The Second Bank of the US

Bondholder Analysis and the Road to the Second Bank

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0.1 Introduction

During the War of 1812, the Treasury Department desperately needed funds to fight the British. Treasury Secretary Gallatin, along with Congress, chose to issue long-term bonds. Congress would authorize four separate long-term loans, typically with a 6% interest rate.

These six percent bonds traded poorly on the open market during the war. A combination of a poor military situation and a collapse in foreign trade saw the prices drop to as low as $75 by the end of 1814. After the war, prices rebounded to as high as $101.50 in 1815. A major factor in the price rebound was an increase in trade. However, Patrick Newman claims in his book, *Cronyism: Liberty versus Power in Early America, 1607–1849*, that influential bondholders of war stock used the creation of the Second Bank as a way to raise the prices of these bonds, thus gaining them a massive profit [6].

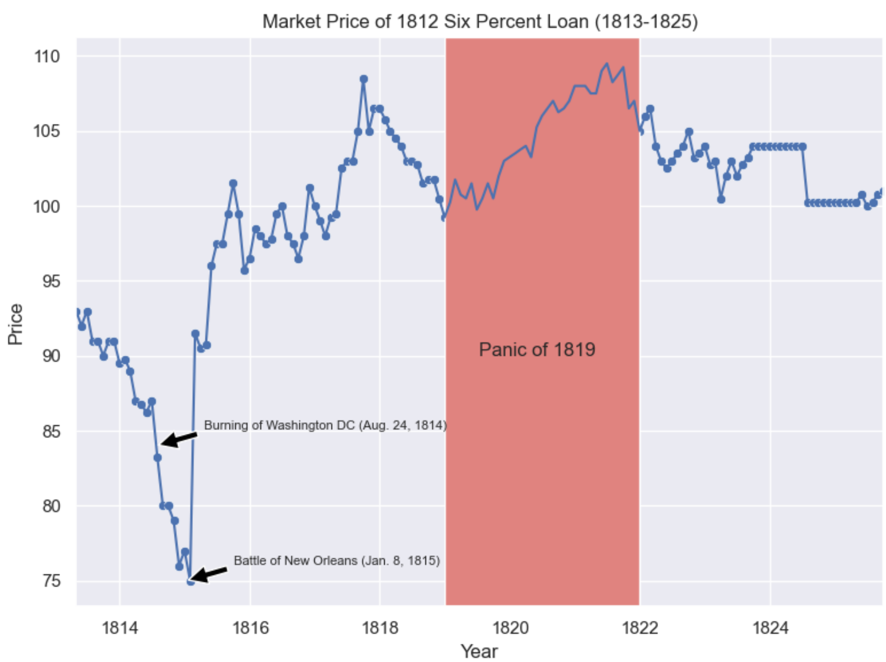

Figure 1: Prices of Six Percent Bonds

In the first part of this report, the team set out to analyze the individuals who purchased the six percent bonds during the War of 1812. The team focused on the purchasers of the Six Percent Loan of 1812, the Sixteen Million Loan of 1813, and the Seven and One-Half Million Loan of 1813. We focused on these bonds because their prices most noticeably rebounded after the war through 1817. In addition, each of these loans had different bondholder compositions. By analyzing bondholders, the team aimed to discover the banks, individuals, and states that held the most subscriptions, and look into their biographies.

We looked at the distribution of subscription amounts for each loan to see if any banks or individuals held vastly more subscriptions than the rest. Next, we also looked at the geographic location of these banks and individuals to determine whether bondholders concentrated in a particular region.

In the second part of this report, we want to examine bondholders and their connections to the creation of the Second Bank of the US (SBUS). Ultimately, we want to see if Newman's claims were accurate and to what extent. We will summarize any sources we consulted to help answer this question.

0.2 Bondholder Analysis

Congress authorized the first long-term bond in June 1812 in preparation for the war. The loan did not sell well and mid-Atlantic banks ended up being the primary subscribers, using the bonds for their reserves. Congress approved a second long-term loan a year later, this time $16 million. However, the loan initially did not sell well either. Treasury Secretary Albert Gallatin was forced to rely on three wealthy individuals, Stephen Girard, John Jacob Astor, and David Parish, to underwrite the remaining $10.1 million at a discount of 88%. [7]. In August 1813, Congress authorized a long-term $7.5 million loan to fund the war effort for the remainder of the year out of fear the further issuance of Treasury notes would depreciate prices [1]. The Treasury received $7.5 million in subscriptions. Three individuals, Jonathan Smith, Jacob Barker, and Ralph Higinbotham, held most of the subscriptions [3]. However, unlike the Sixteen Million Loan, these three individuals were not syndicate partners who privately negotiated with the Treasury. These long-term bonds had different subscribers, from banks to private financiers. Therefore, by analyzing these bondholders, we wanted to see if any individuals or banks held vastly more bonds and if bondholders were located in any particular geographical region. The following table gives general features of these loans.

Interest Rate	6%
Redemption Date	after 12 years
Sold at	at par or 80-88%
Payable	quarterly

Table 1: General Features of Six Percent Bonds
Source: Richard Bayley

0.2.1 Amount Distribution

The team examined the distribution of subscriptions to determine whether a significant disparity between bondholders existed. In the act authorizing the

Six Percent Loan of 1812, certain banks were permitted to receive subscriptions starting May 1. While banks did receive subscriptions from individuals, many also chose to subscribe themselves [3]. By looking at the top banks, we can see if a small number of banks held a vast majority of the subscriptions or if banks held roughly similar amounts. To calculate the percentage each bank held, we divided the amount the bank held by the total amount subscribed by banks ($4.2 million).

-	**amount**	**percent**
banks	$4.2 million	67.7%
individuals	$2.0 million	32.3%

Table 2: Amount Held by Banks Versus Individuals of Loan of 1812
Source: Edwin J. Perkins

The team then chose to rank the percentage of total subscriptions held by each bank along with the raw amounts. Using a bar graph would help determine visually whether a single bank held a disproportionate amount of stocks.

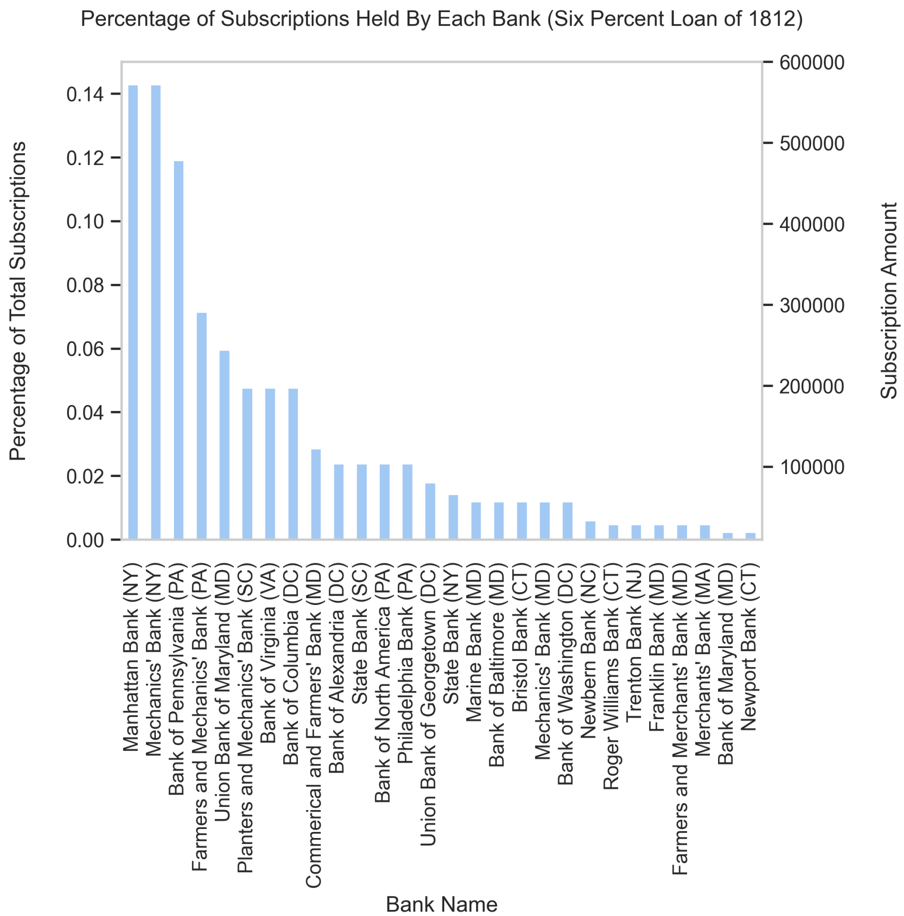

Figure 2: Amount of Subscriptions Held Across Banks From Loan of 1812

These top five banks held the largest percentage of total subscriptions as follows:

	Bank Name	Amount (dollars)	Percent Amount	City	State
1	Manhattan Bank	600,000	14.3%	New York City	NY
2	Mechanics' Bank	600,000	14.3%	New York City	NY
3	Bank of Pennsylvania	500,000	11.9%	Philadelphia	PA
4	Farmers and Mechanics' Bank	300,000	7.1%	Philadelphia	PA
5	Union Bank of Maryland	250,000	6.0%	Baltimore	MD

Table 3: Top Five Banks Subscribed to Loan of 1812 by Amount

The top five banks with the largest subscriptions were all located in the three largest cities in America at the time (New York City, Philadelphia, and Baltimore). The Manhattan Bank in New York City was well known. It was founded in 1799 by a group of founders, including Aaron Burr and Alexander Hamilton, as The Manhattan Company, which would provide water for New York City. It was the earliest predecessor to JPMorgan Chase [5]. Based on the bar graph and the percentages each bank held, one bank does not hold most of the subscriptions. The Manhattan and Mechanics' Bank each hold little more than 14% of the total amount banks subscribed to. However, it is notable nearly all banks were located in northern, mid-Atlantic states. The Planters and Mechanics' Bank is an exception. It was located in Charleston, the most populated city in the South [9]. Boston is noticeably absent because New Englanders opposed the war [7].

In April 1813, Gallatin negotiated with John Jacob Astor, David Parish, and Stephen Girard in Philadelphia to finance the remaining \$10.1 million of the \$16 million loan. The chart below shows each partner's share. The junior members include several firms from New York and Philadelphia who were hired by the syndicate to take up the rest of the loan Girard, Astor, and Parish couldn't carry themselves. The 'Other' category is the amount raised from the original two subscription dates in February and March [7].

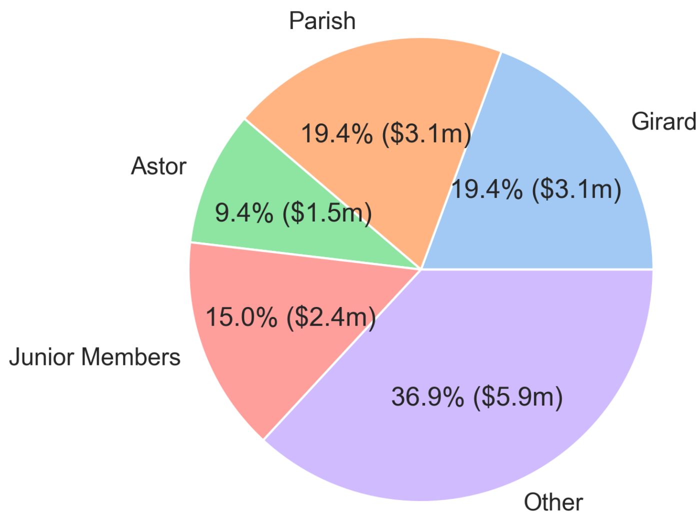

Figure 3: Amount Held by Each Syndicate Member (Sixteen Million Loan of 1813)

The syndicate of Girard, Parish, and Astor, along with the junior members, financed 63.2% of the total loan. Girard and Parish both purchased equal amounts, while Astor purchased roughly half their amount. Since Girard, Parish, and Astor had all purchased a significant amount of bonds, they wanted to try and profit from them. This desire would lead them to push for creating a Second Bank. As a result, the team decided to investigate the connection between the rise in bond prices and their desires to form the Second Bank (Section 0.3.

For the Seven and One-Half Million Loan of 1813, the Treasury was able to successfully fulfill the entire loan by early 1814. Three individuals, Jacob Barker, Jonathan Smith, and Ralph Higinbotham were the primary subscribers [3]. The team created a similar pie chart to the Sixteen Million Loan as a way to compare the two loans.

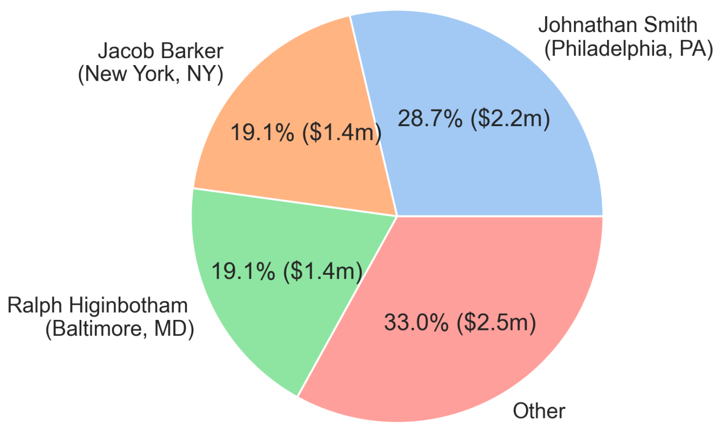

Figure 4: Amount of Bonds per Bondholder (Seven One-Half Million Loan of 1813)

Jonathan Smith, Jacob Barker, and Ralph Higinbotham held a combined 67% of the total stock. All three came from major port cities; New York, Philadelphia, and Baltimore were the top three most populated cities in 1810, respectively [9]. The 'Other' category includes the remaining stockholders, all of whom owned less than $1 million worth of stock.

Jonathan Smith: He came up repeatedly in the Treasury records. He is listed as a purchaser of treasury notes in 1815 and a loan in 1815. Smith was a lawyer from Pennsylvania and cashier for the Bank of Pennsylvania since 1796. This leads us to suspect the stock listed under his name is on the behalf of the Bank of Pennsylvania. Smith became the cashier for the Second Bank of the US [8]. Girard actually opposed his appointment to the cashier's office, viewing him as a political appointment [2].

Jacob Barker: He would finance another loan in 1814 by purchasing $5 million worth of stock. He lived in New York City as a Quaker and made his money through trading. Astor, Parish, and Girard considered him a rival. Barker would later become a major supporter of the creation of the Second Bank [10]. Barker also speculated on government bonds, which ended up depreciating prices [4].

0.2.2 Geographical Location

For the second part of the bondholder analysis, the team created choropleth maps using the city and state data provided in the Treasury reports for each bondholder. These maps show the cities and states where the bondholders of the three long-term loans we analyzed were the most concentrated. We wanted to see whether one city or state held more influence than the rest.

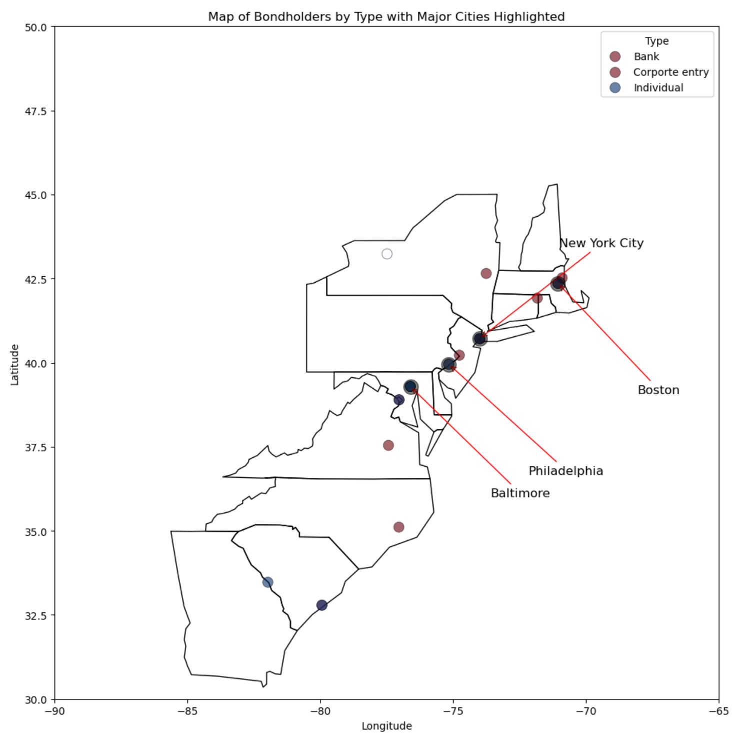

Figure 5: Bondholder Cities With Four Most Populated Cities (in 1810) Labeled

The map above displays the cities where bondholders (banks and individuals) were located. The red dots on the map represent banks, and the blue dots represent individuals. The higher the concentration of bondholders, the larger the dots. From the map, bondholders were located in the most populated cities in America at the time. The map indicates banks and individuals in mid-Atlantic states held substantial ownership of government securities.

The map also shows the top four cities based on population in 1810: New York City, Philadelphia, Baltimore, and Boston [9]. All four cities were major financial centers because of their large populations and the amount of trade through their ports. Therefore, many businessmen and financiers were concentrated in these cities. These same businessmen and financiers were incentivized to push for a Second Bank because it would have provided a form of stability, especially due to the chaotic banking system the US found itself in. After the First Bank was dissolved, foreign capital left the US, the number of state banks increased, and banknote circulation increased from \$28.1 million to \$45.5 million [10]. The businessmen in these areas began to support the creation of a Second Bank. According to Walters, they were "anxious for a bank that would restore a stable currency, for that would facilitate the operations of their varied business enterprises" [10].

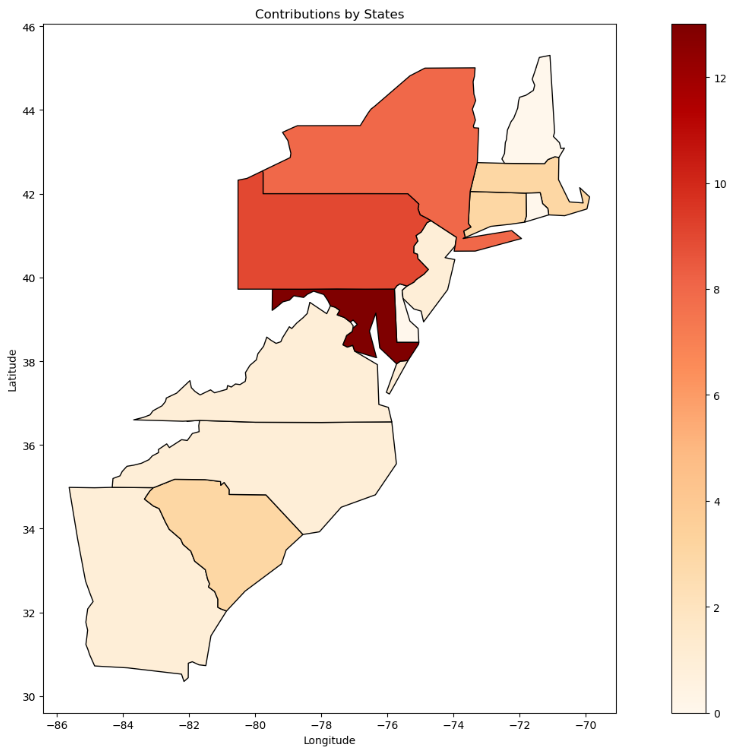

Figure 6: Amount of Subscriptions Held in Each State

The second map is a heat map with colors representing the amount of subscriptions across the states. This map shows how regions in the US supported the War of 1812 financially. States, including Pennsylvania and Maryland, shown in the darkest red, contributed the most. New York and South Carolina also made substantial contributions. These states were significantly involved in financing the war.

On the other hand, lighter shades are seen in Southern states like Georgia and South Carolina, indicating fewer purchasers. The imbalance in contributions shows regional discrepancies in securities markets among states. Southern states generally had less developed capital markets at the time [7]. The states with the highest contributions tended to be where many major pro-bank supporters came from. Girard and Dallas came from Pennsylvania. Parish, Astor, and

Barker lived in New York. Calhoun was a congressman from South Carolina.

The geographical analysis of bondholders and contributions provides insights into the advocates of the Second Bank. The maps revealed that financial institutions in the north and northeast US had made significant investments in government bonds. The clustering of bonds in major cities and the most populous states in the north suggests northern financiers stood the most to gain from a central bank, which could stabilize the economy and raise bond prices.

0.3 The Syndicate and the Second Bank

0.3.1 Introduction

To finance the Sixteen Million Loan of 1813, Treasury Secretary Gallatin turned to Stephen Girard, John Jacob Astor, and David Parish, three of the wealthiest men in America, to purchase $10 million worth of the issue. During 1814, the military situation looked bleak, and prices of these bonds traded at a discount of 15% to 25% on the open market. As a result, Girard, Astor, and Parish were looking to raise these bonds' prices. As Kenneth Brown mentions, "These three financiers had been the heaviest individual subscribers to the Sixteen Million Loan of 1813, and, as such, they were now greatly distressed by the low quotations on that loan stock and by the generally gloomy economic situation" [2]. However, profit-making was not the only motive behind their desire for a national bank. Even when a new bank was created, their ability to use it to advance their financial interests became hampered by opposing factions and the presence of corruption.

0.3.2 Road to the Second Bank

Due to the British invasion and the subsequent real prospect of losing the war, in the summer of 1814, the syndicate began advocating for the recreation of a second bank which could stabilize the economy and make good use of their six percent stock. According to Walters, they hoped they would "profit if its [the bond] market value were raised by the establishment of a bank" [10]. John Haeger's book on Astor reveals how Astor viewed the entire situation, which can be applied to his fellow syndicate members. Astor was forced to sell $150,000 in government bonds at a loss of $13 per bond in late 1814, which upset Astor. He faced further losses and, therefore, began supporting a new bank to restore stability. Due to this experience, "Astor became one of the major proponents of reestablishing a national bank, and there can be little doubt his incentive was a desire to protect his financial investment" [4]. Astor's other syndicate partners must have also been faced with potential losses. Therefore, the desire to profit from financiers' extensive bond holdings was a primary drive behind the push for a bank.

However, a stable currency was another primary reason for a bank [10]. Inflation ran rampant as state banks and the Treasury began issuing notes. As a result, specie payments were suspended in state banks starting in 1814 [4]. A national bank would solve these problems by being able to control its currency. Even politicians who had opposed the First Bank, like Henry Clay, realized the importance a national bank could play in managing inflation, "Now that he [Clay] had been able to compare the effect of the control of the currency by a national bank and by state-chartered institutions, he said, he preferred the control by a national bank" [10]. Therefore, a bank appealed to financiers and bondholders as a way to manage inflation, which was driving down the price of their bond holdings. At the same time, Walters mentions how patriotism played a role, "they desired a bank because it would help the government prosecute the War of 1812 vigorously and successfully" [10]. Therefore, profit from a rise in bond prices was only one of many reasons the syndicate and other subscribers, such as Jacob Barker, began calling for a national bank.

To advance their plans, they began a correspondence with Alexander J. Dallas, Girard's personal attorney, discussing what a potential bank might look like. Dallas held close correspondence with President Madison, who nominated him for the Secretary of the Treasury position, which Congress approved on October 6, 1814. In Dallas's first proposal for a new bank, private stockholders could pay for stock using 10% specie and 90% stock of the US. Meanwhile, Girard suggested the government could purchase its shares using 6% securities. Since the syndicate already held a large amount of government 6% securities, they had a particular advantage. Girard went so far as to successfully delay the subscription date to buy more 6% stock to purchase bank stock [2]. However, many opponents of the Bank realized this scheme by the syndicate to control it, to the point Calhoun introduced a new bank bill stripping away the exchange of government securities for bank stock. Madison vetoed the bill, but a new bill was passed in 1816 which compromised by reducing the amount paid in government stock to 80%. All of this suggests even though profits were a major motive behind the syndicate's desire for a bank, the syndicate also had the desire to use their vast amount of government stocks to gain control over the Bank for their business interests [4].

0.3.3 Connections to Bond Prices

In the end, the team concluded there was no solid connection between the syndicate's influence within the Second Bank and the increase in bond prices from 1815 to 1817. Sources related to the creation of the Second Bank point to a general improvement in the economy after the war as the biggest factor in the increase in bond price, "There was, it is true, a general improvement in the national economic situation, which was reflected in the rise of government war-time stock to $97\frac{1}{2}$ and 93 at Philadelphia and New York, respectively" [10].

Even though Girard became a director and the largest stockholder in the bank, he could not exert much influence. Firstly, the Bank's charter limited his voting share to only 30 votes. At the same time, William Jones (the first President of the Second Bank) and his allies appointed loyal directors by finding a loophole which allowed them to list shares under various names. As a result, Girard and his friend Astor's more conservative economic views clashed with Jones's more liberal policies [4]. Due to these internal disagreements, it would have been very difficult for Girard and Astor to use the Bank as a way to increase bond prices. Eventually, these directors turned out to be extremely corrupt and inept. Many began speculating with the Bank's stocks, which ended up depressing its prices. Girard strongly disagreed with the corruption in the bank, saying "[I] intend to use all my activity, means and influence to change and replace the majority of directors with honest and independent men" [2]. Since Girard opposed speculation within the Second Bank and wanted the Bank to be a trustworthy institution, it's reasonable to assume he would be opposed to using the Second Bank to buy war bonds off the open market to increase their price. On a final note, in the email the team sent to Patrick Newman, he said he did not have any evidence that the Second Bank engaged in such behavior until the early 1820s.

In addition, Girard's attempt to purchase more 6% securities to exchange for bank stock did not succeed. Brown states Girard only managed to purchase $19,600 worth of stock in Richmond. When the time came for subscriptions to the Bank to be received, Girard purchased his initial 3,000 shares using $75,000 worth of government securities, mostly 3% stocks [2]. Therefore, Girard did not buy enough 6% stock to raise prices himself. Meanwhile, the major political advocates of the Bank, Dallas, and Calhoun, did not even purchase any bank stock. According to Walters, "the evidence shows that their desires for a bank arose not from desires for personal profit but simply the belief that such an institution would be of genuine advantage to the American nation" [10]. In other words, Dallas and Calhoun did not view the Second Bank as a way to profit like the syndicate. In addition, Dallas died in January 1817, the same month the Bank opened. Therefore, he was not alive to exert political influence on the Bank to benefit his allies like Girard and Astor. As for the other members of the syndicate, Astor and Parish had limited influence in the Bank. Parish and Barker lacked the cash to buy any bank stock. While Astor became the President of the New York branch of the Bank and lasted until 1819, he left after feuding with William Jones and falling into a depression after the death of his grandson [10] [4]. Therefore, many of the major players in the creation of the Bank were not a part of the institution itself a mere two years after its creation.

Date	**Event**
April, 1813	Syndicate agrees to purchase 6% stock
August, 1814	Prices of 6% stock fall to $75
October 6, 1814	Alexander Dallas becomes Treasury Secretary
January 30, 1815	Madison vetoes the first attempt at a new bank
April 10, 1816	Charter for Second Bank signed into law
July 4, 1816	Subscriptions to the Bank received
October 29, 1816	Election for directors and officers of the Bank
January, 1817	Second Bank opens in Philadelphia
February, 1817	Second Bank lends $6 million to banks for specie resumption
December 31, 1817	Girard resigns as a director of the Bank

Table 3: Major Events in Chronological Order

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