared war on England in February 1793, and the commercial crisis, brought on the previous autumn by poor harvests and growing anxieties over developments in revolutionary France, intensified. A run on the Bank of England met with restricted note issue and a raising of the discount rate. London and country banks refused to undertake discounting in an attempt to maintain cash solvency, and British industry slowed almost to a standstill in 1794. Leaders of the City, including the newly-knighted Sir Francis Baring, met Prime Minister William Pitt at Mansion House in April, and issued 'exchequer bills' for immediate discount in order to relieve the commercial pressure and restore confidence. Gold continued to flow out of the country, however, and the Bank ceased convertibility of its notes in 1797, and did not resume again completely until 1821.

Between 1793 and 1816 the British national debt swelled from £243 million to £778 million.¹⁷ This colossal increase in government obligations offered London financiers great opportunities, which the House of Baring seized through its earlier experience with government finance, connections in government circles, and high standing in the eyes of the investing public. The House headed the group of contractors for twelve public loans marketed for the wars against France. It took the majority share of the £28 million British loan in 1813 at 60, which went to a 3 per cent premium on the day of offer. The British government tapped

Barings (Smith, Payne and Smiths) again to handle a £30 million issue of 3 per cent bonds that coalition forces used to defeat Napoleon at Waterloo.¹⁸ Barings profited handsomely from British wartime borrowing and public loan contracting. For example, the House made £21,000 in 1799 and £18,646 in 1801, which represented 47 per cent and 34 per cent of total profits respectively.¹⁹ The war provided other business opportunities. In the 1790s the House shared in contracts for the supply and finance of provisions for Jamaica, for example, as well as for the British expedition to Hispaniola. Francis also offered the services of the East India Company in Asia to Pitt.

However significant the opportunities of the war itself, it was the management of the loans for the rebuilding of Europe that gave Barings its greatest triumph since Johann founded the House, and indeed cemented Barings' prestige in the banking community in the postwar years. In 1815, the second Peace of Paris imposed an indemnity on the restored monarchy of France to pay England, Prussia, Austria and Russia 700 million francs in war reparations, and 150 million in occupation costs per year for five years.²⁰ To pay these sums, the French government had to overcome major difficulties. In 1816 the government ran a deficit serviceable only by drawing down cash advances made by British loan contractors against French *rentes* sold on exchanges or through mercantile and banking firms. French public credit was at low ebb, and investors and financiers recalled the insolvency of former Bourbon regimes. The French capital market was also weak, and bonds could be issued only at deeply discounted prices. France and the Allies alike were anxious to come to some sort of terms – France so the occupation of its country might end; the Allies so they could secure badly-needed funds to stabilize their war-torn economies.

A foreign loan seemed the solution, and Messrs Baring and Hope visited Paris in January 1817 to explore possibilities. Shortly after the French defeat, Barings had arranged provision contracts for the armies of occupation through the agency of Gabriel-Julien Ouvrard, Paris banker and financial advisor to Napoleon. This relationship was taken up again now and, by February, Baring Brothers, together with Hope & Company, agreed to buy enough *rentes* at 52.5 francs, less a commission of 2.5 francs, to provide the French government with an initial 100 million francs. The contractors paid all expenses for marketing the loan and transferring the funds to foreign states.

The February *rentes* sold promptly and prices rose. In April, Barings took a second 100 million franc *tranche* at 55 francs and, amidst market enthusiasm, took still a third at 61.50. The latter furnished 115 million francs to the French treasury. These 1817 transactions cemented Barings' reputation as a lead underwriter of government debt. The loans were so successful that Paris bankers and the French public overcame their caution, and three years after Waterloo – in May 1818 – the French treasury itself sold *rentes* with a face value of 290 million francs. The loan was oversubscribed ten times, with much of the bidding com-

ing from the provinces. Despite French public enthusiasm, however, the victors in the war were chary of the safety of French internal flotations, and the bulk of loans remained in the hands of major Allied financiers who managed their affairs from London.²¹

Banking syndicates took up several subsequent French loans, but most profit and risk of the French transactions remained in the hands of the Baring-Hope partnership. Considerable friction developed between Barings and the firm of Rothschild & Sons over loan apportionment, but since the French firm wished not to be too unpopular in London, it agreed to take only junior interests in the last major French securities offerings which were placed in March and September 1818 for issue in the first nine months of 1819. Rothschilds desired participation in the indemnity loan business, but had lost much of its influence when many of its contacts inside the French government resigned or were discredited in 1815. Hence Barings secured management of the second and enormous 480 million franc loan series in May 1818. Barings parcelled out a total of just 11 per cent between Rothschilds, the Anglo-German banker David Parish and the Paris banks Hottinguer & Company and Jacques Laffitte. The large remainder Barings took at optimistic prices of 74–6 francs.²²

The loan did not go well. Deteriorating economic conditions caused by poor harvests in England and Holland made 1819 a trough year in the postwar adjustment period to such an extent that the Bank of England had to postpone resumption because of a drain of specie. Prices had already peaked by the time the loans were consummated, and 1819 turned out to be a year of severe economic dislocation. Falling prices, high unemployment and severe labour strife – all adjustments to peace after twenty-five years of war – caused Sir John Clapham to designate 1819 as ‘one of the most wretched, difficult, and dangerous in modern English history.’²³

Francis Baring’s son, Alexander (1774–1848), sued for a rescheduling of loans in light of exchange bids dropping to 60 francs. Rescheduling took place and by 1821 the loan issues had risen to over 87 francs, by 1823 to nearly 90.²⁴ But Barings’ timing had been poor in terms of what is now known economically; its judgement as financial professionals precipitate. Their high government loan bid was based on earlier successes of 1817 as well as the illusory prosperity of the year 1818. Rescheduling took place easily because participants at the Allied indemnity negotiations at Aix-la-Chapelle had themselves taken shares, and wished to preserve their positions. In the years 1818–25 Barings shared Russian, Austrian and Danish loans with several firms, such as Parish, Rothschilds, Thomas Wilson & Company and Bethmann Brothers of Frankfurt. It was the French reparation loans, however, which transformed Barings from a prominent British merchant bank to a major international financial force.

Profits were considerable from these loan operations, though difficult to assess. Estimates from some sources cite profits from loan operations as high as

£1,500,000 but were most probably lower. Swinton Holland, Baring partner and manager of the counting house at 8 Bishopsgate from 1809 to 1827, wrote that business related to the French loans produced a profit of £720,000, a titanic sum for a mercantile House from a single operation.²⁵

In the winter of 1818 the Duke of Wellington told Lord Liverpool that he thought that, with Barings in control of French securities and French securities all the rage in London, the House was beginning to control the money market of the world. Even in 1817 James Rothschild in Paris had commented that Barings had grown so dominant in the area of postwar finance that, if they handled the loans exclusively, this in itself would make the business world uneasy.²⁶ Power was perhaps more apparent than real. Despite postwar loans, overall profits to the firm were actually a bit lower in this period. From 1813 until 1817 the annual average acceptance and commission income had been slightly over £50,000 but between 1818 and 1822 it fell off to £35,304 and still farther to £26,463 between 1823 and 1827.²⁷ Still, Barings' reputation – the fragile bedrock of the banker – stood high in the postwar years and its financial influence was considerable.

Just prior to Waterloo, Barings had taken another step to strengthen its European operations which assisted the workings of its postwar indemnity loan contracts: it took over the Dutch House of Hope & Company. By 1808, almost all the Hope partners lived in wartime England, and were either unwilling or unable to continue active management of their House in occupied Holland. In 1814 Alexander Baring bought the assets of Hope & Company for £250,521 and gave the House a new partnership structure. He had managed Baring Brothers & Company since the death of his father, Sir Francis, in 1810.²⁸ Alexander – the future Lord Ashburton – retained a one-third interest himself, and divided the rest between his brother-in-law, P. C. Labouchere, and his nephew, Thomas. Alexander's creation of a Hope & Company subsidiary expanded the access of Barings to the competitive loan activities of Continental Europe and served as a financial beachhead during the indemnity loan period.²⁹

Barings and America

Barings' meaningful connections to the United States began shortly after Francis began managing the House in London in 1777. Earlier, the House had developed cloth export operations to the American colonies by way of commercial Houses in the West Indies. Francis's first recorded business relations with North America were in 1783 with Willing, Morris & Company, which proved a valuable conduit to securing American business. The Willings were an established Philadelphia mercantile family. Thomas Willing himself (1731–1821) was an associate of Alexander Hamilton and first president of the United States' first commercial banking institution, the Bank of North America, founded in 1782. Willing's