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AN ANALYSIS OF THE UNITED STATES BANK OF PENNSYLVANIA (1836-1841)

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Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise

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About the Series

The Studies in Applied Economics series is under the general direction of Professor Steve H. Hanke, Co-Director of the Institute for Applied Economics, Global Health and the Study of Business Enterprise (hanke@jhu.edu). The authors are mainly students at The Johns Hopkins University in Baltimore. Some performed their work as summer research assistants at the Institute.

About the Author

Zackary Baker is a junior at The Johns Hopkins University in Baltimore double majoring in Economics and Applied Mathematics and Statistics, with a concentration in Financial Mathematics. Writing about the United States Bank of Pennsylvania appealed to his interest in accounting, banking, and the history of business and finance. He wrote this paper during his time as an undergraduate researcher for the Institute of Applied Economics, Global Health, and the Study of Business Enterprise. Zackary expects to graduate in December 2018.

Abstract

The Second Bank of the United States, located in Philadelphia, served as the quasi central bank of United States for the duration of its federal charter, from 1816 to 1836. The bank was fully privatized in 1836 after its charter expired, and functioned as a state-chartered bank with no unusual privileges until its liquidation in 1841. This paper discusses the bank's underexplored private years, when it was known as the United States Bank of Pennsylvania. The balance sheets for these years were digitized for this paper and are analyzed here to understand the makeup of assets and liabilities and the causes of the bank's failure.

Acknowledgements

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Keywords: Second Bank of the United States, United States Bank of Pennsylvania, balance sheet, assets, liabilities, bank failures

JEL codes: G21, N21

Introduction

The federal charter of the First Bank of the United States was allowed to expire in 1811. Jeffersonian democrats, led by Thomas Jefferson and James Madison, viewed a quasi central bank as contrary to the agrarian society upon which they believed America was founded and should continue to rest. Arguments against the renewal of the charter focused on two main points: state banks were capable of filling the First Bank of the United States' operational roles, and the Constitution did not give Congress the power to create this type of institution (Kahn 2016, 15). Following the expiration of the First Bank's charter, three important events occurred: The War of 1812, the U.S. Market Revolution (Industrial Revolution), and a great expansion of the banking sector (Kahn 2016, 17).

Congress declared war on Britain in 1812, over a number of issues that in retrospect do not seem important enough to merit the grave response of war, including American trading rights with France and American anger over Britain's support of Native Americans in numerous conflicts with American settlers. The War of 1812 turned out to be a military and fiscal nightmare for the United States. During the war, Britain maintained blockades against a number of U.S. ports, crippling U.S. trade. President Madison implemented an unsuccessful monetary policy, issuing government paper currency that caused inflation. Without a federal bank, the U.S. government had no reliable source of financing in the fragmented domestic markets of the time. Congress authorized $61 million in government bonds to finance the war, but only $45 million were sold, and at discounts of up to 20 percent. In all, the government received just $34 million in specie (gold and silver) for loans totaling $80 million (Kahn 2016, 17).

The United States' need for weapons, uniforms, and other supplies during the War of 1812, along with increases in the mechanization of production spurred by the Industrial Revolution, led to the United States becoming a notable producer of finished goods and products. This marked a significant shift from the previous heavily agrarian economy. In the very beginning of the 1800s, there were only a few state banks in operation. However, over the course of the War of 1812, the number of state banks increased quickly, propelled by the economic developments stemming from the transition to an industrial economy. Between 1811 and 1816, the increase in state banks led to a flood of paper currency. Total notes in circulation more than doubled, from $28 million to $68 million (Kahn 2016, 18).

In 1814, the British military's burning of Washington, D.C. and the White House triggered economic panic and a series of bank runs. This caused the nation's first episode of state banks suspending specie payouts for note redemptions, and was a further indication of the need for reform in the U.S. banking sector (Hammond 1957, 227). In 1816, at the close of the war, Congress approved the creation of the Second Bank of the United States, capitalized at $35 million. As with the First Bank of the United States, the federal government would own one-fifth of the bank stock and the bank was granted a twenty-year charter.

From the beginning, decisions concerning the Second Bank were often made for the purpose of furthering political agendas, not for promoting financial stability and responsible operations.

President Madison, a member of the Democratic-Republican party, appointed a governing board comprised almost entirely of members of his own party, despite their lack of experience in the banking sector. The Federalists, who had been the chief advocates of a federal bank, were left out in the cold. William Jones, the former Secretary of the ~~Navy~~Navy, and the de facto Secretary of the Treasury while the actual secretary, George W. Campbell, was suffering from bad health, was appointed president of the Second Bank in 1816. Jones' appointment led to dissatisfaction among some of the other members of the governing board.

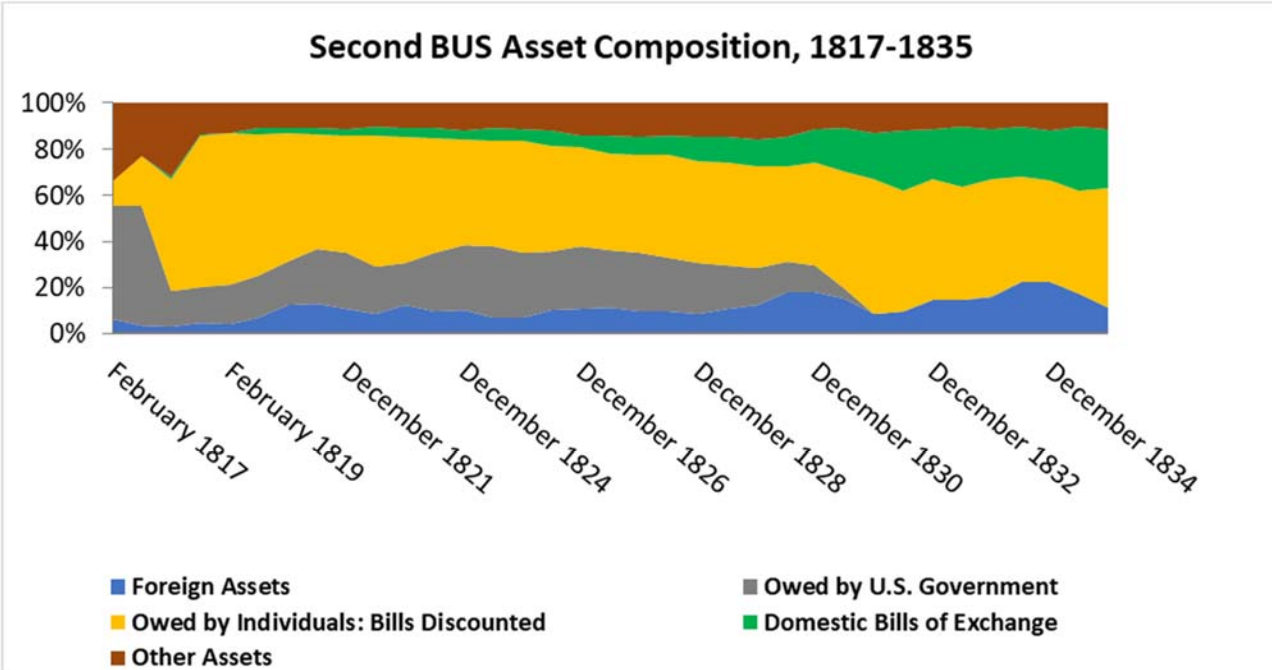
Jones believed the main goal of the bank was to achieve high returns for its stockholders, a belief that other board members did not share. Jones pressed for state banks to resume specie payouts for note redemptions and reached an agreement with state banks making the Second Bank responsible for state banks' public deposits, but not requiring state banks to transfer funds to the Second Bank of the United States for the next four months (Kahn 2016, 23).

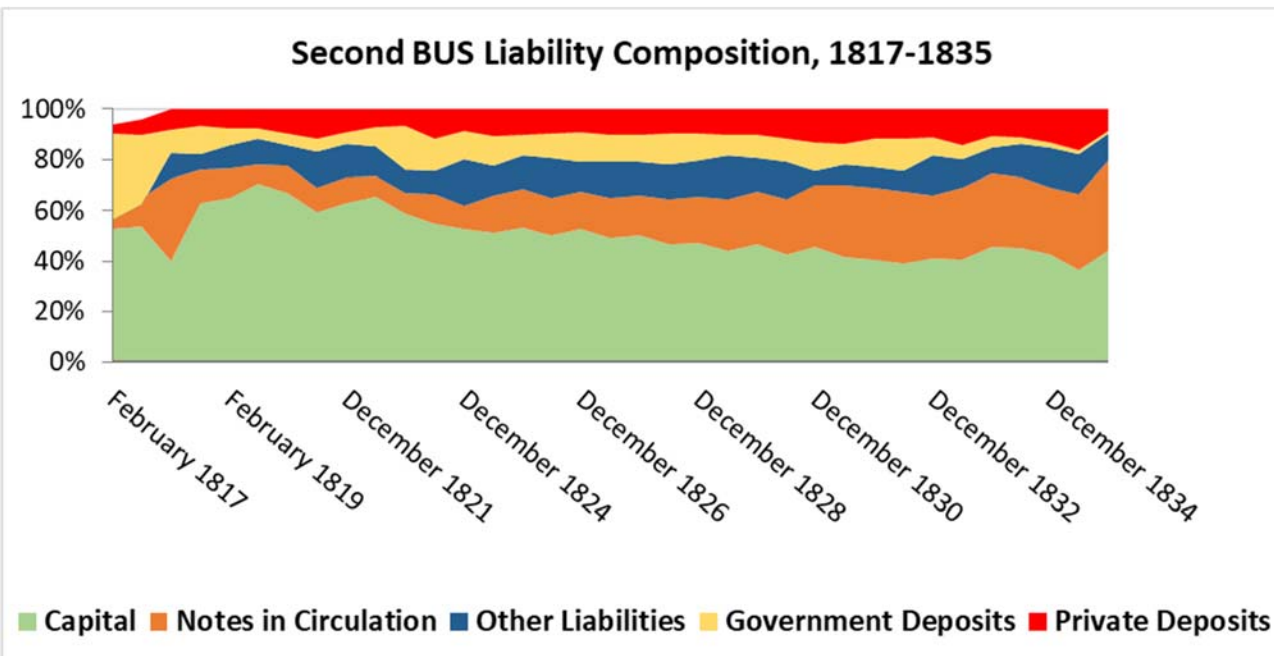
The Panic of 1819 created turmoil for the Bank. After the conclusion of the War of 1812, European goods began flowing back into the United States. Newly influential industrial interests in the United States lobbied for protective tariffs. Additionally, the Napoleonic Wars (1803-1815) had destroyed much of Europe's agricultural sector, and Europeans looked to the United States for a large share of their agricultural needs. This led to a huge rise in U.S. land value, and a speculative property bubble formed and then burst.

Questionable decision making by Jones hastened the popping of the property bubble. The Bank of the United States ended the practice of allowing the notes of one branch to be redeemed at another. In the western branches, issuing notes in exchange for specie had provided the liquidity to fund the land speculation. Ending this practice sharply reduced available loans. State banks rapidly called in loans and the Bank of the United States' specie reserves approximately tripled in 1819 (Kahn 2016, 25). From the beginning of 1819 to autumn of 1820, specie reserves grew from 2 percent of the Bank's total assets to over 8 percent of the Bank's total assets.

Additionally, the U.S. government needed to make a $4 million interest payment on bonds issued to fund the Louisiana Purchase. The Bank of the United States began redeeming state bank notes in order to provide the necessary $4 million in specie. Far more notes had been issued than were covered by specie reserves, and foreigners held most of the bonds, so lending was cut and specie drained from the U.S. economy rapidly, resulting in a series of bank runs known as the Panic of 1819.

The panic, occurring so soon after the inception of the Second Bank, solidified the worries many Americans had over such an institution. One American in particular who suffered greatly from the bursting of the land speculation bubble was Andrew Jackson, the future U.S. president, who was the greatest opponent of the Bank of the United States as a direct result of his financial suffering.





Graphs from Gulino (2016)

Following the Panic of 1819, an audit of the Bank's branches uncovered massive fraud at the Baltimore branch. The branch managers had been using the bank to lend themselves money to purchase the Bank's stock and increase their voting share. The uncovering of the fraud led the Bank's board of directors to replace Jones as president. Jones resigned in January 1819 and was succeeded by Langdon Cheves (pronounced "CHIV-iss"), a lawyer and former Speaker of the House of Representatives. Cheves served as president until he resigned in late 1822, during which time he imposed very tight controls on lending that promoted the Bank's health but at some detriment to the U.S. economy (Catterall 1902, 91-92).

Upon Cheves' resignation, Nicholas Biddle took over as president of the Second Bank of the United States. It is the results of this period that are of particular interest. Biddle, in his earlier years, had served as secretary to a number of U.S. ministers (ambassadors) overseas, most importantly James Monroe in London. It was this relationship with Monroe, coupled with Biddle's emergence in the Pennsylvania legislature as a prominent authority on banking policy, which led to his promotion to third president of the Second Bank of the United States.

At the end of 1822, when Biddle officially took over as president, he immediately began expansionary policies that contradicted those of former president Cheves. Biddle steadily increased the amount of notes in circulation, providing liquidity to the growing U.S. economy (Gulino 2016, 15).

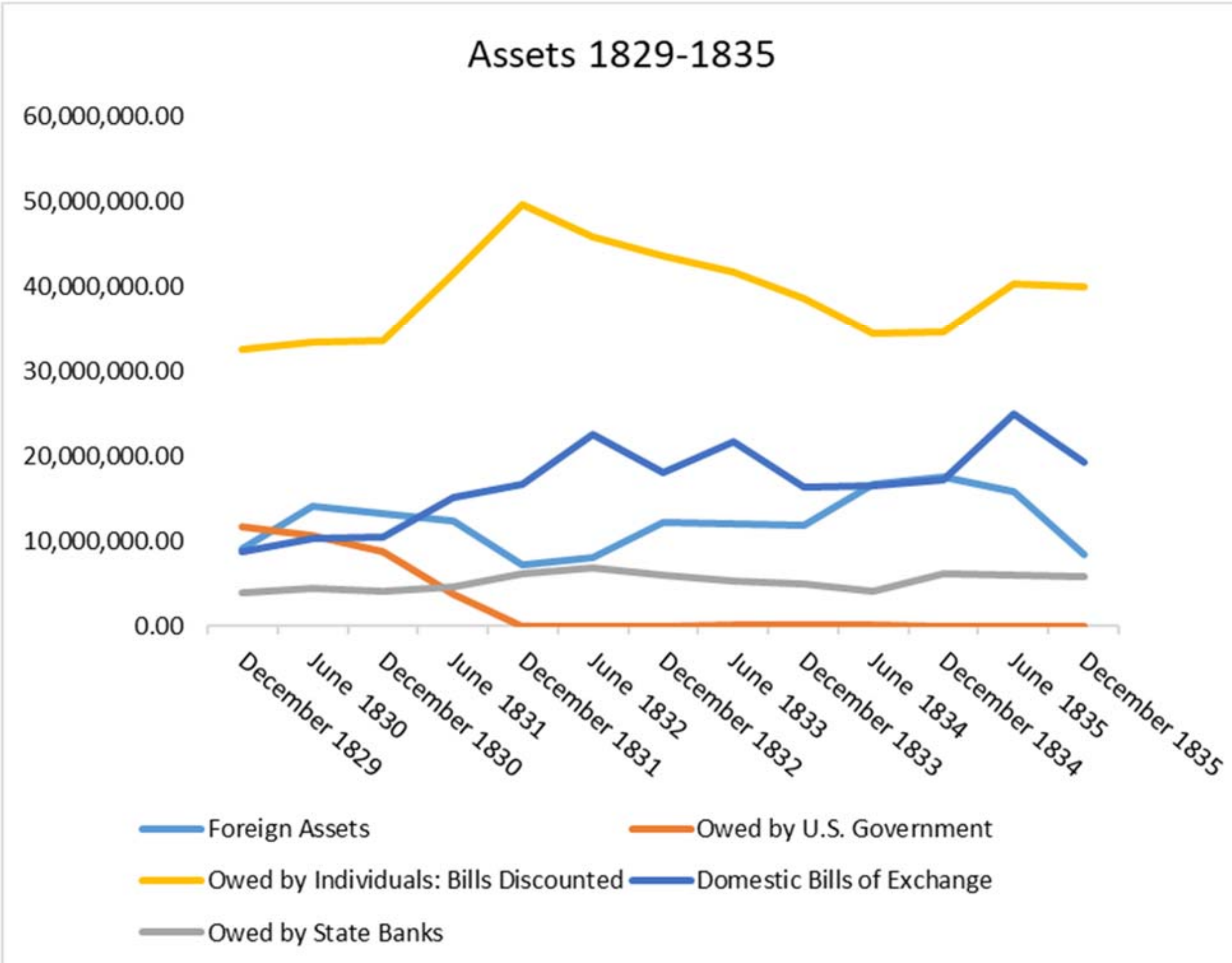
The period between Biddle's ascension to the presidency of the Bank and Andrew Jackson's election to the presidency of the country was the most successful period for the Second Bank of the United States and for the U.S. economy during the Bank's existence. As noted earlier, Andrew Jackson possessed a personal hatred for the bank, and as president, pursued a vendetta against the Bank of the United States. Andrew Jackson's election marked the beginning of the "Bank War."

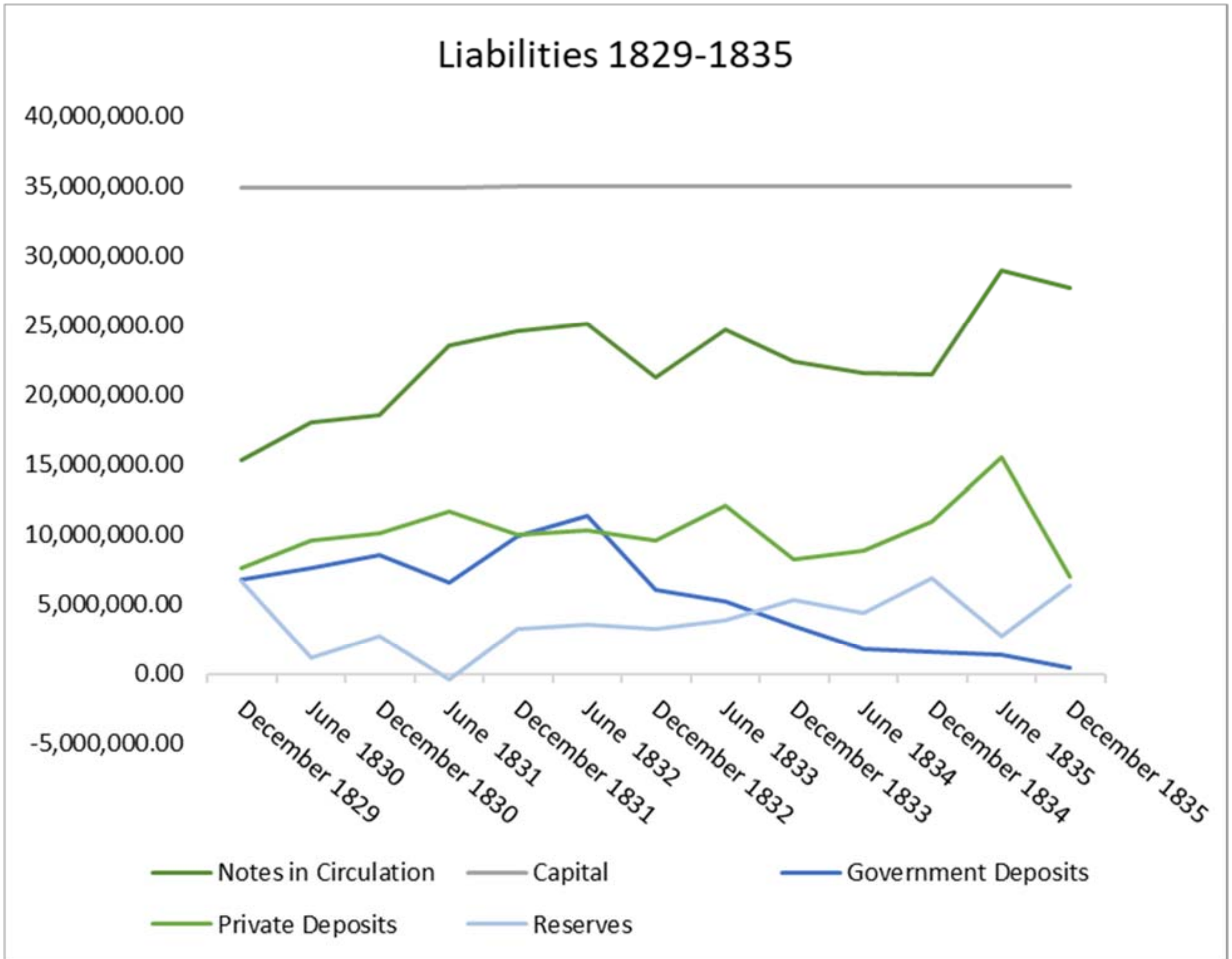
The Bank War (1830-1835)

President Jackson attacked the Bank of the United States as being unconstitutional as well as immoral. A faction of the Democratic Party, known as Jacksonians, arose as extremely opposed to the Bank of the United States. The Jacksonians blamed modern banking for the booms and busts of the business cycle, on the grounds that cycles were caused by excessive inflationary expansions followed by bank contractions. Jacksonians were in favor of hard money currency, or notes backed 100 percent by specie reserves (Rothbard 2002: 90-91).

In the earlier years of Jackson's presidency, his attack on the Bank did not manifest itself in an aggressive, outright manner. As a result, Biddle allowed the Bank to continue to operate as normal, and did his best to appease the president when possible. Biddle continued expansionary policy through most of Jackson's first term as president (1829-1832). In the graphs below, it can be seen that in Jackson's first term, the Bank increased lending to individuals and expanded its notes in circulation. It should also be noted that Biddle reduced the Bank's holdings of U.S.

government debt, so as to remove the government's influence over the Bank's operations, yet government deposits remained as liabilities on the balance sheet (Gulino 2016, 16).





Graphs from Gulino (2016)

Jackson's re-election in 1832 signified a shift in the Bank War from passive to aggressive. Jackson specified bank reform as one of the main priorities of his platform. Shortly after reelection, Jackson vetoed the re-charter of the Bank of the United States.

As a result, there was a stark shift in the policy of the Bank of the United States. Biddle began a contractionary policy that many scholars believe was a direct attempt at causing a financial crisis. Weakening the economy was an attempt to scare Jackson away from vetoing the re-charter bill again. In the graphs above, we can see that after August 1833, the bank accelerated its contractionary policy through the reduction of individual loans on discount. Additionally, bills of exchange (a type of commercial IOU that was a key financial instrument of the period) were only discounted on a short-term basis. It can also be observed that bills of exchange increase in this period, but due to their short-term nature, the overall policy was contractionary (Gulino 2016, 18).

This attempt by the Bank to scare Jackson into renewing the federal charter was ultimately a failure, and the charter was allowed to expire (Kahn 2016, 137).

The Creation of the United States Bank of Pennsylvania

Prior to the expiration of its federal charter, Biddle began to explore options to continue the Bank's operations, and in January 1836 he applied for a state charter from the Pennsylvania legislature. On February 19, 1836, the shareholders of the Second Bank, excluding the federal government, met and accepted the state charter. The shareholders authorized the corporation's assets to be transferred from the Second Bank of the United States (referred to henceforth as the BUS or old bank) to the United States Bank of Pennsylvania (referred to here as the USBP, new bank, or the Bank). In addition, payment to the United States government for its one-fifth interest was authorized. BUS stock was interchangeable for USBP stock on a one-to-one basis (Smith 1953, 178).

The state act of incorporation was titled "An Act to repeal the state tax on real and personal property, and to continue and extend the improvements of the state by railroads and canals, and to charter a state bank, to be called the United States Bank" (Laws of Pennsylvania 36-47).

The state charter imposed a number of obligations on the Bank. First, the Bank had to pay a $2 million bonus to the state of Pennsylvania. This was to be made in 20 installments of $100,000 each, beginning June 1, 1836 and continuing for the next 19 years (with 5 percent interest paid on the noncurrent portion). Second, the Bank had to pay $500,000 on March 3, 1837, and had to purchase specific public improvement stocks amounting to $675,000. The Bank was required to make long-term loans to the state of Pennsylvania of up to $6,000,000, for which the state agreed to turn over to the Bank bonds redeemable in 1868 (priced at par for 4 percent bonds, 110 for 5 percent bonds). Additionally, the Bank was required to make temporary loans to Pennsylvania of up to $1 million in any one year at 4 percent interest (Smith 1953, 179). Such requirements were typical for banks to obtain charters in Pennsylvania and many other states at the time, although the large size of the USBP meant that their scale was bigger than usual.

The new charter contained these limitations on the Bank's activities:

> The said corporation shall not, directly or indirectly, deal or trade anything except bills of exchange, gold and silver bullion, or in the sale of goods really and truly pledged, for money lent and not redeemed in due time, or goods which shall not be the proceeds of its lands….
>
> The said corporation shall not be at liberty to purchase any stock whatever, except their own stock, treasury notes, or public stocks created by the government of the United States or of this state, for the construction and improvement of roads, bridges, canal or inland navigation, or other stocks which may be bona fide pledged as security for debts to the bank, and not duly redeemed.
>
> The total amount of debts which the said corporation may at any time owe, whether by bond, note or other contract, excepting the amount of money due to

depositors, shall not at any time exceed double the amount of capital stock actually paid in…. (Laws of Pennsylvania, 39)

In addition, the charter contained the following provisions: the Bank was prohibited from issuing notes for less than $10; the maximum interest rate on loans made in Pennsylvania was fixed at 0.5 percent per month; and all notes, bills, and deposits were to be redeemed for gold or silver (a 12 percent interest penalty was charged in the event of irredeemability, and the charter would be forfeited if the suspension lasted more than three months).

Below is the opening balance sheet of the United States Bank of Pennsylvania on March 4, 1836. Between the close of the old bank and opening of the new, two valuations of the Bank's assets were made. A committee from the Bank valued the assets at around $111 million, while a committee representing the government valued the assets at around $118 million. To settle the discrepancy, Biddle suggested a compromise of $115.4 million (Smith 1953, 182).

The history of the United States Bank of Pennsylvania can be divided into a number of periods, reflecting different economic conditions:

- March 4, 1836 – May 10, 1837: Financial struggle ending in the suspension of specie payments.
- May 10, 1837 – Aug. 13, 1838: The Bank struggles to resume payments.
- Aug 13, 1838 – Oct. 9, 1839: Resumption of specie payments, ending in a second suspension.
- Oct. 9, 1839 – Jan. 15, 1841: A period of specie inconvertibility.
- Jan. 15, 1841-Feb. 4, 1841: Failure of the Bank and liquidation (Smith 1953, 183).

Opening Balance Sheet of USBP, March 1836 (dollars)

Assets		**Liabilities**	
Cash: Notes of Bank of the United States and branches: payable to bearer	16,794,713.71	Capital stock	35,000,000.00
Cash: Notes of other [i.e., state] banks	2,284,082.84	Bank, branch, and post notes (gross)	36,620,420.16
Cash: Specie	5,079,460.00	Dividends unclaimed	241,900.93
Cash: Deficiencies	149,912.45	Discount, exchange, and interest	732,434.33
Bills discounted on personal security	17,998,368.73	Profit and loss	3,765,520.17
Bills discounted on personal security and bank stock	2,951,512.09	Contingent interest	656,328.51
Bills discounted on other securities	18,914,952.98	Baring Brothers & Co., Hope & Co., and Hottinger & Co.	1,547,090.75
Foreign bills of exchange	114,285.41	Foreign exchange	1,003,052.41
Domestic bills of exchange	16,524,619.68	Contingent fund	5,943,308.02
Real estate	1,196,103.19	Losses chargeable to Contingent Fund	-4,248,202.44
Mortgages	56,037.67	Due to the Bank of the United States and offices	29,422,189.17

Due from offices of the Bank of the U.S. (offices of discount and deposit)	29,108,111.31	Due to state banks	1,333,372.57
		Deposits on account	19,443.93
Due from state banks	2,444,923.69	U.S. Treasurer (Net)	
Debt due by the United States	5,267.32	Deposits on account of public officers	46,357.47
Expenses	197,792.25	Deposit accounts of individuals	2,128,429.70
Banking houses (real estate) and permanent expenses	315,214.59	Funds for extinguishing the cost of banking houses	1,104,223.09
Navy Agent, Norfolk	40,144.17	Commonwealth of Pennsylvania	98,721.43
Bank of the United States	599,288.12		
Bonus	640,000.00		
Total Assets*	**115,414,790.20**	**Total Liabilities**	**115,414,590.20**

*Negligible $200 apparent error, assumed to be unclear printing in original document.

March 4, 1836 – May 10, 1837: Economic Landscape during the Period

The United States Bank of Pennsylvania began its existence at a time of economic prosperity in the United States. Many new state banking institutions were opening; U.S. imports were at unprecedented levels; sales of public lands totaled over $24 million, which was, for the first time in history, greater than import duties (tariffs) as a source of revenues; and real estate valuations were rising in all commercial cities (Smith 1953, 183).

However, after the Bank's inception, a series of domestic and international events led to a worsening economic landscape. To start, 1836 was a very poor year for crops, and it appeared that the United States would need to import food of which it was typically a huge exporter (e.g., flour). During 1836-1837, flour exports were the lowest in the period 1815-1841. Additionally, interest rates for short-term loans were high. Rates of 2 percent per month were reported in Philadelphia in the spring of 1836, and rates on Wall Street followed suit. In April 1836, interest rates on Wall Street were 2 percent per month for the highest credit ratings. In December 1836, Boston reported 3 percent monthly interest on loans to borrowers with good credit ratings.

Initially, the economic boom continued. Commodity prices stayed high, with the price of cotton peaking. Imports of all commodities continued to increase, especially for rolled bar iron, pig iron, and silk. Early 1836 was also a period of specie importation. Short- and long-term European capital was plentiful. (Part of it appears as "Loan in Europe" in USBP balance sheets beginning in July 1836; it was just shy of $7 million, and is discussed in detail in the following section.) Foreign capital supported the ability to import specie, but was not the only factor. Additionally, at this time, the French finally made payments for all the appropriations they owed to the United States. (France, Naples, and Spain all owed appropriations for the War of 1812 because they had been fighting against Britain also and had supported American involvement.) The United States received 18,486,666 francs from France. Naples and Spain added funds to bring the total to $4,500,000. On top of the inflow of specie, loans, discounts, bank notes, and deposits reached record highs (driven in part by the inception of many new state banking institutions, as noted earlier). High liquidity contributed to massive land speculation (Smith 1953, 184).

Recall from above that the Panic of 1819 began in a similar manner. Inflows of specie and rising real estate prices led to widespread land speculation. This should have served as a warning sign of the economic turmoil that lay ahead.

The federal government then enacted several measures that contributed to economic instability.[1] The so-called Specie Circular mandated that after August 15, 1836 public lands must be paid for with gold and silver. This mandate attracted specie away from banks, and instead towards outlying areas where there was large land speculation (Smith 1953, 185). Additionally, Congress proposed the Deposit Act, and President Jackson signed it into law in June 1836. The act required the Treasury Department to transfer, in the form of loans, $30 million of the $35 million national surplus to state banks. The transfer was to be made in quarterly installments beginning January 1, 1837. The law also prohibited the Treasury from transferring money to state banks except for these disbursements of the national surplus, meaning the Treasury could not use emergency funding to stop the failure of banks in the case of bank runs (Scheiber 1963, 207). Additionally, the act required state banks which were depositories of federal funds to redeem notes in specie and prohibited them from issuing low-denomination notes, beginning with a $5 minimum, which was later raised to $10 and then $20. The act prohibited Collectors of the Public Revenue from receiving small-denomination bank notes from any banks. This further perpetuated scarcity of low-denomination notes with simultaneous abundance of high-denomination notes (Gatell 1997, 36). In preparation for these distributions, the Treasury started moving its balances to the states to which it would be making the installments (Smith 1953, 185).

In a letter to former president John Quincy Adams, who by then had returned to politics as a member of the House of Representatives, Nicholas Biddle wrote that:

> The combination of the two measures produced a double result – first, to require the banks generally to increase their specie, and next to give them the means of doing it, by drafts on the deposit banks.
>
> The commercial community were taken by surprise. The interior Banks making no loans and converting their Atlantic funds into specie, the debtors in the interior could make no remittances to the merchants in the Atlantic cities, who were thus thrown for support on the banks of those cities, at a moment when they were unable to afford relief on account of the very abstraction of their specie to the West. The creditor States, not only receive no money, but their money is carried away to the debtor State, who in turn cannot use it, either to pay old engagements or to contract new. By this unnatural process the specie of New York and the other commercial cities is piled up in the Western States – not circulated: not used, but held as a defense against the Treasury – and while the West cannot use it – the

[1] Economic historians have extensively debated how much responsibility the U.S. government's actions bear for the Panic of 1837. This is not the place to rehash the debate. Even if one argues that the government's actions did little to hurt the economy, it is clear that they did nothing to strengthen the financial system—rather, they tended in the opposite direction.

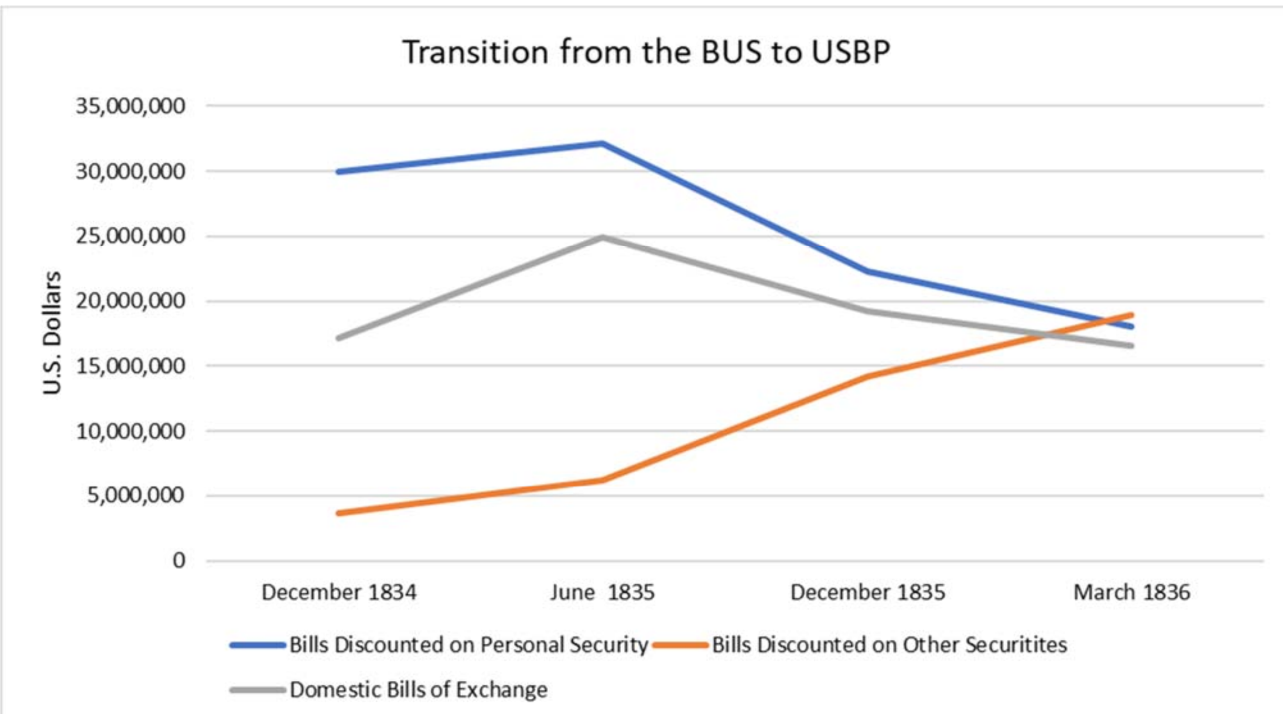
> East is suffering for the want of it. The result is, that the commercial intercourse between the West and the Atlantic, is almost wholly suspended, and the few operations which are made, are burdened with the most extravagant expense… Thus while the exchanges with all the world are in our favor – while Europe is alarmed, and the Bank of England itself uneasy at the quantity of specie we possess – we are suffering because, from mere mismanagement, the whole ballast of the currency is shifted from one side of the vessel to the other. (Biddle 1836, 39 in Smith 1953, note 19).

Concurrently, the Bank of England, and many of the American firms in England that financed trade with the United States experienced massive declines in their specie. The weakest of these American houses were T. Wiggin and Company, T. Wilson and Company, and George Wildes and Company. In early 1837, the Bank of England refused to discount bills from these three firms, and all three failed by June 1837. As a result, there was a crisis in the foreign exchange market in the spring of 1837. Somewhere between $8 million and $10 million worth of bills of exchange were returned to the United States under protest, meaning that either the debtor or the creditor had failed to fulfill his part of the bargain. As a result, the American cotton market, which was peaking and was a leading contributor to the U.S. economic boom, stumbled. In turn, many American cotton-exporting firms failed.

March 4, 1836 – May 10, 1837: The U.S. Bank of Pennsylvania during the Period

From its inception as the USBP, the Bank maintained a much different loan structure than it had had while operating as the Second Bank of the United States. In this period, bills discounted on other securities increased notably, due to a fundamental change in the role of the Bank. The Bank came under increasing pressure to make loans on collateral, and so began functioning as an intermediary in the sale of stocks and bonds (Smith 1953, 181). As a result, there was a notable increase in collateral loans. In early 1837, the USBP established an agency in London. People interested in doing so were then able to consign stocks and bonds to the Bank, on the basis that, when the securities were sold, the Bank would make payment in the United States at the prevailing rate of exchange. For this service, it charged 1.5 percent (Smith 1953, 181, 182). Loans on personal security were between half and a third the amount they had been in the old bank. The domestic bills of exchange were about half of the amount they had been in the old bank.

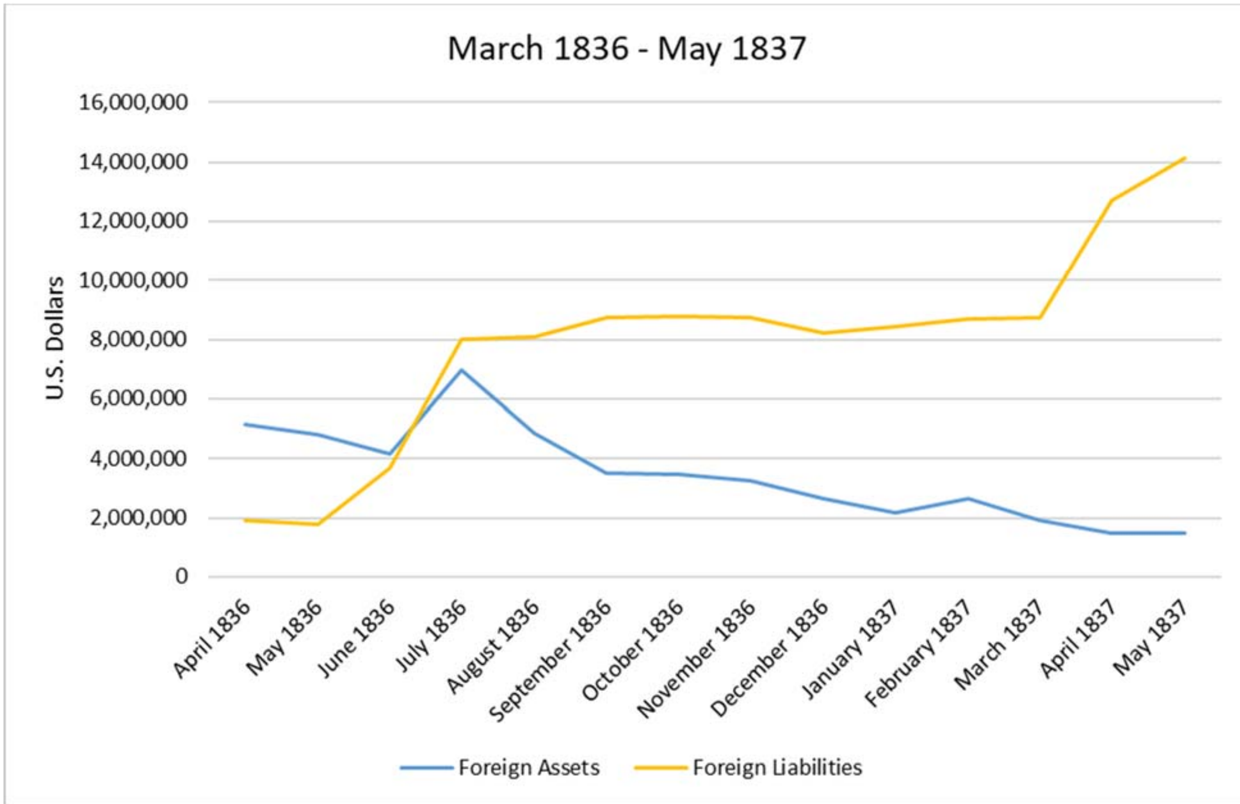
The chart below shows the changes in these accounts over the final period of the old bank, ending with March 1836, the inception of the new bank.



Data from Gulino, 2016

Upon the inception of the new Bank, Samuel Jaudon, its cashier, was sent to Europe to secure up to $7 million in loans. (In the 19th century, the title of cashier indicated a top supervisory employee, not, as today, a low-ranking employee.) This is the loan from Europe that was mentioned earlier, as part of the capital that allowed the mass increase in imports and fostered the U.S. economic boom. On May 4, 1836, the Bank secured a one-year loan at 5 percent for £1 million (roughly $4.8 million) from Baring Brothers and Company, a leading London investment bank. It further secured from Baring Brothers an additional £250,000 open credit agreement. Although the Bank never used the agreement, it did serve, at least, as a signal of European confidence in the Bank and a sign of strength. Additionally, the Bank received 12.5 million francs (about $2.4 million) from Paris (Smith 1953, 189).

The following chart the makeup of foreign assets versus foreign liabilities for the period, highlighting the significant increase in loans from Europe.



The Panic of 1837 and the Suspension of Specie Payments

As noted earlier, in early 1837 the Bank of England refused to discount bills from three American commercial houses in London: T. Wiggin and Company, T. Wilson and Company, and George Wildes and Company. Foreign bills of exchange were returned to the United States without being honored. (Together with foreign specie, foreign bills of exchange make up foreign assets in the above chart.) This called into question confidence in both foreign bills of exchange and domestic bills of exchange, and there was a public scramble for cash (Smith 1953, 190).

By October 1836, the USBP held no foreign bills of exchange on its balance sheet. Thus, foreign assets in the above chart are composed entirely of specie for the period November 1836 – May 1837. It can be seen that the USBP saw a significant decline in specie reserves. From November 1836 to May 1837, the Bank's specie reserves decreased from 2.7 percent of the Bank's total assets to 1.1 percent of the Bank's total assets.

By this time, New York had surpassed Philadelphia as the banking and economic capital of the United States. The Panic of 1837, which centered around the widespread bank runs redeeming depreciating notes for specie, began in New York City but quickly spread across the nation. New York State banks saw their specie reserves diminish from $7.2 million on September 1, 1836 to $1.5 million by May 1, 1837 (Rousseau 2002, 458). In early 1837, rising food prices led to riots in New York City. The economic condition of the country was in shambles, and by the spring of 1837 interest rates had risen to over 25 percent. Businesses began defaulting on loans, economic confidence tanked, and on May 9, 1837, a run on the Bank ensued that redeemed notes for over $600,000 worth of specie (Govan 1959, 313).

On May 10, 1837, the United States Bank of Pennsylvania suspended specie payments. Nicholas Biddle stated that had the Bank been forced to continue specie payments, all of its cash would have been drained. As shown in the aforementioned chart, the Bank had seen its specie reserves decline significantly in the period leading up to the panic, despite its heavy borrowings from Europe and the net inflows of specie into the United States (Smith 1953, 193).

May 10, 1837 – August 13, 1838

The Panic of 1837 caused a recession in the United States. Imports declined significantly and the price of cotton fell from over 11 cents per pound to just under 5 cents (Smith 1953, 190). The recession, however, was not as bad as the Panic of 1819. Congress made a few key decisions that helped reduce its severity. Congress voted not to distribute the fourth installment of the budget surplus, as intended by the Deposit Act. (Payment of this installment was postponed and then never made.) Additionally, Congress passed legislation allowing deficit financing, in an attempt to jump-start business in the United States (Smith 1953, 194).

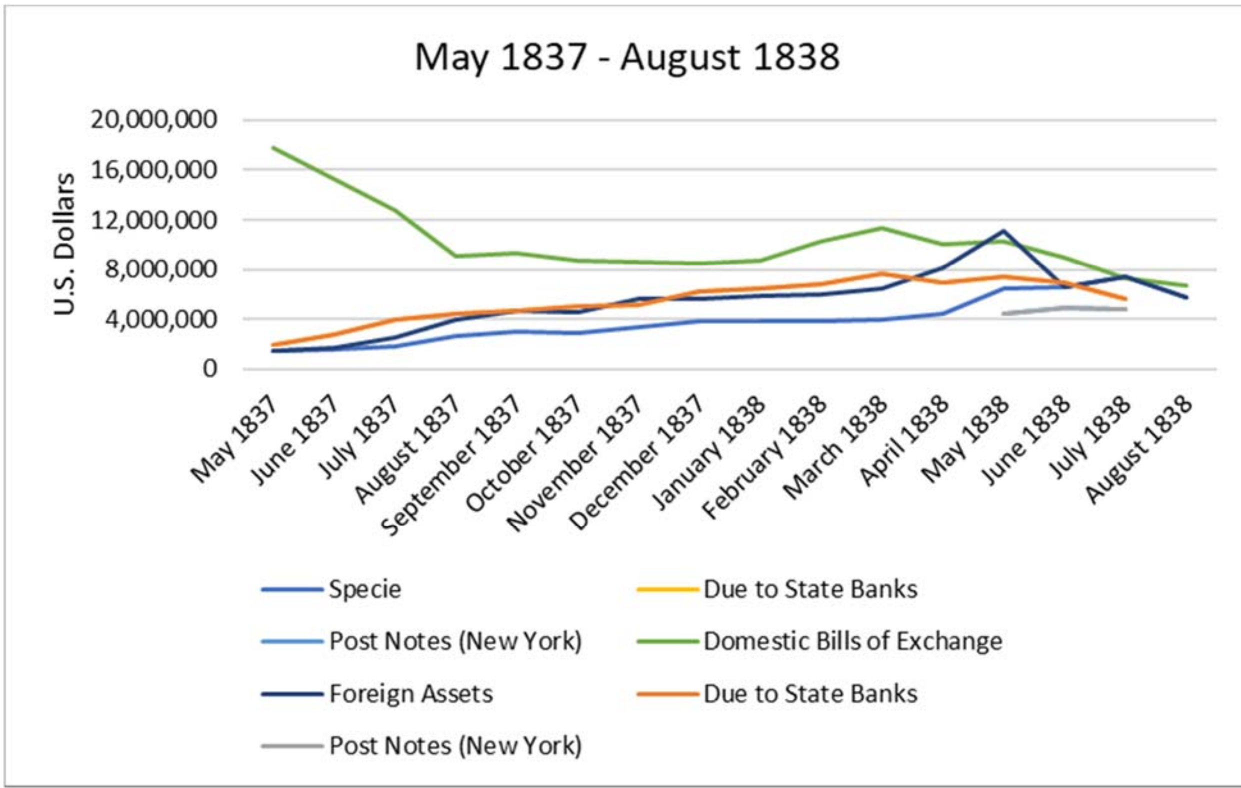
Nicholas Biddle and many other bankers argued strongly for the end of the Specie Circular, citing the circular as the main cause of the Panic of 1837. President Martin Van Buren fought to keep it in effect for over a year. Finally, on May 31, 1838, Congress ended the requirement that public lands be paid for only with specie.

In July 1837, Nicholas Biddle and the USBP became involved with cotton speculations. The Bank's involvement was influenced by a number of factors, including the Bank of England's hostility to American bills, the USBP's level of indebtedness to Europe, and Biddle's desire for a high credit rating in Europe. The Bank thus filled the role of the cotton brokerage firms that had collapsed in the Panic of 1837. The first transaction was a shipment to Baring Brothers and Company in Liverpool and to Hottinguer and Company, a top Parisian investment bank. This line item is first seen in the balance sheet for July 1837.

The arrangement was that the Bank would consign cotton shipments to Baring Brothers, who would sell them in Liverpool. Baring Brothers sold the shipments at the current market price, which was common practice at this time, but not acceptable to Biddle. Biddle wanted all shipments to be held until they could be sold on terms that benefited the Bank. Baring Brothers and Company refused those terms and cut off their lending to the Bank, leading to a further separation between the two parties. Biddle began searching for other means of handling the Bank's foreign affairs (Smith 1953, 196-198).

Accordingly, the Bank established its own agency in London. It was responsible for the following: to accept and pay bills of exchange, sell American stocks and bonds, borrow in the London money market, administer the Bank's deposits in London, and be the Bank's general financial agent in Europe (Smith 1953, 198). As a result, the relationship between the Bank and Baring Brothers and Company was terminated.

During this period, the Bank took significant speculative risks in the English cotton market. Additionally, the channels the Bank opened to sell American stocks and bonds in Europe were unsuccessful. As a result, the Bank became highly indebted to European creditors.



The chart shows the significant decrease in the Bank's domestic bills during this period. In October 1837, Biddle offered an explanation, writing, "The Bank… has so many people to carry – so many securities to nurse that its means have become much less flexible and disposable than we could wish – and at the same time we have to apply our funds mainly to the payment of our debts abroad" (Biddle to Davis, 1837, in Smith 1953, 203). The chart also shows the Bank's foreign assets, which significantly increased during this period as a result of its speculations abroad.

In the fall of 1837, while Biddle's speculations abroad were at their height, the USBP began falling deeply into debt with the U.S. state banks. It was for this reason that, although specie reserves had been increasing (note the Foreign Assets line in the above chart), Biddle was in favor of delaying the return to specie payments. In the summer of 1838, the Bank began issuing post notes (notes not payable until a specified future dates) to New York State banks. As a result, the New York banks became large creditors of the USBP (Smith 1953, 203). The above chart highlights the Bank's rapid increase in debt due to state banks in this period, as well as the beginning of the issuance of post notes.

Biddle continued to be in favor of delaying the resumption of specie convertibility, stating that as long as unfavorable conditions (meaning the Specie Circular) existed, the Bank should not resume specie convertibility. As noted earlier, the Specie Circular was abolished in late May 1838, so this was no longer a legitimate excuse for the Bank to continue suspending specie convertibility. In the spring and summer of 1838, the Bank substantially increased its specie holdings, and on August 13, 1838, convertibility resumed. From the time the Bank suspended specie payments in May of 1837 to the resumption of payments in August 1838, specie reserves increased from 1.1 percent of the Bank's total assets to over 6 percent of the Bank's total assets, peaking in July 1838 at 7.8 percent.

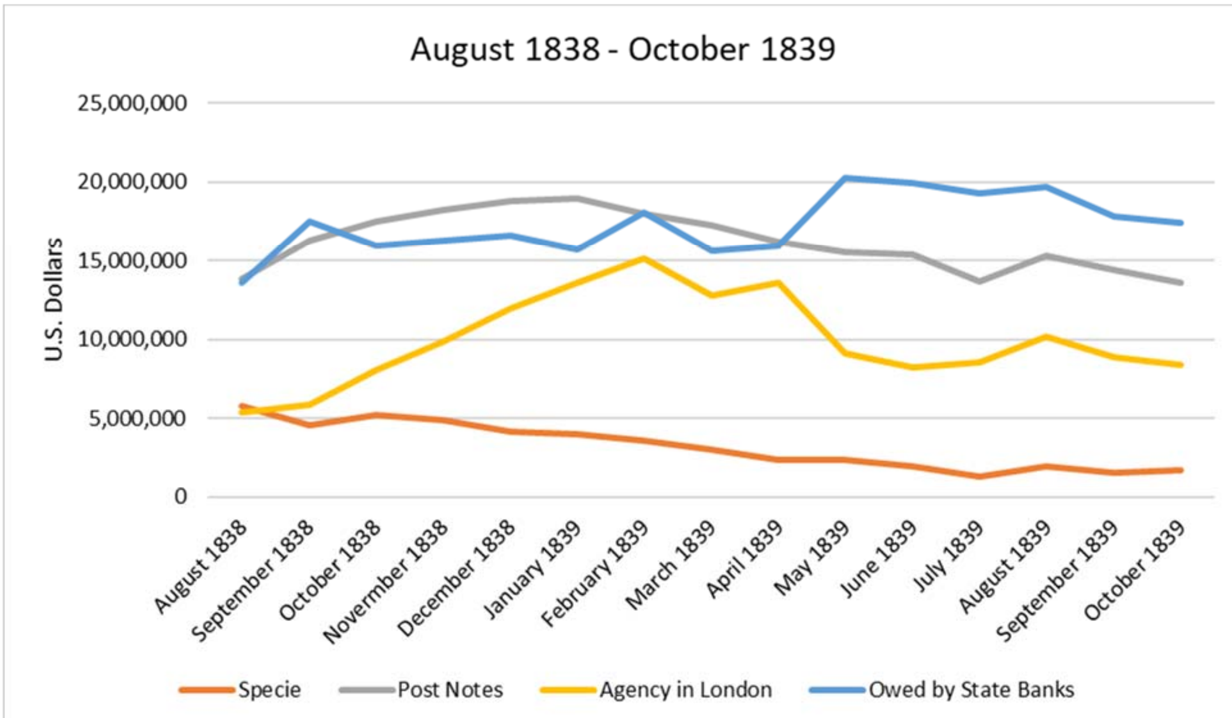
August 13, 1838 – October 9, 1839

The resumption of specie convertibility marked the beginning of a brief period of economic well -being in the United States. Production continued to increase and international trade improved. Foreign investment in U.S. bonds returned to the high levels experienced before the panic.

Two events at the beginning of the period, however, had lasting adverse effects on the health of the Bank. First, the Bank made a series of loans to southern banks in hopes of helping them resume specie payments. In addition to extending aid, Biddle hoped to make a profit from these loans. He expected that the Bank would be repaid in cotton notes (as the southern banks were large cotton shippers) and the price of cotton was again rising at the time (Smith 1953, 210). The largest of these commitments was with the Union Bank of Mississippi, and the Union Bank's eventual default on its commitment would have drastic effects on the Bank's liquidity. Second, the Bank continued to face opposition from the federal government.

In late summer of 1838, Congress authorized the U.S. Treasury to sell the bonds of the United States Bank of Pennsylvania that it had obtained in settlement for its stock of the Second Bank of the United States. The Treasury began to search for opportunities to sell the bonds in London – a move that would have hurt the Bank, as it remained massively indebted in Europe and more bonds would have been a drug on the market. To counter, Biddle made a deal with the Treasury to open a balance in the Bank as an advance on payment due on the bonds. Biddle believed that the Treasury would withdraw the balance in the form of the Bank's notes, which would be used to pay the Cherokee tribe for their removal from their lands, and would not be called for specie conversion in the short term. Unfortunately for the Bank, however, the Treasury withdrew the entirety of the account between December 1838 and August 1839. As a result, the Bank's specie holdings rapidly declined. In December 1838, the Bank's specie reserves accounted for 4.2 percent of the Bank's total assets. By the time the U.S. Treasury had withdrawn the entirety of its account, the Bank's specie reserves had diminished to 2 percent of the Bank's total assets. The Bank began increasing the issuance of notes due from other state banks to combat the loss of specie. Note issue reached record high levels, surpassing levels reached under the Second Bank of the United States, when the bank had been a nationwide institution.

The following chart illustrates the decrease in specie and the Bank's continued increase in indebtedness to Europe over this time period. Also note the extremely high levels of notes issued and the amounts owed to the Bank by the state banks to which it provided aid.



The end of March 1839 marked the end of Nicholas Biddle's tenure as president of the Bank. He resigned from the Bank, and his position was filled by Thomas Dunlap, a prominent Philadelphia lawyer. Biddle's resignation was in part due to his failing health, but also because he saw an opportunity to remove himself from the Bank's downward spiral.

On October 9, 1839, the Bank suspended specie conversion once more. At this time, specie reserves accounted for 1.8 percent of the Bank's total assets. Its large indebtedness to European creditors, costly attempted bailout of southern state banks, risky cotton speculations, and declining specie reserves were all to blame for the Bank's poor liquidity. On October 8, New York State banks drew large amounts from the Bank. The USBP held an emergency board meeting to discuss its low liquidity levels. Word of the meeting reached the public immediately, and on October 9, there were massive runs on the Bank, leading to the conversion of specie. The Bank's stock fell from $100 per share to $70, and would continue to fall until it reached $3 per share by the end of 1840 (Smith 1953, 220).

October 9, 1839 – January 15, 1841

At this point, both the Bank and the wider U.S. economy were in bad shape. U.S. production was low, international trade was weak, and the prices of agricultural goods in the United States were well below their levels of recent years. The Bank was struggling with its liquidity management and was unable to resume specie payments, as specie reserves continued to make up less than 2 percent of total assets.

On April 3, 1840, the Pennsylvania legislature declared that all banks must resume specie conversion by January 15, 1841 or their charters would be terminated. This served as the final blow to the Bank. The Bank lacked the funds to pay interest on all its outstanding debt, let alone resume specie payments. The final balance sheet for the Bank is from January 1, 1841, and the Bank's doors closed for good on January 15, 1841, at which point the Bank's assets were liquidated. Observe that it shrank by roughly one-third from the opening balance sheet.

Closing Balance Sheet of USBP, January 1841 (dollars)

Assets		Liabilities	
Active	11,120,772.76	Capital stock	35,000,000.00
Suspended	9,821,735.25	Notes issued	13,603,058.15
Stock Account	31,105,309.45	Dividends unclaimed	31,386.80
Loans to Commonwealth	287,487.21	Loans in Europe	12,533,556.97
Real estate and banking houses	3,753,146.88	Bonds in Europe	502,222.22
Bonds and mortgages	769,016.30	Bond to the United States	633,643.83
Balances with agency	440,168.76	Guarantee of Planter's Bank	538,000.00
Foreign bills of exchange	542,140.84	Guarantee to State of Michigan	1,734,750.00
Bonus	2,500,000.00	Due to State banks	3,250,114.40
Due by state banks	8,486,764.17	Due depositors	2,970,069.89
Cash: Notes of State banks	972,213.45	Surplus	2,295,462.92
Specie	2,569,705.31	**Total Liabilities**	**73,092,265.18**
Resulting Balances	723,804.80		
Total Assets	**73,092,265.18**		

Conclusion: Liquidation of the Bank

Ultimately, the recession that ensued in 1839 was crippling to the health of the Bank. The Bank's excessive foreign debt, ever declining specie reserves, and a series of bad loans to southern banks for cotton speculation led to the failing of the Bank. The doors were officially closed and the Bank began liquidation on February 4, 1841, when the State of Pennsylvania borrowed $800,000 in notes that it immediately redeemed for specie. This is yet another example of political and monetary policy enacted by outsiders of the Bank that had detrimental effects to its health. The stockholders' capital of the USBP was more than 10 percent of the total for the U.S. banking system (Wallis 2012, 49), so the effect of the Bank's closure and liquidation was significant.

Liquidation of the Bank continued from 1841 to 1856. Throughout the process of liquidation, all liabilities to depositors and note holders were paid in full – interest and principal. The United States Bank of Pennsylvania shareholders ultimately received nothing on their investment – the Bank's equity value completely disappeared (HSUS 1949, 254).

For the entirety of the Bank's existence, difficult economic circumstances, highlighted by numerous land speculation bubbles resulting in two nation-wide recessions, and strong, persistent, political headwinds, created a difficult environment for the Bank of Pennsylvania. Nevertheless, the occasional rash and uncalculated decision making by Nicholas Biddle and Thomas Dunlap magnified the Bank's poor environment. The attempt to make profits, often at the cost of taking on excessive risk, can be pegged as the cause of the Bank's failure.

Note: Accompanying Workbook

An accompanying Excel workbook gives the monthly balance sheet data underlying all the graphs above about the United States Bank of Pennsylvania. At the time of the USBP, it was not customary for banks to publish annual reports with narratives of their business, so the sources for this paper include no publications by the USBP itself. Useful contemporary published information about the Bank's affairs consists mainly of financial statements published in U.S. Congressional documents, which unusually for the period are available at monthly frequency. The Congressional documents contain further detail not digitized here for lack of time but possibly of interest to other researchers.

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