



“That Universal Panic Which Now Prevails”: An Analytical Narrative of the Panic of  
1791

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## **Dedication**

For my grandparents Raul and Terry—the embodiment of Hamiltonian social mobility and virtue.

## Acknowledgements

This thesis has its origins in a truly transformative moment. Emerging from the Underground at London's King's Cross Station on September 30, 2008, my wife and I were confronted by a newsstand covered with the front pages of dozens of international dailies. First to my eyes was the headline of *The Daily Telegraph* which read, "Staring in the abyss" in large block letters. The Dow had fallen 777 points in a single day and, the *Telegraph* told me, there was no end in sight. As I made my way across central London, I saw people who looked as I felt the morning of September 11, 2001. The world seemed to be collapsing and I had no idea why.

Upon my return to Colorado, I dedicated myself to understanding the financial world. I once heard it said, though I can't remember by whom, "if you want to understand how the world works, you need to understand money." While reading Andrew Ross Sorkin's *Too Big To Fail* and Ron Chernow's *Alexander Hamilton* in the fall of 2009, I came to see the strange similarities between the crises of 1791 and 2008. As I pursued more information on what I dubbed "the Panic of 1791," there was very little to be found. Hence, this thesis began its long road to completion.

During the process of researching and writing this thesis, I have been the recipient of more time, effort, interest, insight, assistance, and encouragement than I can possibly recount. My debts are many and my means to repay them are meager. However, in true Hamiltonian fashion, I acknowledge them publically, for from Hamilton I have learned that debts, if not excessive, can indeed be a blessing.

George Mason University funded my Master's study, and thus gave me the opportunity to learn from world-class scholars. These men and women taught me to think like a historian, which is to think differently indeed. Dean Jack Censer helped solidify my path to Mason and provided critical insight as I studied the press during the Panic of 1791. Dr. Mike O'Malley generously agreed to be a reader on this thesis. This is no trivial task for a scholar in the midst of so many projects—or with small children. However, I owe the most to my advisor, Dr. Rosemarie Zagarri, whose combination of scholarly renown and inviting humility is, to say the least, incredibly rare. While several of my professors pushed me to think like a historian, Dr. Zagarri taught me to write like one. Her edits, comments, and meetings made this thesis a cohesive and professional product of which I am proud. For this I will always be grateful.

My circle of support extended far beyond George Mason. Karen Quinones provided me a wealth of information on the colorful chaos that was 1790s New York City. Chris McKay of the Bank of New York-Mellon provided constant feedback and gave me the thrill of allowing me to hold the bank's ledger of Alexander Hamilton's personal account. Few contributed more to this thesis than David J. Cowen and Robert E. Wright. In addition to their work on early American economics and finance, work that provides a critical foundation of this thesis, these two scholars fielded dozens of questions via email and telephone as I composed this thesis. In the case of Dr. Wright, being constantly on call for me goes far beyond the duties of an official reader, and Dr. Cowen's constant willingness to provide research direction cannot be underestimated. Dr. Wright explained their assistance by stating, "the six of us who study early American finance must stick together," (this joke is hilarious to us.) Yet, even this Hamiltonian bond cannot explain the generosity of time these two incredibly busy men provided me.

The scholar to whom I possibly owe the greatest debt is one with whom I have never exchanged a word. James O. Wettereau of New York University, who died in 1961, is a sort of patron saint of "the six of us" who study issues surrounding the first Bank of the United States (BUS). While he published several valuable articles, a lack of funding prevented Professor Wettereau from writing the definitive history of the BUS towards which his research was so clearly pointing. That research, housed at the Rare Book and Manuscript Library, Columbia University, is a truly invaluable resource for "us six." His consolidation of manuscript collections alone saved me dozens, if not hundreds, of hours. His notes provided leads that undoubtedly reclaimed those hours, but this thesis is vastly superior with me having followed them. James Wettereau's BUS is the fulcrum around which the story in this thesis revolves, and I hope I honored his legacy as I told it.

No debt, however, is greater than that which I owe my family. Their encouragement and very tangible support made the completion of this thesis possible. My grandparents, to whom this thesis is dedicated, worked their entire lives to provide me the opportunity to join the academy. My two brothers-in-law provided much needed support—Dustin Katka with his graphing expertise and Dustin Albright with his financial knowledge. My dad and my sister, Chris and Erin, encouraged me in ways they do not even understand. My mom, Jeanne, was my editor-in-chief who spent countless hours correcting grammar, polishing language, and making suggestions to clarify my prose. And finally, my wife Sarah has shared me with the Panic of 1791 for years. I think that she knows more about early American finance than any middle-school special education teacher in the United States. Yet she acquired this knowledge with a loving joy. She truly is my ballast and, as Hamilton said of his Eliza, the "best of wives, and best of women."

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## **Abstract**

“That Universal Panic Which Now Prevails”: An Analytical Narrative of the Panic of 1791

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This thesis establishes a baseline narrative for the Panic of 1791, the first financial crisis experienced by the United States as a constituted union. During July, August, and September of 1791, newly formed American financial markets experienced a dramatic bubble in the prices of Bank of the United States (BUS) script and US securities. This bubble was not only the work of elite “moneymen,” but “grocers, shipkeepers, sea captains, and even prentice boys” who were able to mobilize their meager wealth and invest in modern financial instruments for the first time. The subsequent crash, which I argue was caused by a group of elite speculators, saw asset depreciation of well over 50% in a matter of days, and an unprecedented monetary intervention by the Treasury Department led by Alexander Hamilton. Separating it from any previous account of the Panic, this thesis describes a second bubble and crash that shortly followed the first. By examining the economic, political, and social dynamics that comprised the Panic of 1791, as well as the Hamilton Treasury’s policy response, this thesis sheds new light on the

origins of US government financial crisis management as well as the delicate interplay between the new and untrusted American government and Hamilton's novel financial system. Data drawn from a wide variety of historical material, including newspaper coverage, correspondence, financial databases, and personal records demonstrates the modernity of the Panic of 1791. The credit networks, financial instruments, speculative tactics, and governmental policy tools would be widely recognizable to modern financiers. This thesis challenges the historical assumption that the Panic of 1791 was a minor historical event of limited consequence. Contrary to the conclusions of an extensive historiography, the Panic of 1791 was a dynamic economic, political, and societal phenomenon with a broad impact on both the founding era and the course of American financial and economic development. By formulating a limited but energetic response, Hamilton prevented the Panic from becoming a full-blown economic, and possibly political and constitutional, crisis.

**Introduction:**  
**“It flew over the Town like Wildfire...”**

The bubble had burst and New York’s moneymen were desperate. Speculation in the scrip of the Bank of the United States (BUS), a certificate that awarded its possessor the right to purchase BUS stock at a later date, had resulted in a resounding crash. Credit was frozen and, according to merchant James Watson, writing on September 8, 1791, “the urgency for cash [was] general.”<sup>1</sup> America, and the city that would soon become its financial center, was in the midst of a financial panic.

The next day, September 9, New York City buzzed with word that the Treasury of the United States would resume buying US securities, thereby injecting much needed cash into America’s new and fragile financial machine. “It flew over the Town like Wildfire that I had orders to purchase,” wrote William Seton, Cashier of the Bank of New York and Treasury Secretary Alexander Hamilton’s agent in that city. The purchases were to take place at the Merchant’s Coffee House on the southeast corner of Wall and Water Streets in Lower Manhattan, then the hub of New York’s thriving mercantile community. The neighborhood was a hive of commercial activity. As Seton approached

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<sup>1</sup> James Watson to Jeremiah Wadsworth, “The Urgency for Cash Is General...,” September 8, 1791, Box 1790-1792--Jeremiah Wadsworth Papers, Connecticut Historical Society.

the Coffee House, the sounds, smells, and sights of trade overwhelmed his senses.<sup>2</sup> The tea trade, a fixture on Lower Manhattan's docks, played a serious role in the Coffee House's history. British taxes on tea sparked ardent protestations from American colonists, many of which had begun or ended at the Merchant's Coffee House.<sup>3</sup>

After the revolution, the Coffee House's "Long Room" became New York's unofficial stock exchange. Beginning in July of 1791, near daily auctions for government securities and BUS script packed the Coffee House. As one historian noted, "wealthy 'dealers,' also known as 'jobbers,' ...[who] bought and sold on their own account" competed with "'brokers,' who acted on behalf of specific customers," for strategic positions in this new world of high finance.<sup>4</sup> For many of these dealers and brokers, however, the euphoria of instant riches was quickly followed by the panic of destitution. Many of these men were exactly the type of swashbuckling traders that inhabit the present-day world of finance. Names like William Duer, Brockholst Livingston, Andrew Craigie, James Watson, Nicolas Low, and William Constable remain famous—or perhaps infamous—in Wall Street lore.

On September 9, however, many of America's foremost speculators had become ensnared by their own schemes. Although these men were the elite of New York society, when Seton arrived at the Merchant's Coffee House he encountered a group of, for the moment at least, chastened, defeated, and desperate individuals. "Before I got to the Coffee House at Noon," Seton wrote to Hamilton, "every one was prepared, and no one

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<sup>2</sup> Richard M. Ketchum, *Divided Loyalties: How the American Revolution Came to New York*, 1st ed (New York: Henry Holt, 2002), 14.

<sup>3</sup> *Ibid.*, 137 & 166.

<sup>4</sup> Edwin G. Burrows and Mike Wallace, *Gotham: a History of New York City to 1898* (New York: Oxford University Press, 1999), 310.

would offer to supply at less than the former prices. I thought it prudent to accept at that, and to diffuse the benefit the purchases...so long as to give every one a chance....”<sup>5</sup> The scene Seton describes is vastly different from the ravenous trading atmosphere that commonly inhabited the “Long Room.” There, trading sessions were loud, disorderly, and often spilled into the streets.<sup>6</sup> The shock, however, of America’s first financial panic had stunned even the most brazen of America’s first “Wall Streeters.” This earliest of American securities markets, along with its counterparts in Philadelphia and Boston, ceased to function and the possibility of a collapse with vast economic, political, and social implications became very real. At this apogee of America’s first financial panic, Alexander Hamilton’s Treasury Department, representing the new Federal Government, ensured that the Panic of 1791 did not become a full-blown crisis. Hamilton’s timely interventions not only foreshortened the panic but also demonstrated that the power of an “energetic” central government could bolster the creation of a sophisticated capitalist financial system.

Four days earlier on September 5, Seton described to Hamilton “that universal panic & want of money which now prevails.”<sup>7</sup> The American financial system had endured asset bubbles in the past,<sup>8</sup> but the “universal panic” to which Seton referred

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<sup>5</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 12 September 1791,” September 12, 1791, <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-09-12-3>.

<sup>6</sup> Burrows and Wallace, *Gotham*, 311.

<sup>7</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 5 September 1791,” September 5, 1791, <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-09-05-5>.

<sup>8</sup> Dr. Robert E. Wright imparted the following in a March 26, 2013 email to the author: “America had experienced at least two prior bubbles, one in real estate in the early 1760s and one in currency (Continental and state bills of credit) in the 1780s.”

capped two months of unprecedented financial activity in America. On July 4, 1791, BUS script sold out in an extraordinarily short time—between 15 minutes and three hours<sup>9</sup>—and immediately became the object of a speculative “Scriptomania.” Prices surged to breathtaking levels, with reports confirming purchases on August 10 at 264@280 in New York City and 312@325 in Philadelphia.<sup>10</sup> Many speculators snatched up BUS script at significantly inflated prices. They often bought on “Terms”—commitments to pay in cash at future date, for which they paid a premium. When the bubble burst on August 11 in New York and August 12 in Philadelphia, investors found themselves holding an asset worth a fraction of its purchase price. Prices plunged between 45% and 60% in just two days. Credit markets froze. Scrip holders began to panic.<sup>11</sup> Already operating in an atmosphere of liquidity stringency,<sup>12</sup> underwater script holders were forced into a textbook “fire-sale”, the rapid liquidation of assets, to cover their obligations.

When prices collapsed, Hamilton feared a total market selloff. Sensing the beginnings of a plunge in the price of US government securities, an asset that spiked along with BUS scrip, the Secretary of the Treasury took unprecedented action. Hamilton ordered the concentrated purchase of US Securities, thus providing an injection of much-needed liquidity into securities markets. During the third week of August, nearly \$150,000 of government cash poured into New York City alone. Seton purchased

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<sup>9</sup> James O. Wettreau, “New Light on the First Bank of the United States,” *The Pennsylvania Magazine of History and Biography* 61, no. 3 (July 1, 1937): 263–285.

<sup>10</sup> Joseph Stancliffe Davis, *Essays in the Earlier History of American Corporations* (Cambridge: Harvard University Press, 1917), 203; David J. Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797* (New York & London: Garland, 2000), 49.

<sup>11</sup> *Ibid.*

<sup>12</sup> Robert E. Wright, *Origins of Commercial Banking in America, 1750-1800* (Lanham, MD: Rowman & Littlefield, 2001), 88–95.

recently issued U.S. Securities at slightly over par.<sup>13</sup> US Treasurer Samuel Meredith conducted similar purchases in Philadelphia and this combined effort temporarily stayed the market. The speculative fever, however, did not subside.

Following a two-week stabilization, the markets once again plunged into turmoil. A post-crash rebound resulted in a price of \$211 dollars for BUS scrip on August 27. Another crash followed soon thereafter. The descent was capped by a near-50% collapse in the four days from September 5<sup>th</sup> and September 8<sup>th</sup>. US Securities prices also fell over 15% over the same period. With credit and liquidity markets not fully recovered from the first crash on August 11<sup>th</sup>, the market for scrip once again ceased to function. The chaos began to take a psychological toll on both the moneyed class and the general populace alike. Philadelphia physician Benjamin Rush reported that “Merchants, grocers, shipkeepers, sea captains, and even prentice boys” had all joined the fray, and some of them had hung themselves when their speculations went bad.<sup>14</sup> Tension and fear were palpable. The American public had never before faced such a rapid and violent financial convulsion as an independent nation. It was in this environment that William Seton entered the Merchant’s Coffee house on September 9, 1791.

Despite the significance of these events, the Panic of 1791 has remained at best a blip on the radar screens of historical scholars. When mentioned at all, the Panic of 1791 is little more than a side note buried in a larger examination of another topic. Accounts of the Panic that do exist in studies of Alexander Hamilton’s financial plan, the political

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<sup>13</sup> Mordecai Lewis to Nicholas Low, “Yesterday the Treasury Gave Notice That HE Would Buy...”, August 17, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>14</sup> Benjamin Rush to Julia Rush, “To Mrs. Rush,” August 12, 1791 in L. H. Butterfield, ed., *Letters of Benjamin Rush. 1761-1792*, 30/1 (Princeton, N.J: Princeton University Press, 1951), 602–603.

debates of the 1790s, early American business formation, and financial crises, as well as biographies of Hamilton and his compatriots are often cursory at best. The Panic of 1791 does appear in biographies of key players in the Panic of 1791. Several of these biographies provide useful, though limited, accounts of the Panic. Many biographies of Alexander Hamilton contain rudimentary summaries.<sup>15</sup> Forrest McDonald's *Alexander Hamilton: A Biography* carries the most prescient insights on the Panic's implications and provides a basic though incomplete account. The Panic also appears in biographies of politicians and financiers such as Rufus King, Oliver Wolcott Jr., Benjamin Rush, Thomas Jefferson, Robert Morris, James Madison, and Fisher Ames. Studies of early America's financial class and its members also provide concise and factual insights. Cathy Matson's "Public Vices, Private Benefits: William Duer and his Circle, 1776-1792" and "*The king of the Alley*": *William Duer, Politician, Entrepreneur, and Speculator, 1768-1799* by Robert F. Jones are notable examples.<sup>16</sup>

Scholarly work on early American economics and finance has also touched on the Panic. Joseph Stancliffe Davis's eight-page account of the Panic of 1791 in his definitive *Essays in the Earlier History of American Corporations* (1917) quickly became the

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<sup>15</sup> Ron Chernow, John C. Miller, Willard Sterne Randall, Jacob D. Cooke, Nathan Schachner, and John T. Morse, as well as Hamilton's grandson John C. Hamilton all include brief descriptions of the Panic of 1791. They are of varying quality and none is longer than four modest pages.

<sup>16</sup> Cathy Matson, "Public Vices, Private Benefits: William Duer and his Circle, 1776-1792" in William Pencak and Conrad Edick Wright, eds., *New York and the Rise of American Capitalism: Economic Development and the Social and Political History of an American State, 1780- 1870* (New York, N.Y.: New-York Historical Society, 1989), 84.; Robert Francis Jones, *The King of the Alley: William Duer, Politician, Entrepreneur, and Speculator, 1768-1799*, *Memoirs of the American Philosophical Society* v. 202 (Philadelphia: American Philosophical Society, 1992).

baseline scholarly narrative of the Panic of 1791.<sup>17</sup> Davis implicitly argued that the events of July and August 1791 were the logical culmination of an era in which intricate systems for stock speculation were established in the new United States. Using his pioneering research on BUS script and US Securities prices, Davis established the BUS script bubble's basic timeline. To Davis, the events of July and August 1791 constituted a burst asset bubble and not a financial panic. This difference is significant because panics, unlike bubbles, have more severe resultant credit and liquidity shocks and broader societal implications. Davis also failed to recognize that the Panic had a major second phase. Unfortunately, this error became part of the Panic's baseline narrative. Despite this error, Davis's contribution was significant as it identified the Panic of 1791—though not by that name and not completely—as a distinct and significant financial event.

David J. Cowen's data-rich *The Origins and Economic Impact of the First Bank of the United States, 1791-1797* provides the best overall view of the Panic of 1791.<sup>18</sup> While Cowen correctly identified the Panic of 1791—though, like Davis, not by that name—as a crisis of liquidity,<sup>19</sup> his focus on Hamilton and the BUS diverts his attention from the panic itself. The same is true of Cowen's articles, "The First Bank of the United States and the Securities Market Crash of 1792" and "Alexander Hamilton, Central Banker: Crisis Management During the U.S. Financial Panic of 1792" (co-authored with Richard Sylla and Robert E. Wright), which provide thoughtful though incomplete

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<sup>17</sup> Joseph Stancliffe Davis, *Essays in the Earlier History of American Corporations*, Harvard Economic Studies v.16 (Cambridge: Harvard University Press, 1917).

<sup>18</sup> David Jack Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, Financial Sector of the American Economy (New York: Garland Pub, 2000).

<sup>19</sup> *Ibid.*, 52.

summaries of the Panic.<sup>20</sup> Wright's book, *One Nation Under Debt: Hamilton, Jefferson and the History of What We Owe* and John Steele Gordon's *Hamilton's Blessing: the Extraordinary Life and Times of Our National Debt* briefly discuss Scriptomania and the August 11<sup>th</sup> crash, though only as far as it involved US Securities and the United States's national debt.<sup>21</sup>

One scholar who did seem to understand the significance of the Panic of 1791 was New York University professor James O. Wettereau. The author of *Statistical Records of the First Bank of the United States* and "New Light on the First Bank of the United States," Wettereau focused primarily on the structure and implementation of the BUS.<sup>22</sup> However, an analysis of Wettereau's papers, which were instrumental in the formation of this thesis, suggests that he was keenly aware of the events surrounding, and implications of, the Panic of 1791. Most unfortunately, Wettereau's extensive research on the subject was never converted into an article, essay, or monograph.

There are several explanations for the lack of scholarly attention to the Panic of 1791. The Panic's relatively limited duration—only three months from the July 4<sup>th</sup> scrip issuance to the eventual price stabilization in mid-September—is one possibility. Likewise, the economy's rapid recovery in October, November and December of 1791 resulted in little long-term damage to the US economy (real GDP growth for the 1791

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<sup>20</sup> David J. Cowen, "The First Bank of the United States and the Securities Market Crash of 1792," *The Journal of Economic History* 60, no. 4 (December 1, 2000): 1041–1060; Richard Sylla, Robert E. Wright, and David J. Cowen, "Alexander Hamilton, Central Banker: Crisis Management During the U.S. Financial Panic of 1792," *Business History Review* 83, no. 1 (Spring 2009): 61–86.

<sup>21</sup> Robert E. Wright, *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill, 2008); John Steele Gordon, *Hamilton's Blessing: The Extraordinary Life and Times of Our National Debt* (New York: Walker, 1997).

<sup>22</sup> James O. Wettereau, *Statistical Records of the First Bank of the United States*, American Economic History (New York: Garland Pub, 1985); Wettereau, "New Light on the First Bank of the United States."

calendar year was over 7%).<sup>23</sup> However, the most probable explanation for the lack of scholarly interest remains the Panic of 1791's proximity to the Panic of 1792. The later was, in nominal terms, a bigger crisis that included larger net equity price declines, required a larger policy response, and had fundamental components that were, quite simply, more transparent. Because the Panic of 1792 has received the lion's share of attention, the Panic of 1791 has been relegated to precursory status.

Yet despite its relative absence from the history books, the Panic of 1791 was much more complex and important than historians have assumed. In a strictly economic sense, it is debatable whether a collapse in BUS script and US Securities would have sunk the American economy into a deep recession. Yet financial crises are societal and political events as much as they are economic. When the Panic erupted, public trust in the new federal government was tenuous at best. The assets at the heart of the Panic, BUS script and US securities, represented the new and untrusted science of finance from which many Americans, including prominent figures like Thomas Jefferson and John Adams, recoiled.

While elements of finance have deep roots in Western culture, the modern financial system was a relative new. Richard Sylla of New York University's Stern School of Business describes a modern financial system as having six component parts: strong public finances, stable money, some form of central bank, and at least the roots of a banking system, securities markets, and corporations.<sup>24</sup> Of course not all six of these

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<sup>23</sup> Lawrence H. Officer and Samuel H. Williamson, "Annualized Growth Rate and Graphs of Various Historical Economic Series," *MeasuringWorth*, 2011.

<sup>24</sup> Richard Sylla, "Alexander Hamilton and Money," *C-SPAN Video Library*, January 31, 2004, <http://c-spanvideo.org/program/AlexanderHa>.

elements need to work perfectly, but modern finance relies on the sustainable and self-perpetuating ecosystem these institutions create. For modern financial capitalism to thrive, the state's financial outlook must be relatively stable, devoid of the dramatic indebtedness and default that characterized pre-modern economic systems.<sup>25</sup> A stable currency contributes significantly to strong public finances. A central bank allows the money supply to be flexible and absorb shocks, while a banking system, or at least the beginnings of one, helps disperse money and credit throughout the nation. Securities markets allow debt and credit to be commoditized and, along with shares of corporations, become widely tradable assets. Successful corporations complete the cycle by creating jobs, desirable commodities, and a diversified, tax-producing economy, which in turn supports strong public finances. Economic traditionalists like Jefferson and Adams who valued land and the labor theory of value were wary of almost all of Sylla's components of modern finance, but Hamilton's implementation of all six elements as a unified, modern financial system was revolutionary. Thus, the system, and America's transition to financial modernity, was universally associated with the emerging Federalist faction, the Washington administration, and Hamilton himself.

As a result, the American public—who, I will demonstrate, was very aware of the Panic as it unfolded—inextricably linked the success of the BUS to the viability and sustainability of the new regime. Even if public confidence in the government did not dissolve entirely, faith in the new financial system would have almost certainly dissipated. The history of financial crises experienced by nations with a level of financial

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<sup>25</sup> Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009), 86–88.

development similar to 1790s America, such as France in 1719, reveals that an outright rejection of modern finance was possible, if not probable.<sup>26</sup> One can only imagine how different American national development would have been if modern finance was not embraced until the Civil War.

When the Panic hit, Hamilton knew he had to preserve the symbiotic relationship between economic stability and public confidence at almost any price. The open-market activity Hamilton undertook to steady collapsing asset prices, when placed in modern terms, was staggering. By the end of September, the Treasury injected close to \$350,000 into the financial system, or over .17% of 1791 nominal GDP.<sup>27</sup> That roughly equates to a \$25.6 billion outlay in 2011-dollar terms. Even more impressive are the figures when considered in terms of national debt removed from the market. While US 6% Securities were purchased at or near face value, US 3% and Deferred 6% securities were selling at well below par. Hamilton was therefore able to retire nearly \$560,000 (face value) from the marketplace.<sup>28</sup> Should such a purchase happened at 2011 debt levels, the Treasury would have made a one-month purchase of between \$103 and \$128 billion in US debt.<sup>29</sup> These are not trivial figures and, contrary to popular belief, represent the first major governmental intervention in a crisis economy in American history.

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<sup>26</sup> Niall Ferguson, *The Ascent of Money: A Financial History of the World* (New York: The Penguin Press, 2008), 183.

<sup>27</sup> Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?" MeasuringWorth, 2011.

<sup>28</sup> Sylla, Wright, and Cowen, "Alexander Hamilton, Central Banker," 13.

<sup>29</sup> The range comes as a result of various means of calculation, including total vs. domestically held debt, and the raw figures used for the calculation. The first figure is a straight unadjusted comparison of total value of US Securities purchased by Hamilton against total US debt levels. The higher figure is simply a derivation of the calculation done by Sylla, Wright, and Cowen, adjusting for 2011 instead of 2006 debt levels.

Hamilton's response to the Panic of 1791 set the standard for governmental intervention during financial crises, a precedent that became part of the American tradition of governance. This thesis aims to present a definitive analytical narrative of the Panic of 1791, correcting the previous historical conceptualization of the Panic as a purely financial event—a burst asset bubble and little more. On the contrary, the Panic of 1791 was a dynamic economic, political, and societal phenomenon with a broad impact on both the founding era and the course of American financial and economic development. Even more important, the federal government, and specifically the Hamilton Treasury, played an integral role in stemming the Panic. In so doing, it prevented the Panic from becoming a full-blown economic, and possibly political and constitutional, crisis. In simpler terms, the Panic of 1791 reveals that government involvement in financial markets during a crisis is virtually as old as the Republic itself. Hamilton was keenly aware of the effect the BUS—and prospectively, its demise—would have on the American future. His limited but energetic actions in August and September 1791 successfully quelled a crisis that was deeper and more intricate than history has previously recognized.

In concluding his September 12<sup>th</sup> report to Hamilton, William Seton wrote, “I have no doubt [BUS script] will soon come to their real value, if the price of the other funds can be now & then supported by your purchases. *You have the blessings of thousands here*, and I feel gratified more than I can express, at being the dispenser of your benevolence [emphasis added].”<sup>30</sup> As the cashier of the Bank of New York and a

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<sup>30</sup> William Seton to Alexander Hamilton, “From William Seton, 12 September 1791.”

proverbial “man on the ground,” Seton fully understood the destructive capacity of the crisis he had experienced. The “blessings of thousands” he imparted to Hamilton were not hyperbolic—they represented the consensus of those who, like Seton, experienced the intense financial and societal event that was Panic of 1791.

## **Chapter I: “An Institution of Primary Importance to the Exigencies of the Public”<sup>1</sup>**

John Steele Gordon has observed that “the United States was born in debt.”<sup>2</sup> Yet perhaps a more accurate statement would be that the United States was born in depression. Debt was only one economic millstone tied around the new country’s ankles. Severe recession, non-existent credit, monetary scarcity, and ineffective institutions all threatened to crush the infant nation as it struggled to survive its first decade.

While the War for Independence was built on the philosophical bedrock of natural rights and self-governance, its economic foundation was much more like shifting sand. The bond that united the American states looked much more like a wartime alliance than a confederated union. The Continental Congress was granted the power to spend and borrow but not the power to tax, requiring them to requisition funds from the individual states to support the war effort. Needless to say, these funds failed to arrive. Over the course of the war, Congress borrowed over \$11 million from foreign nations that it lacked the revenue base to repay.<sup>3</sup> When foreign lenders ceased extending credit to the United States, Congress was forced to issue bills of credit and paper currency, infamously

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<sup>1</sup> Alexander Hamilton, “Report on a National Bank,” *Alexander Hamilton: Writings* (New York: Library of America, 2001), 575.

<sup>2</sup> Gordon, *Hamilton’s Blessing*, 11.

<sup>3</sup> Max M. Edling, *A Revolution in Favor of Government: Origins of the U.S. Constitution and the Making of the American State* (New York: Oxford University Press, 2003), 153.

dubbed “Continental,” to fill the gap.<sup>4</sup> Market saturation and a lack of confidence in Congress’s ability to redeem these notes resulted in a rapid depreciation of all forms of government paper. The devaluation of Continentals reached such epic proportions that Congress revalued previously issued currency at only 2.5% of its original face value only three years after its issuance.<sup>5</sup> Congressional bills of credit were equally depreciated. By the time the Constitution was ratified in 1788, Congressional bills were being traded at ten to fifteen cents on the dollar.<sup>6</sup>

The depreciation, however, occurred not simply because of a loss in confidence or because the face value of bills issued was too large. Robert E. Wright has argued that the currency collapsed because of two reasons the Americans could control, and another they could not. The uncontrollable factor was the economic warfare conducted by the British Army. In addition to preventing states from collecting taxes, the British Army and American loyalists did everything they could to devalue Continental currency and bills of credit. The American market was flooded with expertly counterfeited notes, thus multiplying the already over-issued paper in circulation. Gordon S. Wood has written that “by 1781, \$167 of congressional paper was worth only \$1 in specie...and the depreciation of the states’ bills was nearly as bad.”<sup>7</sup>

Adding to the problem, American patriots failed to organize a unified monetary policy. Each state, as well as Congress, issued currency and bills of credit as they saw fit, without consideration of the broader monetary situation. In the same way, according to

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<sup>4</sup> Gordon, *Hamilton’s Blessing*, 11; Wright, *One Nation Under Debt*, 47.

<sup>5</sup> Gordon, *Hamilton’s Blessing*, 12.

<sup>6</sup> Edling, *A Revolution in Favor of Government*, 153.

<sup>7</sup> *Ibid*, 116.

Wright, “the patriots also had only limited means of withdrawing bills of credit from circulation.” Because Congress could not tax Continental bills out of existence, the notes remained on the market even as more and more were issued. In an attempt to remedy this problem, as well as raise badly needed funds, Congress began issuing bonds, payable in previous issues. However, these new issuances only added to Congress’s already bloated debt burden and failed to remedy the inflationary problems.<sup>8</sup> The net effect was the death of Continental bills. By 1782, using them as a medium of exchange was not worth the effort.

As the United States entered its first years as an independent republic, money became extremely scarce. Paper money ceased to function as viable currency. Specie fled the country as payments for imports and interest to foreign creditors. Making matters worse, Continental authorities were unable to acquire specie as states continuously refused—or often were unable—to meet their requisition quotas. This was perhaps due to the fact that the lack of hard money made state tax collection nearly impossible. Many citizens, despite having sufficient wealth, lacked access to the currency they needed to pay their tax bills. Increasing seizures of illiquid assets like land resulted in the prices of those assets plummeting. The resultant deflation squeezed household wealth and resulted in the real value of indebtedness across the nation skyrocketing.

Making matters worse, many states legislated extremely high tax rates during the post-war years in an attempt to satisfy their foreign creditors.<sup>9</sup> The combination of state taxes, reduced property values, and the universal dearth of money resulted in deep

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<sup>8</sup> Wright, *One Nation Under Debt*, 50–53.

<sup>9</sup> Edling, *A Revolution in Favor of Government*, 155–156.

economic stagnation during much of the 1780s. Interest rates were sky high—a direct result of the tight monetary situation—which, in concert with the decline in property values, resulted in a crash in labor and commodity prices.<sup>10</sup> Depressed levels of exports made specie even scarcer, thus completing the vicious cycle.

Historians have long disputed the underlying tenets of the economic malaise of the 1780s. Woody Holton argues that the states' attempts to fulfill their federal obligations, not their refusal to, fueled the deep recession of the 1780s.<sup>11</sup> The institution of massive tax hikes in the middle of an already brutal recession, argues Holton, led to plummeting economic growth, accelerated capital flight, and rapidly tightening credit. Holton maintains that a better solution would have been the repudiation of debts and a large emission of paper money to ease the liquidity crisis. Holton contends that state taxes were so high because external debts had to be serviced, and therefore a partial repudiation, combined with a paper money-fueled erosion of real debt values, would relieve tax burdens and restore economic growth.<sup>12</sup> Holton asserts that the federal Constitution, with its explicit restrictions of the state's right to print paper money, was not simply bad policy but the corrupt protection for government bondholders.<sup>13</sup> The ultimate problem, according to Holton, was not the lack of economic centralization, but an excess of it.<sup>14</sup>

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<sup>10</sup> Wright, *One Nation Under Debt*, 70.

<sup>11</sup> Woody Holton, *Unruly Americans and the Origins of the Constitution*, 1st ed (New York: Hill and Wang, 2007), 65.

<sup>12</sup> *Ibid.*, 57–59.

<sup>13</sup> *Ibid.*, 185.

<sup>14</sup> *Ibid.*, 16–17.

Max Edling has argued that state tax rates in the first days of the early Republic were indeed too high, but the problem was not the servicing of debts and the solution was not to repudiate them. In *A Revolution in Favor of Government*, Edling contends that the method of raising revenue for the national government prescribed by the Articles of Confederation—requisition—was inefficient and regressive. States were unable to procure sufficient revenue by way of indirect taxes—imposts and excises—and were thus forced to impose oppressive *direct* taxes—taxes on land and polls—that disproportionately affected the lower and middle classes who could least afford to pay them.<sup>15</sup> “These direct taxes drained hard specie and failed to discriminate between assets of varying levels of productivity.”<sup>16</sup>

On the other hand, a Federal government with broad taxing powers was able to broaden the tax base and lower tax rates.<sup>17</sup> A stable revenue stream would assure prospective creditors and the United States would be able to borrow at reasonable rates in times of war or economic regression. Equally important, a single monetary policy would help simplify interstate commerce and combat inflation. Contrary to Holton’s prescription of debt repudiation and erosion via inflation, Edling argues that a powerful national policy program could more efficiently handle the country’s mammoth debt. By consolidating debt, lowering interest costs, and raising sufficient revenue to meet interest payments and pay down the principle at the same time, the nascent American regime was able to confront its fiscal problems and restore public credit at the same time. The

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<sup>15</sup> Edling, *A Revolution in Favor of Government*, 158.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*, 174.

Constitution of the United States provided the tools for a limited but strong national state, maintains Edling, one that would be powerful enough to protect the citizenry from political, military, and economic threats.

The Constitution centralized the nation's financial system in an unprecedented fashion. While states retained the right to borrow and tax, the Constitution restricted the modes of taxation the states could adopt. Article 1 Sections 8 and 10 prohibited the states from establishing competitive import duties and awarded control of imposts, which were the leading source of government income in the early Republic, exclusively to the federal government. Also, and even more importantly, the Constitution centralized monetary policy. States were prohibited from coining money, issuing bills of credit, or establishing a legal tender other than gold or silver.<sup>18</sup> The Constitution also addressed the sizable debts of the new union. The task of officially discharging these debts was officially given to Congress, but the new administration of President George Washington, and particularly its Treasury Secretary Alexander Hamilton, immediately began formulating ways to resurrect American public credit.

### **“An Host Within Himself”**

At first glance, Hamilton was an unlikely choice to lead America's economic recovery. An autodidact with no formal training in political economy or banking, Hamilton was Washington's second choice to lead the Treasury Department. The job was originally offered to “the financier of the Revolution” Robert Morris, who declined for

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<sup>18</sup> *Constitution of the United States* (<http://teachingamericanhistory.org/library/index.asp?document=2>), Art.I, Sec. 10.

personal reasons. However, Hamilton's profound understanding of financial matters led Morris to recommend Hamilton for the post he declined. Hamilton had carried Malachy Postlethwayt's *Universal Dictionary of Trade and Commerce* in his saddlebag when he was a military aid to George Washington, studying late in to the night after long days of official duty. What Hamilton lacked in official training he made up for in sheer energy and native intelligence, traits that soon became hallmarks of his policy proposals.

To say that Hamilton was controversial is a gross understatement. Rash, vain, impetuous, and pretentious, Hamilton was always the smartest guy in the room and he knew it. His unrelenting assaults on political and personal opponents alike endeared him to his friends and enraged his enemies. The man Thomas Jefferson later described as “a colossus to the antirepublican party [who] Without numbers, is an host within himself,”<sup>19</sup> never shrank from a fight. And because of his sheer intellectual superiority, he normally won any fight he took on.

Hamilton's combative nature was fueled by a profound patriotism that is often unique to immigrants. Raised on the Caribbean sugar islands of Nevis and St. Croix, Hamilton did not arrive in America until he was seventeen. As a result, Hamilton embodied the promise of America in a way unique to the founding fathers. His impoverished boyhood and status of “foreigner” gave Hamilton a profound desire to pave roads for social mobility. While America was less socially ossified than Europe, wealth and status were still often hereditary and illiquid. Hamilton attained prominence by sheer force of intellect but he well knew that his gifts were unique. A firm believer in

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<sup>19</sup> TJ, “Letter to James Madison” (September 21, 1795) <http://rotunda.upress.virginia.edu/founders/default.xqy?keys=TSJN-print-01-28-02-0375> (accessed November 23, 2010.)

meritocracy, Hamilton believed that the system of landed wealth needed to be replaced with a liquid indicator of talent if America was to achieve its potential as a dynamic and socially mobile society.<sup>20</sup>

Hamiltonian political philosophy was rich and nuanced, but the key to understanding his reaction to the Panic of 1791 was his fear of disorder and anarchy, both social and economic. To Hamilton, economic anarchy, meaning the disorganization of fiscal and monetary policy like that which reigned during the 1780s, always resulted in economic stagnation and deprivation. Hamilton's service in the Continental Army had made him a dedicated nationalist and he viewed the former colonies as free but not wholly independent states. The blood that Continental soldiers and the pledges of the lives, fortunes, and sacred honor their delegates had sworn bound the *people* of the United States together into a single society and nation. Thus, when the states flouted the obligations to which they had agreed, most notably in the honoring of their debts, they created a state of economic anarchy.

Hamilton's concern for the perpetuation, not just the establishment, of free society in America led him to constantly fret over threat of disorder. The return of tyranny to the United States was a definite possibility, Hamilton argued, but America's revolutionary

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<sup>20</sup> My essay entitled, "Alexander Hamilton, the Monetization of the National Debt, and the Rise of Social Mobility in America," argues that Hamilton's financial reforms, focusing on the institutionalization of liquid money, sparked economic, political, and social mobility in America on a grand scale. Hamilton viewed the existing landed system as an ossified relic of a feudal age, which unfairly secured the landed gentry's place at the core of America's social and economic hierarchy. I contend that Hamilton's monetary reforms subverted this ossified system by institutionalizing an arbiter of success that was, in the words of historian Forrest McDonald, "oblivious to class status, color, and inherited social position." By establishing an alternative unit of social and economic value—money—through his debt monetization and proliferation of a stable system of money, Hamilton ensured the possibility of mobility for those with the talent and energy to take advantage of the opportunity.

heritage made it far more susceptible to tyranny by anarchy than by despotism. “It would not be difficult to demonstrate, that a large and well organized Republic can scarcely lose its liberty from any other cause than that of anarchy,” Hamilton wrote in 1794.<sup>21</sup> No society had the stamina to long exist in an anarchical state. “Tired at length of anarchy or want of government,” Hamilton wrote, “they may take shelter in the arms of monarchy for repose and security.”<sup>22</sup>

Governmental power did not concern Hamilton, at least not in America. A strong state was not innately antithetical to national liberty and could in fact be used for immense good. The ultimate danger, he believed, was the establishment of *arbitrary* power.<sup>23</sup> “What distinguished arbitrary [power] was its absolute quality,” writes historian Ned Landsman, “the total subjugation to another, or others unrelated to any overriding social imperative” or the rule of law.<sup>24</sup> In a monarchy, this oppression came from a tyrant. But in a nation that harbored such intense distrust of centralized power as the new United States, mobs could exercise arbitrary power just as easily as a conquering despot. In such environs, governments needed to execute limited but energetic displays of *legitimate* power to prevent situations in which arbitrary rule would germinate.

Hamilton’s belief in using government to combat the origins of arbitrary power in the military and political sphere has been well documented. Yet his papers are filled with

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<sup>21</sup> Tully, “Tully No. II,” *American Daily Advertiser* (Philadelphia, August 26, 1794), <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-3-2&expandNote=on#match>.

<sup>22</sup> AH, “Objections and Answers respecting the Administration of the Government”, *Papers of Hamilton*, 12: 252.

<sup>23</sup> A sincere Friend to America., “The Farmer Refuted, &c.,” *New-York Gazetteer* (New York, February 23, 1775), <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-7&expandNote=on#match>.

<sup>24</sup> Ned C. Landsman, *From Colonials to Provincials: American Thought and Culture, 1680-1760* (New York: Twayne Publishers, 1997), 150.

protestations of arbitrary power in the economic sphere as well. “Arbitrary taxes,”<sup>25</sup> “arbitrary rates of interest,”<sup>26</sup> “arbitrary [land tax] valuations,”<sup>27</sup> and “arbitrary acts of the legislature”<sup>28</sup> are just a few examples. Hamilton was convinced that without the energetic exercise of *legitimate* power, even republican regimes would be forced into instances of *arbitrary* rule.

To Hamilton, Congress's arbitrary actions resulted from its lack of legitimate power. During the Revolution, the Continental Army waged a war on behalf of a legitimate constituted entity—the union of the states—yet it was not given the power to do so properly. To pay for the war effort using taxes leveled by Congress would have been a legitimate means to carrying out a desired end. Those means, however, were not provided. With no legitimate means of payment available to them, the Army was forced to offer worthless “supply certificates” for provisions. “There were instances of voluntary sales,” wrote Max Edling, “but in the vast majority of cases the supply certificate was a receipt for goods and services *impressed* by the army [emphasis added].”<sup>29</sup> This was, by definition, an arbitrary exercise of power. “Given the strong likelihood that Congress

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<sup>25</sup> Alexander Hamilton, “Alexander Hamilton’s Final Version of the Report on the Subject of Manufactures,” December 5, 1791, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-2&expandNote=on#match>.

<sup>26</sup> Alexander Hamilton, “The Defence of the Funding System”, July 1795, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-7&expandNote=on#match>.

<sup>27</sup> Alexander Hamilton to William Loughton Smith, “To William Loughton Smith,” June 10, 1797, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-3-2&expandNote=on#match>.

<sup>28</sup> Phocion, “A Letter from Phocion to the Considerate Citizens of New York,” *New-York Packet*, January 1, 1784, <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-2-7&expandNote=on#match>.

<sup>29</sup> Edling, *A Revolution in Favor of Government*, 153.

would never realize this compensation [under the current constitutional structure], it is hard to describe the use of the supply certificate as anything but mass expropriation.”<sup>30</sup>

To avoid instances in which the arbitrary exercise of power would be necessary, Hamilton argued, “It rests upon axioms as simple as they are universal, the *means* ought to be proportioned to the *end*; the persons from whose agency the attainment of any *end* is expected ought to possess the *means* by which it is to be attained.”<sup>31</sup>

While Hamilton knew that the Constitution was imperfect, he believed it provided adequate legitimate power for the government to fulfill its obligations in a non-arbitrary way. The first step in the process would be restoration of public credit, which would allow the government to borrow at reasonable rates. Hamilton also believed that an honorable, non-arbitrary government could not simply inflate away or default on its obligations. “A Government which does not rest on the basis of justice rests on that of force. There is no middle ground. Establish that a Government may decline a provision for its debts, though able to make it, and you overthrow all public morality, you unhinge all the principles that must preserve the limits of free constitutions—you have anarchy, despotism or, what you please, but you have no just or regular Government.”<sup>32</sup> As newly appointed Treasury Secretary, Hamilton embarked on his ambitious financial plan to rectify the nation’s credit and fulfill its obligations.

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<sup>30</sup> Ibid., 154.

<sup>31</sup> Publius, “The Federalist No. 23,” *New-York Packet* (New York, December 18, 1787), 23, <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1 2&expandNote=on#match>.

<sup>32</sup> Alexander Hamilton, “The Defence of the Funding System.”

## **Political Consolidation, Economic Restoration**

Upon being confirmed as Treasury Secretary, Hamilton embarked on a comprehensive program to reestablish public credit, stimulate business confidence, and lay the groundwork for a sophisticated banking system to finance American economic development. Congress owed \$11.7 million to foreign creditors and \$40.4 million in domestic IOUs (mostly to wartime suppliers and soldiers). Hamilton also had to consider the additional \$21.5 to \$25 million in obligations that state governments had barely begun to service.<sup>33</sup> The first step was to secure a stable source of revenue, which Congress did via the Tariff Act of 1789. Tariff income, however, was insufficient to keep up with interest payments. Under Hamilton's guidance, Congress passed a series of light excise taxes on liquor, sugar, carriages and other luxury items which, despite being challenged at the Supreme Court, eventually provided the funds to move Hamilton's financial program forward.<sup>34</sup>

The second step in Hamilton's plan was the assumption and consolidation of all governmental debt by the federal government, as spelled out in Hamilton's January 14, 1790 "Report on the Public Credit." Under this plan, all foreign loans would be consolidated and honored at par. Domestic federal and state IOUs, loans, bonds, and notes could be exchanged at a discount—the percentage of the "haircut" depended on the type of bond—for new government securities of varying interest rates of 6 percent (6s), 6 percent with interest deferred until 1801 (deferred 6s), and 3 percent (3s). These

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<sup>33</sup>Wright, *One Nation Under Debt*, 132.

<sup>34</sup>Gordon, *Hamilton's Blessing*, 22.; Gordon notes that the excise taxes were not instituted as a "sin tax" but instead because of the inelastic demand for such products, making them ideal for constant revenue stream.

securities would be backed by specific taxes and a “sinking fund” comprised of the proceeds from the sales of western lands, and later, postal revenues.<sup>35</sup>

As the “Assumption Plan” relieved the states of their (generally) large debt burdens, Hamilton also sought to establish a source of reliable liquid capital. “Hamilton wanted to use the national debt to create a larger and more flexible money supply,” writes John Steele Gordon. “Banks holding government bonds, he argued, could issue bank notes [which would hold their value as they were backed by trustworthy sources of revenue]. [Hamilton] knew also that government bonds could serve as collateral for bank loans, multiplying the available capital, and that they would attract still more capital from Europe.”<sup>36</sup> The new national bonds were not as liquid as specie coins or bank notes, but they undoubtedly increased the money supply in a time monetary stringency.<sup>37</sup>

In addition to boosting the money supply, the Assumption Plan aimed to instill a sense of nationalism amongst the new country’s debt holders. “The Secretary’s policies tied a solid base of wealthy individuals to the new national government because the owners of the debt had a vested interest in the success of the country.”<sup>38</sup> In essence, Hamilton turned the states’ shareholders into national stakeholders. This did not go unnoticed by the proponents of state sovereignty. Hamilton’s *The Federalist* collaborator James Madison became a chief opponent of the assumption legislation. Madison’s primary objection was the Assumption Plan’s failure to discriminate between the current

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<sup>35</sup> Wright, *One Nation Under Debt*, 142-144.

<sup>36</sup> Gordon, *Hamilton’s Blessing*, 25-26.

<sup>37</sup> Robert E. Wright, “Hamilton’s Modern Conception of Money,” *Financial History* (Winter 2007), 13-16.

<sup>38</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 13.

and original holders of war-era securities. Hamilton, however, eventually won enough votes by pledging support for a permanent national capital on the Potomac River.<sup>39</sup>

The third element of Hamilton’s plan was the establishment of a national bank that could “act as a depository for government funds and a means of transferring them from one part of the country to another, [to serve as] a source of loans to the government and to other banks, and [to regulate] the money supply.”<sup>40</sup> The latter was of particular importance to Hamilton. Throughout his career, Hamilton viewed sound, circulating money as an invaluable institution. Not only was money a universal, impartial, and equally accessible arbiter of talent—unlike land or slaves—but it also served as an engine of social mobility. Therefore, Hamilton wanted to establish an independent entity that could protect money’s integrity from the whims of a conflicted populace—and their representatives. “Hamilton didn’t like the idea of the government itself issuing paper money,” writes Gordon, “because he felt that governments could not be trusted to exert self-discipline. Certainly the Continental Congress had shown none when it came to printing paper money... Hamilton thought that an independent central bank could supply not only a medium of exchange but the discipline needed to keep money sound.”<sup>41</sup>

According to Hamilton’s *The Report on the Bank*, submitted to Congress on December 13, 1790, an independent central bank would be chartered for twenty years and possess \$10 million in capital: \$8 million from private sources, and \$2 million from the government. The bank would have the right to issue notes or currency up to \$10 million

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<sup>39</sup> Forrest McDonald, *Alexander Hamilton: a Biography*, Norton paperback [ed.] (New York: Norton, 1982), 186.

<sup>40</sup> Gordon, *Hamilton’s Blessing*, 30.

<sup>41</sup> *Ibid*, 31.

and the government would allow those notes to serve as tender for all payments to the United States. To prevent the national bank from acquiring a monopoly, states were guaranteed the right to charter as many banks as they saw fit to promote competition and integrate markets.<sup>42</sup>

The Bank of the United States (BUS) would lay the groundwork for economic prosperity on a national scale, boosting trade and increasing interstate commerce. Hamilton interwove the different elements of his financial plan to create a self-perpetuating system of economic stability that would provide short-term economic stimulus and promote long-term economic independence from European powers. Hamilton prescribed that BUS shares would be paid for mostly in government bonds, thus providing demand and supporting prices as individuals bought securities to serve as tender for their shares. The BUS would then issue paper notes, all backed 100% by specie. These notes, in turn, became the nation's principal money supply. "In this fashion," wrote BUS scholar David J. Cowen, "the banking and funding system were working together to produce growth. Hamilton, therefore, viewed these two components as integral and co-working parts of a financial system that would create a solid base for economic stimulus."<sup>43</sup>

Demonstrating his propensity to think in integrated strategic systems, Hamilton insisted in his *Report on Public Credit* that the BUS was "an indispensable

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<sup>42</sup>AH, "Report on a National Bank," 13 December 1791, in Joanne B. Freeman, ed., *Hamilton: Writings* (New York: The Library of America, 2001), 593-610; Cowen, *The Origins and Economic Impact of the First Bank of the United States*, 21; Wright, *One Nation Under Debt*, 147-148.

<sup>43</sup> *Ibid*, 16-17.

resource...[for the states'] security against foreign attack.”<sup>44</sup> By financing the development of domestic manufacturing, Hamilton maintained that the BUS “will tend to render the United States, independent on foreign nations....” “The independence and security of a Country,” Hamilton wrote, “appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of *Subsistence habitation clothing and defence*.”<sup>45</sup> Thus, Hamilton argued that the BUS played a major role in securing American independence from foreign influence.

The establishment of the Bank of the United States, however, was far from a forgone conclusion. The “Act to incorporate the subscribers to the Bank of the United States” faced stiff resistance as it made its way through Congress. Intellectually led by Thomas Jefferson, agrarian republicans argued that a national bank would pervert the virtuous independence they believed was the backbone of American liberty.<sup>46</sup> Jefferson biographer Noble E. Cunningham wrote that the republican idealists “saw the bank as a tool of special interests and an unhealthy concentration of economic power, part of a design to promote moneyed interests at the expense of farmers.”<sup>47</sup> Put more succinctly, Jefferson and his comrades “scorned Hamilton’s bank as the symbol of a Yankee world

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<sup>44</sup> AH, “Report on Public Credit,” 9 January 1790, in Joanne B. Freeman, ed., *Hamilton: Writings* (New York: The Library of America, 2001), 531.

<sup>45</sup> AH, “Report on the Subject of Manufactures,” 5 December 1791, in Joanne B. Freeman, ed., *Hamilton: Writings* (New York: The Library of America, 2001), 647&691-692.

<sup>46</sup> Gordon S. Wood, *The Radicalism of the American Revolution* (New York: Vintage Books, 1991), 106.

<sup>47</sup> Noble E. Cunningham Jr., *In Pursuit of Reason: The Life of Thomas Jefferson* (New York: Ballantine Books, 1987), 167.

of commerce that would subvert his fond vision of America as a rural Eden.”<sup>48</sup> Even Madison “argued that the bank bill was a misguided imitation of England’s monarchical practice of concentrating wealth and influence in the metropolitan capital.”<sup>49</sup> Despite these policy objections, the bank bill had a solid base of Federalist support and eventually made it to Washington’s desk on February 16, 1791.

While the bank was opposed on policy grounds, its opponents most fiercely argued its unconstitutionality. Madison fired the opening salvo in a February 2 speech which maintained that Congress lacked the authority to charter a bank or any corporation whatsoever. Taking a strict constructionist stand, Madison argued that the authority to establish a bank could, theoretically, only be found in Article I, Section 8.1—“The power to lay and collect taxes to pay the debts and provide for the common defence and general welfare”; Section 8.2—“The power to borrow money on the credit of the United States”; or Section 8.18—“The power to pass all laws necessary and proper to carry into execution those powers.”<sup>50</sup> Madison contended that the first two sections were not applicable because the bank bill “laid no tax to pay the debts, or provide for the general welfare,” nor did it “borrow a shilling.” The third section was invalid because it did not give Congress “unlimited discretion” to pass whatever laws it wished. “Its meaning must,” said Madison, “according to the natural and obvious force of the terms and the context, be limited to means *necessary* to the *end* and *incident* to the *nature* of the

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<sup>48</sup> Ron Chernow, *Washington: A Life* (New York: The Penguin Press, 2010), 649.

<sup>49</sup> Gordon S. Wood, *Empire of Liberty: A History of the Early Republic, 1789-1815* (Oxford: Oxford University Press, 2009), 144.

<sup>50</sup> James Madison, “Speech on the Bank Bill,” (February 2, 1796), [http://oll.libertyfund.org/?option=com\\_staticxt&staticfile=show.php%3Ftitle=875&chapter=63865&layout=html&Itemid=27](http://oll.libertyfund.org/?option=com_staticxt&staticfile=show.php%3Ftitle=875&chapter=63865&layout=html&Itemid=27) (accessed February 9, 2012.)

specified powers.” Madison believed this conflation of ends and means would result in dangerous implementations of power.<sup>51</sup> “To borrow money is made the *end* and the accumulation of capitals *implied* as the *means*. The accumulation of capitals is then the *end* and a bank *implied* as the *means*. The bank is then the *end* and a charter of incorporation, a monopoly, capital punishments, etc. *implied* as the *means*.” “If this precedent of loose construction was established,” Madison said, “the essential characteristic of the government, as composed of limited and enumerated powers, would be destroyed.”<sup>52</sup>

Washington was moved by Madison’s argument and sought to better understand the legal nuances—and constitutional implications—of the bank bill. He thus asked Attorney General Edmund Randolph and Thomas Jefferson to prepare opinions on the issue. Randolph produced an opinion that agreed with Madison’s conclusion—that the bank bill was unconstitutional—but disagreed with his method of legal reasoning. Instead of presenting a cogent and persuasive argument against the bill as Madison had done, Randolph spent most of its words laying out a reasonable method for constitutional interpretation.<sup>53</sup> Jefferson, on the other hand, produced a concise apologetic of strict constructionist ideology. He immediately drew his line in the sand, stating, “I consider the foundation of the Constitution as laid on this ground: [quoting the as yet unratified 10<sup>th</sup> Amendment] That all powers not delegated to the United States, by the Constitution,

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<sup>51</sup> McDonald, Alexander Hamilton, 201.

<sup>52</sup> Madison, “Speech on the Bank Bill,” <http://oll.libertyfund.org>.

<sup>53</sup> Walter Dellinger and H. Jefferson Powell, “The Constitutionality of The Bank Bill: The Attorney General’s First Constitutional Law Opinions,” *Duke Law Review*, Oct. 1994, 118-119.

nor prohibited by it, are reserved to the States or to the people.”<sup>54</sup> The powers to incorporate a bank were “not among the powers specially enumerated...Nor [were] they within either of the general phrases,” that is “to lay and collect taxes...to pay the debts and provide for the common defense and general welfare and make all laws which shall be necessary and proper for carrying into execution the foregoing powers.”<sup>55</sup>

Seeing great potential danger in the abuse of “general phrases,” Jefferson addressed them with uncharacteristic fervor. He contended that the “general welfare” clause did not justify the incorporation of the bank because “the laying of taxes [was] the *power*, and the general welfare the *purpose* for which the power is exercised.” “In like manner,” Jefferson wrote, “they [Congress] are not *to do anything they please* to provide for the general welfare, but only to *lay taxes* for that purpose.”<sup>56</sup> Here Jefferson argues that the Constitution empowers Congress only to exercise specific *powers* (means), not construct *purposes* (ends).

Regarding the “necessary and proper” clause found in Article 1, Section 8, Jefferson flatly stated, “[enumerated powers] can all be carried into execution without a bank. A bank therefore is not *necessary*, and consequently not authorized by this phrase.” He admitted that a bank may make the collection of taxes and borrowing of money more convenient, but maintained that that was beside the point. “The Constitution allows only the means which are ‘*necessary*,’ not those which are merely ‘convenient.’” “If such a latitude of construction be allowed to this phrase as to give any non-enumerated power, it

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<sup>54</sup> Jefferson, *Jefferson: Writings*, 416.

<sup>55</sup> *Ibid.*, 417; *Constitution of the United States* (<http://teachingamericanhistory.org/library/index.asp?document=2>), Art.I, Sec. 8.

<sup>56</sup> Jefferson, *Jefferson: Writings*, 418.

will go to everyone, for there is not one which ingenuity may not torture into a *convenience* in some instance *or other*, to *some one* of so long a list of enumerated powers.”<sup>57</sup> Jefferson believed that if “necessary” was allowed to mean anything other than absolutely essential, the United States would be stepping onto a very slippery slope. He believed this principle applied to every exercise of Congressional power—“to take a single step beyond the boundaries thus specially drawn around the powers of Congress, is to take possession of a boundless field of power, no longer susceptible of any definition.”<sup>58</sup>

Hamilton countered the Virginians by dissecting their constitutional arguments, infusing his opinion with a legal and philosophical rationale for limited but energetic government. Hamilton began by establishing that the federal government did have “sovereign power as to *certain things*”—those “things” being specific “objects entrusted to the management of the government”—and rejected the partition between powers and objects that Jefferson and Madison espoused. Such a partition would be a virtual negation of intrinsic sovereignty of enumerated governmental “objects.”<sup>59</sup>

Hamilton next addressed Jefferson’s logic regarding the soon-to-be ratified 10<sup>th</sup> Amendment. By contending that “all powers not delegated to the United States...are reserved to the States or to the people,” Hamilton wrote, Jefferson implied that the power to incorporate banks resided with state legislatures, not the federal government. Yet no state constitution expressly granted the power to incorporate banks and no one, not even

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<sup>57</sup> Ibid, 418-420.

<sup>58</sup> Ibid., 416.

<sup>59</sup> AH, *Hamilton: Writings*, 614.

Jefferson, argued that they did not have the authority to do so. Hamilton reasoned that the only conclusion then was that the power to charter corporations was an implied power, on both the state and federal level—the implied powers being the legitimate means of obtaining the expressed ends.<sup>60</sup>

Ensuring the provision of means to accomplish specified ends was a centerpiece of Hamilton’s public career. “It rests upon axioms as simple as they are universal,” Hamilton wrote in Federalist 23, “the *means* ought to be proportioned to the *end*; the persons from whose agency the attainment of any *end* is expected ought to possess the *means* by which it is to be attained.”<sup>61</sup> Jefferson believed that while Congress had the power to “lay and collect taxes to pay the debts and provide for the common defense and general welfare,” it could not create a bank to perform those enumerated ends. Likewise, Madison maintained that the bank bill did not “borrow a shilling” and was therefore unconstitutional. Hamilton, on the other hand, contended that establishing a bank was just another way of borrowing and therefore inseparable from the task. No one would condemn a man for forging himself an axe if he was tasked with cutting down a tree. By stating that Congress had the power to do certain things, Hamilton argued, the Constitution, by logical progression, also implied that it had the sovereign power to create the means needed to accomplish those things.

Hamilton could have ended his opinion after establishing the validity of implied powers, but he instead turned to Jefferson’s strict definition of the “necessary and proper”

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<sup>60</sup> McDonald, *Alexander Hamilton*, 206.

<sup>61</sup> AH, “Federalist 23,” in Charles R. Kesler, ed., *The Federalist Papers* (New York: Signet Classic, 1999), 149.

clause. Jefferson wrote that “necessary” meant only the means that were indispensably essential to the attainment of an end. Hamilton pounced on this definition, arguing, “that neither the grammatical, nor popular sense of the term requires that construction. According to both,” Hamilton wrote, “necessary often means no more than *needful, requisite, incidental, useful, or conducive to*... To understand the word as the Secretary of State does, would be to depart from its obvious & popular sense, and to find it a restrictive operation; an idea never before attained.”<sup>62</sup> Hamilton insisted that “the means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent and complexity, that there must, of necessity, be great latitude of discretion in the selection & application of those means.”<sup>63</sup>

This last quotation is essential in understanding Hamilton’s actions during the Panic of 1791. While the “necessary and proper clause” resides in Article I of the Constitution that generally applies to Congress, Hamilton believed that the principle applied to the entire government. “The powers contained in a constitution of government, especially those which concern the general administration of the affairs of a country, its finances, trade, defence &c ought to be construed liberally, in advancement of the public good,” Hamilton wrote. “This rule does not depend on the particular form of a government or on the particular demarcation of the boundaries of its powers, but on the

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<sup>62</sup> AH, *Hamilton: Writings*, 618.

<sup>63</sup> *Ibid*, 620.

nature and objects of government itself.”<sup>64</sup> Hamilton saw the entire government, not just Congress, as responsible for ensuring that “national inconveniences [were] obviated [and] national prosperity promoted.” Therefore, Hamilton felt no compunction about the Treasury using legitimate power to stave off a potentially disastrous economic, social, and political situation in August and September of 1791.

President Washington signed the bank bill into law on February 25. Historians have long debated the reasons for Washington’s decision, but the fact remains that Hamilton and Washington were often of like mind on issues of government power. The Bank of the United States was a truly national institution in structure and implementation and would consolidate interest in the government. “Hamilton’s plea for the bank,” wrote Washington biographer Richard Norton Smith, “powerful as it was, played perfectly to Washington’s muscular nationalism. It did not convert the president so much as it reinforced his natural inclinations.”<sup>65</sup> Washington’s constitutional scruples forced him to question the BUS’s legitimacy, but he never doubted its usefulness. With his concerns assuaged by Hamilton’s forceful legal reasoning, Washington was free to trust his judgment.

## **A New Financial World**

The Bank of the United States’ charter set the circumstances of its initial public offering (IPO). The \$10 million in capital would be divided up into 25,000 \$400 shares,

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<sup>64</sup> Alexander Hamilton, “Final Version of an Opinion on the Constitutionality of an Act to Establish a Bank,” February 23, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-2&expandNote=on#match>.

<sup>65</sup> Richard Norton Smith, *Patriarch: George Washington and the New American Nation* (Boston: Houghton Mifflin, 1993), 83.

with the government purchasing 5,000 and 20,000 being offered to the public. In an attempt to keep capital in the marketplace, “the \$400 per share was not due at the initial subscription but rather only a down payment of \$25, in exchange for a scrip, or temporary receipt,” wrote David J. Cowen. This “scrip” awarded its holder the opportunity to complete payment and receive stock when the BUS opened its doors.<sup>66</sup> A March 2 supplemental bill reduced the shares any one person could tender from 1,000 to thirty, perhaps revealing the positive interest already being discussed in Philadelphia. The supplemental bill also postponed the issuance date from the first Monday in April to the first Monday in July, perhaps not so coincidentally the Fourth of July.<sup>67</sup> While the official reason given for the IPO’s delay was to provide investors in distant parts of the nation the opportunity to subscribe, the symbolism of an Independence Day issuance was certainly not unnoticed. Hamilton was eager to symbolically link the BUS with the government and nation in the public mind. A July 4 issuance would have seemed too good to pass up.

With the issuance date set, investors began preparing to subscribe in the Bank of the United States. On May 8, the *Gazette of the United States* reported, “The Bank of the United States may justly be considered as a proposition made to the monied interest, foreign and domestic...The latter, from every information, are making great preparations to subscribe, and the terms are so advantageous that no equal object of speculation is

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<sup>66</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 39–40.; For an in-depth account description of the historical controversy of BUS stock payment methods, see Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 42-44.

<sup>67</sup> Ibid.

perhaps presented in any quarter of the globe to the former.”<sup>68</sup> These “monied interests,” while few in number by current standards, formed the core of a modern and sophisticated financial industry.<sup>69</sup> While scholars have largely ignored the early American financial system, present-day financiers would undoubtedly recognize many of the market structures, investment tools and tactics, and capital flows that were used in the early 1790s. Investors across the western world recognized the potential profits to be made in American markets and correctly identified the Bank of the United States as a lynchpin of potential economic growth.

In 1790, the United States only had three small domestic banks. Many European investment houses, however, already had a large presence in the United States. Vast credit and trading networks traversed the Atlantic, with capital moving west and American securities—at first state and Continental, and then US 6s, deferred 6s, and 3s—and commodities heading east. Banking houses in England, the Netherlands, France and other European powers employed scores of Americans business agents. Andrew Craigie, a trained Boston druggist who served as Chief Apothecary for the Continental Army during the Revolutionary War,<sup>70</sup> was a principal agent for many European investment houses. As an importer of tea and drugs after the war, Craigie quickly found the importation of capital and export of American securities more profitable.<sup>71</sup> Craigie often

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<sup>68</sup> “The Bank of the United States May Justly Be Considered as a Proposition Made to the Monied Interest, Foreign and Domestic...,” *Gazette of the United States*, May 7, 1791, 3 edition.

<sup>69</sup> Robert E. Wright, *Hamilton Unbound: Finance and the Creation of the American Republic*, Contributions in Economics and Economic History no. 228 (Westport, CT: Greenwood Press, 2002), 102–107.

<sup>70</sup> David L. Cowen, "Craigie, Andrew", <http://www.anb.org/articles/12/12-00176.html>, *American National Biography Online* Feb. 2000. Access Date: Sat Nov 03 2012 10:18:31 GMT-0400 (EDT).

<sup>71</sup> Davis, *Essays in the Earlier History of American Corporations*, 180.

worked with London-based American Daniel Parker to facilitate huge purchases for European firms. In September of 1788, Craigie sent Parker \$400,000 in US Securities, \$300,000 of which were for the French house Tourton & Ravel. Such deals were commonplace. Craigie consistently brokered purchases for Amsterdam giant Van Staphorsts as well as various British houses.<sup>72</sup>

Craigie and Parker were far from the only Americans facilitating European investment in America. New York firm Leroy & Bayard had close ties with many European companies, especially Dutch banking house Willinks and Parisian capitalist Stadniski. Through these and other contacts, Leroy & Bayard imported millions of dollars in investment capital each year.<sup>73</sup> French banker Claviere and his agent Brissot, as well as London's Champion & Dickerson consistently invested in a wide variety of American assets. Between January 1, 1789 and August 1, 1792, Watson & Greenleaf of New York facilitated over \$1.3 million in loans secured by US securities from the Dutch firm Daniel Crommelin and Sons.<sup>74</sup> The United States was a "capital-poor" nation and American financiers effectively leveraged their commercial ties to forge new lines of European investment. America's trade with the old world had always been much more multidimensional than was common with other European colonies. With independence won, however, the relationship became even more symbiotic—Europeans received enticing speculation opportunities in return for the capital Americans so desperately needed.

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<sup>72</sup> Ibid., 185.

<sup>73</sup> Ibid.

<sup>74</sup> Allen Culling Clark, *Greenleaf and Law in the Federal City* (Press of W.F. Roberts, 1901), 81.

As foreign companies gobbled up US securities as investments and loan collateral, the United States developed thriving securities markets by the summer of 1791. Northern merchants raced to snatch up state and continental securities by prior to the adoption of Hamilton's Assumption Plan. Once converted into US 6s, deferred 6s, and 3s, these state securities became items of rampant speculation by European and American financiers alike. While cash was coming into the country by way of foreign investment, the nation's thirst for liquidity was hardly quenched. Thus Hamilton designed US securities to serve as a liquid asset, which required an open market to properly circulate. Public auctions and open exchanges dramatically broadened the market for securities. Once these exchanges were established, untapped cash reserves entered the economy as anyone with money could now purchase financial asset on his own behalf.<sup>75</sup>

Formal public securities auctions in New York began in July 1791. Many brokers had been holding daily auctions in their offices since the autumn of 1790—brokerage firm *M'Evers & Barclay* was selling \$180,000 in US Securities a month. The extensive closed-door activity led to an outcry for a central securities market in the spring of 1791.<sup>76</sup> At last, Leonard Bleecker and John Pintard, two of the city's most active securities dealers, began holding thrice-weekly auctions in the Long Room of the

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<sup>75</sup> Davis and Mann provide good discussions of the accumulation of state securities by northern merchants as do Edwin J. Perkins, *American Public Finance and Financial Services, 1700-1815*, Historical Perspectives on Business Enterprise Series (Columbus: Ohio State University Press, 1994); Thomas M. Doerflinger, *A Vigorous Spirit of Enterprise: Merchants and Economic Development in Revolutionary Philadelphia* (Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Va. by the University of North Carolina Press, 1986).

<sup>76</sup> Robert Sobel, *Panic on Wall Street: a Classic History of America's Financial Disasters with a New Exploration of the Crash of 1987* (New York: Truman Talley Books/Dutton, 1988), 17.

Merchant's Coffeehouse in Lower Manhattan.<sup>77</sup> Extensive demand quickly resulted in auctions being held twice daily. In addition to US 6s, deferred 6s, and 3s, many other types of securities were sold in this burgeoning new market. Bank of New York stock, a myriad of state notes, US Loan Office certificates, as well as British 3 percent "Consols" were commonly available.<sup>78</sup> John Chaloner began holding public auctions at the City Tavern in Philadelphia at about the same time, offering a similar array of products.<sup>79</sup> These markets would soon be ground zero for trading in BUS script and the speculative bubble that resulted in the Panic of 1791.

While imperfect, these securities markets were vital to American economic modernization. Not only did they allow professional brokers and merchants the ability to quickly reshape their portfolios, they also provided much greater access to the general public. Money, meaning cash or other liquid assets, largely replaced inherited status or landed wealth as the determinate of participation in the financial world. The public nature of these auctions also allowed them to be covered in the press. "Price Currents" became commonplace in city newspapers, providing easy access to financial information for the common citizen. Artisans, mechanics, shopkeepers, sea captains, and, according to Benjamin Rush, even prentice boys were now able to speculate alongside merchants and

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<sup>77</sup> Burrows and Wallace, *Gotham*, 310.

<sup>78</sup> "PRICE of STOCKS, Yesterday (19 August) Noon at Auction. [Published 20 August 1791.]," *New York Daily Advertiser*, August 20, 1791, 2029 edition; "Price of Stocks Sold at Auction Yesterday Noon.," *New York Daily Advertiser*, August 17, 1791, 2026 edition.

<sup>79</sup> "Philadelphia, August 20. [Published in *New York Daily Advertiser* on 24 August 1791].--'Sales on Saturday Evening Last, at the City Tavern, by John Chaloner.'," *New York Daily Advertiser*, August 20, 1791, 2032 edition.

brokers.<sup>80</sup> Most importantly, these quotable prices laid the foundation for a national market for securities. While auctions in different cities were not usually coordinated, price information was easily transferable. This market transparency, along with better transportation infrastructure, made financial markets increasingly efficient.

Inter-market arbitrage was an important source of this growing efficiency. The simultaneous purchase and sale of an asset in different locations in order to profit from price differences, arbitrage reallocates capital and ensures that prices do not deviate from fair value for extended periods of time.<sup>81</sup> Profits are made when a trader purchases an asset at a low price and sells an identical asset at a higher price. If done correctly, asset holdings remained constant in the medium- and long-term while short-term sales and purchases take advantage of market inefficiencies.

While early American credit and securities markets in the major cities were separate, inter-market arbitrage helped integrate them. If cash was scarce in one city, interest rates would spike and force a decline in the price of debt instruments (securities). Arbitrageurs in other cities would see the price declines, often by way of express messengers that connected major east coast cities, and sense an opportunity for profit. Their money would pour into the cash-strapped city, purchasing the depreciated debt instruments for resale at a higher price in their home markets. The effects were three-fold. “First, the increased demand for securities in [the cash-strapped city] tended to raise their price,” wrote Robert E. Wright. “Second, the increased supply of securities [in the later

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<sup>80</sup> Rufus King to Alexander Hamilton, “From Rufus King to AH, 15 August 1791,” August 15, 1791, [http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-15-2.](http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-15-2.;); Benjamin Rush to Julia Rush, “To Mrs. Rush,” August 12, 1791.

<sup>81</sup> “Arbitrage,” Investopedia, accessed 18 November 2012, <http://www.investopedia.com/terms/a/arbitrage.asp#axzz2B0MSxYbR>.

cities] tended to decrease securities prices in those places. Finally, money flowed [into the cash-strapped city]...lower[ing] commercial interest rates...by increasing the money supply there.”<sup>82</sup> Arbitrage helped keep interest rates down and securities prices stable, while providing profit opportunities for merchants and brokers fast enough to take advantage of the price disparities.

Arbitrage networks were well established in America by the summer of 1791. “Although the capital was in Philadelphia, which was the nation’s largest city and considered to be its leading financial center, New York even then appeared to have the most active securities market,” wrote American financial scholar Richard Sylla. “New York market participants, some of whom likely were acting as agents of European investors, had their own agents in Philadelphia and Boston who bought and sold securities for them whenever those markets appeared to offer an advantage over New York prices.”<sup>83</sup> Most major American financial firms employed agents to procure securities for arbitrage. New York brokerage firm LeRoy & Bayard, who served many large European houses, issued standing orders for its disparate agents like Stephen Higginson of Boston to purchase securities if they dipped below prices in New York. “Judging by these findings,” wrote Sylla, “the U.S. securities markets were capable of allocating capital with a high degree of efficiency as early as the 1790s, when they first emerged to provide organized trading in federally sponsored securities issues.”<sup>84</sup>

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<sup>82</sup> Wright, *Hamilton Unbound*, 103–104.

<sup>83</sup> Richard Sylla, “U.S. Securities Markets and the Banking System, 1790-1840,” *Federal Reserve Bank of St. Louis Review* 80, no. 3 (June 1998): 88.

<sup>84</sup> *Ibid.*

Most major American brokers participated in arbitrage to some degree. By 1791, however, two of the most successful were New York merchant Nicholas Low and his Philadelphia-based partner Mordecai Lewis. A patriot during the Revolution, Low established himself as a successful import/export merchant in post-war New York. Regarded for his foresight, Low made a considerable fortune speculating in US securities after the assumption of state debt. Low funneled those profits into shares in the Bank of the United States, on whose New York branch board he would serve until 1799.<sup>85</sup> Lewis, who resided at 112 South Front Street, became a partner of the mercantile firm Neave, Harman & Lewis at a young age. By his early thirties, Lewis had formed his own firm, Mordecai Lewis & Co., in which he did extensive business with Philadelphia dynamo William Bingham and other prominent merchants. A fixture in Philadelphia society, Lewis was a director of the Bank of North America and the City Library, as well as a manager of Benjamin Franklin's Pennsylvania Hospital.<sup>86</sup> Lewis focused much more on commerce than finance, but he and Low executed an effective arbitrage partnership during the Panic of 1791.

Throughout the Panic of 1791, Lewis and Low shuttled script and US securities between Philadelphia and New York, buying them in the cities where they were less expensive and sending them to the city with higher prices. Many of Low and Lewis's merchant peers were involved in this activity as well. Andrew Craigie, always at the heart of a new financial opportunity, wrote to fellow broker George Fox, "I think I could so

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<sup>85</sup> Sue C. Patrick. "Low, Nicholas," <http://www.anb.org/articles/10/10-02149.html>, *American National Biography Online* Feb. 2000.

<sup>86</sup> John Thomas Scharf and Thompson Westcott, *History of Philadelphia, 1609-1884* (L. H. Everts & Company, 1884), 2276–2277.

manage it that you might purchase most that should come to your Market provided the present difference of price continues and we could fix on a mode of Exchange—could not you buy and remit securities to me and draw for the amount—if we do any Thing it must be by Exertions on both sides.”<sup>87</sup> Many brokers employed dedicated messengers, express riders, and even pilots to transmit assets to business partners in other cities as quickly as possible.<sup>88</sup>

When asset prices were equivalent in American financial hubs, brokers and traders turned to trading strategies that would be quite familiar to modern financiers. Long the bane of large institutions with plummeting share prices, short selling allows an investor to bet on a market downturn. In essence, the investor borrows a security and sells it at what he believes is a high price. He then repurchases an identical asset on the open market after the price has declined, returns it to the owner, and pockets the difference. There are two critical elements to a successful short sale. First, the investor must find someone willing to loan him the assets to be “shorted.” This transaction always includes a fee and a contract stipulating a date on which the asset(s) must be returned. Secondly, the price of that asset must go down, or at worst stay the same, after the sale. If the price goes up, the borrower is obligated to repurchase the asset at the higher price and pay the difference out of his pocket. Sometimes, short sellers simply foresee a market downturn and profit from their prescience. All too often, however, short sellers actively try to drive

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<sup>87</sup> Andrew Craigie to Edward Fox, 25 January 1789, Andrew Craigie Papers, American Antiquarian Society, Box 11, Folder 5.

<sup>88</sup> Davis, *Essays in the Earlier History of American Corporations*, 200.

down asset values, spreading rumors, gossip, and false information to drive prices lower. The financiers of the early republic were no different.

Short selling, or its close relations, was widely practiced in early American financial markets. While the concept of short selling was new in America, moneymen throughout the former colonies were eager to learn and practice this new technique. Chief among them was the “financier of the Revolution” Robert Morris. A savvy trader and merchant, Morris was one of the richest men in America. Despite having reservations about the prospect of winning independence through war, Morris embraced the patriotic cause and signed the Declaration of Independence as a delegate from Pennsylvania. Morris became an ardent and important patriot as the war progressed, pledging his personal credit to secure supplies and pay soldiers on several occasions. Morris declined George Washington’s offer to be Treasury Secretary in 1789 and recommended Hamilton for the job. Following the revolution, Morris formed the powerhouse mercantile firm *Willing, Morris and Swanwick*, becoming a principal broker for many European and domestic firms. Morris reentered public life in 1788 as a Senator from Pennsylvania, but continued to look after his private financial affairs while in office.<sup>89</sup>

By the late-1780s, Morris and other prominent merchants began receiving instruction on the tenets of short selling from their British counterparts. Initially, would-be short sellers were unable to find investors willing to lend out their securities, though securities holders eventually became more comfortable with the concept by the early

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<sup>89</sup> The definitive work on Robert Morris is Clarence Lester Ver Steeg, *Robert Morris, Revolutionary Financier* (New York: Octagon Books, 1972); Charles Rappleye, *Robert Morris: Financier of the American Revolution*, 1st Simon & Schuster hardcover [ed.] (New York: Simon & Schuster, 2010).

1790s.<sup>90</sup> The footprints of rudimentary short selling are all over the account books of America's moneyed men. In a time where capital was scarce and interest rates high, many brokers realized that the borrowing and selling of stock could provide much needed capital for their speculative endeavors. That they could profit by driving the price down before they had to repurchase the borrowed assets was an added bonus.<sup>91</sup>

At the same time, brokers understood that torpedoing an asset could be a valuable tool regardless of whether he intended to take a short or a long position. If an investor already owned securities and wanted to profit from their decline, he would sell it, spread rumors that would diminish its price, and buy it back after it had dropped. If he believed it was a good long-term investment, he could simply torpedo the price with rumors and snap the asset up at bargain prices. Such practices were common and Hamilton was well aware of these tactics as he formulated his policy response to the Panic of 1791.

Options, futures, and other financial contracts were fundamental parts of the early American financial system. These financial instruments, called derivatives in modern parlance, allowed a broker to trade in assets that he did not actually own. These contracts often provided a level of price certainty in the face of a fluctuating market. An "option" is a contract that ensures a holder the right to purchase or sell a specific asset from the issuer at an agreed upon price during a certain period of time. This contract does not need to be exercised and if it is not, the buyer absorbs the small fee that he paid for the option upon its creation. A "future" is a contract that sets the price at which a buyer will pay for

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<sup>90</sup> Davis, *Essays in the Earlier History of American Corporations*, 196.

<sup>91</sup> Sobel, *Panic on Wall Street*, 17.

or receive for an asset at some future date.<sup>92</sup> Not only does this allow the purchaser to speculate on an asset's future value—if the asset is worth more on the delivery date than he paid for at the time of the future's origination, he profits—it provided price certainty for both buyer and seller. While these terms—“option,” “future,” etc.—are modern, these types of contracts were ubiquitous during the summer and fall of 1791.

“Wager Stock” was a prominent mode of financial speculation that included elements of both short selling and contract derivatives. A complex transaction between two parties, wager stock contracts were common in England and new in America in 1791. “Type 1” wager contracts were basically akin to a standard futures contract. A security was purchased for delivery at future date, usually at a slightly higher price than the present market value. The seller received a set price—thus minimizing his downside risk—and the purchaser could speculate on that asset. “If the stock rose in the period,” wrote Robert Sobel, “then the purchaser could immediately sell it and pocket the difference between the contract price and the final quotation; if not, he would lose the difference.”<sup>93</sup>

“Type 2” wager contracts were less intuitive and became common by the summer of 1791. As opposed to the standard contract made with the intent to actually deliver a security at a future date, these “executory contracts [were made] with an intent not to deliver it, but to pay in cash the amount lost or won by the rise or fall of the market price

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<sup>92</sup> Robert E. Wright and Vincenzo Quadrini, *Money and Banking* (Flat World Knowledge, 2009), unnumbered manuscript.

<sup>93</sup> Sobel, *Panic on Wall Street*, 17.

of the stock.”<sup>94</sup> In other words, a buyer and a seller would select an asset, most often US securities or bank stock, and contractually agree to a purchase price and future date where the purchase price would be compared to the current market price. If the asset price went up the seller would pay the purchaser the difference. The inverse would be the case if the asset price fell. It was this second form of wager stock that was seen by many market observers as little more than gambling. Like modern credit default swaps (CDSs), this method allowed two brokers to speculate on an asset neither actually owned.

After the Panic of 1791 had subsided, investors sought clarification as to the legal status of their contracts. The legal enforceability of these financial contracts separated them from back-alley gambling. The case of *Livingston v. Swanwick* (1793) shed light on these speculative types of wager contracts. John R. and Brockholst Livingston—the later an avid speculator and future Supreme Court Justice—sued John Swanwick of *Willing, Morris and Swanwick* for failing to deliver one hundred shares of BUS stock, purchased on July 15, 1791 at the rate of 21 shillings and 6 pence (21/6) for delivery on January 5, 1792. On the surface, this looks like a standard, “type 1” wager contract gone bad. However, the wording of the decision indicates that this was a “type 2” wager deal where no actual certificates were expected to change hands. “THIS was an action on the case,” the decision stated, “to recover *the difference* upon a stock contract, which Samuel Anderson, as the broker and agent for the defendant, who resided in Philadelphia, had

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<sup>94</sup> William Wilson Cook, *A Treatise on Stock and Stockholders, Bonds, Mortgages and General Corporation Law* (Callaghan and Company, 1894), 467.

entered into with the plaintiffs, who resided in New York...[emphasis added].”<sup>95</sup> The judge decided in favor of the Livingstons, awarding them 19,400 dollars.

*Livingston v. Swanwick* demonstrates the depth to which contracts were involved in the Panic of 1791. Men did not simply speculate on BUS script by purchasing the actual receipts in public auctions. Much like today, to calculate speculative volume and velocity by estimating the number of official transactions is to judge the iceberg by viewing it above water. Both physical delivery and purely speculative “type 2” contracts were written in droves, despite the fact that very few buyers or sellers actually had the script in hand. This web of contracts made the number of transaction surrounding BUS script almost limitless. Despite the official issuance of only 20,000 shares, the number of virtual shares being traded, including contracts and credits, could realistically have been ten times the number actually on the market.

Compounding the complexity, a large part of BUS script and US securities transactions were executed on credit. The lifeblood of any modern economy, credit greased the gears of agriculture, commerce, trade, and finance alike in the early 1790s. Personal honor loans, or what historian Bruce H. Mann has characterized as “social lending,” were the most elemental form of credit in the early Republic. Often made to friends or family, terms were not discussed and were secured by honor rather than contract. “Such loans were relationships, not transactions,” wrote Mann, “and as such

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<sup>95</sup> “LIVINGSTON V. SWANWICK - 2 U.S. 300 (1793),” *Justia US Supreme Court Center*, April 1793, <http://supreme.justia.com/cases/federal/us/2/300/case.html>.

were governed by rules of etiquette, not law.”<sup>96</sup> Social lending was the holdover of a feudal age that valued character over the legalism that came to dominate American business.

Legally enforceable forms of credit were far more common in American financial circles. “Book debts” dominated the everyday commercial transactions and represented the running accounts between creditors and debtors. Book debts did, however, retain an air of ambiguity. “A book was evidence of the debts it listed, but nowhere did it contain an express promise by the debtor to pay for the goods or services received,” wrote Mann. “Rather, it recorded debts for which the law implied a promise to pay.”<sup>97</sup> As a result, book credit carried no interest. Creditors would instead be compensated for their risk by charging a premium for the asset or commodity being sold on credit. For example, the market value for BUS script purchased in New York for cash on Wednesday, August 17 was \$155. That exact same script bought on two- or ten-day credit would cost \$161 and \$164 respectively. Long-term credit was sometimes available but pricey: a script payable on December 1 would cost the purchaser \$200.<sup>98</sup> The problem with this method of credit was that speculators who purchased on book credit—and many of them did—ended up owing their creditors much greater principal sums. In other words, a BUS script purchased on credit for \$200 payable on December 1 would have to rise in value 22.5% in just two-and-a-half months for the purchaser to break even. This is, when considered

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<sup>96</sup> Bruce H. Mann, *Republic of Debtors: Bankruptcy in the Age of American Independence* (Cambridge, MA: Harvard University Press, 2002), 8–9.

<sup>97</sup> *Ibid.*, 10.

<sup>98</sup> “Price of Stocks Sold at Auction Yesterday Noon.”

another way, a considerable rate of interest. Therefore, many investors turned to credit instruments to finance their speculations.

Bonds served as a guarantee for the repayment of personal or commercial loans. These certified documents served more as a conditional collateral guarantee that came into effect only if the debtor did not fulfill his obligation. “Failure to perform the condition”—i.e., repay the loan and stated interest—“made the obligor liable for the full amount of the bond, which was typically twice the sum lent...,” wrote Mann.<sup>99</sup>

Promissory notes were credit instruments used in direct transactions. Similar to a modern IOU, promissory notes were little more than a promise that the debtor would repay the creditor over a specified period of time.<sup>100</sup> Bills of exchange were another means for investors to secure investment capital. Similar to modern checks, bills of exchange “served as vehicles for borrowing money, making third-party payments of debts, and moving money from one place to another without having to do so physically.”<sup>101</sup> Used more by merchants involved in trade rather than rapid-fire financial speculation, many of the high-volume speculators voraciously consumed all the credit they could find.

One such speculator was William Duer of New York. Nicknamed “king of the ally” by Thomas Jefferson, Duer was perhaps the most notorious speculator of his day. At one time or another, Duer conducted business with Robert Morris, Andrew Craigie, Walter and John R. Livingston, Philip Schuyler, William Constable, Daniel Parker, and

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<sup>99</sup> Mann, *Republic of Debtors*, 11.

<sup>100</sup> *Ibid.*

<sup>101</sup> *Ibid.*

Nicholas Low, just to name a few.<sup>102</sup> Shrewd and well connected, Duer frequently moved between private industry and public service. Unlike his close friend Alexander Hamilton, however, Duer had no qualms about using a public position for private gain. After serving a short period in the Continental Congress in the late 1770s, Duer was awarded several lucrative supply contracts for the Continental Army. He proved to be anything but reliable. Duer constantly manipulated prices, withheld supplies, and leveraged his position to form larger mercantile conglomerates. He even engaged in business with the British army in 1780-1782, supplying flour and other foodstuffs to the British in occupied New York.<sup>103</sup>

Duer continued his mercantile career after the revolution and quickly became a pillar of the financial community. He formed Loan Office note syndicates and securities purchasing partnerships that gobbled up official debt in anticipation of Hamilton's Assumption Plan. In a serious lapse of judgment, Hamilton appointed Duer Assistant Treasury Secretary in 1789. While in office Duer defied Hamilton's prohibition of Treasury officials trading in public securities and consistently passed information to speculators such as Daniel Parker, Robert Troup, and Walter Livingston who invested on Duer's behalf.<sup>104</sup> Leaving the administration after only seven months, Duer's speculations became even more brazen. After three years of intimate involvement in more than one speculative bubble—including that of 1791—Duer landed in debtors' prison where he spent the remainder of his life.

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<sup>102</sup> Jones, *The King of the Alley*.

<sup>103</sup> Matson, "Public Vices, Private Benefit," in *New York and the Rise of American Capitalism*, 84.

<sup>104</sup> *Ibid*, 101.

Duer's well-documented record reveals the many ways speculators financed their speculative escapades. Bank discounts—short-term loans—were commonly available to prominent dealers who could post legitimate collateral.<sup>105</sup> Brokers like Duer also secured funds via bond-backed personal loans “and later, when he ran out of collateral, with funds borrowed from investors to whom he gave promissory notes at very high interest rates.” These rates were often as high as 5 percent per month.<sup>106</sup> For those with connections to the wealthy elite, investment capital could be acquired via personal honor loans. While certainly an extreme example, Duer was able to secure a staggering \$900,000 loan from Walter Livingston in 1792.<sup>107</sup> However, credit was not the exclusive purview of the upper class. Many wage workers, artisans, laborers, and shopkeepers invested their meager capital with brokers and dealers promising huge returns. Bruce Mann describes high-level brokers as the center of what he called a “financial vortex.” “Speculators such as Robert Morris and William Duer dealt in sums that far exceeded the capital resources of even the greater American merchant—sums that they accumulated in the form of loans for thousands of investors, some for large amounts, other for small ones,” Mann wrote. “Their competition for capital drove up the interest rates they had to offer to investors, which in turn attracted investments from ever-widening circles, both demographically and geographically.”<sup>108</sup> Put simply, large swaths of the American population became involved in financial industry that they neither fully trusted nor understood.

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<sup>105</sup> Doerflinger, *A Vigorous Spirit of Enterprise*, 127.

<sup>106</sup> Mann, *Republic of Debtors*, 113.

<sup>107</sup> Matson, “Public Vices, Private Benefit,” 105.

<sup>108</sup> Mann, *Republic of Debtors*, 191.

Despite the fact that a relatively small group of speculators actually purchased or traded BUS script or US securities, ever-expanding credit networks ensured that any financial crisis would have profound implications for broader American society. A small shopkeeper most likely had never heard of arbitrage, wager stock or complex debt instruments. However, by depositing his meager earnings in a bank, he became part of this new financial world. Hamilton, perhaps better than anyone else of his era, understood the economic potential this system of credit could unleash in a broad swath of American society. The extension of credit involved risk, but Hamilton believed the benefits far outweighed the liabilities. However, he had no illusions about that system's infallibility. Hamilton believed the system would often check itself, but catastrophe was not impossible. Therefore, Hamilton believed, duty and reason demanded that the American government—charged with insuring domestic tranquility, promoting the general welfare, and securing the blessings of liberty to posterity—intervene in cases of true systemic danger.

**“No Equal Object of Speculation is Perhaps Presented in Any Quarter of the Globe”**

Despite the hard-fought Congressional battle over the BUS's constitutionality, the public debate quickly shifted to the implications of implementation after the bill's passage. Much more than a bank, the BUS represented a new frontier for American economic development. The BUS's \$10 million in capital dwarfed that of all other American banks combined. Even more important, the BUS was a quasi-governmental institution, a public-private partnership, and thus represented a turning point in the citizen's relationship with the state. The BUS and the new government were inextricably

linked in both its successes and failures. Thus, many discussions of the BUS involved America's values, future, and its identity as a constituted nation.

Public debate over the BUS began soon after the bank bill was signed into law. On April 30, 1791 the *Gazette of the United States* published an editorial that underscored the perceived linkage between BUS operations and general American values. The unnamed writer addressed a clause in the BUS's charter that prevented foreign holders of BUS stock from voting for or holding a seat on the Board of Directors. "To foreigners it is the denial of a positive right of managing their own monied transactions as they please; but to the natives it is much worse—it is the narrowing of the rights of election in the Bank."<sup>109</sup> The author wished the institution well and had no doubts about the benefits the BUS would bring to the American economy. He believed the BUS's bylaws did not live up to the values that made America a "dear asylum for the wretched and unfortunate of every nation." "But that foreigners should approve the proposal of receiving their money into the Bank," the author writes, "without allowing them any share in the election of prudent Directors to conduct it—this will appear indeed still strange to some folks, who have observed how natural it is for all men to wish to have at least some thing to say in the management of what is their own."<sup>110</sup> The BUS's connection with the government and the American nation as a whole resulted in its being held to a higher philosophical standard than other private institutions.

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<sup>109</sup> "For the Gazette of the United States. [A Letter Concerning Foreign Directorship in the Bank.]," *Gazette of the United States*, April 30, 1791, 1 edition.

<sup>110</sup> *Ibid.*

The BUS also became a lightning rod for economic and political criticism. “Extracts from a Pamphlet just published, against the BANK of the UNITED STATES,” published in the *Gazette of the United States*, yielded a withering anti-Federalist critique of Hamilton’s financial system.<sup>111</sup> The piece argued that the BUS was a political Trojan House, stating, “I should not wonder if the bank should be employed to annihilate the state governments.” Of more importance to the approaching issuance, however, the article questioned the BUS’s long-term profitability. Hamilton built his financial system on the cornerstone of stability, interweaving the Assumption and National Bank plans to assure consistency of interest payments and the restoration of public credit. “Extracts,” and other pre-issuance articles directly questioned this image of stability. Correctly recognizing that 60% of the BUS capital stock would initially be composed of US Securities, the author contended that any inconsistency in governmental interest payments would deal a devastating blow to investor profits. “If the interest on the public debt should be reduced, or should not be punctually paid (both of which are very possible) the bank would shake to its center.”<sup>112</sup> Hamilton undoubtedly seethed when he read the assertions in “Extracts.” Every possible step was taken to ensure the stability of regular interest payments. However, this type of bearish assertion was exactly the kind of talk that could damage the vital public confidence Hamilton had worked so hard to win. True or not, “Extracts” was representative of the deep suspicion that gripped a significant portion of the American populace.

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<sup>111</sup> “Extracts from a Pamphlet Just Published, Against the Bank of the United States.,” *Gazette of the United States*, June 8, 1791, 12 edition.

<sup>112</sup> *Ibid.*

Despite some public concerns about the BUS, investors widely believed the BUS would produce enormous profits. The *Gazette of the United States* reported on May 7 that foreign and domestic moneyed interests were gearing up for the BUS's July 4 debut. In an effort to distribute BUS ownership more evenly across the country, Hamilton arranged for the three banks outside of Philadelphia—the Bank of New York, the Massachusetts Bank, and the Bank of Maryland—to facilitate a limited number of subscriptions. The list of these subscribers reveals a wide array of individual speculators, brokerages, and institutions. Charles Carroll was the largest subscriber through the Bank of Maryland, depositing \$1875 for a total of 75 shares. The Massachusetts Bank saw heavier volume with 90 individuals subscribing to its allotted 2,400 shares. Prominent figures such as Samuel Pomeroy (100 shares), Fisher Ames (8 shares), Moses Brown (30 shares), and Christopher Gore (30 shares) subscribed in advance, along with Harvard College (20 shares) and the Massachusetts Bank itself (250 shares).<sup>113</sup> The *New-Hampshire Gazette* reported a rapid early subscription with the “two thousands four hundred shares in Boston,” amounting to \$60,000, being “filled in four days.”<sup>114</sup>

The majority of remote subscriptions, in terms of number of shares, took place in New York. Politicians like Rufus King (48 shares) and Henry Knox (67 shares) subscribed alongside merchant-speculators such as John Delafield (280 shares), Isaac Whippo (50 shares), Nicholas Low (200 shares), Theodosius Fowler (200 shares), George

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<sup>113</sup> List of Certificates issued by the Register of the Treasury...for monies therein deposited towards subscriptions to the Bank of the United States, Oliver Wolcott Jr. Papers, Connecticut Historical Society, Box 11; Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 43.

<sup>114</sup> “Philadelphia, June 30. [Published in the *New-Hampshire Gazette* on 14 July 1791].,” *New-Hampshire Gazette*, June 30, 1791, 1786 edition.

Scriba (480 shares), William Constable (200 shares), and Andrew Craigie (550 shares). Philip, John R., Brockholst and William Livingston also subscribed heavily in New York (125, 130, 105, and 100 shares respectively). Brokerage firms were not left out either. James Watson & E. Parker & Co. (550 shares), George Know & J.W. Watkins (150 shares) and many others subscribed to a large number of shares.<sup>115</sup>

The law limiting the number of individual subscriptions led brokers to establish subscription pools. These pools allowed small investors to purchase a small number of shares and offered large dealers the opportunity to expand their holdings. Operating more like group purchaser-agent agreements than investment funds, clients authorized the agent to purchase scripts on their behalf via early subscriptions and the official issuance in Philadelphia. Some, like that operated by William Smith, managed relatively small sums on behalf of southern merchants and traders.<sup>116</sup> William Constable's subscription pool, on the other hand, was one of the most extensive in the nation. It included over one hundred clients ranging from relatively small purchasers like John Rudd to large-scale merchants like Alexander Macomb. Evidence suggests that speculators like Macomb, Robert Morris, William Duer, and many others signed purchaser-agent agreements with many different brokers in an attempt to avoid subscription limitation rules. In some cases, these purchaser-agent agreements were being signed in New York as late as the night of July 2, a mere 36 hours before the subscription was to begin.<sup>117</sup>

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<sup>115</sup> Ibid.

<sup>116</sup> "Philadelphia, June 30. [Published in the New-Hampshire Gazette on 14 July 1791]."

<sup>117</sup> Notes from William Constable Papers (NYPL), James O. Wettereau Research Papers, Rare Book and Manuscript Library, Columbia University, Box 8, Folders 118-119.

By the beginning of July, all signs were signaling a fast and furious script offering. Newspapers across the country predicted a rapid sellout,<sup>118</sup> and the prices for US Securities were rising rapidly. US 6s, which were required payment for three-fourths of the BUS shares' \$400 total value, rose over 4 percent in the month of June alone.<sup>119</sup> Money flooded into Philadelphia and New York from Europeans eager to subscribe.<sup>120</sup> "Stocks are rather wild and unsettled-Many being of opinion there are large orders from Europe," Mordecai Lewis wrote to Nicholas Low in mid-June.<sup>121</sup> America was set for its leap into the financial future.

Hamilton's financial system seemed to be working as he had predicted. Faith in US debt had been restored, foreign capital was rushing into the country, and the national bank he had envisioned was already being proclaimed a raging success. Even Hamilton himself was predicting a vibrant offering. "In all appearance the subscriptions to the Bank of the United States will proceed with astonishing rapidity," Hamilton wrote to Benjamin Goodhue on June 30. "Twill not be surprising if a week completes them."<sup>122</sup> Hamilton was more right than he knew. The furious script issuance on July 4 did "proceed with

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<sup>118</sup> "PHILADELPHIA, June 24.," *New-York Daily Gazette*, June 24, 1791, 781 edition; "PHILADELPHIA, June 25 [Published in Rhode Island on 7 July 1791].--'The Citizens of Charleston (S.C.) Are Zealously and Successfully Pursuing Their Plan of Subscribing to the Bank of the United States...'," *United States Chronicle*, June 25, 1791, 392 edition.

<sup>119</sup> "PRICE CURRENT.--PUBLIC SECURITIES.," *Gazette of the United States*, June 1, 1791, 10 edition; "PRICE CURRENT.--PUBLIC SECURITIES.," *Gazette of the United States*, June 29, 1791, 18 edition.

<sup>120</sup> Davis, *Essays in the Earlier History of American Corporations*, 193.

<sup>121</sup> Mordecai Lewis to Nicholas Low, "Stocks Are Rather Wild and unsettled-Many Being of Opinion There Are Large Orders from Europe.," June 21, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>122</sup> Alexander Hamilton to Benjamin Goodhue, "From AH to Benjamin Goodhue.--'In All Appearance the Subscriptions to the Bank of the United States Will Proceed with Astonishing Rapidity. Twill Not Be Surprising If a Week Completes Them.'", June 30, 1791, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011. <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-06-30-2>.

astonishing rapidity” and soon erupted into the first speculative mania in American history. Yet soon the country's newly formed financial system would face a grave crisis that threatened to undermine not only US economic prosperity, but its new government as well.

**Chapter II:**  
**“And sure as death all mortals trips,  
Thousands will rue their faith in SCRIPS.”**

On July 4, 1791, Philadelphia celebrated the 15<sup>th</sup> anniversary of American independence with verve and gusto. “The day was ushered in with the ringing of bells, and a discharge of cannon,” wrote the *Gazette of the United States*. “At 10 o’clock the Society of the Cincinnati, and the Independent and Light-Infantry Companies walked in procession” through the streets of Philadelphia.<sup>1</sup> Songs were sung, toasts were given, and the citizens of Philadelphia expressed a deep and genuine patriotism. “The different places of entertainment in the town and country were crowded with company” and “all ranks of people in the city and vicinity of Philadelphia...celebrated with the usual joy and festivity.”<sup>2</sup> The entire city “exhibited one continued concert of national harmony and exultation.”<sup>3</sup>

The Bank of the United States (BUS) script issuance could not have come at a better time. As Hamilton intended, subscription to the BUS was widely seen as a way for citizens to demonstrate their patriotism. As the historian David Waldstreicher has noted, “The citizens [who] lined up to buy bonds [script]” were compared “to the patriotic

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<sup>1</sup> “PHILADELPHIA, JULY 6.,” *Gazette of the United States*, July 6, 1791, 20 edition.

<sup>2</sup> Ibid.; “Philadelphia, July 6,” *Dunlap’s American Daily Advertiser*, July 6, 1791, 3882 edition, 6.

<sup>3</sup> “PHILADELPHIA, JULY 6.”

celebrants of Independence Day in various states.”<sup>4</sup> “Every friend to the Federal Government, every well-wisher to the prosperity of the Union,” wrote *Dunlap’s American Daily Advertiser*, “must feel the highest satisfaction, when he beholds the Citizens...vying with each other” to demonstrate “the most unequivocal proofs of their confidence in the public faith.” The proof to which the *American Daily Advertiser* referred was subscription to the BUS.<sup>5</sup>

While the patriotic motivation was important, it is important not to overemphasize its influence. Most investors clearly understood the financial benefits of the BUS being a depository of government funds and creditor of the new regime. The government’s 20% stake in the institution provided bullish investors a strong sense of security. It is undeniable that most initial subscribers were shrewd businessmen who saw a fantastic opportunity for profit. Yet regardless of motive, one fact was undeniable: the new government and the Bank of the United States were inseparably linked in the public mind. The zeal of BUS subscription, wrote *Cumberland Gazette* of Portland, Maine, was directly associated with “THE FAITH REPOSED IN THE NATIONAL GOVERNMENT [emphasis in original].”<sup>6</sup>

It was not just ardent government supporters that directly linked the BUS and the new Federal regime. A withering critique of the BUS entitled “Extracts from a Pamphlet just published, against the BANK of the UNITED STATES,” published in the *Gazette of*

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<sup>4</sup> David Waldstreicher, *In the Midst of Perpetual Fetes: The Making of American Nationalism, 1776-1820* (Chapel Hill: Published for the Omohundro Institute of Early American History and Culture, Williamsburg, Virginia, by the University of North Carolina Press, 1997), 117.

<sup>5</sup> “Philadelphia, July 6.”

<sup>6</sup> “THE NATIONAL BANK. [Published 18 July 1791.],” *Cumberland Gazette*, July 6, 1791.

*the United States* on June 8, claimed that “the bank would be employed [by the federal government] to annihilate the state governments.” This was a common anti-Federalist critique of Hamilton’s financial system. More importantly, however, “Extracts” attacked the fiscal soundness of the BUS by tying it to the central government’s less-than-sterling financial history. The article correctly recognized that 60% of the BUS’s initial capital would be composed of US securities. Therefore, if the government failed to make timely interest payments, as the history of emerging economies suggested was likely to happen, the BUS itself would be unable to meet its obligations.<sup>7</sup> In other words, even if the BUS was well managed, the two entities were so intertwined that the government’s failure to meet its obligations would severely hamper the BUS’s ability to do business.

The relationship between the BUS and the new regime was undeniable. Bulls saw the relationship as a boon and bears took it as a justification for their pessimistic views, but no one disputed the fact that the two entities were economically and politically connected. “Unlike many other speculations, dependent on the most fortuitous contingencies, [the BUS] cannot fail...so long as the peace, patriotism and prosperity of the United States continue—for with these, the encreasing [sic] revenue of the Union is inseparable connected,” wrote the *New York Daily Advertiser*.<sup>8</sup> While the counterparty relationship between the government and the BUS could, and did, ebb and flow over time, they were inextricably linked in the public mind.

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<sup>7</sup> “Extracts from a Pamphlet Just Published, Against the Bank of the United States.”

<sup>8</sup> “Philadelphia, July 4. [Published July 6 in *New York Daily Advertiser*.],” *New York Daily Advertiser*, July 4, 1791, 1990 edition.

Excitement built as the July 4 issuance date approached. In spite of some bearish prognostications, BUS script was widely viewed as a “can’t miss” investment. “No object of equal magnitude, founded on so firm a basis, has ever presented itself to monied capitalists as the Bank of the United States,” wrote the *New-York Packet*.<sup>9</sup> Returns of 10 percent or higher were suggested in several newspapers.<sup>10</sup> The BUS “will in its operations reduce the interest of money,” the *Packet* wrote, “facilitate business in every line...and enable the government to reduce the public debt, and diminish the public burthens, must, and will meet the approbation of every friend to his country.”<sup>11</sup> Hamilton had largely succeeded in convincing the nation that the BUS was the solution to the nation’s economic ills. Thus the stage was set for a financial scramble unlike anything the nation had yet seen.

**“Subscriptions were made with great rapidity...”**

As Philadelphians awoke to their fifteenth Independence Day, brokers, dealers, and other investors were already lining up in front of the Bank of North America, which was hosting the issuance.<sup>12</sup> Many of those waiting were from out of town, arriving mere hours before the offering. The crowd grew on the corner of Chestnut and Front Streets until the commissioners appointed to facilitate the subscription—prominent Philadelphians Thomas Willing, David Rittenhouse, Lambert Cadwalader, John Beale

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<sup>9</sup> “PHILADELPHIA, July 4th.,” *New-York Packet*, July 7, 1791, 1198 edition.

<sup>10</sup> “NATIONAL BANK.,” *Columbian Centinel*, July 2, 1791, 32 edition.

<sup>11</sup> “PHILADELPHIA, July 4th.”

<sup>12</sup> “PHILADELPHIA, 5th July 1791.,” *Federal Gazette*, July 5, 1791.

Bordley, and Samuel Howell<sup>13</sup>—opened the BUS’s books.<sup>14</sup> A mad rush ensued as investors gobbled up every share the bewildered commissioners allowed them to purchase. In the chaotic atmosphere, the commissioners granted 24,000 shares to the assembled investors, 4,000 more than were technically available. “The number of persons ready to subscribe was so great, and the amount of their intended subscriptions so far exceeded the limits prescribed in the constitution of the Bank,” reported the *Gazette of the United States*, “that the Commissioners though proper to adjourn, in order to form some rule by which to regulate the business [of subscription].”<sup>15</sup> In less than three hours—some reports indicate as little as fifteen minutes—the offering was oversubscribed by 20 percent and the issuance suspended.<sup>16</sup>

The limited subscriptions that took place outside of Philadelphia proceeded at a similarly frantic pace. The *Columbian Centinel* reported that “citizens in *Charleston*, (S.C.) are zealously and successfully pursuing their plan of subscribing,” and “subscriptions in *New-York*, *Boston*, and other parts of the Eastern States are made with great rapidity.” In addition to voracious demand from Americans, large foreign orders were rumored to be at the heart of the oversubscription.<sup>17</sup>

Despite Hamilton’s desire that BUS script be distributed across the new nation, the BUS subscription was largely an urban phenomenon. Letters to John Fitzgerald and

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<sup>13</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 41.

<sup>14</sup> Clement Biddle, *The Philadelphia Directory*, vol. 1791 (Philadelphia: The City of Philadelphia, 1791), <http://archive.org/details/philadelphiadire1791phil>.

<sup>15</sup> “PHILADELPHIA, JULY 6.”

<sup>16</sup> Wettereau, “New Light on the First Bank of the United States,” 273; “New-York, July 6. [Published in Dunlap’s *American Daily Advertiser* on 8 July 1791.]” *Dunlap’s American Daily Advertiser* (Philadelphia, July 6, 1791), 3884 edition.

<sup>17</sup> “[Subscriptions in New-York, Boston, and Other Parts of the Eastern States Were Made with Great Rapidity...],” *Columbian Centinel* (Boston, Massachusetts, July 6, 1791), 33 edition.

three Richmond businessmen confirm Hamilton's hopes "that the property in the Stock of that Bank should be generally diffused throughout the States."<sup>18</sup> Yet he did not expect many shares to be purchased by rural dwellers. The BUS certainly benefitted farmers by providing liquidity and expanding credit, but they were not expected to be active players in financial markets. For one thing, they lacked the liquid capital necessary to make such investments. Even more important, however, Hamilton's aim was to draw the monied interests of America—i.e., those with liquid, fungible capital—to invest their talent, interest, and cash in the new financial system. Hamilton believed that financial investment in the Bank translated into personal and political investment in the government. The scramble for subscription showed that plenty of Americans were willing to throw their hats in with the new government.

Yet even Hamilton was shocked by the rapidity of the subscription. The oversubscription took everyone by surprise and despite the commissioners' decision to scale all subscriptions down pro rata, many members of the monied class were shut out of the offering altogether. According to Clement Biddle, one of the most important securities dealers in Philadelphia, "the small subscribers [were] generally shut out."<sup>19</sup>

Southern businessmen and large-scale New York brokers alike were left empty handed.

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<sup>18</sup> Alexander Hamilton to John Fitzgerald, "From AH to John Fitzgerald--'Tis to Be Wished the Interest in It May Be as Much Diffused as Possible..'," June 30, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex>.

gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-06-30-1; Alexander Hamilton to James Brown, John Graham, and George Pickett, "From AH to Brown, Graham, and Pickett," August 27, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-27-1>.

<sup>19</sup> Clement Biddle, July 6, 1791, Clement Biddle Letterbook, Historical Society of Pennsylvania, quoted in footnote 15 of Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 44.

“I have not got a single share in the Bank and the disappointment is entirely chargeable to you,” William Constable wrote to William Duer on July 5. “Tho’ I arrived at the Bank at 10 O’clk there were not a single share for myself or my Friends—whether I shall get any or not is perfectly doubtful...”<sup>20</sup>

Constable’s failure to subscribe meant that powerful individuals like Duer, Walter Livingston, Nicholas Low, Andrew Craigie, Alexander Macomb and many others were either locked out of the BUS offering altogether or received far fewer scripts than they had been expecting. This prospect presented a serious problem for the brokers, including many of the aforementioned, who were engaged in both proprietary and commercial trading. As brokers, these men purchased scripts through Constable not for their own possession, but because they were contractually obligated to deliver many more shares than they could legally purchase themselves. As noted, many brokers arranged to purchase BUS script through several firms to maximize the total number of shares they could deliver to their clients. When Constable and many other dealers were shut out of the BUS issuance, a third ring of purchasers—those who were clients of Constable’s clients—was shut out as well. Thus, primary investors *and* broker-dealers seeking to satisfy their obligations immediately began looking to acquire scripts on the open market. Adding to the already sky-high demand, the scramble for script at the initial issuance undoubtedly drew new speculators into the quickly forming secondary market as well.

Not surprisingly, speculation in BUS script also began almost immediately after the issuance. On July 6, the *Federal Gazette* reported that script, which had been

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<sup>20</sup> William Constable to William Duer, “From William Constable to William Duer--‘I Have Not Got a Single Share in the Bank...’,” July 5, 1791, New York Historical Society, Robert R. Livingston Collection.

purchased for \$25 two days prior, were now trading at \$35 in Philadelphia.<sup>21</sup> Organized markets for script would not emerge in other cities for several weeks and many of the dealers who attended the issuance remained in Philadelphia, thus concentrating the demand there. In addition to the many dealers already in Philadelphia, brokers who had not made the trip were flooding their business partners in that city with purchase orders. Mordecai Lewis received \$7620.50 from Nicholas Low on July 12 alone.<sup>22</sup> All this resulted in an active trading environment that virtually guaranteed that script prices would rise. BUS script made its first appearance in Philadelphia “Price Currents”—newspaper listings of securities and commodities prices—on July 13 indicating that a stable market for the script had formed. Prices had risen to \$45 and US 6-percent securities (6s) had jumped significantly as well.<sup>23</sup>

The doubling of script prices accelerated public debate of Hamilton’s financial structure. Reacting to reports in the Philadelphia *General Advertiser* that script was selling for \$50, “C.” outlined the financial and philosophical arguments of those who distrusted the fundamental elements of Hamilton’s system. “An inveterate madness for speculation seems to possess this country,” C. proclaimed. He could not believe that “the enlightened freemen of the United States” had been ensnared so easily by “the speculator’s gilded hook.” To C. and the legions of those who were suspicious of

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<sup>21</sup> “PHILADELPHIA, 6th JULY, 1791. [‘We Hear That Thirty-five Dollars Have Been Paid for a Right to the Certificate Which the Commissioners Are to Deliver...’],” *Federal Gazette*, July 6, 1791.

<sup>22</sup> Mordecai Lewis to Nicholas Low, “Low’s Deposit for the Purchase of BUS Scrip in Philadelphia,” July 12, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>23</sup> “PRICE CURRENT.--PUBLIC SECURITIES.,” *Gazette of the United States*, July 13, 1791, 22 edition.

Hamiltonian finance, modern financial methods and risky speculation were virtually synonymous.<sup>24</sup>

The beliefs articulated by C. were largely rooted in a commitment to traditional political economy and the labor theory of value. Often closely associated with Whig country political doctrine, adherents to this philosophical school believe that the value of an asset is wholly determined by the labor—and often manual labor—needed to produce or obtain it. “[H]onesty, industry and economy,” C. wrote—meaning hard manual work and thrift—were “the only foarces of public and private opulence.” Value was built through tangible effort. In this way, modern notions of market-driven pricing were truly revolutionary. To economic traditionalists like C., the idea that an investor could buy a script for \$25 and, without expending any effort whatsoever to improve the asset, sell it two weeks later for \$50 was incomprehensible. Such gains, according to this point of view, *had to be* illusory and vapid.

Proponents of modern finance also made their voices heard. Writing in the *Gazette of the United States*, “Veritas” articulated the new liberal case for open debt markets, even going so far as to defend the speculators that C. detested. The public market not only brought shady speculators out of the shadows, Veritas argued, but it also provided asset holders the highest possible prices for their securities.<sup>25</sup> Market supply and demand, not labor, determined value. Instead of the physical improvement of an asset,

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<sup>24</sup> C., “An Inveterate Madness for Speculation Seems to Possess This Country.,” *General Advertiser*, July 11, 1791, 243 edition.

<sup>25</sup> Veritas, “For the Gazette of the United States.--‘The Forming an Open Market for Public Paper, Was Done by Some Respectable Brokers; by Which Means the Highest Price Was Always to Be Obtained...’,” *Gazette of the United States*, July 16, 1791, 23 edition.

investors were being rewarded for their willingness to risk capital and diffuse wealth throughout the nation.<sup>26</sup> Therefore, those who operated in these public markets, Veritas said, were not “knaves, cheats and pick-pockets” but patriotic men who “are as respectable characters for honor, integrity, benevolence and humanity, as any in the community.”<sup>27</sup>

As the nation entered the final week of July, the “inveterate madness for speculation” seemed to have abated. While script prices nearly doubled immediately following the July 4 issuance, prices quickly stabilized at \$45-\$50 and remained there through the end of the month (see Figure 1 below). This price stability contradicts reports of continued violent speculation. Thomas Jefferson wrote from Philadelphia on July 24 that “the delirium of speculation is too strong to admit sober reflection.”<sup>28</sup> Several other residents of the capital echoed Jefferson’s sentiments. While the majority of Jefferson’s letter focused on the deluded idea that the issuance of government bonds destroyed rather than augmented capital, repeated references to “speculation” and the “spirit of gambling” by Jefferson and others indicate that the market for BUS script was not as placid as prices might indicate.

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<sup>26</sup> “PHILADELPHIA, July 21. [Published in the Massachusetts Spy on 4 August 1791.],” *Massachusetts Spy*, July 21, 1791, 957 edition.

<sup>27</sup> Veritas, “For the Gazette of the United States.--“The Forming an Open Market for Public Paper, Was Done by Some Respectable Brokers; by Which Means the Highest Price Was Always to Be Obtained...”

<sup>28</sup> Thomas Jefferson to Edmund Pendleton, “The Delirium of Speculation Is Too Strong to Admit Sober Reflection.,” July 24, 1791, *The Papers of Thomas Jefferson Digital Edition*, ed. Barbara B. Oberg and J. Jefferson Looney. Charlottesville: University of Virginia Press, Rotunda, 2008., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=TSJN-chron-1790-1791-07-24-11>.

While Jefferson was well practiced at identifying imagined financial conspiracies, a growing ring of connected merchants saw the signs of a coming financial storm.

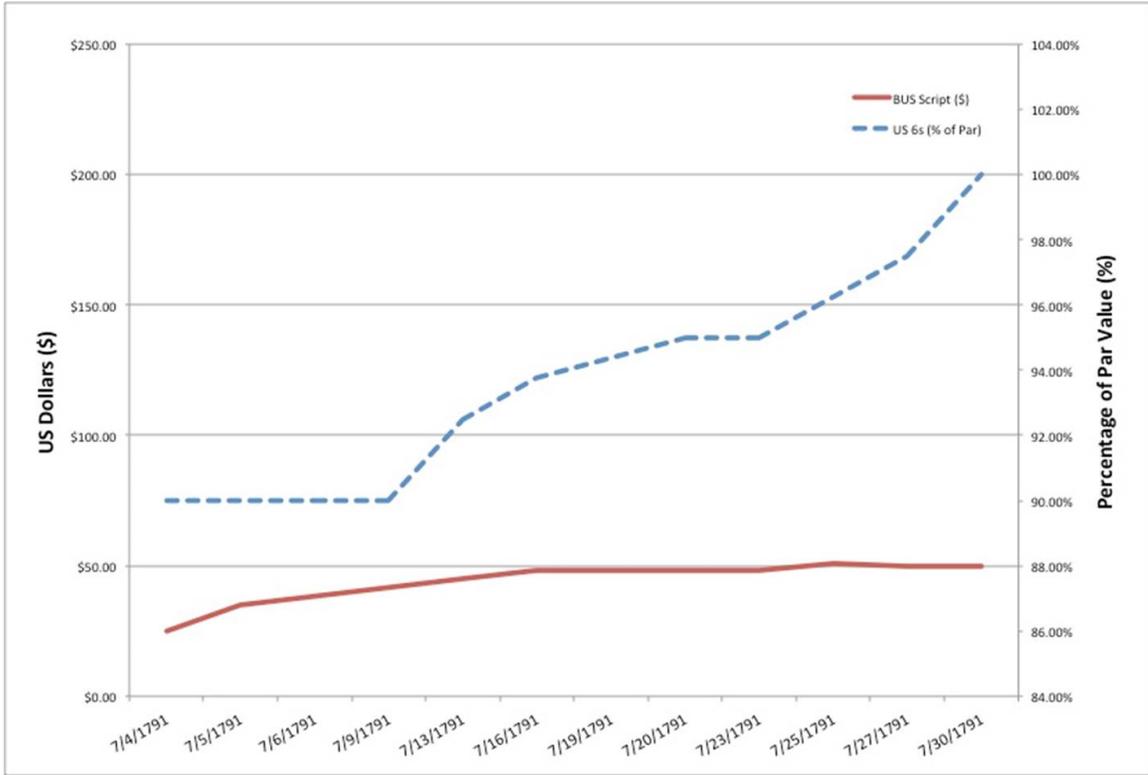


Figure 1: Market Value of BUS Script and US Securities—Philadelphia, July 1791  
 Source: Sylla, Wilson, and Wright (2006), *Gazette of the United States* (August 1791), *The City Gazette*, or the *Daily Advertiser* (Charleston, South Carolina), Nicholas Low Collection, James O. Wettereau Collection.

Mordecai Lewis relayed rumors to Nicholas Low of a building speculative scheme in Philadelphia. “There is a Ruse or Phrenzy abroad, which may possibly have a Check,” wrote Lewis on July 27. “[F]or we have very frequently seen Ebbs & Flows in this business that could not be accounted for as reasonably [illegible], and appear to be brought about by designing Persons who [illegible] the generality who are quickly

impressed with...unusual confidence.”<sup>29</sup> As an active broker and merchant, Lewis would have been in an ideal position to see the preparations of these “designing Persons.”

Some evidence of the “ruse” to which Lewis referred is housed earlier in Lewis’s letter. Low requested that Lewis make a modest buy of BUS script at the market rate, but before Lewis could make the purchase, “the person who offerd it fell in with Whippo...who bought it.” Isaac Whippo was a well-known, if not necessarily well regarded, speculator who Robert F. Jones referred to as “the lesser fry [of] the New York speculating community.”<sup>30</sup> Whippo was not a financial novice, but he lacked the intellect and legitimate business credentials to be considered a member of the financial elite. He was a speculator, not a merchant or broker, and the former oysterman rarely, if ever, worked alone. He was always a sort of junior partner in larger schemes.<sup>31</sup> Thus, the fact that Whippo was making large purchases in Philadelphia lent credence to Lewis’s warnings of a scheme in the making.

The “Phrenzy” to which Lewis referred is more difficult to diagnose. As mentioned above, script prices were steady at the time that Lewis wrote to Low and had been for weeks. US securities, however, appreciated dramatically during the month of July. US 6 percent securities (6s) rose from 90 percent of their par value (18/ £) on July 9 to 100 percent of their par value (20/ £) on July 30. (See Figure 2 below). By comparison,

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<sup>29</sup> Mordecai Lewis to Nicholas Low, “There Is a Ruse or Phrenzy Abroad Which May Possibly Have a Check...,” July 27, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>30</sup> Jones, *The King of the Alley*, 174.

<sup>31</sup> Whippo was deeply involved in a minor capacity in several of William Duer’s previous speculative ventures and would play a much more prominent role in Duer’s scheme to corner the market in US securities in the spring and summer of 1792; Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘But Scrip Was Sold Yesterday at 300 Dollars.’,” August 12, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

US securities rose only an approximate 4 percent closer to par (86-90%) during the entire month of June and did not rise at all during May.<sup>32</sup> Hamilton’s requirement that three-

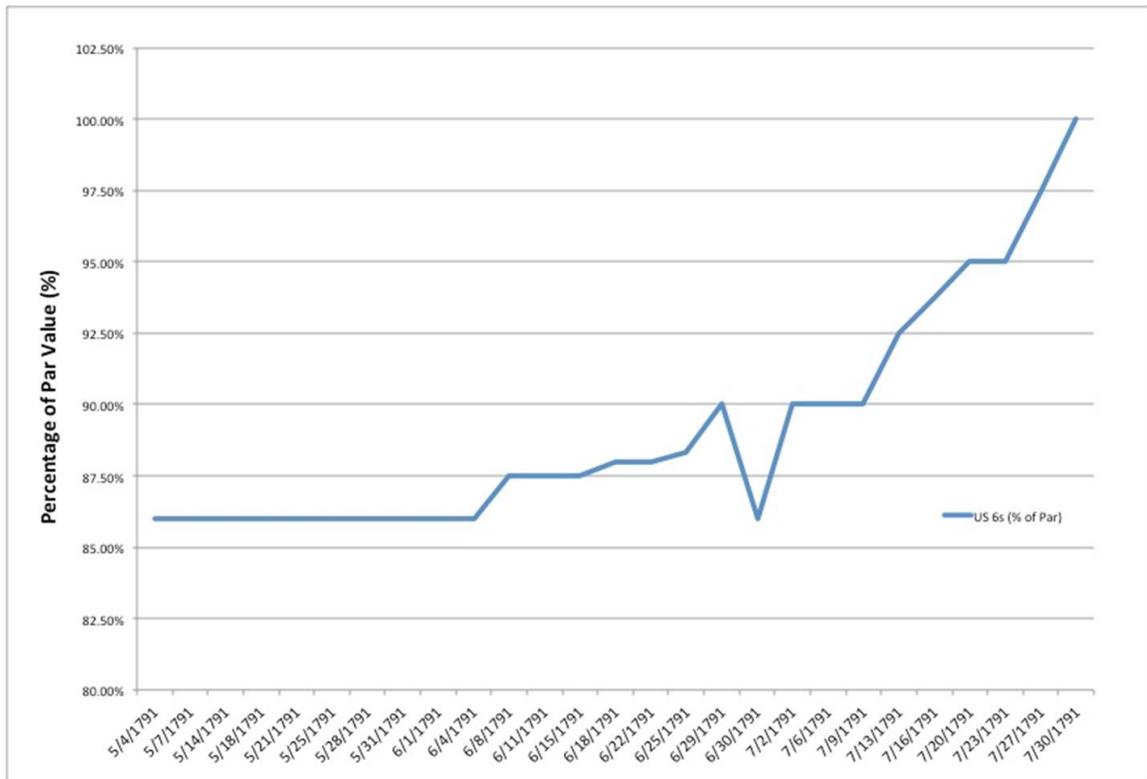


Figure 2: Market Value of US 6 Percent Securities—Philadelphia, May-July 1791  
Source: Sylla, Wilson, and Wright (2006)

fourths of the final purchase of BUS stock be tendered in US bonds certainly contributed to the appreciation of US securities. Investors who were able to acquire BUS script would have stocked up on US securities while they could still be purchased at a discount. Yet a 10 percent appreciation in the 21 days from July 9 to July 30 also suggests a speculative element at work.

<sup>32</sup> “PRICE CURRENT.--PUBLIC SECURITIES.,” *Gazette of the United States*, June 1, 1791, 10 edition; “PRICE CURRENT.--PUBLIC SECURITIES.,” *Gazette of the United States*, July 2, 1791, 19 edition.

Beginning in March 1791 and continuing throughout the summer, William Duer amassed a \$550,000 position in US securities, mostly purchased through members of his network. Even as Duer remained a minor player in the BUS script market, his purchases of US securities accelerated in July.<sup>33</sup> It is here that Duer's failed attempt to corner the market in US securities and BUS shares in the spring and summer of 1792 is instructive. After liquidating a significant portion of his US bonds during the Fall of 1791, Duer embarked on a new scheme in the New Year. During the early months of 1792, Duer accumulated a vast portfolio of the US securities, an asset BUS stock holders would need to pay the July 1792 installment. Duer aimed to corner the market in what he knew would, come summer, be a highly desirable asset. When demand peaked in the early summer, Duer intended to threaten to transport the securities abroad and then charge exorbitant rates to Americans who needed the bonds to make their BUS subscription payments.<sup>34</sup> Unfortunately for Duer, the price of his US securities dipped and he was unable to cover his massive debts. While not identical, Duer's buildup of US securities in the summer of 1791 resembles his purchases in the first months of 1792. While additional research on this topic must be conducted, the possibility exists that the cornering scheme Duer executed in the spring of 1792 was actually originally intended for the fall of 1791.

Whether the "Ruse or Phrenzy" to which Lewis referred was in fact the work of Duer and Whippo, Lewis was clear that the avenues of speculation were widening. "The communication between New York and this place is so easy & quick and so many are interested in the business, that the least alteration at one Market is immediately known at

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<sup>33</sup> Matson, "Public Vices, Private Benefit," 101.

<sup>34</sup> Ibid, 105.

the other,” wrote Lewis.<sup>35</sup> Arbitrage networks would take advantage of this fact throughout the Panic. Perhaps more important is Lewis’s notice that a market for script had formed in New York. While script prices were listed in Philadelphia newspapers since early to mid July, the first listing of prices in New York did not occur until August 2. This delay is understandable as a critical mass of script had to arrive in New York before an active market could form. Yet it is important to note that the dramatic inflation of BUS script prices in Philadelphia only occurred after trading began in New York.

**“The speculating mania taken full possession of every moneyed soul!”**

The mania for BUS script fully began as July turned to August. Philadelphia script prices finally broke the \$48-\$50 price level at which they had hovered for over three weeks, selling at \$65 on August 2.<sup>36</sup> Script debuted in New York at \$100 on the same day, with the *New-York Journal* reporting high volume—nearly 500 scripts were sold in a single session. “The speculating mania taken full possession of every moneyed soul!” the *Journal* stated, marking the first time the word “mania” was used to describe script trading.<sup>37</sup> It would certainly not be the last. The *New York Daily Advertiser* reported script hitting \$146 on August 5.<sup>38</sup> Prices in Philadelphia rose to \$75 on August 3

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<sup>35</sup> Mordecai Lewis to Nicholas Low, “There Is a Ruse or Phrenzy Abroad Which May Possibly Have a Check...”

<sup>36</sup> “PRICE CURRENT.--PUBLIC SECURITIES.,” *Gazette of the United States*, August 3, 1791, 28 edition.

<sup>37</sup> “BANK STOCK.--‘Yesterday Script in the Bank of the United States, Was Sold in Our Market for One Hundred Dollars...near 500 Shares Were Sold.’,” *New-York Journal*, August 3, 1791, 61 edition.

<sup>38</sup> “Cash Price of Stocks Last Evening at Public Auction.,” *New York Daily Advertiser*, August 6, 1791, 2017 edition.

and then struck \$130-\$135 on August 5.<sup>39</sup> The speculative run was on—script rose 130 percent in Philadelphia and 42 percent in New York in less than a week.

It is unlikely that the sudden spike in BUS script prices were the result of widespread public speculation. Newspaper reports and personal letters constantly refer to “moneyed” interests at work, a reference that stands in stark contrast to the mentions of “public” speculation that would appear in subsequent weeks.<sup>40</sup> Additionally, the sudden and drastic nature of the price spike, across multiple markets, indicates a more correlated relationship between US Securities and BUS script (see Figure 3 below). As mentioned above, the prices for US securities rose steadily throughout July while BUS script prices remained relatively constant after the initial two-day price jump from \$25 to around \$50. However, this relationship changed dramatically as July came to a close. On Friday July 29, the last official trading day of July, US 6s hit par for the first time—meaning that the market value of the security was now equal to its face value. The next trading day, Monday August 1, script prices began to rise for the first time in almost a month, notching a 20-percent jump over the weekend and over 80-percent during the subsequent week. This surge in script prices was not the result of investors cashing out the US securities they had purchased at a discount during the previous months. On the contrary, US securities prices continued to rise even after they passed par value.

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<sup>39</sup> “PHILADELPHIA. August 4, 1791.--‘Yesterday Bank Script Sold at Seventy-five.’” *General Advertiser*, August 4, 1791, 264 edition; “PRICE CURRENT.--PUBLIC SECURITIES.” *Gazette of the United States*, August 6, 1791, 29 edition.

<sup>40</sup> “BANK STOCK.--‘Yesterday Script in the Bank of the United States, Was Sold in Our Market for One Hundred Dollars...near 500 Shares Were Sold.’”

Some of the price increases undoubtedly came from new demand for script in New York and Boston.<sup>41</sup> Yet the nearly simultaneous escalation of script prices in three

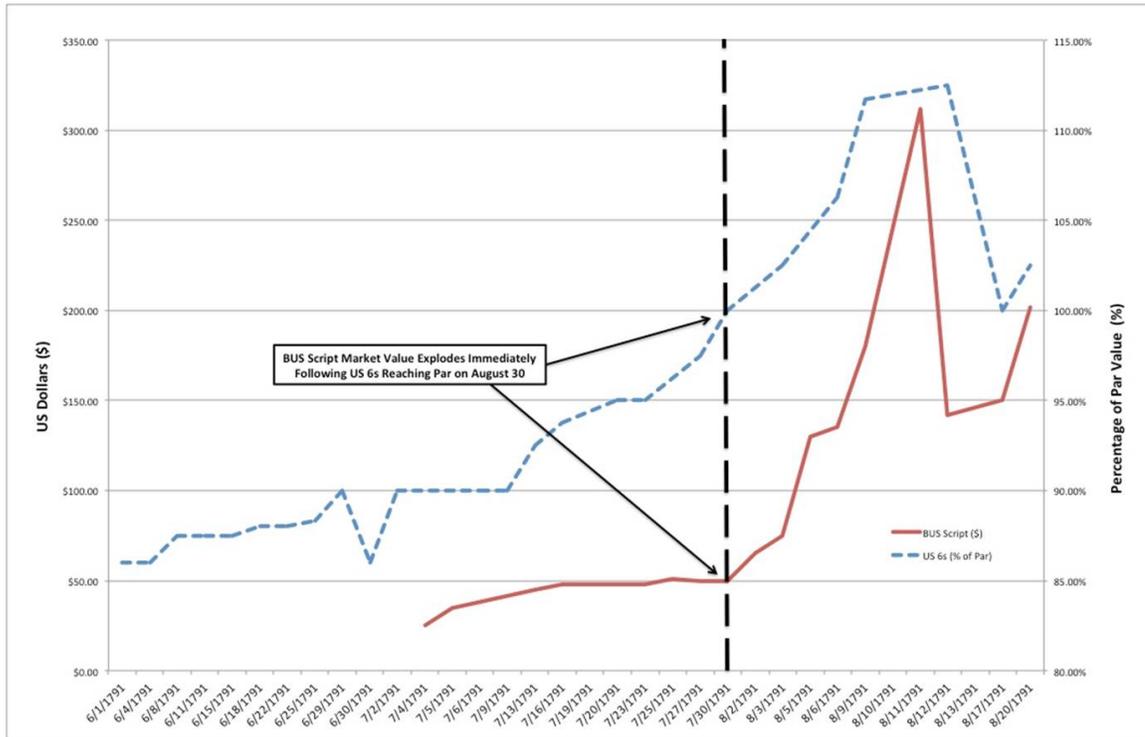


Figure 3: Relation between BUS Script Price Jump and US 6s Reaching 100 Percent Par Value—Philadelphia, June-August, 1791

Source: Sylla, Wilson, and Wright (2006), *Gazette of the United States* (July-August 1791), *Philadelphia General Advertiser* (August 1791), *Federal Gazette* (August 1791), *New York Daily Advertiser* (August 1791), *The Mail, or Claypoole's Daily Advertiser* (August 1791), *New York Daily Gazette*, Nicholas Low Papers, Andrew Craigie Papers, and James O. Wettereau Collection.

separate markets suggests a coordinated buying effort. On August 4, the Philadelphia *General Advertiser* reported that the drivers of US securities were doing the same with BUS script. “Those who have purchased public securities low, and who want Script to

<sup>41</sup> Henry Jackson to Henry Knox, “...They Are Selling 85 Dollars for 25. I Wish You Had Made Use of My Name for 100 Shares for Yourself,” August 7, 1791, Knox Papers, Vol. 29, Pg. 48, Massachusetts Historical Society.

place them to advantage, have raised the price of it to its present astonishing height, by their great demands,” wrote the *General Advertiser*.<sup>42</sup> The existence of a multi-city speculative scheme became common, if largely unconfirmed, knowledge. “I have had a hint that something is intended and has dropt from —— —— which has led to this speculation. I am unwilling to credit the fact, until I have further evidence, which I am in a train of getting if it exists,” James Madison wrote to Thomas Jefferson.<sup>43</sup> The “ruse” of which Mordecai Lewis warned on July 27 seemed to be in full swing.

Perhaps fueled by the scheme to which Madison referred, the bubble in script and US securities went into hyper-drive on Monday August 8. The *New York Daily Advertiser* reported that prices rose almost 25 percent in New York over the weekend, with script registering at \$192.25 in the Monday evening auction.<sup>44</sup> Perhaps more importantly, the mania had spread to Boston. On August 7, Henry Jackson wrote from Boston to his friend and business partner, Secretary of War Henry Knox. Jackson informed Knox that script was selling for \$85 in Boston and implored him to purchase more. By the morning of August 9, Jackson reported that he was unable to procure even forty scripts, so high was the demand. “The 25 dollars subscription is selling at 135 dollars,” Jackson wrote excitedly, “what an astonishing speculation!”<sup>45</sup> US securities

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<sup>42</sup> “PHILADELPHIA. August 4, 1791.--‘Yesterday Bank Script Sold at Seventy-five.’”

<sup>43</sup> James Madison to Thomas Jefferson, “From JM to TJ--‘The Stockjobbers Will Become the Pretorian Band of the Government—at Once Its Tool & Its Tyrant; Bribe by Its Largesses, & Overawing It, by Clamours & Combinations.’” August 8, 1791, *The Papers of James Madison Digital Edition*, J. C. A. Stagg, editor. Charlottesville: University of Virginia Press, Rotunda, 2010., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=JSMN-chron-1790-1791-08-08-1>.

<sup>44</sup> “TUESDAY, August 9. Price of Stocks Last Evening at Auction.,” *New York Daily Advertiser*, August 9, 1791, 2019 edition.

<sup>45</sup> Henry Jackson to Henry Knox, “...They Are Selling 85 Dollars for 25. I Wish You Had Made Use of My Name for 100 Shares for Yourself.”; Henry Jackson to Henry Knox, “From Henry Jackson to Henry Knox-

were quickly rising across the nation as well. US 6s reached 111.75 percent of par (22/3 £) on August 9.<sup>46</sup>

So intense was the speculative euphoria that BUS script prices continued to skyrocket even in the midst of public warnings of speculative jundos and short-sellers. On August 8, the New York *Daily Advertiser* published a letter from “A.B.”, who urged current holders against selling their script. Even though speculators would offer “two hundred dollars before the end of this week,” A.B. encouraged script holders to be patient. “This price may appear large,” he wrote, “but those who reflect a moment, will perceive, that even this sum” was deficient. Those who sold now, A.B. offered, would miss out on a fortune. “A gentleman, who, a few days since, gave one hundred dollars, what was then thought an extravagant price, for two hundred script, has refused sixteen thousand dollars profit for his purchase,” A.B. wrote.<sup>47</sup> So evident in retrospect, this unbridled optimism often defines the mentality that fuels speculative bubbles. The fear that one might miss out on future gains overpowers rational valuation.

A.B.’s optimism could not hide his acknowledgment that active jundos, similar to those to which Madison and Lewis alluded in their letters, were alive and well. These groups were not simply brokers like William Constable who was trying to establish a profitable long position. The schemers aimed to actively manipulate the market, collaboratively working to drive down prices so they could scoop script at depressed

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-“...The 25 Dollars Subscription Is Selling at 135 Dollars, What an Astonishing Speculation[!]”, August 9, 1791, Knox Papers, Vol. 29, Pg. 54, Massachusetts Historical Society.

<sup>46</sup> “PRICE CURRENT.--PUBLIC SECURITIES.,” *Gazette of the United States*, August 9, 1791, 30 edition.

<sup>47</sup> A.B., “For the Daily Advertiser.--Please to Publish the Following Caution Against Selling Bank-Script.,” *New York Daily Advertiser*, August 8, 1791, 2018 edition.

prices. “Very serious attempts have been making for several days past, to purchase all the Script in this city and Philadelphia. For this purpose a powerful combination was formed in this city on Saturday evening, to reduce the price,” A.B. wrote. It is unclear whether this “combination” attempted to drive down prices by selling script short or by spreading destructive rumors about the BUS. Regardless, A.B. argued that their attempts to do so failed. “That attempt did not succeed,” A.B. boasted, “[and] its is now determined, rather than fail, to offer two hundred dollars before the end of this week.”<sup>48</sup> In other words, the market for script survived the speculative attack and was now poised for sensational growth.

While the speculation in BUS script and US securities largely originated in elite, moneyed circles, it is clear that the speculative fever had spread to the general public by the second week of August. Benjamin Rush wrote in his *Commonplace Book* that “merchants, grocers, shop keepers, clerks, prentice boys, and even a sea captain, all forsook their usual employments to speculate in Script.”<sup>49</sup> Thomas Jefferson later lamented, “A spirit of gambling in the public paper has lately seized too many of our citizens.”<sup>50</sup> Even elite investors like William Duer and Mordecai Lewis clearly described speculators from several different economic classes. Admittedly, the democratization of financial speculation during the 1790s is a contested topic amongst scholars of early American finance. There are limitations to the documentary case presented in this thesis

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<sup>48</sup> Ibid.

<sup>49</sup> George Washington Corner, ed., *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813* (Westport, Conn: Greenwood Press, 1970), 203.

<sup>50</sup> Jefferson, Thomas, “From TJ to David Humphreys, 23 August 1791,” August 23, 1791, <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=TSJN-chron-1790-1791-08-23-6>.

and further study is certainly needed. However, the circumstantial evidence presented here strongly suggests that speculation in script and US securities spread far beyond the moneyed class.

It is no accident that the explosion in script prices came at the same time that many common citizens began to enter the market. While the script mania was most likely sparked by professional investors moving into the script market over the weekend of July 30-31 the inferno was fueled by common men seeking quick fortunes. The American moneyed class was certainly wealthy; however, it was relatively small. BUS script became an object of speculation previously unseen in America because for the first time common men had the opportunity and means to engage in modern financial speculation.

Neither the moneyed class nor common citizens had the capital to fuel such a violent speculative mania. In his definitive *Manias, Panics, and Crashes*, Charles P. Kindleberger established that monetary expansion and a large increase of credit are vital for the formation of an asset bubble. In fact, Kindleberger wrote, “every mania has been associated with the expansion of credit.”<sup>51</sup> These circumstances were certainly present in the late summer of 1791. One of the expressly stated goals of Hamilton’s financial plan was to expand the money supply and ease terms of credit.<sup>52</sup> Additionally, foreign capital was flooding into the country, further bringing down interest rates.<sup>53</sup> America had experienced surges in foreign cash before, yet it had never seen an asset bubble like the one that emerged in 1791. The vital difference between 1791 and all previous monetary

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<sup>51</sup> Charles Poor Kindleberger, *Manias, Panics, and Crashes: a History of Financial Crises* (New York: Basic Books, 1978), 64.

<sup>52</sup> AH, “Report on Public Credit,” in Freeman, ed., *Hamilton: Writings*, 535.

<sup>53</sup> Davis, *Essays in the Earlier History of American Corporations*, 180–185.

and credit expansions was the democratizing force of Hamilton's financial system. With the new and significantly more open nature of Hamilton's system, cash, and most importantly decreased interest rates, were available to novice speculators *as well as* experienced merchants and brokers.

In this way, Hamilton's goal of opening up financial markets as a means of social mobility was a raging success. Yet Hamilton clearly failed to anticipate some of the democratizing effects of his economic reforms. Hamilton clearly intended his financial system to be a stimulus for social mobility and general commerce, as the benefits of a larger money supply and greater access to credit would benefit the common citizen as well as the elite. Hamilton did not, however, expect common citizens, the vast majority of whom were financially illiterate, to become instant speculators. The "grocers, clerks, [and] prentice boys" that rushed into the market did bring much needed capital and entrepreneurial energy into the system. They were, however, "dumb money." Most could operate their shops and make a relatively comfortable life for themselves, but they had not the foggiest idea of how stocks, bonds, or banking worked. This financial illiteracy made them vulnerable to the machinations of well-organized and coordinated speculative juntos.

Fear of devious "stock jobbers" rose with the price of script. While A.B. acknowledged the existence of a speculative scheme, he claimed that it resoundingly failed. However, an article by "Centinel," published in the New York *Daily Advertiser* the next day, August 9, claimed exactly the opposite. The schemers were real, Centinel argued, and they had not been defeated. Rising script prices were not a permanent

upswing but the design of conspirators. In fact, these speculators were very much in control of script prices. “You may have perceived for some time past the various arts that have been used to seduce you into the practice of jobbing in Stocks; you may rest assured this was not with any view to your advantage, but that you might eventually be the tools of some deep designing men,” Centinel wrote.<sup>54</sup> “I have heard that sales, either real or fictitious, have been made at an advance above those enormous prices I have already mentioned, and all for the purpose of deceiving a few innocent and unsuspecting men, who will unthinkingly purchase in at those advanced prices, and are strangers to this double art.”<sup>55</sup>

Centinel believed that the schemes were much more sophisticated than the manipulation of market prices. Centinel claimed that A.B.’s article, published in the *Daily Advertiser* the previous day, was part of the speculation scheme. “If there were nothing else, a little attempt in yesterday’s paper, entitled ‘A caution to sellers of Scripts,’ will be sufficient proof of what I allege, when we shall find the same men selling out their Scripts in hundreds, when they have brought the market to its highest pitch, to the end they may deceive the unwary.”<sup>56</sup> The truth of Centinel’s claims—that A.B. was not simply wrong but was in fact part of the speculative plot—cannot be determined. However, it does underscore what historian Richard Hofstadter described as “the paranoid style” that permeated the founding era and became ingrained in American life. “The enemy is...sinister, ubiquitous, powerful, cruel, sensual, luxury-loving,” Hofstadter

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<sup>54</sup> Centinel, “Bank Script, Or, South-Sea Bubble--To the Disinterested Part of the Mercantile Interest in New-York.,” *New York Daily Advertiser*, August 9, 1791, 2019 edition.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

wrote. “Unlike the rest of us, the enemy is not caught in the toils of the vast mechanism of history, himself a victim of his past, his desires, his limitations. He wills, indeed, he manufactures, the mechanism of history, or tries to deflect the normal course of history in an evil way. *He makes crises, starts runs on banks, causes depressions, manufactures disasters, and then enjoys and profits from the misery he has produced* [emphasis added].”<sup>57</sup> This “paranoid style” often obfuscates simple facts and distracts participants and historians alike from historical truths. While Centinel may well have been a victim of the paranoid style, his observations bore a striking resemblance to reality. Just as he predicted, prices continued to soar even as fears of a “Check” mounted.

The mania for script became so extreme that historical comparisons began to surface. “The rage for speculation, or gambling in the funds, has increased in this city to a most alarming degree,” reported the *New-York Daily Gazette*. “The immense rise... of the subscription to the Bank of the United States, is such as there are few instances of [it] in any nation in the world. Law’s Mississippi scheme in France, and the South-Sea bubble in England, are the only ones which will bear a comparison....”<sup>58</sup> Centinel made similar comparisons in the *Daily Advertiser*.<sup>59</sup> Both of these financial crises, in 1719 and 1720 respectively, were the best-known examples of financial speculation taken to its destructive end. Both bubbles centered on the stock of a quasi-governmental firm that ballooned to astonishing levels before precipitously collapsing. Both sparked continental

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<sup>57</sup> Richard Hofstadter, “The Paranoid Style in American Politics | Harper’s Magazine,” *Harper’s Magazine*, November 1964, <http://harpers.org/archive/1964/11/the-paranoid-style-in-american-politics/>.

<sup>58</sup> A Correspondent, “New-York.--‘A Correspondent Observes, That the Rage for Speculation, or Gambling in the Funds, Has Increased in This City to a Most Alarming Degree;’” *New-York Daily Gazette*, August 9, 1791, 818 edition.

<sup>59</sup> Centinel, “Bank Script, Or, South-Sea Bubble--To the Disinterested Part of the Mercantile Interest in New-York.”

depressions and, in the case of France, destroyed the nation's faith in modern finance for generations. To American ears, the invocation of the South Sea and Mississippi bubbles implied fraud and corruption, as well as empty speculation, in their worst forms. "The arts which are practiced to deceive the unwary, are such as must insure success, if not guarded against with the most scrupulous caution," the *Daily Gazette* wrote. "The Bank Script...rose nearly 100 per cent. in *two days*...without any event (except *mere speculation*) having taken place to affect its value [emphasis in original]."<sup>60</sup> Such behavior, argued the *Daily Gazette*, would inevitably lead to a crash.

Despite the warnings of several newspapers, script and US securities raced skyward (see Figure 4 below). The *Columbian Centinel* of Boston reported, "The rise of Bank of the United States Scrip, within these few days has been without parallel. Our accounts, by last evening's mails, state, that paper, of all descriptions, was on the rise."<sup>61</sup> On August 9, prices in New York overtook those in Philadelphia, with script reaching \$228 and, depending on the source, \$280 to \$286 on August 10.<sup>62</sup> US 6s reached 112 percent of par (22/4 £) the same day.<sup>63</sup> New York had already begun to supplant Philadelphia as the center of American securities trading as its diverse, hard-scrabble, mercantile culture fit the loud, boisterous, and cutthroat world of securities dealing. The

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<sup>60</sup> A Correspondent, "New-York.--'A Correspondent Observes, That the Rage for Speculation, or Gambling in the Funds, Has Increased in This City to a Most Alarming Degree.'"

<sup>61</sup> "PRICES OF STOCKS, &c. [in Philadelphia and Boston.]," *Columbian Centinel*, August 10, 1791, 43 edition.

<sup>62</sup> "Boston- Prices of Stock- Yesterday Noon- (Aug. 16, 1791)," *Columbian Centinel*, August 17, 1791, 45 edition; "New-York, Aug. 10," *General Advertiser*, August 9, 1791, 271 edition, 10; "Daily Quotations of National Bank 'Scripts' at New York Sold for Cash at Public Auction--August-December, 1791" (New York Daily Advertiser, August 8, 1791), James O. Wettereau Collection, Special Collections, Columbia University.

<sup>63</sup> "New-York, August 10.--'What Can Be the Reason of This Strange and Astonishing Rise of the American Stocks!," *New-York Journal*, August 10, 1791, 63 edition.

*New-York Journal* described the mania as “madness” and “the present intoxication,” indicating just how intense the trading atmosphere had become.<sup>64</sup> Opposition outlets

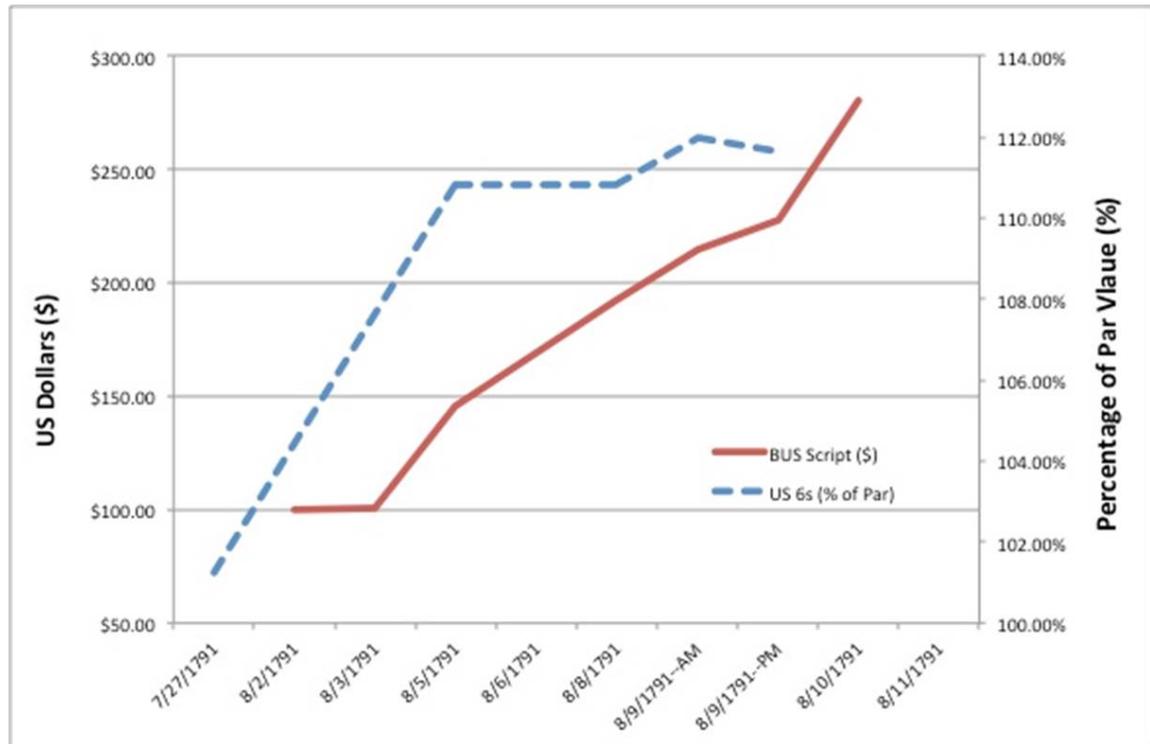


Figure 4: Spike in Asset Price Values—New York City, July 27-August 11, 1791  
 Sources: Source: Sylla, Wilson, and Wright (2006), *Philadelphia General Advertiser* (August 1791), *New York Journal* (August 1791), *New York Daily Advertiser* (August 1791), *American Mercury* (August 1791).

vehemently decried the madness, but even they could not deviate attention from “the astonishing rise of American stocks.”<sup>65</sup>

Meanwhile, the mania in Philadelphia showed no signs of ebbing. “The city...for several days has exhibited the marks of a great gaming house,” Benjamin Rush reflected

<sup>64</sup> “For the *New-York Journal*. & C. THE CATERER--NO. VI. The the Uncontaminated Citizens of New York.--[Written 10 August but Published 13 August 1791.],” *New-York Journal*, August 10, 1791, 64 edition.

<sup>65</sup> “New-York, August 10.--”What Can Be the Reason of This Strange and Astonishing Rise of the American Stocks!”.

on August 10. “At every corner you hear citizens talk of nothing but Script, 6 per cent, 3 per cent, deferred debt, &c.”<sup>66</sup> The boundary between figurative and literal mania seemed to have disappeared. Traders were going for days without sleep, drinking too much and eating too little. Not surprisingly, many of them were quickly turning into emotional basket cases. Early on the 10<sup>th</sup>, Rush was called to the City Tavern—the location of John Chaloner’s securities auctions—to treat “[a] young Broker (Mr. Seber) from New York, who had made 10,000 dollars, [and] lost his reason.”<sup>67</sup> Yet, for those who could stand the pressure, enormous profits were being made. “Major McConnell...had made between 30,000 and 40,000 dollars in one month by buying and selling Scrip,” Rush recorded in his *Commonplace Book*. “Never did I see so universal a frenzy. Nothing else was spoken of but Script in all companies, even by those who were not interested in it.”<sup>68</sup>

Not everyone, however, had the speculative fever. “Stocks & Bank Scrip are full as high with us as with you,” Mordecai Lewis wrote to Nicholas Low on August 9. “[W]e confess we are lost in the matter and cannot persuade ourselves of the propriety of

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<sup>66</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 203.

<sup>67</sup> Editor George W. Corner notes in footnote 31 that “[l]etters of administration of the estate of James F. Sebor were granted to Jacob Sebor, administrator, [on] Aug. 19, 1791.” Sebor died on August 18 in Rush’s care. Rush’s statement that Sebor “lost his reason” was intended to be a literal, and not metaphorical, description of a physical ailment incurred by Sebor while trading in script. Rush maintained Sebor’s insanity to the end, writing on August 18, “Mr. Sebor constantly refused to take his medicine, ‘till he first asked ‘On what terms’ and when he swallowed his medicine would cry out ‘A good bargain.’ He died this afternoon.” The veracity of Sebor’s nervous breakdown cannot be determined, though the effects of serious conditions such as strokes, aneurisms, and heart attacks were often confused with periods of insanity during the late 18<sup>th</sup> century. At the very least, Sebor’s episode attests to the incredibly stressful environment that existed at the height of Scriptomania.

<sup>68</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 203.

dealing them at their present prices.”<sup>69</sup> Respected Philadelphia merchants Nalbro and John Frazier concluded that the “exorbitant prices which have been demanded for Bank Scrip, both at this place and New York...has exceeded any calculations that cou’d possibly have been made with fairness... [A]ny Profit or even saving to be made from a Purchase at the prices it has been going at these 3 days past” would be impossible. “[W]e were well aware that a turn must very shortly take place and that when the bubble had got to its Height, it wo’d decline more rapidly than even it raised...,” Frazier wrote.<sup>70</sup> These statements encapsulate the growing separation between a small class of smart, moneyed elites and the “Designing men...[and] new adventurers”<sup>71</sup> who sought to ride the whirlwind and direct the storm. By August 8 and 9, many market savvy investors saw a crash as inevitable. Even bullish, pro-BUS newspapers like the *Gazette of the United States* began to urge restraint. “Touch’d by the wand of speculation,” the *Gazette* wrote,

A frenzy runs thro all the nation;  
For soon or late, so truth advises,  
Things must assume their proper sizes--  
And sure as death all mortals trips,  
Thousands will rue their faith in SCRIPS.<sup>72</sup>

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<sup>69</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Stocks & Bank Scrip Are Full as High with Us as with You...’,” August 9, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>70</sup> Nalbor’ and John Frazier to Andrew Craigie, “From Nalbro’ and John Frazier to Andrew Craigie--‘We Presume You Must Have Been Informed of the Rapid Rise and Exorbitant Price Which Have Been Demanded for Bank Scrip...’,” August 12, 1791, James O. Wettereau Collection, Special Collections, Columbia University.

<sup>71</sup> William Duer to Alexander Hamilton, “From William Duer to AH--‘Those Who Impute to My Artifices the Rise of This Speicies of Stock in the Market, Beyond Its True Point of Value Do Me Infinite Injustice.’,” August 16, 1791, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-7&expandNote=on#match>.

<sup>72</sup> “SPECULATION,” *Gazette of the United States*, August 10, 1791, 30 edition.

The warnings of an impending crash went unheeded by novice speculators. As the first auctions took place the morning of August 11, it became clear that “Scriptomania” had only accelerated. Between the closing auction on August 10 and its opening on August 11, script prices rose 25 percent to \$180 in Boston before rising to \$241 the next day.<sup>73</sup> In Philadelphia the increases were even more dramatic. Script jumped from \$180 on August 9 to between \$230 and \$300 on the morning of August 11.<sup>74</sup> As the day progressed, prices in Philadelphia prices climbed hour by hour. Two brokers, “Major Franks and a Mr. Anderson...made between 2 and 3000 dollars before one o’clock,” Benjamin Rush recorded. “I sold two shares for 450 dollars at 8 o’clock in the morning, and at night they sold for 315 and 320 dollars a share.”<sup>75</sup> US securities also continued to rocket skyward, reaching 120 percent of par (24/ £)—possibly even 122.5 percent—in both Philadelphia and Boston.<sup>76</sup> Brokers and common laborers alike raced throughout the city, searching desperately for securities and script to purchase. Joseph Peirce of Boston

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<sup>73</sup> Henry Jackson to Henry Knox, “...Pierce Out of Town Until Monday Will Then Forward His 20 Shares— they Are Selling at 180 Dollars.’,” August 11, 1791, Knox Papers, Vol. 29, Pg. 54, Massachusetts Historical Society; “PRICES OF STOCKS, Yesterday Noon.--‘At Mr. Jones’s Sale of Publick Paper, Yesterday Bank Script, Sold at 241 Dollars...Six Per Cents Were Sold for 24/. and 24/1 Specie.’,” *Columbian Centinel*, August 13, 1791, 44 edition.

<sup>74</sup> “The Bank Scrip Was Yesterday up to 180. The Profits of the Bank Must Afford a Dividend of Nearly 9 Per. Cent. or Those Who Have Purchased Scrip at 180, and Fix Per.cents. at the Present Market Price, Must Be Losers.” *General Advertiser*, August 10, 1791, 269 edition; Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 203–204.; Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘But Scrip Was Sold Yesterday at 300 Dollars.’”

<sup>75</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 203.

<sup>76</sup> “From Another Correspondent. Dr. One Share (400 Dollars) in the Bank of the United States.” *General Advertiser*, August 12, 1791, 271 edition; “PRICES OF STOCKS, Yesterday Noon.--‘At Mr. Jones’s Sale of Publick Paper, Yesterday Bank Script, Sold at 241 Dollars...Six Per Cents Were Sold for 24/. and 24/1 Specie.’”

wrote in wonder that “[t]here never have been such dealing in the funds as within a few days.”<sup>77</sup>

Benjamin Rush later wrote that “[m]any thousand shares were bought and sold, to be delivered and paid for at a future day by persons who had neither Script, nor money.”<sup>78</sup> Rush was referring to contract and margin trading, two fundamental elements of modern financial dealing. Contract trading, meaning the purchase or sale of an asset deliverable and payable at a future date, allowed sellers to lock in profits before prices fell. Trading on contract allowed sellers to dispose of securities that were in transit from another city.<sup>79</sup> However, brokers often used this method when they did not actually have the security they were selling in hand and were confident they could quickly acquire it before the contract came due. In the 1790s as well as today, these contracts were purchased on margin or credit, known in the 1790s as “Time” or “terms.”<sup>80</sup> Buying on terms rarely included a set interest rate but instead required the buyer to pay a slight premium over the cash market value of the asset.

The benefits of buying on terms are obvious—a speculator could accumulate vast holdings in a very short time with no or little cash on hand to facilitate the purchase. A speculator who purchased script on August 8 on two-day credit would pay \$193, an

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<sup>77</sup> Joseph Peirce to Henry Knox, “There Never Have Been Such Dealing in the Funds as Within a Few Days...,” August 11, 1791, Knox Papers, Vol. 29, Pg. 62, Massachusetts Historical Society.

<sup>78</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 206.

<sup>79</sup> Henry Jackson to Henry Knox, “From Henry Jackson to Henry Knox--‘...Scrip Is Now at 150 to 160.’,” August 21, 1791, Knox Papers, Vol. 29, Pg. 71, Massachusetts Historical Society.

<sup>80</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Many Are Much Distressed to Comply with Their Engagements Having Bought Scrip High on Time.’,” August 16, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

approximate 1.5 percent premium over the cash price.<sup>81</sup> This is a steep rate by modern standards, but a speculator who made this bet would have profited mightily. By August 10, script was selling for between \$264 and \$280. As long as the price remained high, the buyer could sell off his position, repay his creditor, and pocket the difference. Contract dealing also provided another form of leverage when interest rates were high and cash was limited. It allowed brokers, especially large ones working with partners in other markets, to take advantage of arbitrage opportunities and other market inefficiencies. Dealing by contract protected against small market gyrations and future declines in asset values.

The extensive use of contract and margin deals during the mania, however, laid the groundwork for a catastrophic crash. Joseph Peirce referred to a broker who contracted a speculative script sale—meaning he did not have the script in hand—before August 1 at plus 75 percent the asset’s par value. Before the broker could acquire the script necessary to fulfill the contract, script rose 150 percent. He was then faced with making up the 75 percent for each script out of his own pocket.<sup>82</sup> Losses on “wager stock” deals presented similar problems for dealers. Once prices slowed or even started to fall, those who made large purchases on terms were faced with script worth significantly less than the sums owed when their contracts came due. Buyers scrambled to drum up cash to fulfill their obligations, often liquidating assets at fire-sale prices, and thus exacerbating the deflationary spiral.

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<sup>81</sup> “TUESDAY, August 9. Price of Stocks Last Evening at Auction.”

<sup>82</sup> Joseph Peirce to Henry Knox, “There Never Have Been Such Dealing in the Funds as Within a Few Days...”

## **“The BUBBLE is BURST.”**

The first signs that the bubble had burst appeared in New York, where script opened on August 11 below the previous day’s peak of \$280. Auctions opened around \$250 and continued to fall throughout the day. Despite the substantial losses, New Yorkers seemed not to panic. Rufus King, a director of the Bank of New York and close personal friend of Alexander Hamilton, mentioned that the “Fall [felt] hitherto gradual.”<sup>83</sup> The declines, however, were significant. After bottoming out at \$197 on the 11<sup>th</sup>, script stabilized at between \$202 and \$212 on August 12.<sup>84</sup> King even thought a moderate check might be beneficial. “Mechanicks deserting their shops, Shop keepers sending their goods to auction, and not a few of our merchants neglecting the regular & profitable commerce of the City” were commonplace in New York over the previous weeks. These amateur speculators were, along with many professionals, gobbling up script and US securities, often on short-term credit. The sudden fall in prices slammed these naïve investors. They soon held script that was worth little more than half its value only 48 hours prior. Though satirical in nature, “I-----c DIPDEEP” illustrated the predicament of thousands in New York when he wrote, “WANTED IMMEDIATELY, the advice of an honest Stock Jobber, how to dispose of about three hundred BANK SCRIPTS, purchased at two hundred and fifty dollars per. script, so as not entirely to ruin the present holder....”

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<sup>83</sup> Rufus King to Alexander Hamilton, “From Rufus King to AH, 15 August 1791.”

<sup>84</sup> “Bank Scripts Sold Last Night,” *New York Daily Advertiser*, August 12, 1791, 2022 edition; “New-York. Saturday, August 13. Scripts Sold Last Night.,” *New York Daily Advertiser*, August 13, 1791, 2023 edition.

The panic was on—embodied in the four-word, bold-faced bi-line that dominated the news section of August 13’s *New-York Journal*: “The BUBBLE is BURST.”<sup>85</sup>

In Philadelphia, the bubble had burst indeed. Unlike New York, where the crash felt “hitherto gradual,” the shift from Scriptomania to “Scripophobia” came swiftly and suddenly.<sup>86</sup> Prices began to crash early on the morning of August 12, before official auctions began at the City Tavern on the corner of Walnut and 2<sup>nd</sup> Street. “[I] was passed soon in the morning by a speculator (a friend of mine) who did not speak to me,” reflected Benjamin Rush in his journal. “I suspected he was in trouble. Soon afterwards, I heard that Script had fallen to 150 dollars.”<sup>87</sup> Rumors were rampant and dealers across the city scrambled to unload script before the official market opened. One broker, referred to as “J.F.” was able to save his skin by capitalizing on the early morning ignorance of his fellow dealers.

J.F...had bought of Mr. Cramond 8 shares of Script at 250. The next morning he (J.F.) called on him before breakfast and told him that he would release from his bargain for 400 dollars, which Mr. C. gave him. He afterwards called on Robt. Smith and offered him 50 shares for 280 dollars which he had bought of him on credit the day before for 250. Nr. Smith gave him up his note and 1500 above it.

By the time official auctions began at the City Tavern, true panic had gripped the new nation’s capital.

Initial auctions confirmed that script had indeed crashed over 50 percent from the previous day’s highs. Officially registering at between \$140 and \$160, “Ask prices”—the

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<sup>85</sup> I-----c DIPDEEP, “FOR THE NEW-YORK JOURNAL, &c. The BUBBLE Is BURST.,” *New-York Journal*, August 13, 1791, 64 edition.

<sup>86</sup> “Philadelphia. August 13, 1791. SCRIPOPHOBIA. Few Sales of Script at the Coffee House Yesterday Evening Before 9 O’clock. The Highest 150-cash.,” *General Advertiser*, August 13, 1791, 272 edition.

<sup>87</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

prices at which sellers posted their script—received virtually no bids.<sup>88</sup> The market was completely frozen. “Bank Script was sold at the Coffee House last Evg. at public auction for 312 Dollars cash and this day no price is offered,” wrote Philadelphia brokers Nalbro and John Frazier to their partner Andrew Craigie. “We believe it co'd be obtained for 100 Dollars cash, it was sold at the Coffee house at noon at public sale for 142 Dollars cash, which we have no doubt was a sham sale from the circumstances attending it.”<sup>89</sup> Reports of sham sales—orchestrated transactions in which collusive parties faked sales at higher than true market-rate prices—were widespread as desperate speculators tried to prop up the price of their rapidly depreciating script. It did not work. By mid-afternoon, Rush reported that the crisis “has spread distress and consternation through our city. Never did I see so many long faces in our streets and at the coffee house.”<sup>90</sup>

The panic gained force as the day progressed. As so often happens in times of financial calamity, even the strongest and most confident men began to break down under its strain. Brigadier General Walter Stewart, an aid to General Horatio Gates during the Revolution who saw combat at Brandywine, Germantown, Monmouth, and Yorktown, emotionally cracked under the pressure. General Stewart, “had so much Script on hand,” recorded Rush, “that he came to the Secretary of the Treasury and wept, and said he

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<sup>88</sup> “[From] Philadelphia, August 13 [Published 24 August 1791.],” *The City Gazette or The Daily Advertiser*, August 13, 1791, 1864 edition.

<sup>89</sup> Nalbor’ and John Frazier to Andrew Craigie, “From Nalbro’ and John Frazier to Andrew Craigie--‘We Presume You Must Have Been Informed of the Rapid Rise and Exorbitant Price Which Have Been Demanded for Bank Script...’”

<sup>90</sup> Benjamin Rush to Julia Rush, “To Mrs. Rush,” August 12, 1791.

should be ruined if [script] did not rise.”<sup>91</sup> The stress affected other men physically. Isaac Franks, another veteran of the Revolution who served under Washington at the battle of Long Island, “had no appetite, had a pain in his breast, and started up when half a sleep, his pulse was weak and quick.”<sup>92</sup> A newspaper reported “that, in the present speculations about script, through which some have turned raving mad, and other are so agitated that they appear on the borders of insanity...” The author urged his readers “to be temperate in eating and drinking...[using] some but little wine...and to procure, if they can, their regular hours of sleep” lest they take drastic measures.<sup>93</sup> Unfortunately, some were unable to handle the stress altogether. Several young men, having missed out on massive profits and owing immense debts, took their own lives by hanging.<sup>94</sup> This would not be the last time in American history that an economic crash resulted in suicides. In response to the mounting chaos, Benjamin Rush, mused to his wife, ““whether the vices they had introduced into our country had not made our liberties and independence too dear a purchase.””<sup>95</sup>

As often happens during financial crises, financial elites were largely able to shield themselves against the worst effects of the crash. Mordecai Lewis and Nicholas Low had maintained a safe distance from Scriptomania, though Lewis feared that some of

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<sup>91</sup> National Park Service, “Colonel Walter Stewart,” *Yorktown Battlefield*, accessed January 7, 2013, <http://www.nps.gov/york/historyculture/stewartbio.htm>; Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

<sup>92</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

<sup>93</sup> Chron.Free.d, “A Correspondent, Who Is Not Ignorant of Medicine or Philosophy, Says, That, in the Present Speculations About Script, Through Which Some Have Turned Raving Mad, and Other Are so Agitated That They Appear on the Borders of Insanity...,” *New-York Journal*, August 17, 1791, 65 edition.

<sup>94</sup> Benjamin Rush to Julia Rush, “To Mrs. Rush.”

<sup>95</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

his friends may have “engaged deeply in purch.g Scrip at the late prices.”<sup>96</sup> The Nalbro and John Frazier, William Constable, and even William Duer largely avoided the calamitous bubble.<sup>97</sup> While members of the moneyed elite may very well have pumped up the bubble and then pricked it on August 11 and 12, it was the small merchants, mechanics, artisans, shopkeepers, laborers, and even farmers who were disproportionately crushed when script prices collapsed.<sup>98</sup> “As with you a number of young & inexperienced Adventurers have started up lately with us who were Scrip mad & several have sufferd exceedingly, in consequence of the great decline in the price of that article,” Mordecai Lewis reported to Nicholas Low.<sup>99</sup> For many of those inexperienced novices who flocked to script in search of quick wealth, Scriptomania was their rude introduction to the new world of modern finance.

Historians have long assumed that the sell-off was sparked by a pullback on the easy credit coursing through the early American financial system. “On 11 August,” argues Robert F. Jones, “the Bank of New York refused to make any further loans to speculators or renew those coming due; a drop in prices occurred which spread quickly to

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<sup>96</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘But Scrip Was Sold Yesterday at 300 Dollars.’”

<sup>97</sup> Nalbro’ and John Frazier to Andrew Craigie, “From Nalbro’ and John Frazier to Andrew Craigie--‘We Presume You Must Have Been Informed of the Rapid Rise and Exorbitant Price Which Have Been Demanded for Bank Script...’”; Matson, “Public Vices, Private Benefit,” 102.

<sup>98</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204–205.; Rush recorded that “[s]uch was the progress of the madness that several farmers who had heard how suddenly fortunes were to be made in Philadelphia left their ploughs and carts and came up to Philadelphia to deal in Script.”

<sup>99</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘As with You a Number of Young & Inexperienced Adventurers Have Started up Laterly with Us Who Were Scrip Mad & Several Have Sufferd Exceedingly...’,” August 15, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

Boston and Philadelphia.”<sup>100</sup> David J. Cowen, though slightly more cautious, nonetheless largely agrees with the traditional interpretation. “When the BONY and other lenders curtailed loans to some extent to the speculators on August 11, a panic set in, for the direct relationship between loan curtailment and security price decreases was logical.”<sup>101</sup> Few, if any, historians have deviated from this general narrative.

The traditional interpretation, however, has significant faults. It is largely based on a single report that originated in Philadelphia and was subsequently published in newspapers across the nation. “The cause of the very extraordinary disparity in the price of Bank Scrip,” the report read, “was said to be an express from New-York, which arrived in town early yesterday morning, with intelligence that the fall of the price of Scrip there had been very rapid on Thursday, in consequence of the Bank in that city having declined to continue discounting for some the deep speculators in the Public Paper....”<sup>102</sup> This rumor was pervasive in Philadelphia in the days after the crash.<sup>103</sup> However, direct evidence contradicts this narrative. Rufus King, who was a Director of the Bank of New York (BONY) and a credible source on his bank’s balance sheet, told Hamilton that the rumors were wholly without basis. “I understand that it has been reported, that the late check has been produced by the bank's having refused their usual discounts,” King wrote. “*This has by no means been the case.* The Bank has continued, &

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<sup>100</sup> Jones, *The King of the Alley*, 169.

<sup>101</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 49.

<sup>102</sup> “Philadelphia, August 15.--[Published 17 August 1791],” *New York Daily Advertiser* (Philadelphia, August 15, 1791), [http://infoweb.newsbank.com.mutex.gmu.edu/iwsearch/we/HistArchive/?p\\_product=EANX&p\\_theme=ahn](http://infoweb.newsbank.com.mutex.gmu.edu/iwsearch/we/HistArchive/?p_product=EANX&p_theme=ahn).

<sup>103</sup> Benjamin Rush recorded this rumor in his *Commonplace Book* on August 13.

will continue, to discount as far as their safety will authorize [Emphasis Added].”<sup>104</sup>

While it is clear that credit contracted sharply after the crash, little whatsoever suggests that a sharp pullback by the Bank of New York sparked the panic-inducing sell-off.

What, then, sparked the crash? The best explanation for the crash that occurred on August 11 and 12 takes seriously the way Mordecai Lewis, James Madison, and others at the time explained it: as a "ruse" or "scheme." While such a notion can seem conspiratorial if taken too far, it is important to note that coordinated speculative tactics were and continue to be a fundamental part of modern financial markets. While “Centinel’s” true identity, and therefore his story, cannot be verified, his claim rings true. “[S]ales, either real or fictitious, have been made at an advance above those enormous prices I have already mentioned, and all for the purpose of deceiving a few innocent and unsuspecting men, who will unthinkingly purchase in at those advanced prices,” Centinel wrote. This account closely resembles the events that took place during the second week of August. Rufus King alluded to a group of speculators who sold their script too early and proceeded to spread false rumors in hopes of bringing prices down to a level at which they could reestablished their positions.<sup>105</sup> Chief among them were fictitious quotes from Hamilton saying that prices were too high. However, this group of reactive speculators is most likely not the whole story. Lewis mentioned the “ruse” forming in Philadelphia long before King said that speculators became active in New York.

The diversity of references to a speculative scheme reinforces the likelihood of this possibility. Both Lewis and Madison were convinced that a speculative scheme was

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<sup>104</sup> Rufus King to Alexander Hamilton, “From Rufus King to AH, 15 August 1791.”

<sup>105</sup> Ibid.

forming in their own cities. The *Columbian Centinel* reported that “[t]he great fluctuation in the price of Scripts the week past is said to have been caused by a powerful combination at NEW-YORK.”<sup>106</sup> On August 10, the *New-York Journal* referred to a group with the ability to “rise and fall the STOCKS of this western world.”<sup>107</sup> Considering that the crash hit New York one day before Philadelphia—and that news could travel between the two cities in a day—it is possible that the crisis originated in New York and spread to Philadelphia by express messengers. Benjamin Rush’s account, however, suggests that there were speculative groups intent on manipulating price in Philadelphia well before the crash. “Our city is one great theater of fraud and repine... A hundred base transactions to keep up the price of script yesterday or to force sales of it *this morning* have come to light [Emphasis in Original].”<sup>108</sup> According to Rush, speculators were not just pumping up prices on August 11—they also torpedoed them early on August 12. This suggests an active and seemingly coordinated speculative effort in Philadelphia. Brokers were not simply reacting to bad news from New York—they were actively shorting BUS script and forcing its decline.

Regardless of the source of the crash, Hamilton’s new financial system, and the economy that rested on it, was in serious danger. While the crashes occurred in coastal urban centers, newly formed credit, debt, and speculative networks traversed the country. While falling asset prices stung the investor class, more tangible aspects of the American economy came under pressure because of the crash. As King mentioned to Hamilton,

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<sup>106</sup> “Stocks, & C. as in Our Last. Script 158.--High Scrip Volatility,” *Columbian Centinel*, August 20, 1791.

<sup>107</sup> “New-York, August 10.--"What Can Be the Reason of This Strange and Astonishing Rise of the American Stocks!”

<sup>108</sup> Benjamin Rush to Julia Rush, “To Mrs. Rush.”

commerce had nearly stopped in New York and Philadelphia as merchants, laborers, and artisans turned their attention to speculation.<sup>109</sup> When script crashed and short-term contracts came due, many with bank accounts emptied them. Devoid of cash and desperate to reduce their debt burden, many speculators began passing bad checks.<sup>110</sup> Distrust and uncertainty, accelerated by defaults on short-term contracts, spread to the general economy. By Monday August 15, Rufus King, Mordecai Lewis, and Bank of New York cashier William Seton were all reporting severe shortages of cash in both New York and Philadelphia.<sup>111</sup> Credit and liquidity markets in the nation's largest commercial cities were frozen.

Perhaps even more detrimental to the long-term health of the American financial system, US securities were coming under significant pressure in the wake of collapsing script prices. After reaching highs of 112.5 percent of par (22/4 £) in Philadelphia on the morning of August 12—an isolated account reported sales at 120 percent (24/ £) on August 11, though this seems unlikely<sup>112</sup>—US 6s tumbled to just over 100 percent (20/2 £) only three days later.<sup>113</sup> Declines were similar in Boston, where script fell from \$241

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<sup>109</sup> Rufus King to Alexander Hamilton, "From Rufus King to AH, 15 August 1791."

<sup>110</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

<sup>111</sup> Mordecai Lewis to Nicholas Low, "From Mordecai Lewis to Nicholas Low--'As with You a Number of Young & Inexperienced Adventurers Have Started up Laterly with Us Who Were Scrip Mad & Several Have Sufferd Exceedingly...'" ; William Seton to Alexander Hamilton, "From William Seton to AH--'From the Very Sudden Turn That Speculation Has Taken. We Have Only Now Remaining in Bank of the Treasurers Bills on Collectors...'" August 15, 1791, <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-15-7>; Rufus King to Alexander Hamilton, "From Rufus King to AH, 15 August 1791."

<sup>112</sup> C., "PHILADELPHIA. The the EDITOR of the GENERAL ADVERTISER.--'Convert Immediately Your Whole Printing Office into Bank-stock;'" *General Advertiser*, August 12, 1791, 271 edition.

<sup>113</sup> Mordecai Lewis to Nicholas Low, "From Mordecai Lewis to Nicholas Low--'Many Are Much Distressed to Comply with Their Engagements Having Bought Scrip High on Time.'"

on August 12 to \$158 on August 16. US 6s followed in lockstep, falling from 120.5 percent of par (24/1 £) to 110 percent (22/ £).<sup>114</sup> While declines in US securities were less dramatic in New York, they were certainly steep enough to cause official worry.

**“No proper means of strengthening the Govt. shd. be neglected.”<sup>115</sup>**

And officials did worry. While Hamilton did not record his movements during the panic-stricken days of Friday, August 12, through Sunday, August 14, secondary accounts confirm that he received many visitors concerned about the crisis.<sup>116</sup> So close was Hamilton’s Treasury Department office to the City Tavern that he may well have heard the commotion as brokers and speculators spilled into the streets. At the very least, Hamilton, notoriously obsessive in his mastery of detail, was well aware of turmoil that gripped markets in New York and Philadelphia.

The Treasury Secretary clearly understood his most pressing problems. First and foremost, Hamilton feared a major sell-off in US securities. The resulting price crash would have profound financial, economic, political, social ramifications for the United States. While the BUS could at least maintain an air of independence, US securities were a direct representation of the government. Even more importantly, their prices represented investor confidence in the United States as a whole. A crash in US securities

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<sup>114</sup> “PRICES OF STOCKS, Yesterday Noon.--‘At Mr. Jones’s Sale of Publick Paper, Yesterday Bank Script, Sold at 241 Dollars...Six Per Cents Were Sold for 24/. and 24/1 Specie.’”; “PRICE of STOCKS at Auction. Yesterday Noon. [Published 23 August 1791.],” *New York Daily Advertiser*, August 22, 1791, 2031 edition.

<sup>115</sup> Fisher Ames to Alexander Hamilton, “From Fisher Ames to AH, 15 August 1791,” August 15, 1791, <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-print-01-09-02-0041&expandNote=ARHN-01-09-02-0041-fn-0006#ARHN-01-09-02-0041-fn-0006>.

<sup>116</sup> Corner, *The Autobiography of Benjamin Rush; His Travels Through Life Together with His Commonplace Book for 1789-1813*, 204.

would not only drive up government borrowing costs, it would signal to citizens and foreigners alike that the United States was not capable of maintaining a modern financial regime. Like France after the Mississippi bubble, Hamilton feared that public and investor confidence, both economic and political, would evaporate and not return for many years.

Hamilton had reason to fear that such a drop in US debt was imminent. While US securities fell significantly in the wake of the crash, their approximate 10-percent decline was far less than script's 50-percent crash. Many speculators, with contract fulfillment dates quickly approaching and devoid of cash, were making plans to liquidate their US securities at fire-sale prices. "[I]t would be much more advantageous for the holders of funded Debt & scrips in order to raise money to sacrifice 10 P cent [sic] on the former by selling the price than to sink 50 or 100 on the latter," speculator Seth Johnson wrote to Andrew Craigie.<sup>117</sup> Such a liquidation would put extreme downward pressure on US securities prices.

Hamilton knew that a crash in US securities prices would only exacerbate the credit and liquidity crunch. Because US securities were required as tender for actual BUS shares,<sup>118</sup> the prices of those securities appreciated significantly following the script issuance. In other words, the price of US securities was inflated by abnormal demand. In the scramble for credit in late July and early August, many of these US bonds were

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<sup>117</sup> Seth Johnson to Andrew Craigie, "From Seth Johnson to Andrew Craigie--'For It Would Be Much More Advantageous for the Holders of Funded Debt & Scrips in Order to Raise Money to Sacrifice 10 P Cent [sic] on the Former by Selling the Price Than to Sink 50 or 100 on the Latter.'" August 20, 1791, Andrew Craigie Papers, III, pg. 68, American Antiquarian Society.

<sup>118</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 41-43.

pledged as collateral for loans at the inflated market price.<sup>119</sup> It was here that Hamilton sensed real systemic danger. If US securities prices returned to more reasonable prices—much less crashed—the market price at which bonds could be liquidated was lower than the value at which they were pledged as collateral. When speculators like Johnson liquidated their US debt to free up cash to exit positions in scrip, further downward pressure was put on those securities’ already retreating price. When faced with serious declines in the value of their collateral, lenders would issue what in modern parlance is a “margin call,” requiring the borrower post additional collateral or liquidate the outstanding loans. The only alternative for cash-poor borrowers would be to dump additional holdings of US securities, BUS scrip, and other assets to cover their obligations, further exacerbating the deflationary spiral. Credit would eventually dry up completely and assets would hold little cash value, if cash could be found at all.

Hamilton was not simply a wonkish technocrat concerned about the details of economic policy. He was a nationalist visionary who viewed policy in the context of America’s development into a great power. When Hamilton wrote to Rufus King, “a bubble connected with my operations is of all the enemies I have to fear, in my judgment, the most formidable...,” he was referring to an event that would destroy broader social trust in constitutional institutions.<sup>120</sup> The “South Sea dream” Hamilton described to

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<sup>119</sup> US 6s were commonly used as collateral for terms deals—“A lot was put up on credit to 3d April, for which six per cents, were to be lodged as security--it was struck off to a private bid at 213.”; “New-York, August 19. PRICE OF STOCKS. [Published in the Albany Gazette on 25 August 1791].,” *Albany Gazette*, August 19, 1791.

<sup>120</sup> Alexander Hamilton to Rufus King, “From AH to Rufus King--‘...For a Bubble Connected with My Operations Is of All the Enemies I Have to Fear, in My Judgment, the Most Formidable...’,” August 17, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default>.

William Duer was an image of more than economic stagnation—it was that of a truly shaken nation.<sup>121</sup> Hamilton admitted that he had tried to prick the bubble before it reached a destructive level, but his warnings were either manipulated or simply not heeded.<sup>122</sup> Despite their lack of success, Hamilton’s attempts to influence market valuations are noteworthy. Hamilton believed that the Treasury had a responsibility to do more than simply carry out fiscal and, at that time, monetary policy. In extraordinary circumstances, the Treasury Secretary was required to be a market participant, “to counteract delusions...[and] secure foundation[s] on which to stand.”<sup>123</sup> The Treasury Secretary, in other words, was charged with combating threats to American economic, and therefore political and social, survival.

“The crisis was one of liquidity,” wrote historian David J. Cowen. “The Treasury Secretary knew exactly how to combat the problem: add money to the system.”<sup>124</sup> While several of Hamilton’s confidants were convinced that, in the words of Rufus King, “A check was necessary, the explosion will restore order, and we shall return to our regular

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<sup>121</sup> Hamilton, Alexander, “From AH to William Duer, 17 August 1791,” August 17, 1791, <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-9&expandNote=on#match>.

<sup>122</sup> Alexander Hamilton to Rufus King, “From AH to Rufus King--‘...For a Bubble Connected with My Operations Is of All the Enemies I Have to Fear, in My Judgment, the Most Formidable...’”; John C. Miller, in his *Alexander Hamilton: Portrait in Paradox*, argued that an August 13 article published in the *Gazette of the United States* by “A Real Friend to Public Credit was written by Hamilton. The piece defends the BUS on its merits and sets positive, though realistic, benchmark for the proper price of script. The exceptional length of the piece and deep understanding of the financial system lend credence to Miller’s theory of Hamiltonian authorship. However, several modern Hamilton scholars disagree. David J. Cowen wrote, “while probably not authored by Hamilton, then certainly encouraged by him,” and mentioned in his footnote, “in a personal conversation with Professor [Richard] Sylla, he noted that the style and tone of this letter does seem typical of Hamilton.” Most other modern Hamilton scholars agree with Sylla, including Harold C. Syrett, editor of the 27-volume *Papers of Alexander Hamilton*, who did not include the article in the Hamilton papers.

<sup>123</sup> Ibid.

<sup>124</sup> Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*, 52.

pursuits,” Hamilton was unwilling to risk economic *and* political collapse.<sup>125</sup> Therefore, over the weekend of August 13-14, Hamilton formulated a dynamic and novel plan to purchase large amounts of US securities on the open market. In theory, the injections of cash would help dealers settle their accounts without resorting to fire sales. Hamilton also hoped to unlock liquidity and credit markets, thus providing stimulus for general commerce.

On the morning of Monday August 15, Hamilton convened a meeting of the Commissioners of the Sinking Fund and gained approval for the Treasury to spend “between three and four hundred thousand dollars” to buy US securities on the open market in New York and Philadelphia. Hamilton’s submission to the Board demonstrates his insistence on only using legitimate government power. The other two commissioners present—Secretary of State Thomas Jefferson and Attorney General Edmund Randolph—were certainly not proponents of the arbitrary exercise of governmental action. Given the unusually large size of the sum Hamilton requested, and Jefferson’s skeptical nature, Hamilton likely explained his plan and its implications. The fact that Jefferson and Randolph quickly certified the purchases, and that Jefferson never mentioned the event, suggests that even if the Virginians were not enthusiastic about Hamilton’s plan, they saw it as necessary. Never a free-market purist, Jefferson seemed to have no objection to the use of legitimate governmental power to support financial markets in times of crisis.

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<sup>125</sup> Rufus King to Alexander Hamilton, “From Rufus King to AH, 15 August 1791.”

Lacking a Treasury Department presence in New York, Hamilton enlisted personal friend and Bank of New York cashier William Seton to serve as the government's agent. On August 15, Hamilton charged Seton with purchasing \$150,000 of US securities on behalf of the Sinking Fund.<sup>126</sup> Treasurer of the United States Samuel Meredith was tasked with purchasing US securities in Philadelphia. While directions from Hamilton to the Treasurer have not survived—Hamilton most likely gave Meredith verbal instructions—Meredith was almost assuredly ordered to purchase the same amount of stock as Seton. The following day, Hamilton seemed uncharacteristically cautious as he described his goals to Seton. His principle aim was “to keep the Stock”—Hamilton always referred to US securities as “stock” and BUS script as “script”—“from falling too low in case the embarrassments of the dealers should lead to sacrifices.”<sup>127</sup> Preventing the type of deflationary spirals that undercut broader social confidence in the system and government was Hamilton's chief priority.

Hamilton also strove to reconcile the legality of his policy with broader economic necessity. The National Bank bill stipulated that Sinking Fund purchases must be made openly by a “known agent for the public.” While Hamilton agreed with this idea in principle, he was concerned about the “moral hazard” that could arise from such an admission. A dangerous result of government intervention in markets, moral hazard is the

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<sup>126</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘...I Have Concluded to Apply One Hundred and Fifty Thousand Dollars Towards Purchases in the City of New York and to Ask You to Undertake the Execution of the Business.’,” August 15, 1791, <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-15-6>.

<sup>127</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘A Principal Object with Me Is to Keep the Stock from Falling Too Low in Case the Embarrassments of the Dealers Should Lead to Sacrifices...’,” August 16, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-16-3>.

idea that firms or individuals will enter deals with a large upside knowing that their downside risk is covered by another party. Hamilton did not want dealers thinking that they could continue making risky bets believing that government would bail them out. Hamilton therefore urged Seton to act with lawyerly precision. “When you make a purchase therefore it will be proper that it should be understood that it is on account of the United States but this need not precede the purchase, and it will be best that there should be no unnecessary demonstration lest it should raise hopes beyond what will be realised.”<sup>128</sup> The last thing Hamilton needed was speculators taking new risks.

Hamilton firmly believed that speculative short sellers were responsible for the crash. Despite their friendship, Hamilton thought that William Duer and members of his circle were to blame. He directly leveled this charge at Duer in a letter on August 12.<sup>129</sup> Duer’s melodramatic response in which he decried the “the malicious aspersions of those who Aim to destroy my character” and averred his adherence “to the most rigid Principles of Candor, and fair Dealing” is classic bluster.<sup>130</sup> Yet Duer’s actual response to Hamilton’s accusations is enlightening on several levels. Duer claimed that he only had a small position in script and was not responsible for the script bubble—a claim supported by a thorough examination of Duer’s records. He did, however, provide a unique and insightful perspective on the tactics and internal structure of the speculating community.

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<sup>128</sup> Ibid.

<sup>129</sup> This letter, dispatched August 12, has been lost, but its contents can be reasonably deduced by Duer’s sanctimonious response.

<sup>130</sup> William Duer to Alexander Hamilton, “From William Duer to AH--‘Those Who Impute to My Artifices the Rise of This Speicies of Stock in the Market, Beyond Its True Point of Value Do Me Infinite Injustice.’” August 16, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-search-1-7&expandNote=on#match>.

“The Arts of Designing men (combined with the heated Imagination of new Adventurers),” Duer wrote, “were then practising on the Fears of the Unskillfull to induce them to sacrifice them as an Article worth nothing.” These “new Adventurers” are identified as quite separate from the moneyed elite and the “Unskillfull” common citizens who deserted their shops and ships. They were inventive and bold and attempted to reconstruct their positions by continuing to manipulate the market.

Perhaps the most striking aspect of Hamilton’s interventionist policy was his concerted effort to actively combat the short sellers threatening the market. Hamilton feared that that the schemers would attempt to torpedo US securities as they had script and was determined to fight fire with fire. “If there are any Gentlemen who support the *funds* and others who *depress* them,” Hamilton wrote to Seton, “I shall be pleased that your purchases may aid the *former*. This in great confidence.”<sup>131</sup> In essence, Hamilton ordered Seton to cut the legs out from under the shorts. Hamilton did not only want to stabilize prices, thereby undermining their short positions. The Treasury Secretary sought to actively discriminate against the shorts, depriving them of the much-needed cash that would be provided to their bullish colleagues. This move was intended to make a statement—the Treasury would not stand idly by while speculators endangered economic stability. If they did so, they would face a powerful and stalwart foe in the Treasury Secretary.

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<sup>131</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘A Principal Object with Me Is to Keep the Stock from Falling Too Low in Case the Embarrassments of the Dealers Should Lead to Sacrifices...’”

Hamilton understood that he was entering uncharted waters. That he urged Seton to hold his motives “in great confidence” is quite revealing. As long as Seton was simply purchasing debt on the open market, the Treasury could claim that it was only fulfilling its fiduciary duty. The incredibly large purchases and timing of those purchases could be chalked up to coincidence. However, the intentional discrimination of those from whom the Treasury purchased its bonds was nowhere in the Sinking Fund’s legal purview. Hamilton, however, believed it was his duty to preserve and protect the financial system, and therefore, the new government of the United States. The discretion to purchase securities from whom he saw fit was an acceptable means to accomplish those ends.

**“Can anything be done do you think by speculating in this article?”**

As Hamilton prepared his liquidity injection program, asset prices continued to fall. In Philadelphia, script prices hit a low of \$137 on August 15 and then \$131 on August 16.<sup>132</sup> US securities hit fresh lows as well. “Many are much distressed to comply with their Engagements having bought Scrip high on Time,” Mordecai Lewis wrote, indicating the prominence of contracts that were soon to be unfulfilled. However, Samuel Meredith began purchasing securities later on the 17<sup>th</sup> and the next day prices reversed their downward trend.<sup>133</sup> “This [was] be a great Relief to many,” Lewis wrote, “and stop[ped] for the present the further decline of stocks.”<sup>134</sup> By August 18, US securities

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<sup>132</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Many Are Much Distressed to Comply with Their Engagements Having Bought Scrip High on Time.’”; Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Yesterday the Treasury Gave Notice That HE Would Buy...’”

<sup>133</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Yesterday the Treasury Gave Notice That HE Would Buy...’”

<sup>134</sup> Ibid.

prices had stabilized and even rose slightly to 101.25 percent of par (22/3 £).<sup>135</sup> William Seton did not begin his open market purchases until August 18. \$57,500 of deferred 6s and 3s were purchased on August 18 and Seton continued to acquire securities right up to the \$150,000 set by the Treasury Secretary.<sup>136</sup> Prices of both script and US securities stabilized and even experienced a slight bump from their August 15 lows.<sup>137</sup>

By Friday August 19, the crisis seemed to be in retreat. While many inexperienced investors financially devastated, broader systemic damage had been contained. To the experienced investors, however, many of whom had avoided major damage, the destitution of the shopkeeper and tradesman represented an opportunity. The Treasury, through its liquidity injections, had stopped the slide of script and it was now available at bargain prices. On August 17, Mordecai Lewis wrote to Nicholas Low, “Scrip sold last night as low as 131 & many think it must come lower. Can anything be done do you think by speculating in this article?”<sup>138</sup> Among the nascent nation’s moneyed elite, the sentiment was ubiquitous. Men like Mordecai Lewis, William Constable, Robert Morris, Isaac Whippo, Nicholas Low, and William Duer now found themselves unable to resist the allure of script. In this episode, the novices had failed. Soon, however, the experts would have their own turn.

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<sup>135</sup> “[Public Securities Price Report],” *Federal Gazette*, August 18, 1791.

<sup>136</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 18 August 1791,” August 18, 1791, [http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-print-01-09-02-0058.](http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-print-01-09-02-0058.;); Hamilton requested that both Seton and Meredith concentrate their purchases on deferred 6s and 3s. These securities had a lower yield and allowed the Sinking Fund to retire more debt for the fixed amount of money with which it had to work.

<sup>137</sup> “NEW-YORK. TUESDAY, August 16. Price of STOCKS Sold at Auction Yesterday...” *New York Daily Advertiser*, August 16, 1791, 2025 edition.

<sup>138</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Yesterday the Treasury Gave Notice That HE Would Buy...’”

**Chapter III:**  
**“We got beyond the force of our own capital & beyond the  
point to which foreigners were yet prepared to go.”**

The week of Monday, August 15, echoed with uncertainty. The crash that began in New York on Thursday, August 11, and spread to Philadelphia on August 12, was dizzying in its effects. Bank of the United States script certificates lost between 35 to 60 percent of their peak value in a mere 48 hours. During the same period, US securities fell between 15 and 25 percent. Any hopes that the Sunday break in official trading would stem the downward spiral were quickly dashed. The decline in script and US bond prices continued when auctions resumed on Monday, August 15. Virtually all who invested in script were burned. Everyone from farmers and shopkeepers to professional investors, the “new adventurers” referred to by William Duer, received their first and, in many cases, last taste of the bitter possibilities of modern finance. “The apprehensions which were conceived of the consequences of the unparalleled rise of public Stock, beyond all calculation are verified; and stock is now falling with as much rapidity as it rose,” wrote the *New-Jersey Journal*. “The bubble has bursted, and brought rein, to many in its train.”<sup>1</sup>

The potential for long-term economic and political damage was real. The United States was only beginning to emerge from the economic malaise of the 1780s, a period

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<sup>1</sup> “Elizabeth-Town, August 17.--‘The Bubble Has Bursted, and Brought Rein, to Many in Its Train.’” *New-Jersey Journal*, August 17, 1791, 409 edition.

Thomas K. McCraw called “likely the worst [economic] decade in American history except for the 1930s.”<sup>2</sup> Growth was tepid and confidence, that all-important instigator of enterprise, was tenuous at best. Hamilton’s financial system relieved citizens in many states of crushing tax burdens, opened up credit channels, and expanded the money supply. Yet the entire financial system was founded upon the stability of US securities that were, on August 15, 1791, teetering on a knife’s edge. US six percent (6s), three percent (3s), and deferred six percent (deferred 6s) bonds had already been significantly impacted in the script market crash.<sup>3</sup> However, US bonds faced a crash of their own as speculators plotted all-out liquidations to raise cash.<sup>4</sup> The collapse of BUS script and US securities, two instruments that were not only technically, but symbolically vital to Hamilton’s financial reforms, would deal a crippling blow to American economic confidence.

The impact of a full-on economic crisis on national cohesion would be even more serious. The relationship between the success of Hamilton’s economic agenda and governmental legitimacy cannot be overstated. “[S]ince the country was not yet a nation in anything but name,” McCraw writes in *The Founders and Finance*, “persistent

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<sup>2</sup> Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge, Mass: Belknap Press of Harvard University Press, 2012), 47.

<sup>3</sup> In modern developed markets, bond and equity prices almost uniformly move in an inverse relationship. Bear markets lead investor seeks stable, if minimal, returns in the debt of reliable governments. In a bullish market, however, investors tend to emphasize the higher return of stocks. While Hamilton had largely repaired the public credit, US government debt was not considered the safe-haven they are today. Therefore, US securities were considered much more like modern equities than the ironclad, low-yield bonds that exist today.

<sup>4</sup> Seth Johnson to Andrew Craigie, “From Seth Johnson to Andrew Craigie--‘For It Would Be Much More Advantageous for the Holders of Funded Debt & Scrips in Order to Raise Money to Sacrifice 10 P Cent [sic] on the Former by Selling the Price Than to Sink 50 or 100 on the Latter.’”

economic crisis raised the specter political disintegration.”<sup>5</sup> The Bank of the United States was much more than a facilitator of commerce—it was a symbol of the power and prestige of the national government.<sup>6</sup> Likewise, US securities were a tangible representation of the American union. The collapse of either of these institutions—economically, legally, or, most importantly, in the public opinion—would strike at the very heart of America’s tenuous social compact.

As the week of August 15 began, the solidity of script and US securities was very much in doubt. Hamilton’s liquidity injections on August 17 and 18 put a floor under asset prices and, at least temporarily, steadied the market. Yet the Panic of 1791 was far from over. The public was shaken by the events of the previous week. Word of the crash quickly spread far beyond the coastal urban centers as newspapers from Maine to South Carolina published reports and editorials on “scriptomania.” While public perceptions of banking were slowly improving, the vast majority of Americans were completely ignorant of even the basics of financial capitalism. Thus when panic struck, ignorance bred fear and fear bred contempt. Anger became palpable. To skeptics, as well as those who had reserved their judgment of Hamilton’s system, the bubble and crash was evidence of the unfair and dangerous nature of modern financial capitalism.

Yet under the turbulent surface of public dissention, a new speculative wave was forming. Many investors, elite brokers as well as inexperienced adventurers, saw opportunity in the wreckage of the August 11-12 crash. “All disinterested and thinking

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<sup>5</sup> McCraw, *The Founders and Finance*, 47.

<sup>6</sup> Donald F. Swanson and Andrew P. Trout, “Alexander Hamilton, ‘the Celebrated Mr. Neckar,’ and Public Credit,” *The William and Mary Quarterly* 47, no. 3 (July 1, 1990): 422.

men seem to agree that the spirit of speculation, which has lately shewn itself, is an evil,” wrote the *New York Daily Advertiser*. “[B]ut many appear to think it will work its own cure, and severe losses will beget reflection. If this spirit is similar to that displayed at the gaming table, it is not to be feared that professed speculators will be as incorrigible as professed gamblers, and will not those who gain, speculate on to get more, and those who lose, speculate on to retrieve their losses[?] Hope never forsakes the gambler.”<sup>7</sup>

Thus, a striking and, as history reveals, recurring pattern took root during the third week of August 1791. As public rage at imprudent and destructive speculation reached a fevered pitch, the seeds of the next financial crisis were being sown. A second script bubble was already gaining steam, this time fueled by many of the elite investors who avoided damage on August 11 and 12. The severe losses experienced by less experienced financiers bred hubris rather than circumspection among financial elites. Many saw opportunity in the wreckage of the first crash and paid no heed to the downfall of those they saw as their social inferiors. Less than one month after the first market crash in American history, the financial system would once again be on the brink of collapse.

**“Huzza for a good scheme, huzza.”**

When considering the development and management of the new American financial system, historians often characterize Hamilton as something of a wonkish technocrat. This assumption is, on the surface at least, understandable. Hamilton’s reports to Congress—on Public Credit, a National Bank, a Mint, and Manufactures—are largely technical policy declarations. Yet Secretary Hamilton was far from a disinterested

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<sup>7</sup>“From a Correspondent,” *New York Daily Advertiser*, August 25, 1791, 2033 edition.

financial policymaker. In a republic (to borrow a phrase from a later Hamiltonian), “of the people, by the people, for the people,” the affairs of the Treasury were, in the end, intensely political. The deep connection between the new American regime and Hamilton’s financial system, both symbolic and practical, only reinforced the importance of continued public confidence in the new constitutional regime. Hamilton understood this relationship better than anyone of his day. In conducting open-market purchases and thereby stabilizing US securities and BUS script, Hamilton was not simply preserving a financial network. Beyond that economic concern, Hamilton aimed to preserve public confidence in the government for which he had argued so forcefully in the *Federalist* and the New York ratifying convention.

Despite Hamilton’s astute management of the financial effects of the crash, public confidence in the system itself was deeply shaken. While few Americans understood the intricacies of the crash, the resultant economic and social disruptions indicated that it was indeed the menace anti-bank forces had long described. Not only were men hanging themselves in despair of their losses, but everyday commerce was also significantly affected. The shopkeeper, tailor, and prentice boy who entered the market for the first time and invested their meager cash in new financial instruments, came away stung. America’s first financial crisis forced American citizens to decide whether this new economic system coincided with their vision of America’s past and future.

The press gave a significant voice to the public debate over this issue. While newspapers became fierce partisan mouthpieces later in the 1790s, many were

surprisingly balanced in the summer and fall of 1791.<sup>8</sup> Likewise, the contributory nature of newspaper content provided a decent view of the topics that dominated the public consciousness. In other words, Newspapers were the hub around which the wheel of public opinion turned. Published journals were pervasive in 1790s America and increasingly available to ordinary people and elites alike. “Of course, by modern standards the circulation of individual newspapers remained small,” writes eminent historian Gordon S. Wood. “Yet because they were often available in taverns and other public places and were sometimes read aloud to groups, they did manage to reach ever larger numbers of people.”<sup>9</sup> Even the illiterate, a group that was quickly dwindling in America, were able to participate in the public debate sparked by the Panic.

It is important to note the immense volume of newspaper coverage that the Panic received, especially in the days and weeks following the crash of August 11 and 12. While articles, commentaries, and price quotations certainly existed as the bubble was expanding, they were scattershot at best. Only twice prior to August 11 did multiple pieces on the bubble appear in the same issue of a newspaper. By contrast, coverage of the crash and its effects was ubiquitous in big and small city papers alike. In many cases, multiple features—whether pseudonymous opinion pieces, letters to the editor, price

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<sup>8</sup> My essay entitled, “Established upon NATIONAL, INDEPENDENT, and IMPARTIAL PRINCIPLES”: A Reevaluation of the Early American Press,” argues that the predominant historiographical assumption of a American press that was, according to Michael Schudson, “intensely partisan, [and] frequently founded as weapons of party or faction,” is inaccurate and short-sighted. I contend that “early American newspapers were not as single-minded as they have been portrayed. While coverage was rarely objective, it was often balanced. Newspapers were largely editorial, but not necessarily unrelentingly partisan. . . . [E]ven the most partisan outlets, with a few exceptions, projected a far greater diversity of perspective than historians have previously accepted.”

<sup>9</sup> Gordon S. Wood, *Empire of Liberty: a History of the Early Republic, 1789-1815*, The Oxford History of the United States (Oxford; New York: Oxford University Press, 2009), 252–253.

calculations, or correspondent reports from other cities—appeared in single editions. In a few cases, the Panic received full-page coverage, complete with poetry, editorials, and contextual information.<sup>10</sup> This depth of reportage was virtually unprecedented in a time when actual news, as opposed to advertisements, often filled only one of the common newspaper’s four pages.<sup>11</sup> The sheer volume of coverage suggests how the Panic of 1791 came to have such a broad impact. Not only did a significant swath of the American populace try their luck in the market—the grocers, sea captains, and prentice boys that Benjamin Rush referred to—but even those not directly involved in the market were aware of the events unfolding around them. The newspapers made sure of that.

The post-crash coverage and related debates reveal many things about the mood and direction of the American public. Perhaps most evident is the public’s sheer ignorance about the new world of finance. Many newspapers recognized this gap in the public knowledge and began publishing substantial treatises on “Stock-jobbing,” “Money,” and “Bubbles” from Malachy Postlethwayt’s *Universal Dictionary of Trade and Commerce*.<sup>12</sup> Postlethwayt compiled vast amounts of economic, financial, and commercial information into a single source, ranging from foreign exchange tables to essays on British tobacco regulation. The vast scope of *Universal Dictionary of Trade and Commerce* made it the era’s definitive source on financial matters. This is not to say

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<sup>10</sup> “Full Page Coverage of SCRIPOMANIA!,” *New-York Journal*, August 17, 1791, 65 edition.

<sup>11</sup> In *The Sociology of News*, Michael Schudson accurately describes the cultural context of Early America’s print industry. “In colonial America,” Schudson writes, “printers were businessmen first, not journalists. They pretty much invented the newspaper as they went along, amid efforts to make money selling [various products] out of their print shops. Their newspapers were four-page weekly journals initially designed to advertise their printing business.”

<sup>12</sup> Malachy Postlethwayt, *The Universal Dictionary of Trade and Commerce*, 4th ed, Reprints of Economic Classics (New York: A. M. Kelley, 1971).

that the information provided in American papers was always unbiased. Editors still found ways to express their opinions about the BUS by surrounding “objective” information with their own commentary. The *New-York Journal*, for example, prefaced its publication of Postlethwayt by stating:

Jobbing, in the American Stocks, is approximating, with rapid strides, towards the whirlpool of personal bankruptcy, individual nabobship, stagnation of trade, commerce, and the mechanic arts, and national infamy--When such alarming circumstances yawn before us, and discover the vortex of political destruction, TRUTH should not be hoodwinked, but every means be pursued, but one who regards the public weal as the apple of his eye, to spread the alarm, and warn the unwary, unskilful dabbler against the unprincipled, diabolical intrigues of professed speculators.<sup>13</sup>

However, several other newspapers published Postlethwayt’s discourses without providing editorial commentary.<sup>14</sup> These financial sources provided newspaper readers with a fundamental knowledge of the economic circumstances in which they found their new nation.

A deeper level of financial understanding proved more elusive, even amongst those who claimed expertise in the subject. Beginning almost immediately after the script issuance on July 4, newspapers began publishing opinion pieces in which mostly anonymous authors presented estimations of BUS script’s real market value. These short articles included everything from mathematical calculations to predictions about the United States’ future place as a trading power. Calculations predicting the future prices of bonds and script were among the most important pieces. These articles were written in financial vernacular in relatively technical language, indicating that the authors were not

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<sup>13</sup> “MISCELLANY. For the New-York Journal, & c.--‘Jobbing, in the American Stocks...’,” *New-York Journal*, August 17, 1791, 65 edition.

<sup>14</sup> “STOCK JOBBING. The Art or Mystery of Trafficking in the Public Funds. Extract from the Laws and Statues Concerning Exchange Brokers and Stock Jobbing.” *ClayPoole’s Daily Advertiser*, August 19, 1791, 69 edition.

the common citizens who abandoned their shops, ships, and spades to try their hand in the market. No, the authors of these articles were most likely the financial experts of the day; those whom the citizenry assumed knew what they were doing.

In retrospect, it is clear that astounding inaccuracy marred almost every printed price calculation. This fact exposes the inability of even the most knowledgeable investors to make an accurate prediction about what would soon be happening in the financial markets. The *Daily Advertiser* featured a range of bullish and bearish calculations during the week of August 14-20. Some of the predictions were reprinted from other newspapers—none of them were accurate.<sup>15</sup> Philadelphia's *Claypoole's Daily Advertiser* published a prediction of \$447 in its August 16 issue that was exceedingly bullish, especially considering script was trading at a high of \$162.50 in New York and only \$131 in Philadelphia on that day.<sup>16</sup> The calculations in that newspaper's August 19 issue displayed an even greater lack of understanding. In that issue, *Claypoole's* reprinted a piece from the *Federal Gazette* that contained two widely different calculations side by side.<sup>17</sup> The first, entitled "Bank Script No Bubble," argued that BUS script had a real value of \$531, making it a steal at its current price. The adjacent piece took the exact opposite opinion, claiming that BUS script was only worth \$87.50. Both estimations

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<sup>15</sup> "From the American Daily Advertiser.--'You Will Oblige a Customer by Inserting the Following Calculations in Your Useful Paper---'," *New York Daily Advertiser* (New York, August 15, 1791), 2024 edition; "Bank Script. An Estimate of The Real Value of Script, Supposing the Bank of the United States to Divide Seven and an Half Upon the Whole Capital.," *New York Daily Advertiser* (New York, August 17, 1791), 2026 edition.

<sup>16</sup> "[Calculations of the Correct Share Price of BUS Scrip]--'Mr. Claypoole, The Cost of a Share in the Bank of the United States...'," *ClayPoole's Daily Advertiser*, August 16, 1791, 66 edition; "Price of Stocks Sold at Auction Yesterday Noon.," Mordecai Lewis to Nicholas Low, "From Mordecai Lewis to Nicholas Low--'Yesterday the Treasury Gave Notice That HE Would Buy...'"

<sup>17</sup> "From the Federal Gazette. Bank Scrip No Bubble," *ClayPoole's Daily Advertiser*, August 19, 1791, 69 edition.

appeared in many different newspapers across the country in subsequent weeks, making it all the way to South Carolina by August 24.<sup>18</sup> Unfortunately, both estimations were wildly inaccurate. Hamilton, who had as deep an understanding of financial markets as anyone in America, told Rufus King that he believed \$195 was an appropriate price for BUS script (which is very close to where script settled once the BUS opened in December).<sup>19</sup> While not every calculation should be expected to match Hamilton's level of precision, the near-universal dearth of authoritative advice demonstrates just how new and misunderstood modern finance was to the layperson and "expert" alike.

The way in which Americans sought to dispel their ignorance of modern finance sheds light on the widespread societal understanding, and distaste, for the bubble and crash. By and large, early Americans were children of the Enlightenment. While the Enlightenment took different forms in different places, historian Ned C. Landsman states, "The Enlightenment was characterized by the widespread belief among the educated classes that western civilization had crossed a threshold from superstition to science, from the chains of ancient belief to a new era of worldly improvement founded on intellectual discoveries patterned on the scientific method."<sup>20</sup> Postlethwayt's elucidation of previously misunderstood economic forces in a methodical and scientific form reflected quintessential Enlightenment thought. The repeated publication of Postlethwayt's treatises in American newspapers, among much other similar material,

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<sup>18</sup> "An Estimate of the Real Values of the Script Supposing the Bank of the United States to Divide Seven and an Half Upon the Whole Capital," *The City Gazette or The Daily Advertiser*, August 24, 1791, 1864 edition.

<sup>19</sup> Alexander Hamilton to Rufus King, "From AH to Rufus King--'...For a Bubble Connected with My Operations Is of All the Enemies I Have to Fear, in My Judgment, the Most Formidable...'"

<sup>20</sup> Landsman, *From Colonials to Provincials*, 5.

reveals the extent to which Americans were eager to explore the rational and scientific foundations of the social and economic turmoil their country was experiencing.

America's Enlightenment mentality expressed itself in another way during the Panic. A principle tenet of the Scottish and American Enlightenment was the elimination of irrational "enthusiasm" from all components of social life. "The Moderate Enlightenment," writes Landsman, "valued moderation, order, sobriety, civility, and decency." Rationalist Enlightenment ideology emphasized "governing the passions."<sup>21</sup> Religion was a primary target, as Enlightenment figures exalted "religion of the head over religion of the heart and [the] effort to explain the divine plan according to natural laws."<sup>22</sup> However, moderation and restraint in all social conduct was deemed just as important as that which occurred in a church. Yet during the bubble and crash, moderation and restraint could not have been further from the conduct of investors in the country's financial markets.

While some objections to the BUS and its script bubble were populist arguments based on ignorance and fear, many objections to BUS speculation focused on the "enthusiastic" manner in which it was carried out. More precisely, many critics objected to the uncontrollable enthusiasm that speculation unleashed in investors. "Every person who feels for the dignity of human nature, must lament the fatal effects enthusiasm has on the mind of man," "A Citizen" wrote in the August 17 issue of the *New York Daily Advertiser*. Far from an attack on the destructive effects of the frenzy, A Citizen condemned the "enthusiastic," unenlightened behavior that fueled the Panic itself.

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<sup>21</sup> Ibid., 107.

<sup>22</sup> Ibid., 6.

“Sometimes firmness, understanding, philosophy, virtue, all combined,” A Citizen wrote, “submit to its pernicious ascendancy—enthusiasm in religion, in politics, in pursuit of riches, in short in anything and everything, is equally dangerous in diverting the mind even against the evidence of our own senses.”<sup>23</sup>

In contrast with the Jeffersonian objection to banking in and of itself, A Citizen decried modern financial speculation because it unleashed the basest of human impulses. To many Americans, finance and banking, and the speculation that inevitably ensued, had a unique power to release the passions that enlightened gentlemen spent most of their lives trying to repress. Like excessive drink, unreasoning enthusiasm impaired the mind and left wise decision making no hope against the intoxicating thrill of impulse. “The avaricious mind cataches the Scripts, pursues the theme with avidity, they rise daily, nay hourly, until the original contrivers dread a longer trial, sell out their stocks of scripts to new adventurers, secure their fortunes, and ruin to the later is inevitable.”<sup>24</sup> This ruin posed a significant societal threat and newspapers across the country began publishing sarcastic, angry screeds against the BUS and financial system. In a poem entitled “SPECULATION,” the *Gazette* published:

What magic this among the people,  
That swells a maypole to a steeple?  
Touch'd by the wand of speculation,  
A frenzy runs thro all the nation;  
For soon or late, so truth advises,  
Things must assume their proper sizes--  
And sure as death all mortals trips,

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<sup>23</sup> A Citizen, “For the Daily Advertiser.--‘Every Person Who Feels for the Dignity of Human Nature, Must Lament the Fatal Effects Enthusiasm Has on the Mind of Man.’,” *New York Daily Advertiser*, August 17, 1791, 2026 edition.

<sup>24</sup> *Ibid.*

Thousands will rue their faith in SCRIPS.<sup>25</sup>

The lesson of “SPECULATION” was clear: frenzy and enthusiasm made the natural unnatural. “Things,” the poem assured its readers, would soon return to a natural state and those who caused the distortion would be ruined.

The criticism was not limited to songs or poetry. In “Script, Script, Script,” originally published in the Philadelphia *General Advertiser*, “C.” sardonically urged the publisher to “Convert immediately your whole printing office into Bank-stock; and you will change every type, nay, your very imposing stone into gold.”<sup>26</sup> Pieces like this vented anger and fear, but they also led Americans to seriously contemplate the country’s economic future.

Throughout the colonial era, the British mercantile system drained the colonies of specie and imposed strict regulations on the domestic American economy. However, political restraints prevented Americans from formulating and implementing an alternative economic model. Thus, the shift to financial capitalism inaugurated by Hamilton’s system was a dramatic shift away from the British mercantile macro-economic mindset in which wealth was finite and to be collected rather than created. More importantly, it also signaled a slow movement away from the agricultural system that dominated the domestic economy. While agrarians and anti-Federalists routinely proclaimed the corrupting nature of a modern financial state, the crash of August 11 and 12 brought urbanites and Federalists face to face with the dangers of modern finance.

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<sup>25</sup> “SPECULATION.”

<sup>26</sup> C., “Script, Script, Script.--From the [Philadelphia] General Advertiser,” *Columbian Centinel* (Boston, Massachusetts, August 20, 1791), 46 edition.

Although debates about the centralized nature of the federal government and the legitimacy of the new Constitution had greatly diminished by August 1791, a new debate emerged about America's future as a capitalist nation.

The crash-fueled debate about America's economic future is perfectly exemplified by a two-article exchange that took place in the August 16 issue of Boston's *Argus* newspaper. The first of the two pieces opened sharply, asking Boston, "Are your *Patriots* asleep, or have they all turned *Speculators*?" It followed with an economic vision that was anything but laissez-faire capitalism. "A free country can only endure, upon an equal distribution of property as far as the course of nature and industry will permit; and the true policy of such a country must inevitable be—preserving this equality of private fortune as well as political rights, as far as practicable."<sup>27</sup> According to the anonymous author, the rise of banks, "*artificial* money"—meaning stocks and securities—and paper currency unfairly favored the moneyed class. The writer's solution was to banish these instruments entirely. While it would be an exaggeration to say that the Panic sparked outcries for a wholesale redistribution of the wealth, articles such as these demonstrate that conceptions of equality, especially in the economic sphere, were far from decided.

A second piece, entitled "THE NINE DAYS' WONDER," took the other side of the debate. The unnamed author separated the speculators from the BUS itself, arguing that the nation's financial problems were circumstantial, not systemic. "The arguments which are, or may be drawn from this extravagant conduct, ought not to be admitted as

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<sup>27</sup> "Extract of a Letter from New-York, to a Gentleman of This Town. New-York, August 10th, 1791.," *The Argus*, August 16, 1791, XLIII edition.

arguments in favor of the stability and advantages of a Bank; but considered as the SCHEME of a mere junto, to answer their own PRIVATE PURPOSES,” the author declared.<sup>28</sup> While “stock-jobbing” was unfortunate and certainly caused damage, he argued, jobbing was “said to be a necessary consequence of the Funding System, with which the public could not borrow such large sums of money as may be necessary...in promoting the Commerce, Agriculture and Manufactures of the Union.”<sup>29</sup> By directly responding to a piece in the previous day’s *Boston Gazette*,<sup>30</sup> “THE NINE DAYS’ WONDER” attempted to separate the damage done by the crash from the system itself.

While defenses of the BUS, markets, and modern finance were published, negative reportage dominated the press. Even the *Gazette of the United States*, the Federalist flagship founded at Hamilton’s behest, stated that “The late speculation in Scrip appear to have had no better foundation than fancy....”<sup>31</sup> In addition, the *Gazette* published several articles a week later arguing that the BUS would not generate enough profit to meet its dividend payments.<sup>32</sup> The suggestion that the BUS was not and would not be a viable institution must have made Hamilton shudder. Bolstering public confidence in the BUS, and thus the new government, was the cornerstone of Hamiltonian strategy. Should confidence disappear, either in the BUS or the government itself, the constitutional consensus of 1787 would be in serious danger.

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<sup>28</sup> “Boston, Tuesday, Aug. 16. THE NINE DAYS’ WONDER.--‘Some Individuals May Suffer in This, as Well as in All Other Speculations. Some Will Accumulate a Fortune...’,” *The Argus*, August 16, 1791, XLIII edition.

<sup>29</sup> *Ibid.*

<sup>30</sup> “On the Bank.,” *Boston Gazette*, August 15, 1791, 1924 edition.

<sup>31</sup> “Says a Correspondent,” *Gazette of the United States*, August 17, 1791, 32 edition.

<sup>32</sup> “It Cannot Reasonably Be Expected, That the Dividends of the Bank of the United States...,” *Gazette of the United States*, August 24, 1791, 34 edition.

The Federalist regime itself, and in particular the Secretary of the Treasury, began to face withering criticism. In “The Fount. The BANK SCRIPT BUBBLE, An Alter’d SONG,” “Grumbletonian” sarcastically chimed,

‘Tis said, that ACHIMISTS [sic] of old,  
    Could turn a brazen kettle,  
Or leaden cistern into gold,  
    That noble tempting mettle;—  
But if it here may be allow’d  
    To bring in great with small things  
Our cunning Sec’ry like a God,  
    Turn’d nothing into all things.<sup>33</sup>

Grumbletonian’s allusion to alchemy is not surprising. The protoscience centered on the transmutation of common metals into gold—or in this case, scraps of paper into fortunes—was a common metaphor used by opponents of modern finance. Much more fascinating, however, is Grumbletonian’s description of Hamilton as “Our cunning Sec’ry like a God...” While the author was certainly commenting on the Treasury Secretary’s expansive powers, Grumbletonian was also making a more implicit accusation of systemic corruption. While alchemy is most well known as a medieval “get rich quick scheme,” the origins of alchemy are distinctly mythological. In several ancient traditions, a deity would bestow the gift of alchemy on those it favored. By alluding to the alchemic process and then comparing Hamilton to a God, Grumbletonian was not simply critiquing modern finance and calling the Treasury Secretary a tyrant. He was accusing Hamilton of outright corruption. According to Grumbletonian, the moneyed class were Hamilton’s

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<sup>33</sup> GRUMBLETONIAN, “THE FOUNT. THE BANK SCRIPT BUBBLE, An Alter’d SONG.,” *Columbian Centinel*, August 24, 1791, 47 edition.

avored few, and the BUS, or at least insider knowledge of the financial system, was their patronage. In this light, the final lines of “The Fount” are incisive:

“Here crafty Statesmen are too wise,  
For those who trust to Fortune--;  
They see the cheat with clearer eyes;  
Who've peep'd behind the curtain:--”<sup>34</sup>

The implication of corruption, like those in “The Fount,” was not limited to government institutions and their officials. Sham sales and general short selling conducted by market insiders damaged the message promoted by pro-BUS advocates of a fair and open market.<sup>35</sup> The belief that the game was rigged spread like wildfire. It found a particularly grating voice in satirical mini-narratives, such as “STOCK-JOBBER’S HALL, BOSTON,” which was published on August 19 in Boston’s *Argus* newspaper. After bragging about his speculative schemes, the fictional “Mr. Indorser” called over his fellow broker “Mr. Tub” just before an auction was to begin. “Mr. Tub,” said Mr. Indorser, “if you will bid upon the three first shares, I will bid upon your 6 percents.” “Very well, Mr. Indorser,” replied Tub, “you may depend upon me.” As the auctioneer performed his duty, the price of script soared to well above what both men knew it was worth. Mr. Indorser quickly returned the favor and both men received inflated bids for the remainder of their property.<sup>36</sup> The scheme, like the real schemes that so distorted prices in New York and Philadelphia, was a decided success for the fictional Indorser and Tub.

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<sup>34</sup> Ibid.

<sup>35</sup> Nalbor’ and John Frazier to Andrew Craigie, “From Nalbro’ and John Frazier to Andrew Craigie--‘We Presume You Must Have Been Informed of the Rapid Rise and Exorbitant Price Which Have Been Demanded for Bank Script...’”

<sup>36</sup> “STOCK-JOBBER’S HALL, BOSTON.,” *The Argus*, August 19, 1791, XLIV edition.

Another fictitious tale, of Cornelius Benleather, a New York shoemaker who left his wife and children to speculate in Philadelphia, told the story of the sort of “new Adventurer” that was largely decimated by the crash. The short story, published in Philadelphia’s *Independent Gazetteer* on August 20, reinforced William Duer’s narrative of a three-tiered structure of speculators—great “Designing men,” “new Adventurers,” and “the Unskillfull”—and alluded to the danger that lay ahead.

In the story, Benleather, like so many real-life artisans, plunged into the script market despite his inexperience. He snapped up script from experienced brokers, widows, and friends, speculating on both short- and long-term credit. He was ebullient as prices rose but on the morning of August 11, Benleather feared “the Stock horizon look[ed to be] lowring.” He clumsily “[o]rdered sham sales for 40 shares, to tickle the market” but his efforts fell short. After the day’s crisis left his account book and reputation in tatters, Benleather could do little more than aimlessly roam the streets of Philadelphia. He wandered late into the night, accompanied only by other distraught traders and his friend “Plodd Squath [who was] just brought to town tied up in a crazy shirt, by two insolent farmers, who declare he is mad for wanting to buy all their *stock*, at twenty times its real worth.”<sup>37</sup> (While this story seems hyperbolic, one must remember the men Benjamin Rush reported having gone mad.) The next morning, Benleather’s ruin was confirmed. “Scrip down to 75; ruin, destruction.—trapp’d with ONE HUNDRED & SIXTY on

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<sup>37</sup> Cornelius Benleather, “Philadelphia, Wednesday, August 20, 1791. MY DEAR MATILDA,” *Independent Gazetteer*, August 20, 1791, 1354 edition.

hand,” Benleather lamented. “Alas! My Shoemaker’s shop in New York, my custom all lost, myself reduced to a poorer tool than an awl or a peg.”<sup>38</sup>

Benleather was bankrupt. So were the real-life “adventurers” on whom his story was based. While sham sales and other financial tricks often benefitted the experienced “Designing men” like Mr. Tub and Mr. Indorser, they regularly backfired on the “new Adventurers.” These botched trading tactics perpetuated market uncertainty and led to the curtailment of credit and retention of cash. Such was true in the fictional case of Cornelius Benleather. More importantly, however, stories of skullduggery and ruin damaged confidence in the financial system as a whole. These stories reinforced the general perception that finance was more alchemy than legitimate enterprise. The market had failed and everyone with access to a newspaper—which was almost everyone—read or heard about it on a daily basis.

Cornelius Benleather’s story, however, did not end with his destitution. A mere twelve hours after his woeful Jeremiad, Benleather began plotting his redemption. “Here, try another express to New York,” Benleather chimed, “[and] Essay on more report at the Coffee-House, that a Dutch dogger is arrived at New-York, with ducats, in bulk, to buy American Stock—huzza for a good scheme, huzza.”<sup>39</sup> Few of the “new Adventurers” dared revisit the market that had so thoroughly trounced them only days before, but after the crash a small cadre of men like Benleather joined a substantial group of experienced investors who saw opportunity in the ashes of August 11 and 12. Contrary to the traditional historical view, the market stability that followed Hamilton’s open-market

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<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

purchases was more aberration than solid recovery. In reality, a new bubble began forming—this time some of the largest financial players in America were active participants.

**“The great fluctuation of Scripts have been caused by a powerful combination at NEW-YORK...”**

A visceral reaction against speculation and the financial system in general dominated public discourse in the weeks following the crash. The anonymous Bostonian who wrote, “The devil take Stock and take Scrip,” seemed to encapsulate the general sentiment.<sup>40</sup> That response was not typical of the investing class, however. To the financial elite who had largely avoided the August 11-12 crash, as well as a relatively small group of “new Adventurers” who had the nerve to double-down on their script positions, the dramatic price declines represented an once-in-a-lifetime opportunity. Hamilton’s liquidity injections successfully stopped the fall in US securities, which depreciated much less than script. In fact, US 6s, 3s, and deferred 6s all stabilized very close to Hamilton’s projection for their long-term value. Script, however, remained significantly depressed in the days after the crash.

Just as the bubble and crash progressed differently in New York and Philadelphia, the market rebounds varied greatly in America’s two leading cities. In Philadelphia, where the price bubble was more pronounced and the crash more resounding, Hamilton’s liquidity injections had an overt and undeniable impact on script and US securities prices. As demonstrated in Figure 5 (below), prices jumped from a low of \$130 on August 17,

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<sup>40</sup> “Miscellany. A SONG.,” *The Argus*, August 23, 1791, XLV edition.

the day Treasurer Samuel Meredith started purchasing US securities at the evening auction, to \$161-\$164 the next day.<sup>41</sup> While reports of the August 17 floor price varied

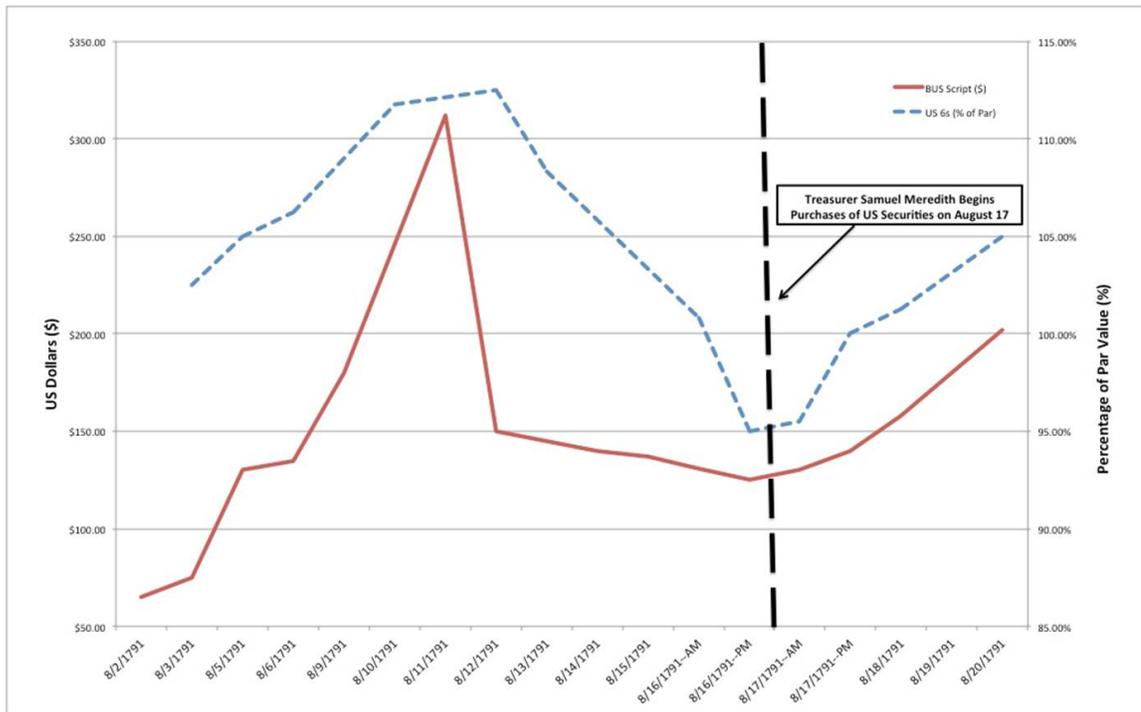


Figure 5: The Impact of Treasury Open Market Purchases on Asset Prices—Philadelphia, August 1791  
 Source: Sylla, Wilson, and Wright (2006), *Gazette of the United States* (August 1791), *Philadelphia General Advertiser* (August 1791), *Federal Gazette* (August 1791), *New York Daily Advertiser* (August 1791), *The Mail, or Claypoole's Daily Advertiser* (August 1791), *New York Daily Gazette* (August 1791), *The Papers of Alexander Hamilton Digital Edition* (2011), Nicholas Low Papers, Andrew Craigie Papers, and James O. Wettereau Collection.

slightly—the *New York Daily Advertiser* reported the low as \$140<sup>42</sup>—the positive impact of Meredith’s capital injections was undeniable. In Philadelphia, US securities fully

<sup>41</sup> “PHILADELPHIA, August 17 [Published on 19 August 1791].--‘We Hear That the Secretary of the Treasury Is Buying 6 Per Cents. at 20s. 1 1/2d.’,” *New-York Daily Gazette*, August 17, 1791, 827 edition; Mordecai Lewis to Nicholas Low, “Scrips Were Sold Last Night @ 161 @ 164 Dolls. Cash--stock Rather Looks up, and We Are Told the Treasr. Has Not Had Much Offerd to Him.,” August 19, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>42</sup> “Philadelphia Price Current. Aug. 17. PUBLIC SECURITIES.,” *New York Daily Advertiser*, August 17, 1791, 2029 edition.

stabilized and BUS script experienced a rebound of between 8 and 18 percent the day after government cash flowed into the market.<sup>43</sup>

The situation in New York was different. While the initial fall in script prices was dramatic—from \$280 on August 10 to \$202 on August 12—the subsequent declines were more gradual than in Philadelphia. More important, however, was the structure of the post-crash rebound. In contrast with the Philadelphia script market, which experienced a strong rebound *immediately after* Meredith began purchasing securities, New York prices began to rebound *before* William Seton began buying US debt on behalf of the Sinking Fund (see Figure 6 below). Seton reported to Hamilton that he did not begin buying securities until August 18,<sup>44</sup> yet script in New York hit its post-crash low of \$154 on August 15. In fact, prices rose to a high of \$162.50 on August 16 and \$171 on August 17.<sup>45</sup> By the time that Seton began buying securities, script reached \$186.50 and a remarkable \$211 on August 19.<sup>46</sup> Seton’s purchases clearly helped stabilize US securities during this period, the price movements of which are closely correlated to Seton’s actions. Yet the fact that script prices bottomed-out and then began to rebound without the help of government funds reveals private-sector forces in New York that were organized and that possessed significant market influence. Unlike Philadelphia, infusions

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<sup>43</sup> The 18 percent calculation was made using the extreme high and low valuations available for August 17 and 18. These values were taken from the sources cited in the previous footnote. The 8 percent calculation is from a comparison of two letters from the same source—Mordecai Lewis. Lewis’s low for August 17 is listed at \$151, as opposed to the \$130 listed in the *New York Daily Gazette*. This discrepancy is responsible for the wide margin of the stated rebound in script prices.

<sup>44</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 18 August 1791.”

<sup>45</sup> “NEW-YORK. TUESDAY, August 16. Price of STOCKS Sold at Auction Yesterday...”; “Price of Stocks Sold at Auction Yesterday Noon.”; “PRICES of STOCKS.--17 August 1791 [Published 18 August 1791.],” *New York Daily Advertiser*, August 17, 1791, 2027 edition.

<sup>46</sup> “PRICE of STOCKS, Yesterday (19 August) Noon at Auction. [Published 20 August 1791.].”

of government cash did not stop the fall of script prices. Instead, strong *private* demand halted the New York market’s decline and sparked its rally.

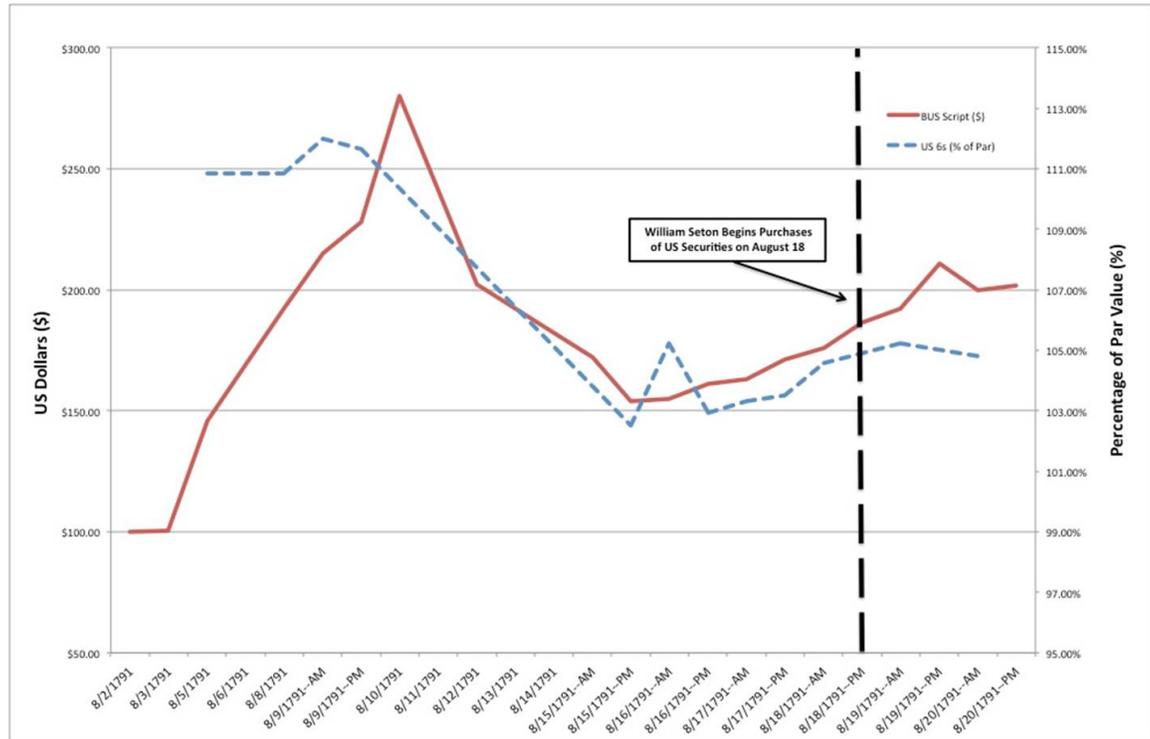


Figure 6: The Impact of Treasury Open Market Purchases on Asset Prices—New York, August 1791  
 Source: Sylla, Wilson, and Wright (2006), Philadelphia *General Advertiser* (August 1791), *New York Journal* (August 1791), *New York Daily Advertiser* (August 1791), *American Mercury* (August 1791), *New York Daily Gazette* (August 1791), The Papers of Alexander Hamilton Digital Edition, Nicholas Low Papers, Andrew Craigie Papers, and James O. Wettreau Collection.

The structure of New York’s script price rebound is difficult to rectify with the traditional interpretation that script crashed due to a sudden cessation of credit. On the contrary, this study argues that a knowledgeable group of speculators intentionally manipulated the market to gain competitive advantage, makes perfect sense of these price fluctuations. It is possible that the post-crash bounce was partly attributable to a textbook “bear market rally,” a common event in which investors believe that prices will soon

cease to decline and therefore buy the asset while it is still cheap.<sup>47</sup> Yet the bear market explanation is not satisfactory. Additional evidence strongly suggests that the post-crash price bounce was the result of coordinated buying by the same speculators who had torpedoed the market on August 11. An August 20 report in the *Columbian Centinel* supports this hypothesis. “The great fluctuation in the price of Scripts the week past is said to have been caused by a powerful combination at NEW-YORK,” the anonymous author wrote, reinforcing New York as ground zero of the speculative schemes. Without skipping a beat, the *Centinel* report identifies the source of the price bounce. “The reduction of the price gave a number of the prime speculators an opportunity to make large purchases.”<sup>48</sup> Thus, certain speculators may well have decided at some earlier point in the panic to purchase large blocks of script to enable themselves to profit from the burst bubble.

Fueled by the post-crash bounce’s self-propelling cycle of asset appreciation, the market faced another bubble a mere 10 days after the first so disastrously burst. The prescient Mordecai Lewis recognized this fact when he sent script to Nicholas Low for sale in New York plainly stating, “If the Bubble has burst again please to keep them.”<sup>49</sup> Recognizing the second bubble, Lewis was selling and not buying. Nicholas Low, however, had fallen victim to the seduction of script. The day after Lewis penned his letter about a second bubble, Low officially joined with a group of ten prominent New Yorkers, many of whom successfully avoided the first crash, with the express purpose of

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<sup>47</sup> Kindleberger, *Manias, Panics, and Crashes*, 32.

<sup>48</sup> “Stocks, & C. as in Our Last. Script 158.--High Scrip Volatility.”

<sup>49</sup> Mordecai Lewis and Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘...If the Bubble Has Burst Again Please to Keep Them (BUS Scrip).’,” August 22, 1791, Library of Congress.

speculating in script. The group included Isaac Whippo, George Scriba, Richard Platt, and William Duer amongst several others, with each contributed \$14,000 to the fund.<sup>50</sup> It is unclear whether the group was conceived directly after the August 11 crash or whether it was hastily organized when prices began to rise. Regardless, this group was not active in time to contribute to the post-crash bounce. Another group of speculators, quite possibly those who instigated the August 11-12 crash, were driving the market. The reemergence of script trading in New York sparked a flurry of activity in the damaged, but still functioning American financial system. As newspapers gave voice to the public rage, the New York jontos were pushing prices higher and higher.

The impact of the price bounce was not isolated to New York. Meredith's August 17 and 18 purchases undoubtedly put a floor under script and stock in Philadelphia (see Figure 7 below), but the dramatic rebound that followed on August 18-20 resulted from the remarkably effective arbitrage channels that existed between the nation's two leading cities. New York's script market hit its low of \$154 on August 15 and rebounded quickly. On the same day, script prices in Philadelphia were already lower than those in New York and did not bottom out until August 17. The national script market was behaving in an inefficient manner—prices were going up in New York and down in Philadelphia. This price separation opened the opportunity for large profits to be made purchasing script in Philadelphia and selling them in New York. The price spreads were significant enough to spark a furious race to profit from the disparities. "No less than twenty

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<sup>50</sup> George Scriba and James O. Wettreau, "Speculative Pool of 10 Prominent New Yorkers," August 23, 1791, Scriba Papers, Bound Vol. 31, New York State Library.

expresses have passed through this city within one week, from New-York to Philadelphia and back,” reported a New Brunswick, New Jersey resident in the *New-York Journal*.<sup>51</sup>

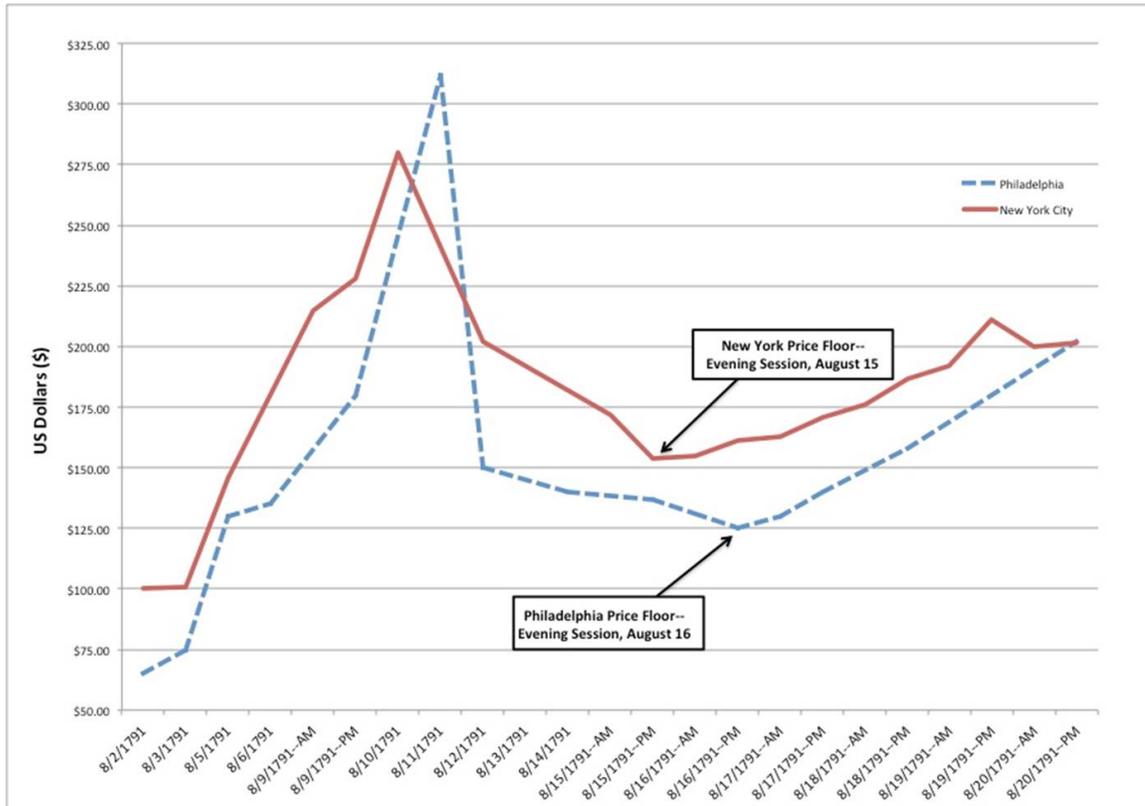


Figure 7: Post Crash BUS Script Prices Price Floors—Philadelphia and New York, August 1791

Source: Sylla, Wilson, and Wright (2006), *Gazette of the United States* (August 1791), *Philadelphia General Advertiser* (August 1791), *Federal Gazette* (August 1791), *New York Daily Advertiser* (August 1791), *The Mail, or Claypoole's Daily Advertiser* (August 1791), *New York Daily Gazette* (August 1791), *New York Journal* (August 1791), *American Mercury* (August 1791), Nicholas Low Papers, Andrew Craigie Papers, and James O. Wettereau Collection.

By Sunday August 21, prices in the two cities had virtually equalized (see Figure 8 below). The speed with which these market inefficiencies were arbitrated away is remarkable to say the least.

<sup>51</sup> “New-Brunswick, August 23.,” *New-York Journal*, August 23, 1791, 68 edition.

Speculative groups were forming all over the country and especially in New York. One such group, led by future Supreme Court Justice Brockholst Livingston,

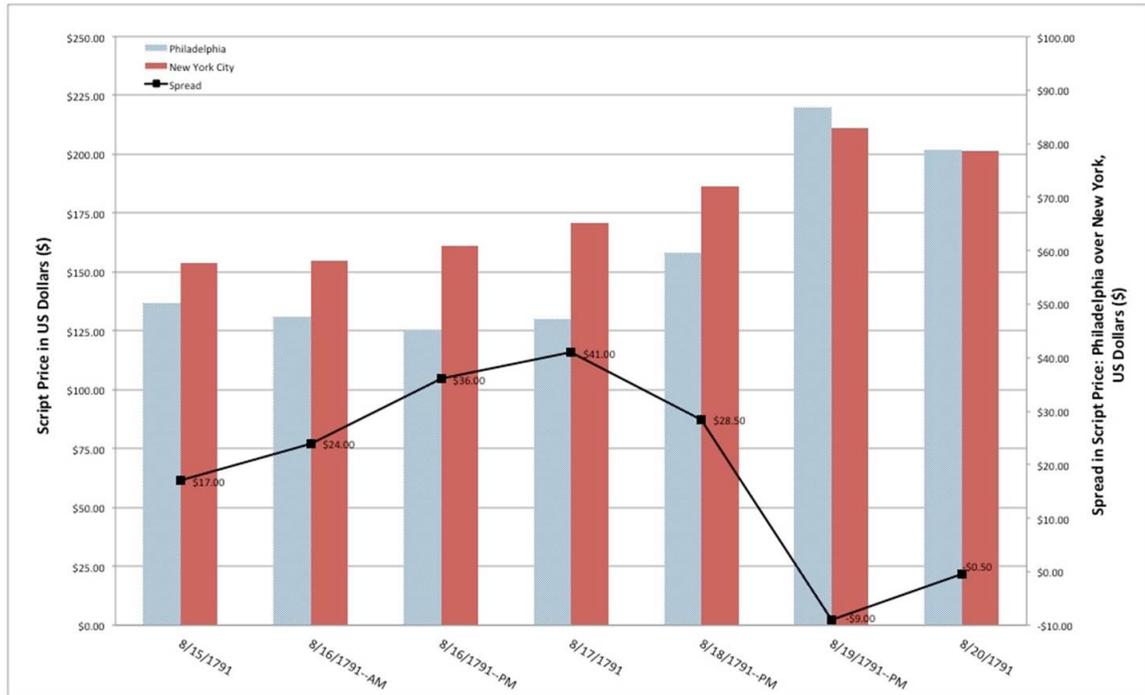


Figure 8: BUS Script Price Spreads—Philadelphia and New York City, August 15-August 20  
 Source: Sylla, Wilson, and Wright (2006), *New York Daily Advertiser* (August 1791), *Albany Gazette* (August 1791), *New Jersey Journal* (August 1791), *New York Daily Gazette* (August 1791), *Federal Gazette* (August 1791), *The Mail, or Claypoole's Daily Advertiser* (August 1791), Nicholas Low Collection, James O. Wettereau Collection.

amassed vast amounts of speculative capital.<sup>52</sup> Yet these groups took time to get organized. Nicholas Low's group did not become official until Tuesday, August 23, and their money did not enter the market until the end of that week. As a result, a subtle gap

<sup>52</sup> Robert Troup to Alexander Hamilton, "From Robert Troup to AH--'The Speculations in Those Shares Have Been Prodigious & Much Money Has Been Made & Lost by Them...,'" September 12, 1791, *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xq?keys=ARHN-chron-1790-1791-09-12-9>.

emerged between the simulative measures that propelled the post-crash bounce—Hamilton’s liquidity injections and “new Adventurer’s” dedicated cash reserves—and the new investment from groups like that of Low, Duer, and Whippo. During this period devoid of new investment—the trading week of August 22 through August 27—the market’s serious structural problems became evident.

The previous trading week in New York saw script rise well over 25 percent, from \$154 on August 15 to \$207 on August 20. However, script opened at \$161 on Monday August 22 (see Figure 9 below). This regression was most likely due to the cessation of post-crash purchases from those who torpedoed the script market on August 11 and the end of Hamilton’s liquidity injections. Script rose slowly throughout the week and closed at \$203 on Saturday the 27<sup>th</sup>, buoyed by the first trickles of cash from speculative pools and individual speculators. However, the message was clear: the post-crash rally, in net terms, had stopped.

The cessation of the post-crash rally revealed that the financial market still suffered from structural damage incurred during the crash. Hamilton and the “new Adventurers” temporarily boosted demand, but the effects were external and temporary. In reality, the market was unable to sustain itself. The primary problem was a frozen credit market. “We doubt if we can make the purchases you speak of as first accot.,” Nicholas Low wrote to Mordecai Lewis on August 24. *[I]t is very difficult to pass any bills in New York...as the cash only buys them best [emphasis added].*<sup>53</sup> James Watson

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<sup>53</sup> Nicholas Low to Mordecai Lewis, “From Nicholas Low to Mordecai Lewis--‘We Doubt If We Can Make the Purchases You Speak of as First Accot. and It Is Very Difficult to Pass Any Bills in New York...as the Cash Only Buys Them Best.’,” August 24, 1791, Library of Congress.

reported similar conditions on Saturday, August 27. The few script holders who were willing to deal on credit demanded “undoubted purchasers,” of whom there were few.<sup>54</sup>

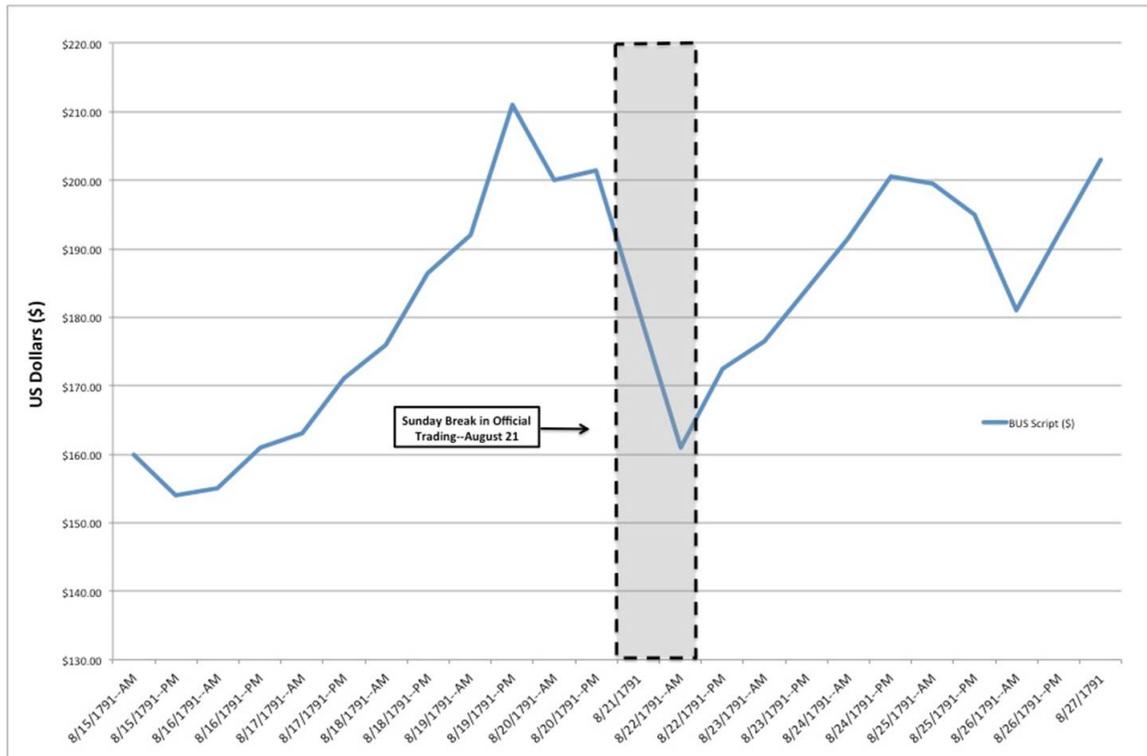


Figure 9: BUS Script Market Value—New York City, August 15–August 27  
 Source: Sylla, Wilson, and Wright (2006), *New York Daily Advertiser* (August 1791), *Albany Gazette* (August 1791), Jeremiah Wadsworth Collection, James O. Wettereau Collection.

The desire to deal only in cash or with “undoubted purchasers” demonstrates building market uncertainty and a focus on security. Many script holders simply had no faith that buyers would be able to honor their obligations.

<sup>54</sup> James Watson to Jeremiah Wadsworth, “From James Watson to Jeremiah Wadsworth, 27 August 1791,” August 27, 1791, Box 1790-1792, J. Wadsworth Mis.

The market opened to adverse trading conditions on Monday, August 29. Script opened at \$185 and steadily, though not drastically, declined throughout the week, closing at \$170 on September 3.<sup>55</sup> Volume, however, was low as numerous brokers reported sales to be “very dull.”<sup>56</sup> US securities fared better, registering a less-than-two-percent loss at the end of the week compared to the 8-9 percent declines in BUS script. Yet the entire week seemed an uneasy calm before the storm. Newspapers, many of which had excoriated speculators for weeks, fell into near-total silence. Broker activity was tepid at best. America’s entire financial community seemed to be waiting for what would happen next.

**“A cursed scheme of depression has been planned & executed...”**

Financial markets faced significant headwinds as they entered the traditional Sunday trading break on September 4. Credit markets were nearly frozen, cash was becoming increasingly scarce, and general non-financial commerce was still suffering the aftereffects of the August 11-12 crash. “Ships are lying idle at the wharfs, buildings are stopped, capitals withdrawn from commerce, manufactures, arts and agriculture, to be employed in gambling, and the tide of public prosperity almost unparalleled in any country, is arrested in it’s course,” Thomas Jefferson wrote to Edward Rutledge.<sup>57</sup>

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<sup>55</sup> “PRICE of STOCKS at Auction. [29 August 1791.],” *New York Daily Advertiser*, August 29, 1791, 2037 edition; “PRICE of STOCKS at Auction. [3 September 1791.],” *New York Daily Advertiser*, September 3, 1791, 2042 edition.

<sup>56</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Disappointment in Not Getting Notes Discounted in New York.’,” August 29, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>57</sup> Thomas Jefferson to Edward Rutledge, “From TJ to Edward Rutledge--‘Ships Are Lying Idle at the Wharfs, Buildings Are Stopped, Capitals Withdrawn from Commerce, Manufactures, Arts and Agriculture, to Be Employed in Gambling, and the Tide of Public Prosperity Almost Unparalleled in Any Country, Is

Perhaps even more important than the quantifiable damage was the psychological impact of the crash. While small groups of audacious speculators placed highly-leveraged large bets on the future appreciation of severely depreciated script, fear and uncertainty were widespread. The market was undoubtedly in a tenuous position.

On the morning of September 5, the script market once again began to collapse. Opening down 12.8 percent from Saturday's closing price of \$170, script continued to fall throughout the day. At the evening auction, script sold for between \$140 and \$144.25, another 4 to 6 percent decline.<sup>58</sup> US securities also came under heavy pressure. The beginnings of panic began to show in New York as market players, many of whom were already burdened by heavy debts, saw their assets' cash potential decline dramatically. William Seton conveyed that Hamilton's previous liquidity injections were "far short of preventing that universal panic & want of money which now prevails." Seton nervously reported that brokers were liquidating script and US securities at steep discounts "merely to save credit."<sup>59</sup>

In a mysterious and poignant indication of the confusion that reigned in New York on September 5, a special notice was run in the Monday editions of both daily New York City newspapers. "NOTIFICATION.," the advert read, "THE Subscribers to the National Bank, and such other persons as intend to become Stock-holders, are requested to meet at Corre's Tavern, To-morrow Evening, to determine on measures conducive to

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Arrested in It's Course.," August 25, 1791, The Papers of Thomas Jefferson Digital Edition, ed. Barbara B. Oberg and J. Jefferson Looney. Charlottesville: University of Virginia Press, Rotunda, 2008., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=TSJN-search-2-6&expandNote=on>.

<sup>58</sup> "PRICE of STOCKS at AUCTION. [5 September 1791.]," *New York Daily Advertiser*, September 6, 1791, 2043 edition.

<sup>59</sup> William Seton to Alexander Hamilton, "From William Seton to AH, 5 September 1791."

their mutual interest, Sept. 5, 1797 [sic].”<sup>60</sup> No known record of this meeting’s agenda exists. However, the timing of the meeting combined with its unprecedented nature to reinforce the extraordinary circumstances at play on September 5.<sup>61</sup>

While an atmosphere of confusion hung over New York City on September 5, evidence clearly reveals that script was once again the target of an organized speculative attack. “The truth is that the fluctuations are principally owing to the arts & contrivances of mere jobbers & amongst these our friend Brockholst [Livingston] stands in the foremost ranks,” Robert Troup wrote to Alexander Hamilton. “A few days ago a cursed scheme of depression was planned & executed under his immediate patronage as is universally said & believed.”<sup>62</sup> The scheme was most likely activated in *sub rosa* trading on Sunday the 4<sup>th</sup> or Monday morning the 5<sup>th</sup>. While the exact nature of Livingston’s scheme is unclear, it is quite possible that his plan was very modern in nature. Members of Brockholst Livingston’s inner-circle, including Livingston himself, were practicing wager stock speculation and other modern types of short selling.<sup>63</sup> Yet even if Livingston’s method was a more antiquated form of short selling, the effect was still swift and devastating.

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<sup>60</sup> “NOTIFICATION. THE Subscribers to the National Bank, and Such Other Persons as Intend to Become Stock-holders, Are Requested to Meet at Corre’s Tavern, To-morrow Evening, to Determine on Measures Conduive to Their Mutual Interest, Sept. 5, 1797.,” *New-York Daily Gazette*, September 5, 1791, 841 edition.

<sup>61</sup> Robert E. Wright has questioned whether these meetings were called to discuss general BUS organization or the establishment of a branch in New York. However, there is no evidence whatsoever to support this idea. Stuart Bruchey’s definitive essay, “Alexander Hamilton and the State Banks, 1789 to 1795,” reveals several stockholder meetings in New York, but none took place on or near September 5, 1791.

<sup>62</sup> Robert Troup to Alexander Hamilton, “From Robert Troup to AH--“The Speculations in Those Shares Have Been Prodigious & Much Money Has Been Made & Lost by Them...””

<sup>63</sup> “LIVINGSTON V. SWANWICK - 2 U.S. 300 (1793).”

Financial markets came to a standstill on September 6 as script prices continued to fall. “Stocks of all descriptions fall—the urgency to cash is general,” New York broker James Watson wrote to his friends and partner Jeremiah Wadsworth.<sup>64</sup> Forced liquidations fed the cycle of depreciation, forcing prices down to \$138 at the end of trading on September 6. US securities were also volatile. US 6s vibrated between 20/7 £ and 20/ £ throughout the day and US 3s were down sharply, falling from 12/9 £ on September 2 to 10/10.5 £ at the September 6’s evening auction.<sup>65</sup>

In stark contrast with the August 11-12 crash, the general public seemed almost completely unaware of this second crash. Newspaper reportage was negligible and the correspondence of regular citizens was virtually mute on the subject. This is not entirely surprising. Almost all common investors in script were wiped out in the first crash and did not seem eager to revisit the scene of their devastation so soon. Amongst the moneyed class, however, fear of a devastating collapse was palpable. Robert Troup recorded that the directors of the Bank of New York were seriously “frightened” by the events.<sup>66</sup> Letters from New York financiers, including James Watson, William Seton, William Duer, Nicholas Low, and many others reveal a general angst and foreboding. The “universal panic” to which Seton referred was very real indeed.

The concentration and leveraging of the script market that took place in the weeks following the first crash only put the financial system in greater danger. As newly ruined

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<sup>64</sup> James Watson to Jeremiah Wadsworth, “From James Watson to Jeremiah Wadsworth, 6 September 1791,” September 6, 1791, Box 1790-1792, J. Wadsworth Mis.

<sup>65</sup> “PRICE of STOCKS at Auction. [6 September 1791.]” *New York Daily Advertiser*, September 7, 1791, 2044 edition.

<sup>66</sup> Robert Troup to Alexander Hamilton, “From Robert Troup to AH--‘The Speculations in Those Shares Have Been Prodigious & Much Money Has Been Made & Lost by Them...’”

small investors liquidated their script positions, only elite investors, with their reputations and extensive web of connections, were considered the “undoubted purchasers” with whom sellers were willing to deal. Their reputations served as a sort of intangible collateral that, amidst the uncertainty of the last week in August, provided unequalled access to the script market. This access, however, was not cheap. With cash virtually unobtainable, elites turned to highly marked-up term deals to finance their speculations.<sup>67</sup> Onerous credit terms only added to already sky-high debt burdens, but many elite investors like Low and Duer were willing to take the risk. Handsome profits would be made if script sharply rebounded and continued to appreciate. However, the highly leveraged nature of these transactions meant the speculators and the market over which they held considerable influence was increasingly susceptible to declines in script value.

The inherent nature of the speculative attack only made the situation more precarious. Robert Troup mentioned that Livingston’s scheme was one “of depression,” meaning a short position. By contrast, many elite investors, represented by the Low speculative pool, made highly leveraged long bets. The bullish investors’ near-total

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<sup>67</sup> A purchase of script in New York on Friday, August 26, just when money from the Low speculation pool was starting to enter the market, would require an approximate 5.4 percent markup from the median \$186.50 cash price for 30 days credit and a whopping 10.6 percent for 60 days. This meant that if a speculator purchased 100 scripts on August 26 at 60 days credit, he would essentially pay \$2,200 in interest on a \$18,650 cash value purchase.

Scholars have vastly understudied early American credit markets. This point cannot be over emphasized. In the previous paragraph, I attempted to establish some baseline trends for interest rate movement throughout August and September 1791, but the methodology is crude and needs extensive work. It does, however, suggest that transactional interest rates, measured in script price markups on purchases of 30 and 60 days credit, were at their lowest point on August 9, just one trading day before the first crash of August 11. This conclusion concurs with virtually all theoretical work on financial bubbles. Just as interesting, preliminary analysis reveals that interest rates skyrocketed in the wake of the crash. 30 days credit for script contacts executed on August 18 resulted in an approximate 8.4 percent markup. 60 days would cost a remarkable 18.4 percent. Transactional interest rates receded slightly in the later two weeks of August, but they by no means returned to pre-August 11 levels even script prices starting rising. Once again in lockstep with theoretical models, rates ballooned at the end of trading on September 5, the day the Livingston speculative scheme was unleashed.

reliance on short-term credit only exacerbated the problem. Because they paid a set premium on the cash value of script, as opposed to a set medium- or long-term interest rate, the principle they owed to sellers was that much greater. In other words, they had no option to only pay interest until the value of their asset rebounded. When the term date arrived—usually 30 to 60 days—the investors would be required to pay with cash or default on the loan. The negative equity of their script positions only further limited their options. The scheme “seriously injured many persons amongst whom are some of Brockholst’s particular friends,” Troup reported to Hamilton. The “maneuvre has occasioned a separation between him & several who were his warmest supporters.”<sup>68</sup>

**“You may however make it known that the Treasurer is purchasing here...”**

At his Treasury office in Philadelphia, Hamilton received William Seton’s September 5 letter with great concern. Script prices in Philadelphia had rebounded toward the end of August, reaching \$190-\$200 on August 29.<sup>69</sup> While prices in the capital city declined during the first days of September, they did not experience a New York-like collapse. US securities had also remained relatively stable. While the Philadelphia market was certainly not healthy, it was far from the crisis situation that followed the crash of August 12.

New York, however, was a different story. Prices continued to fall on Wednesday September 7, dropping from \$139 to \$125 in the morning auction and continuing to

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<sup>68</sup> Robert Troup to Alexander Hamilton, “From Robert Troup to AH--‘The Speculations in Those Shares Have Been Prodigious & Much Money Has Been Made & Lost by Them...’”

<sup>69</sup> Mordecai Lewis to Nicholas Low, “From Mordecai Lewis to Nicholas Low--‘Disappointment in Not Getting Notes Discounted in New York.’”

fluctuate throughout the day. Auctions eventually closed with script selling at a mere \$117, lower than it had settled following the August 12 crash in Philadelphia. As a result, cash and credit, both of which were desperately needed by investors as their contracts came due, became even scarcer. Two days before, on September 5, Seton asked Hamilton if “it was possible to extend your purchase here to 150 M Dollars more—even 2d or 3d under the Acct limits (if that is to be wished) it would be of immense consequence to this Community, & I believe would readily fill.”<sup>70</sup> Seton believed New York’s investing class was so desperate for cash that they would be willing to part with US securities at a significant discount. By the time he received Seton’s letter, Hamilton knew that he would again need to intervene the market to prevent a catastrophic collapse.

Hamilton’s September 7 response to Seton was a masterstroke of real-time crisis management. Descriptive and prescriptive, Hamilton demonstrated a solid understanding of the situation and provided an energetic yet restrained response to the growing panic. Perhaps even more important, Hamilton’s letter reveals a great deal about his philosophy of government power in times of crisis. Yet even the supremely self-assured Hamilton displayed signs of intense stress as New York markets continued to break down. In contrast with his normally confident style—many of his contemporaries would have preferred the adjective “arrogant”—Hamilton, in his letter to Seton, seemed to be trying to convince Seton (and himself) that the system would survive. “We got beyond the force of our own capital & beyond the point to which foreigners were yet prepared to go. I trust however the evil is temporary. The Bank is as good of a thing as it ever was. The United

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<sup>70</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 5 September 1791.”

States are as solid as they were. The provision for the debt appears every day more ample. And the timid will soon rally.”<sup>71</sup> While perhaps not obvious to the unfamiliar reader, Hamilton’s tone suggests a definite level of apprehension. The Treasury Secretary very rarely opened statements with equivocation. The use of the phrase “*I trust* however...” shows an uncertainty missing from the vast majority of Hamilton’s writings. He very often opened policy analyses with declaratives. “The evil *will be* temporary” would have been much more common unless, of course, Hamilton was in fact not sure if the evil would pass.

Suppositions about his mental state aside, Hamilton’s policy instructions to Seton are the epitome of pragmatic realism. Staring at an evolving crisis in New York that could spread to Philadelphia and beyond in less than 24 hours, Hamilton ordered decisive action. “You will by the letters herewith that you are furnished with a further sum of 50000 Dollars for purchases,” Hamilton wrote to Seton.<sup>72</sup> For the second time in less than a month, the Secretary of the Treasury ordered a government agent to purchase securities for the express purpose of providing liquidity to the marketplace.

By ordering Seton to make a second round of open-market bond purchases, Hamilton demonstrated the effective ability of the new American government to act in time of crisis. Yet the restraint Hamilton showed reflects his insistence that energetic government remain legitimate and respect its constitutional limits. “I wish I could have

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<sup>71</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘You May...make It Known That the Treasurer Is Purchasing Here.’,” September 7, 1791, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu.mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-09-07-6>.

<sup>72</sup> Ibid.

gone further,” Hamilton wrote, “but my hands are tied by the want of a majority of the Trustees being present—Mr. Jefferson being just gone to Virginia.”<sup>73</sup> The “Trustees” Hamilton mentions are of course the Trustees of the Sinking Fund, the only body with the legal authority to provide funds beyond the “three to four hundred thousand dollars” authorized on August 15.<sup>74</sup> Hamilton firmly believed that the executive should be entrusted with extraordinary fiscal authority in times of crisis, just as in times of war. Yet on September 7, Hamilton recognized that the extraordinary power that he believed was necessary had not been granted. And he would not seize it. As much as he believed that additional funds were necessary, Hamilton refused to exercise illegitimate power to those ends. Such an act, no matter how “necessary,” would have been an assertion of arbitrary rule. To Hamilton, nothing would have been more contradictory to the American system of governance that he had worked so hard to solidify. While Hamilton held an expansive view of federal power, he firmly believed in definite and decisive limits to it.

Hamilton’s principled restraint, however, did not change the fact that New York’s financial system was in serious danger. In formulating a solution, Hamilton demonstrated an intrinsic understanding of not just the mechanical intricacies of financial panics, but their psychological foundations as well. In *Mania, Panics, and Crashes*, financial historian Charles P. Kindleberger argues that financial panics end in only three ways. The first is that prices decline “so far and...become so low that investors are tempted to buy

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<sup>73</sup> Ibid.

<sup>74</sup> “Meeting of the Commissioners of the Sinking Fund,” August 15, 1791, The Papers of Alexander Hamilton Digital Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011., <http://rotunda.upress.virginia.edu/mutex.gmu.edu/founders/default.xqy?keys=ARHN-chron-1790-1791-08-15-5>.

the less liquid assets....”<sup>75</sup> Hamilton knew he could not let this happen. Script and US securities were not just financial assets. They were symbols of the present and future stability of the United States. Allowing script or US bonds to fall so low as to make them palatable to investors would destroy the government’s economic and political credibility with foreign investors and the American citizenry. Kindleberger’s second option, the forced suspension of trading, would not have been politically and logistically feasible. The third, then, was Hamilton’s only real option. Panics subside, Kindleberger writes, when “a lender of last resort succeeds in convincing investors that money will be made available in the amounts needed to meet the demand for cash and that hence security prices will no longer decline because of a shortage of liquidity.”<sup>76</sup> Hamilton had successfully executed this strategy in the wake of the August 11-12 crash. However, \$50,000 dollars was not enough to meet the demand for cash in New York and obtaining a new allocation of cash, either from Congress or the Sinking Fund, was not a possibility.

Lacking financial capital, Hamilton leveraged the accumulated public faith in the Washington administration. “Confidence may be restored *even without a large increase in the volume of money*,” Kindleberger argues, “because the confidence that one can get money may be sufficient to reduce the demand for liquidity.”<sup>77</sup> Hamilton had let the money do the talking three months before, but now having to operate with a greatly diminished war chest, he signaled to investors that Seton’s purchases were part of a national program to shore up the financial system. “You may however make it known

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<sup>75</sup> Kindleberger, *Manias, Panics, and Crashes*, 32.

<sup>76</sup> *Ibid.*, 32–33.

<sup>77</sup> *Ibid.*, 33.

that the Treasurer [Meredith] is purchasing here,”<sup>78</sup> Hamilton wrote to Seton, thus leveraging the perceived power of the US Treasury Department. The message was subtle, but clear: investors could be assured that, if patient, sufficient liquidity would be made available. This policy stands in stark contrast to Hamilton’s impulse during the first crash. Hamilton had implored Seton to be discreet with his purchases in an effort to contain the potentially corrosive byproduct of moral hazard. On September 7, however, all discretion was discarded. The potential cost of not deploying every resource at his disposal was far too high.

Hamilton’s intuitions were prescient. The next day, September 8, script fell to a post-bubble low of \$110.25 at the noon auction.<sup>79</sup> Reaching its lowest price since the end of July, script traded at 45 percent below Hamilton’s calculation of its real value. The market was erratic and volatile.<sup>80</sup> Then, without warning, script prices surged upward at the evening trading session. Settling at \$135.25 after reaching a high of \$151, the reversal was significant, if not dramatic. The rally continued the following morning, September 9, with script selling as high as \$163 at the noon session.<sup>81</sup> This was, of course, the same noon session at which William Seton purchased US securities at the order of the Treasury Secretary.

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<sup>78</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘You May...make It Known That the Treasurer Is Purchasing Here.’”

<sup>79</sup> “PRICE of STOCKS at Auction. [8 September 1791.],” *New York Daily Advertiser*, September 9, 1791, 2046 edition.

<sup>80</sup> Dr. Robert Wright to Scott C. Miller, “8 September 1791 Script Prices,” September 18, 2012.

<sup>81</sup> “PRICE of STOCKS at Auction. [9 September 1791.],” *New York Daily Advertiser*, September 10, 1791, 2047 edition.

The response to Seton's appearance at the Merchant's Coffee House on September 9 was one of universal acclaim. The cash he dispensed was desperately needed. Yet it must be noted that script started its rebound the night before Seton began purchasing bonds. Why, when a lack of cash and forced liquidations were driving script prices downward, did prices rebound with no real change to the availability of money? The answer is simple: markets responded to *the expectation* of sufficient cash even when actual relief was a day away. The bearish outlook of New York investors was driven by the fear of *future* defaults, not the lack of cash that particular day. The assurance that cash would somehow be available, even if it wasn't at the moment, helped restore a sense of rational valuation. The question, then, is where did this assurance come from? Seton did not receive Hamilton's letter authorizing new purchases until the morning of September 9, yet the market turnaround clearly took place somewhere between the noon and evening auctions on September 8. For where did the assuaging word come if not from Seton?

The answer lies in the person of Mr. Thomas Eddy. A prominent New York merchant and speculator who had extensive business operations in Philadelphia,<sup>82</sup> it was Eddy who delivered Hamilton's September 7 letter to Seton on the morning of September 9. While it is possible that Hamilton's letter was transported from Philadelphia to New York by an express rider and given to Eddy who then delivered it to Seton, it is much more likely that Eddy himself carried the letter to New York. Eddy's business connections and constant travel between New York and Philadelphia make this scenario even more likely. While Eddy's name does not appear in Hamilton's correspondence, his

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<sup>82</sup> Freeman Hunt, *Lives of American Merchants*, vol. III (New York: Derby & Jackson, 1858), 332–334.

place as a well-connected merchant in New York and Philadelphia makes it likely that he had at least a casual relationship with the Treasury Secretary. Seton is clear that “the bearer of the letter”—Eddy—“knew or conjectured at the Contents” and did not keep its contents to himself. “It flew over the Town like Wildfire that I had orders to purchase,” Seton wrote of Hamilton’s order to execute a second round of bond purchases, indicating that much of New York’s investor class knew about Hamilton’s plan before he did.<sup>83</sup> Seton did receive Hamilton’s letter on the morning of September 9, but this does not mean that Eddy arrived on that day. On the contrary, Eddy could have easily traversed the 95 miles between Philadelphia and New York in the 36 hours between the morning of September 7 and the evening auctions on September 8. Eddy’s arrival likely came in plenty of time to provide the vital information that led to the dramatic script price rebound (see Figure 10 below).

Despite the previous night’s surge of confidence, many of New York’s merchant elite still needed tangible cash. Seton recorded that “everyone,” meaning New York’s investor class, was waiting for him at the Merchant’s Coffee House. Perhaps not surprisingly, Thomas Eddy was among them.<sup>84</sup> The mood was restrained as, for one day at least, New York’s swashbuckling speculators were humbled. Seton paid out over \$45,000 in less than 24 hours and the market for script and US securities stabilized. The panic, both literal and figurative, was over.

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<sup>83</sup> William Seton to Alexander Hamilton, “From William Seton to AH, 12 September 1791.”

<sup>84</sup> Return of Stock purchased on account of the United States, by order of the Secretary of the Treasury, 5-12 September 1791, American State Papers: Finance 1:117. Accessed 26 February 2013 at <http://memory.loc.gov/cgi-bin/ampage?collId=llsp&fileName=009/llsp009.db&recNum=121>.

**“I observe that Bank Scrips have become dull again...”**

Despite the still shaky economic environment, markets held steady coming out of the Sunday, September 11 trading break. Script opened at \$139-\$141 on Monday

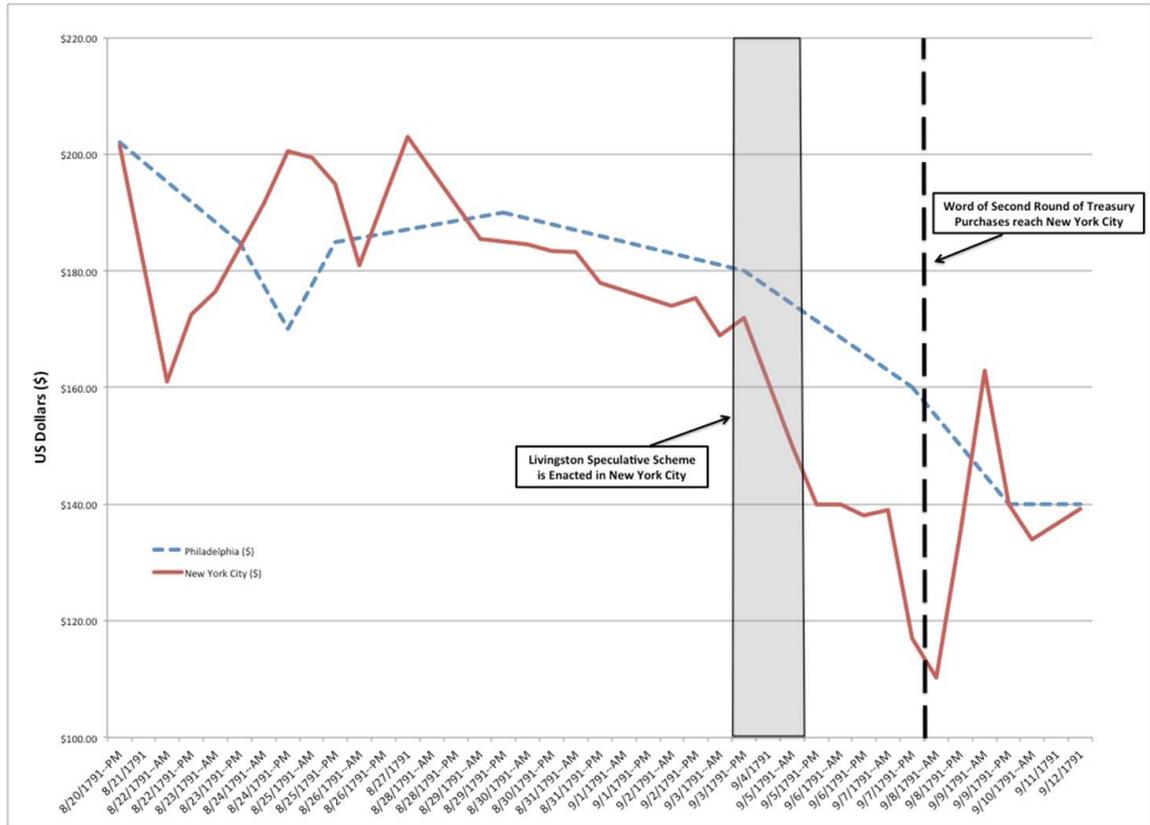


Figure 10: Progression of Second Market Crash—New York City, August 20-September 12, 1791  
 Source: Sylla, Wilson, and Wright (2006), *New York Daily Advertiser* (August 1791), Jeremiah Wadsworth Collection, Nicholas Low Papers, Andrew Craigie Papers, and James O. Wettereau Collection.

September 12, up slightly from the \$136 at which it ended the previous week.<sup>85</sup> The mini rally fueled by Seton’s purchases that pushed script as high as \$163 on September 9 had

<sup>85</sup> “PRICE of STOCKS at Auction. [10 September 1791.],” *New York Daily Advertiser*, September 12, 1791, 2048 edition; “PRICE of STOCKS at Auction. [12 September 1791.],” *New York Daily Advertiser*, September 13, 1791, 2049 edition.

subsided, but script and US securities remained stable well above their panic-induced lows. Even more importantly, the New York contagion did not spread to Philadelphia or Boston. Script in Philadelphia followed New York's downward trajectory, but the decline was incremental and prices never fell below \$140. US securities, in fact, remained relatively strong in Philadelphia.<sup>86</sup> As Hamilton noted to Seton, Samuel Meredith commenced a second round of purchases in Philadelphia on September 8. While not needed to forestall an all-out collapse, Meredith's liquidity injections undoubtedly provided Philadelphia markets with a needed shot of confidence.

Unlike the first crash, Hamilton's liquidity injections did not fuel a dramatic rebound. Prices remained low throughout the week in New York, vibrating between \$120 and \$140, and remained only slightly higher in Philadelphia.<sup>87</sup> The market did not, however, experience another collapse. By September 14 and 15, investors and government officials began to feel confident that the worst was over. "I observe that Bank Scrips have become dull again," Mordecai Lewis wrote to Nichols Low in a statement that would have been music to Hamilton's ears.<sup>88</sup> For those who had an accurate conception of the long-term market value of BUS script—Hamilton placed it at around \$195—this presented a fantastic opportunity. However, the Panic of 1791, with its dual bubbles and subsequent crashes had chastened the market. As is always the case

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<sup>86</sup> "PRICE CURRENT.--PUBLIC SECURITIES.," *Gazette of the United States*, September 10, 1791, 39 edition; "PRICE CURRENT.--PUBLIC SECURITIES.," *Gazette of the United States*, September 14, 1791, 40 edition.

<sup>87</sup> Watson, James and Wadsworth, Jeremiah, "From James Watson to Jeremiah Wadsworth, 15 September 1791," September 15, 1791, Box 1790-1792, J. Wadsworth Mis.; "Semi-Weekly Quotations of 'National Bank Scrip' at Philadelphia July-December, 1791." (*Gazette of the United States*, December 13, 1791).

<sup>88</sup> "I Observe That Bank Scrips Have Become Dull Again...," September 13, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

following a financial crisis, speculators entered an extended period of de-leveraging. The cash provided by the Treasury was enough to prevent further collapse, but it clearly was insufficient to serve as economic stimulus. Of course, a few of the smartest brokers snapped up script at a bargain. They did so, however, in a measured fashion and script prices avoided sharp movements.<sup>89</sup> Many dealers that held large quantities of script, and even bigger debt burdens, executed a steady stream of liquidations in an attempt to deleverage and cut their losses.

While it has been widely ignored by historians, the Panic of 1791 inflicted serious and widespread losses. Wealthy aristocrats like Walter Livingston were deeply stung. “I have lost all mine by the mismanagement of Mr. Constable and I am thereby a loser of not less than 30,000 Dollars,” Livingston wrote to his son.<sup>90</sup> While the losses hurt, a man of Livingston’s wealth was able to limp away and fight another day. Men of lesser means, from the second-tier “new Adventurers” to the grocers, clerks, and prentice boys who dove into the market during the first bubble, were not so lucky. Many, like the fictional Cornelius Benleather, found themselves “reduced to a poorer fool than a owl or a peg.”<sup>91</sup> The Panic also inflicted the ultimate damage on some, taking the lives of men like James F. Sebor and the young New Yorker who hung himself in Philadelphia. The Panic of 1791 resulted in losses far beyond financial ones—the consequences of the Panic were also political, social, and personal as well.

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<sup>89</sup> Mordecai Lewis to Nicholas Low, “Lewis Plan for Scrip Speculation After 12 September 1791 Price Crash,” September 19, 1791, Nicholas Low Papers - Box: Philadelphia 1791, Library of Congress.

<sup>90</sup> Walter Livingston, “Excerpts of Letter from Walter Livingston to His Son Henry W. Livingston (at Geneva),” September 15, 1791, Walter Livingston Unbound Letterbook, May 24-1791 to Feb. 1792, New York Historical Society, Robert R. Livingston Collection.

<sup>91</sup> Cornelius Benleather, “Philadelphia, Wednesday, August 20, 1791. MY DEAR MATILDA.”

Yet despite these losses, Alexander Hamilton was able to prevent an extended financial and political crisis. Operating with little historical precedence to guide him, Hamilton set the standard for government intervention in time of impending crisis. He acted with restraint, respecting the legal parameters in which he operated. When his war chest ran low, Hamilton instinctively employed financial tactics that were centuries ahead of their time. Hamilton's intervention so calmed the markets that "A Friend to Sober Dealing and Public Credit" wrote on September 14:

[A]bove all, let serious monied men reflect, that during the time when prices were the most fluctuating the ability of the United States, the productiveness of the assigned revenues, and the prosperity of the country were as great as at any moment before, and consequently that the intrinsic value of the public debt and bank stock was as fixed and solid, as if no fluctuations had occurred.<sup>92</sup>

A Friend to Sober Dealing and Public Credit's statement is partially true—the intrinsic value of the public debt and bank stock did emerge from the Panic as if nothing had happened. Yet this statement demonstrates the remarkable shortsightedness that so often permeates the American financial community. Yes, US Securities and BUS script successfully anchored the future American financial system. However, mere days after the panic had abated, "A Friend" had already forgotten that these cornerstones of American economic and political development had come mere days from collapsing. Without doubt, the Panic of 1791 could very well have become a monumental and formational economic and political crisis, yet Alexander Hamilton's swift and effective response ensured that it would be a footnote instead of a chapter in the chronicle of American financial history.

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<sup>92</sup> A Friend to Sober Dealing and Public Credit, "Reflections Relative to the Stock of the Bank of the United States, and to the National Funds.," *Gazette of the United States*, September 14, 1791, 40 edition.

## **Epilogue: “Things Which Nothing But Time Separates”<sup>1</sup>**

In 2009, three of America’s foremost historians of early American finance published an incisive essay in *Business History Review*. “Most scholars know little about the panic,” wrote Richard Sylla, Robert E. Wright, and David J. Cowan. “[It was] America’s first financial market crash, during which securities prices dropped nearly 25 percent in two weeks. Treasury Secretary Alexander Hamilton adroitly intervened to stem the crisis, minimizing its effect on the nascent nation’s fragile economic and political systems... Had the panic fomented a prolonged economic downturn, the highly polarized nascent nation might have disintegrated under the strain.”<sup>2</sup> Nary a better summary could be offered for this thesis, except for one critical problem: the title of Sylla, Wright, and Cowen’s article was, “Alexander Hamilton, Central Banker: Crisis Management during the U.S. Financial Panic of 1792” [emphasis added].

That the Panic of 1791 has been overlooked is not entirely surprising. The Bank of the United States had not yet opened its doors and none of the three existing American banks experienced a classic “bank run.” Nor did these banks suspend specie payments, another traditional marker of a financial panic. Instead, investors started a “run” on US

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<sup>1</sup> Joseph Priestly, ed., *The Theological Repository; Consisting of Original Essays, Hints, Queries, &c.* (No. 72, St. Paul’s Church-Yard., 1771), 23, <http://books.google.com/books?id=WgUUAAAAQAAJ&pg=PA23&lpg=PA23&dq>.

<sup>2</sup> Sylla, Wright, and Cowen, “Alexander Hamilton, Central Banker,” 61–62.

securities when script prices crashed. The Panic of 1791 has also been largely ignored because of its proximity to and interrelation with the larger Panic of 1792. Sylla, Wright, and Cowen are by no means ignorant of “Scriptomania” and the crash of August 11 and 12. They do, however, consider it a “Trial Run” for Hamilton’s larger market involvement in the Spring and Summer of 1792.<sup>3</sup> This position is not unique. If noticed at all, the Panic of 1791 has been viewed by generations of financial historians as little more than an opening act for the larger convulsion that took place slightly over six months later.

However, perhaps the most important reason for the marginal status of the Panic of 1791 has been a fundamental misunderstanding of the Panic’s depth and breadth. Had Scriptomania and the resultant crash been the whole story, its historical marginality might be acceptable. A speculative blip does not financial panic make. The historical assumption, first relayed by Joseph Stancliffe Davis and then continuously repeated, is that Hamilton’s market intervention during the third week of August resulted in price stability for the remainder of 1791. This, however, was simply not the case. A second bubble, fueled by highly-leveraged elite investors, pushed script well over \$210 before it was intentionally undercut by short-selling investors in New York. Prices fell nearly 50 percent to \$110.25 before Hamilton intervened a second time. As this thesis has shown, Hamilton’s second round of liquidity injections on September 8 and 9 were not merely the conclusion of his purchases a month prior—they were an original response to a new and perhaps more dangerous financial crisis.

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<sup>3</sup> Ibid., 71.

While financial data is in itself convincing proof of this reinterpretation of the Panic of 1791, the fact that it was a real and significant event to those who experienced it warrants our attention. The anachronistic belief that the Panic of 1791 is historically irrelevant because it did not have many overt effects on the American economy is short sighted and inaccurate. To the citizens who experienced the crisis—those who quite literally built the foundations of America’s national character—the Panic of 1791 was very real indeed. In several of the nation’s largest metropolises, general commerce largely stopped when the fever of speculation saturated the air. Shops and ships were abandoned as their owners proceeded to make more money in a few days trading script than they had earned in their lifetime. Numerous contemporaries reported that men and women alike discussed little other than script and speculation for weeks on end in July and August of 1791. When the bubble burst, chaos and fear gripped cities that had all too recently experienced brutal occupation and devastating epidemics. The people of early America were no strangers to danger, uncertainty, and travail. Yet the Panic of 1791 still had the emotional power to drive men to both the mad house and their graves. How, in the formative crucible of American identity, could such an event not be historically relevant?

Despite its lack of a historical reputation, The Panic of 1791 has a historical legacy all its own. While the complexity of financial markets, and thus the difficulty of handling financial crises, grew in the subsequent years, the fact remains that the Panic of 1791 was unique in its novelty. That any man could mobilize his meager wealth and invest in modern financial instruments was groundbreaking for the common

Philadelphians, New Yorkers, and Bostonians who flocked to the coffee houses for daily auctions. That slips of paper could double their value in a matter of days was equally stunning. Perhaps most important, the realization—and to many, the confirmation—that financial wealth could disappear in one great event served as a rite of passage for many Americans into the limitless possibilities and dangers of the brave new world of financial capitalism.

In a sense, the Panic of 1791 confirmed Hamilton's vision of American governance. Hamilton's financial agenda created the environment in which capital could circulate and stimulate economic growth. However, the real question of the Federalist regime was which body should defend the people's interests when—not if—crises arose. Hamilton's brilliant utilization of federal resources to quell the Panic of 1791 demonstrated that the government could be an effective participant in a decidedly non-mercantilist economic system. Much like today, opponents of government influence on the economy and those who favor government direction of enterprise dominated the economic argument in 1791. Hamilton was able to chart a middle course—he demonstrated that limited government could still be effective government.<sup>4</sup>

Despite his accomplishments, Hamilton's performance in 1791 was by no means perfect. Historian Carey Roberts has argued that Hamilton's injections of large sums of cash into the economy, and his monetary policies in general, fueled high inflation that distorted growth figures for years. Roberts argues that Hamilton's market interventions “produced faulty economic ‘signals’ that misled entrepreneurs into thinking the economy

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<sup>4</sup> Harvey Flaumenhaft, *The Effective Republic: Administration and Constitution in the Thought of Alexander Hamilton* (Durham: Duke University Press, 1992), 69–82.

was better than it was.”<sup>5</sup> In the same vein, Hamilton almost assuredly created a moral hazard problem. While he was cognizant of moral hazard throughout the Panic of 1791, Hamilton eventually decided that preserving the nascent American financial system was worth the risk. Sylla, Wright, and Cowen admit that “Hamilton may have encouraged the speculative bubble of 1792 by making market participants believe that there was something like a ‘Hamilton put’ on the table.”<sup>6</sup> While this theory has some validity, its proponents must remember that investors had no expectation of a government safety net when they drove script and stock to atmospheric levels in July and August 1791. Hamilton believed that the government had the responsibility to intervene in the economy to prevent systemic collapse, however, he roundly fought the idea that individuals or firms were “too big to fail.” In fact, several of Hamilton’s closest friends—William Duer and Robert Morris among them—spent much of their later years in debtors’ prison for failed speculative schemes. Additionally, after 1792 the nation did not experience another financial crisis until 1819, including during the remainder of the booming 1790s. Even if it did exist, speculators must not have had too much faith in the “Hamilton put.”

### **“The Sources, the Origins, of Our Present Circumstances.”**

In *The Purpose of the Past: Reflections on the Uses of History*, Gordon S. Wood writes, “Most new historical investigations begin with an attempt to understand the historical circumstances that lie behind a present-day problem or situation... This is how

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<sup>5</sup> Carey Roberts, “Alexander Hamilton and the 1790s Economy: A Reappraisal,” in Douglas Ambrose and Robert W. T. Martin, eds., *The Many Faces of Alexander Hamilton: The Life & Legacy of America’s Most Elusive Founding Father* (New York: New York University Press, 2006), 218.

<sup>6</sup> Sylla, Wright, and Cowen, “Alexander Hamilton, Central Banker,” 84–85.

it should be: the problems and issues of the present should be the stimulus for our forays into the past. It is natural for us to want to discover the sources, the origins, of our present circumstances.”<sup>7</sup> The financial crisis of 2008-2009, and the Great Recession that followed, is just such a present circumstance. The economic, financial, societal, and cultural earthquake that descended on Lower Manhattan, Washington DC, and much of the globe in the fall of 2008 has, and should, drive Americans to their history books for answers. And as America’s first financial crisis, the Panic of 1791 deserves special examination.

The financial and geographic scope of 2008’s financial crisis dwarfed that of 1791. There are, however, many more similarities between these two panics than most Americans realize. The headlong rush of clerks, grocers, and prentice boys into the new world of financial investing in 1791 was echoed by the immigrant nanny from Jamaica who, in the fall of 2006, owned six townhouses in Queens, all of which were purchased on short-term, high interest credit.<sup>8</sup> The sailors who abandoned their ships at the Philadelphia wharfs to speculate in script were mirrored 214 years later by the likes of Stefan Alfsson, described by his peers “as something of a fishing prodigy.” Alfsson, despite having left school for the sea at age sixteen, “up and quit fishing to join the currency-trading department of Landsbanki,” an Icelandic bank, where “he speculated in the financial markets for nearly two years, until the great bloodbath of October 2008....”<sup>9</sup>

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<sup>7</sup> Gordon S. Wood, *The Purpose of the Past: Reflections on the Uses of History* (New York: Penguin Press, 2008), 10.

<sup>8</sup> Michael Lewis, *The Big Short: Inside the Doomsday Machine*, 1st ed (New York: W.W. Norton & Co, 2010), 98.

<sup>9</sup> Michael Lewis, *Boomerang: Travels in the New Third World* (New York: W W Norton, 2011), 33–34.

The similarities do not end with the common citizens who took part in the crisis. The words and actions of America's political and economic leadership also yield striking commonalities. Compare, for example, statements made by Hamilton in 1791 and Bush administration Treasury Secretary Henry Paulson in the depths of their respective crises.

Hamilton, 7 September 1791:

“We got beyond the force of our own capital & beyond the point to which foreigners were yet prepared to go. I trust however the evil is temporary. The Bank is as good of a thing as it ever was. The United States are as solid as they were. The provision for the debt appears every day more ample. And the timid will soon rally.”<sup>10</sup>

Paulson, 15 September 2008:

“[W]e're working through a difficult period in our financial markets right now as we work off some of the past excesses. But the American people can remain confident in the soundness and the resilience of our financial system... I want to remind you of one thing, which is, when I look... at the long-term economic fundamentals we have in this country I think they compare favorably with... [any] country in the world. So we've got a strong basis in terms of where we are, in terms of working through this.”<sup>11</sup>

The similarities are fascinating. Almost 217 years to-the-day apart, both Treasury Secretaries, communicating from the national capital, attempted to convince their audience that the financial system was sound without seeming entirely convinced of their own words. They both entrusted the execution of their rescue plans to trusted officials in New York. As New York Federal Reserve President Timothy Geithner raced to prevent the collapse of American International Group and, unsuccessfully, Lehman Brothers in 2008, he traversed exactly the same ground in Lower Manhattan as did William Seton

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<sup>10</sup> Alexander Hamilton to William Seton, “From AH to William Seton--‘You May...make It Known That the Treasurer Is Purchasing Here.’”

<sup>11</sup> “Transcript of Paulson Briefing,” *Market Watch*, accessed March 8, 2013, [http://articles.marketwatch.com/2008-09-15/news/30711799\\_1\\_capital-markets-financial-markets-stability](http://articles.marketwatch.com/2008-09-15/news/30711799_1_capital-markets-financial-markets-stability).

when he executed the first government intervention in crisis-ridden financial markets in American history. Americans would be remiss if they did not acknowledge the irony that nothing besides time itself separated Geithner from Seton and the CEOs of Goldman Sachs, Merrill Lynch, Morgan Stanley, and many others from the moneyed men who met Seton at the Merchant's Coffee House on the afternoon of September 9, 1791.

These comparisons are not made to argue the identical nature of the Panics of 1791 and 2008-2009. Indeed, extensive differences between the two make precise comparative analysis difficult, if not impossible. The point of these comparisons, however, is to demonstrate the vast continuity of the American experience. Not even a lustrum after the establishment of the United States of America as constituted union, financial speculation gone awry nearly brought the nation to its knees. Over 200 years later, and many times in between, the American people experienced the same thing. As this thesis has shown, the Panic of 1791 posed a real threat to American economic, political, and cultural life. And just like any traumatic event during a formative period, the Panic must have left a deep impression on the American character. Americans should not ask what the Panic of 1791 revealed or changed about the course of American history. The question that should be asked is how America would be different if the Panic, or Hamilton's rescue of the system, did not take place? If we hope understand our present circumstances, we must question how our first financial crisis mutated our national DNA, which then became the building block of American culture, policy, and ideology?

It is natural for Americans to want to understand "how we got here." It is also natural to look to the founding era for answers. George Washington understood that every

move he made, from the broad cloth that comprised his inaugural suit to the way he sought Congressional confirmation for his cabinet nominees, would shape the office of the presidency. Hamilton too understood that his creation, and preservation, of the American financial system would resonate, as it says on his grave marker, “long after this marble shall have mouldered into dust.” In this way, Hamilton’s handling of the Panic of 1791, and its resultant influence on the entire American experience, continues to as a shed light on “the sources, the origins, of our present circumstances.”<sup>12</sup>

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<sup>12</sup> Wood, *The Purpose of the Past*, 10.

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