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The History of Partisan Banking

Abstract This chapter shows that, from 1799 to 1810, the dominant elite coalition—the Federalist Party—created limited access to banking by controlling the majorities in both houses of the state legislature in most years as well as the governorship. They refused to charter Democratic-Republican banks. Only in 1811, of all the years between 1790 and 1824, the Democratic-Republicans were able to seize control of the House, Senate, and governorship. In that year, they chartered their own banks and refused to renew Federalist bank charters, all of which were due for renewal in 1812. After a fiercely contested campaign, the Federalists regained control of the legislature and governorship in 1812 and renewed the charters of their banks. After 1812, Federalists and Democratic-Republicans began to alter the institutions that governed entry into banking through the chartering process. The Federalists retained control of the legislature into the mid-1820s, but Federalist elites were willing to share the privilege of creating banks in favor of a policy of open entry. The Federalists adopted a policy of free entry so that if they lost control of the government, they would still receive bank charters. The example of Massachusetts shows that intra-elite political competition, rather than elite-citizen competition, promotes the transition from the limited to open access.

Keywords Federalist Party · Democratic-Republicans · Bank charter
Partisan banking · Free banking

This chapter presents the history of partisan banking in early Massachusetts, which has been largely forgotten by American economic historians. To understand how political parties controlled banks and manipulated the banking sector for their purposes, we need to understand both political history and banking history in early nineteenth-century Massachusetts.

1 Banking History, 1780–1810

After the American revolution, Massachusetts established a new government and wrote a new State Constitution. The Constitution prohibited the state from recognizing any association that did not serve the common good:

Article VI. *No man, nor corporation, or association of men, have any other title to obtain advantages, or particular and exclusive privileges, distinct from those of the community, than what arises from the consideration of services rendered to the public;* and this title being in nature neither hereditary, nor transmissible to children, or descendants, or relations by blood, the idea of a man born a magistrate, lawgiver, or judge, is absurd and unnatural.

Article VII. Government is instituted for the common good; for the protection, safety, prosperity and happiness of the people; and *not for the profit, honor, or private interest of any one man, family, or class of men:* Therefore, the people alone have an incontestable, unalienable, and infeasible right to institute government; and to reform, alter, or totally change the same, when their protection, safety, prosperity and happiness require it.¹

Article VI specifies that no corporation or association could obtain exclusive privileges except for those established for public services, and Article VII specifies that the government should not serve the private

interests of any factions. Articles VI and VII together required the government to provide corporate privileges only for public services rather than private interests of certain elite factions.

All corporations—manufacturing firms, banks, churches, schools, colleges, learned academies, and fraternal organizations—were required to serve the public good. The state chartered corporations by special laws and tightly controlled them (Neem 2009; Handlin and Handlin 1969). It also specified corporate privileges including perpetual lives, the rights of suing and being sued, limited liability, and the power of issuing notes as banks. These corporate privileges could be used to provide public goods and promote economic development, but they could also be used to advance private interests of privileged elites. The question is how the state could prevent elites from using corporate privileges to corrupt government and benefit private elite interests, while allowing corporations to promote public welfare and development at the same time.

Banks were also corporations chartered by the state. As Fig. 1 shows, few banks were chartered before 1812. On average, 1.2 bank charters were granted each year between 1792 and 1811. The pattern changed after 1811. An average of 4.7 banks was chartered every year between 1812 and 1860. By the 1820s, Massachusetts had entered the era of “de facto free banking” (Sylla 1985).

In the banking sector, the concern that a few elites would use corporate privileges to benefit their private interests instead of public welfare also prevailed. In the Antebellum era, all banks could issue their own bank notes, which were private monies circulated in the economy. States authorized certain banks to issue bank notes to facilitate circulation in the economy. However, elites, by controlling the government, exclusively received bank charters and limited access to banking. As a result, people worried that elites corrupted government to receive exclusive bank charters for the exclusive issuance of monies to benefit their private interests.

Since the Massachusetts Bank received the first charter, people feared that a few elite citizens dominated the bank and abused power to issue bank notes for private benefit. In 1804, the legislature chartered the bank to provide public currency. However, nine of the twelve members

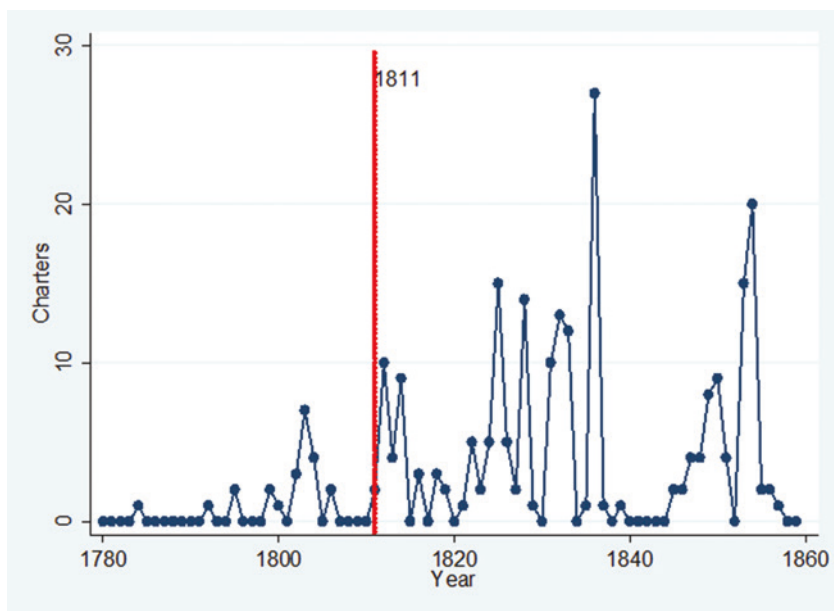


Fig. 1 Number of New Charters excluding Renewals, 1780–1860. *Source* Sylla and Wright (2013)

of the first board of directors came from wealthy families and were directly connected through birth or marriage. The remaining three were themselves wealthy merchants and two were important political figures. These powerful directors were unable to provide enough supply of specie. People complained that the “few men of great influence” controlled the issue and asked for the repeal of the bank’s charter to eliminate its privilege.²

In 1792, the state legislature chartered the Union Bank as the state’s depository. The Union Bank also failed to satisfy demands for credit and received complaints about its private privileges. To meet the demand for currencies, eight more banks were created between 1795 and 1803, but each town was allowed only one bank, and petitions for competing banks were rejected.³ In 1799, an act was passed to restrict banking privilege to corporations.⁴ 1803 and 1804 were the most active years before 1812 for chartering banks, with seven and four banks chartered,

respectively. However, the lack of currencies and the difficulty of redeeming country bank notes led Democratic-Republican Governor James Sullivan to propose a single monopoly of a state bank.⁵ No banks were incorporated between 1806 and 1811.

The following section demonstrates how, as Massachusetts chartered banks to promote economic development in the late 1790s and early 1800s, it also provided privileges only to a certain political faction, the Federalists, who controlled all banks and refused to charter banks for other political factions. It was only in 1811 that Democratic-Republicans implemented a series of reforms extending banking privileges to a larger population.

2 From Deferential Politics to Partisan Politics

Scholars such as Pole (1966), Formisano (1974, 1983), and Keller (2009) have claimed that eighteenth- and early nineteenth-century America can be characterized as a deferential society in which elites maintained leadership in the community and occupied political offices through intermarried families. There were steep property qualifications for the state legislature and the governorship, effectively excluding most people from political power.⁶ As John Adams noted in the late 1780s, “in every village of New England...the office of justice of the peace or even the representative, which has ever depended only on the freest election of the people, have generally descended, from generation to generation, in three or four families at most.”⁷ As these scholars have shown, the late eighteenth and early nineteenth centuries represented a time of elite political interests.

The Federalist and Democratic-Republican Parties emerged in the 1790s as elite coalitions (Formisano 1974, 1983). As voting was either oral or in person at the poll, it was possible for political parties to monitor the polls to assure the election of elite candidates. By dominating the political parties that controlled government, elites extended their influence over various organizations such as churches, universities (such as Harvard College), and academic societies (such as the Massachusetts Medical Society).⁸

Figures 2 and 3 show the proportion of Federalists and Democratic-Republicans in each annual Massachusetts legislature. Federalists dominated both houses of the legislature in most years, ceding control to the Democratic-Republicans only in 1806, 1807, and 1811. Federalists also dominated the executive branch, as the Democratic-Republicans held the governorship in just four years between 1797 and 1823. It was only in 1811 that the Democratic-Republicans were able to simultaneously control the governorship and the two houses of the legislature, when Elbridge Gerry served as governor (June 1810–March 1812). This political history of Massachusetts influenced the banking sector through political parties.

Formisano (1983) shows that the period between 1805 and 1815 exhibited an outpouring of political interest represented by increasing voter participation, town representation, and legislative activity.

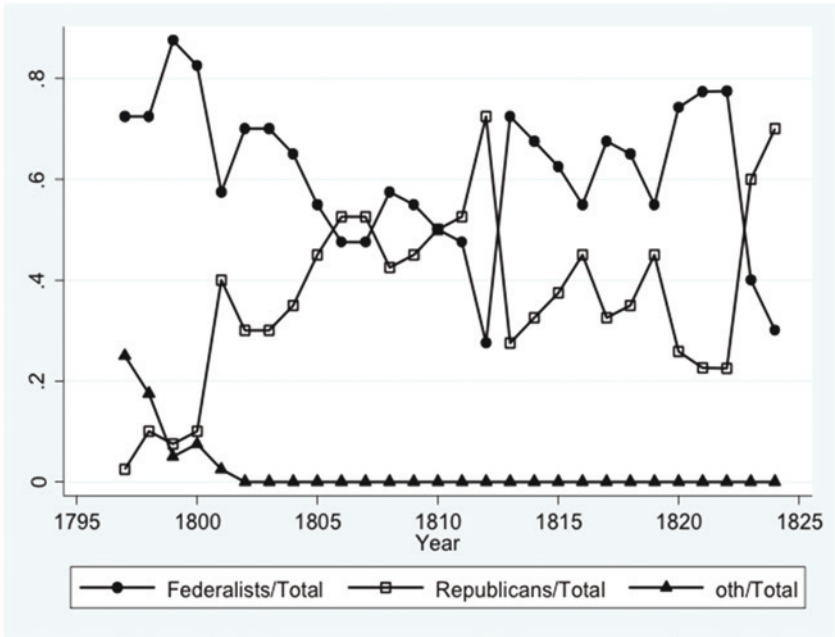


Fig. 2 Annual proportion of Federalists and Democratic-Republicans in the Massachusetts Senate, 1797–1824

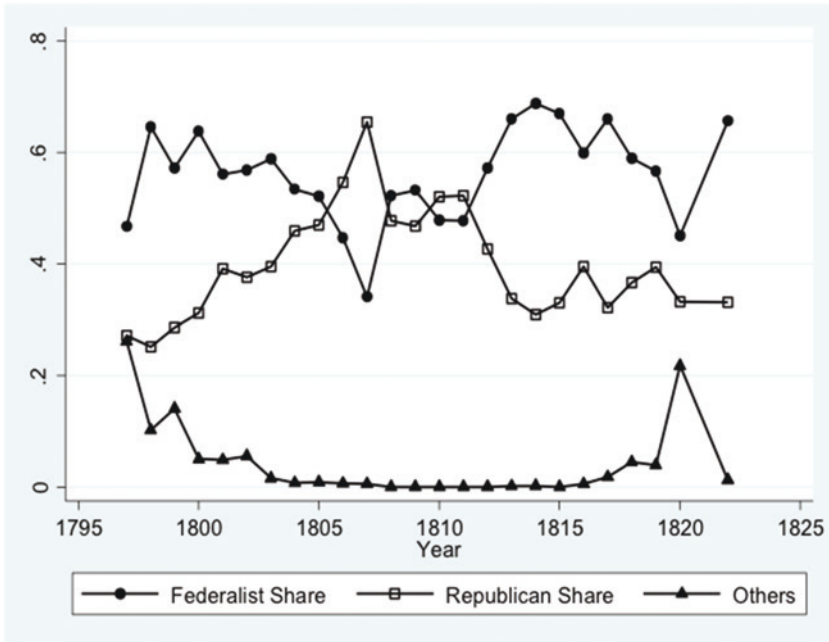


Fig. 3 Annual proportion of Federalist and Democratic-Republicans in the Massachusetts house of representatives, 1797–1822. Note Figures 2 and 3 plot the annual proportion of Federalists and Democratic-Republicans in Massachusetts’ Senate and House, respectively, from 1797 to 1824. The dotted line plots the Federalist proportion and the hollow squares plot the Democratic-Republican proportion. Years are labeled on the horizontal axis. The data are from Dubin (2007)

The elections from 1805 to 1812 were closely contested: The percentage differences between the parties ranged from only 0.9% to just over 3.0%. People tended to vote along the same lines through the years—Federalist towns constantly supported Federalists, while Democratic-Republican towns supported Democratic-Republicans.

Political leaders in this period tended to be revolutionary heroes with an anti-partisan stance. War service in the 1770 and 1780s identified a person with the revolution and promoted him to high state offices. Both Federalists and Democratic-Republicans tried to associate their candidates with these revolutionary heroes and claimed to be the true party of

the revolution. The popular leaders possessed moderate temperaments, a reputation of being a revolutionary hero, and anti-partisan views.

Early nineteenth-century Massachusetts was undergoing a transformation from deferential to partisan politics. Political parties emerged, and then became organized, and gradually played an important role in mobilizing voters and shaping political competition. The antiparty ideology was replaced by partisan politics with fierce party competition. Under this transformation, the Federalist and Democratic-Republican Parties were able to control government and banks.⁹

3 Partisan Banking, 1799–1810

In 1799, the Massachusetts legislature passed a law to prohibit banking without a state charter. As a result, all existing and new banks had to petition for a charter through the state legislature to operate.¹⁰ By dominating the government, the Federalists controlled banks and excluded the Democratic-Republicans. For example, the Worcester Bank was chartered in 1804. Among its 135 subscribers, almost a quarter would join the Washington Benevolent Society (the national Federalist political club), and nine were prominent in Federalists county committees. The Democratic-Republican elites, such as the Lincolns or Bangs, were absent. The president and directors of the bank were also Federalists, and Daniel Waldo, the bank president, would become the president of the Worcester branch of the Washington Benevolent Society.¹¹

Democratic-Republicans complained about Federalists' exclusive control of banking. On February 16, 1803, for example, the Democratic-Republican newspaper *Columbian Centinel* claimed:

Monopolies of all kinds are odious in all countries, but they are more so in a free country like ours; they are here directly opposed to the genius and spirit both of the people and their government. And there can be no monopoly more invidious, than to give exclusive privileges by the acts of government to a few very rich men for improving their money in Banks, and to refuse the same privilege to the active merchants, and to the widows and orphans (as cited in Lake 1932, p. 32).

The Democratic-Republicans asserted that the Federalists manipulated banks for political purposes. For example, they charged the Federalist banks with being “engines of oppression,” enabling the Federalists to exploit enterprising merchants and shopkeepers.¹² The Federalists monopolized “all the exclusive privileges...until the voice of private citizens is lost in the overbearing influence of privileged companies.”¹³ As long as “combined court parties grant banks and other privileged corporations to favored companies, equal rights cannot exist.”¹⁴ The purpose of chartering banks, they charged, was to give exclusive privileges to Federalist friends and “every incorporation for wealth and profit is a bulwark to aristocracy.”¹⁵ In 1803, after the legislature refused a petition for a “Town and Country Bank,” Democratic-Republicans blamed Federalists monopolizing banks and opposing “every measure calculated to promote the interest of the middling class of citizens.”¹⁶

The Democratic-Republicans also demanded banking reforms. Most bank charters would expire in 1812, and they thought that “incorporations should not be renewed unless the proprietors of banks consent that every officer of their banks be appointed by the State Government.”¹⁷ They also asked, “Will a director of the Boston Bank, or a man, whose ‘projects’ gripe every monied institution within the town, be advocates [*sic*] for such salutary measures as our situation calls for? Let the charters be free for all, if they are granted to any.”¹⁸

The Democratic-Republicans tried every chance to overthrow the Federalist banking regime. In 1807, for example, the Democratic-Republicans managed to pass an act to insert six Democratic-Republican directors in both the Boston Bank and the Union Bank for one year so that “another political sect...participate[d] in their management.”¹⁹ When the Federalists controlled the legislature in 1808, however, these Democratic-Republican directors were subsequently excluded from the banks. In most years before 1811, the Federalist elites dominated politics, controlled banks, and excluded the Democratic-Republicans from banking. The Democratic-Republicans demanded sweeping reforms to open the access to banking; in 1811, when they assumed control of each branch of the government, they seized their chance.

4 Democratic-Republicans, Elbridge Gerry, and Political Reform of 1811

The year 1811 is the center of our story. There were only seventeen states in the USA at that time. According to A.W. Dennis (1908), “State coaches were the means of transportation for passengers. The first railroad was not built to Boston until twenty-four years later, 1835. The Pacific coast was reached only by ships sailing around South America. Fire was struck by flints and tinder. The first matches came from England in 1827. The telegraph was unknown until thirty-three years later (1844), and the telephone sixty-five years later (1876). The early records of banks were written with a quill pen, and blotting was prevented by the sifting on of fine sand.”²⁰ The 1811 was by no means a year with a modern economy or lifestyle, but it is the year that Democratic-Republicans carried out a series of reforms which greatly transformed Massachusetts society.

In a deferential society where Federalists controlled society and knitted a tight web over all careers, it had never been easy for Democratic-Republicans to assume political power. Judge Story described this era in his autobiographical writings:

In Massachusetts that period an enormous majority of people were Federalists. The government, the judges, the legislators were ordained in the same cause. It cannot be disguised too that a great preponderance of the wealth, the rank, the talent, and the civil and the literary character of the state in the same school. Almost all the profession of the law were of the party. I scarcely remember more than four or five lawyers in the whole state who dared avow themselves Republicans. The very name was odious and offensive epithets such as “Jacobians” were familiarly applied to them. A great struggle was just over between Jefferson and Adams and the former had been chosen to the presidency. The contest had been carried on with great heat and bitterness, and the defeated party, strong at home, though not in the nation, was stimulated by resentment and by the hope of a future triumph. Under such circumstances there was a terrible spirit of persecution abroad. Intercourse of families was broken up and most painful feuds were generated.²¹

In a society where Federalists webbed elites of various careers together, how did Democratic-Republicans rise up to the ascendancy?

Both Federalists and Democratic-Republicans attracted rich men, but within the Federalist Party, it was hard for merchants whose wealth were more recent to enter the circles of established elites. The social order at that time did not allow people who gained wealth and intelligence in a short time to climb up the social ladder. The foremost example was the Crowninshield family of Salem, who accumulated their wealth in French trade in the 1790s but were denied access to power for a decade by the Derby family. Another example was William Gray, the wealthiest American at that time, who was excluded from the inner circle of Essex leadership. In Maine, William King gained his wealth in the 1790s at the age of 20s. He joined the Maine Federalists but was not able to enter the Federalist inner circle. After King and his faction failed in the fight for power within the Federalist Party, in 1804 they joined the Democratic-Republicans and dominated Maine. These newly wealthy young men desired access to patronage, land, and banks but were excluded by the existing Federalist elites. They then joined the Democratic-Republicans and helped them to acquire political power.²² Both the Federalist and Democratic-Republican Parties were parties of elites.

Both the Federalist and Democratic-Republican Parties had supporters from various social and economic groups, and it was hard to differentiate party members by social class or economic career.²³ In a deferential society where the poor and others of low social rank depended on elites, the success of political parties relied on elites in these parties instead of the social classes that they represented. The nature of party competition between Federalists and Democratic-Republicans was competition between elite factions, instead of class struggle or competition between elites and citizens.

The Democratic-Republicans were able to capture both houses as well as the governorship in 1811. The support of Maine voters was crucial for their success. Maine was part of Massachusetts until the 1820s. It was New England's frontier, with unoccupied land and vast resources. Young immigrants from more settled parts of Massachusetts, especially those who wanted to seek economic opportunities or to escape

from the established Federalist ideology, identified themselves with the Democratic-Republicans.²⁴ Among those immigrants, squatters played a major role in supporting Democratic-Republicans. Migrants to Maine often settled on both private and public tracts with unclear titles. Settlers developed farms and founded communities, but they were required by land owners to buy the land. The law did not recognize squatter rights, leading to conflicting claims and in some cases violence. From 1805 to 1809, Democratic-Republicans sponsored a series of land reforms which favored compromise and confirmed squatters' rights.²⁵ Through land reforms, Democratic-Republicans formed a political alliance with Maine immigrants, whose political support provided Democratic-Republicans the margin of victory in capturing both houses as well as the governorship in 1811.

In 1811, the Democratic-Republicans held power in both houses and their candidate Elbridge Gerry was elected as the state governor. Gerry had been elected as state governor in both 1810 and 1811. He was recognized as one of the revolutionary leaders, as he had signed the Declaration of Independence and the Articles of Confederation. He was picked as Vice President of the USA in 1813 and 1814. His first term as governor in 1810 was moderate and sought conciliation of the two parties. He restrained radical Democratic-Republicans that desired patronage and demanded the removal of Federalists from state offices. In addition, the political balance did not allow Gerry and Democratic-Republicans to push reforms either. While Democratic-Republicans held power in both houses and governorship, the Senate was equally divided in 1810. The Federalist leader Harrison Gray Otis was the president of the Senate and blocked every Democratic-Republican reform.²⁶

In 1811, however, Gerry abandoned his conciliatory policy. The admission of Louisiana to the USA had already aroused animosities among Federalists. When Congress approved President James Madison's Non-Intercourse Act to cease commerce with Britain, Boston Federalists organized a mass meeting and protested the law, denouncing it as tyrannical and oppressive. They threatened to call for measures "short of force," and to elect officers who would "oppose by peaceable, but firm measures, the execution of the laws, which if persisted in must and will be resisted."²⁷ Gerry denounced the Boston mass

meeting and claimed it advocated a revolution. He was convinced that if Federalists returned to power, they would nullify the Non-Intercourse Act or resist its enforcement, in which case “our constitutions are nullities, our constituted authorities are usurpers, and we are reduced to a state of nature.”²⁸ In his second inaugural address in June 1811, Gerry publically criticized Federalists who “excite the spirit of the insurrection and rebellion to destroy our internal peace and tranquility.”²⁹ He began to remove Federalists from state offices and appointed Democratic-Republicans to any new office.

In 1811, Democratic-Republicans captured both houses of the state legislature and helped Gerry implement a series of reforms to capture patronage in the state, to remove Federalists from state offices, and to occupy Federalist-controlled organizations.³⁰ One of the most famous of these reforms was the so-called gerrymander. In February 1812, Democratic-Republicans passed a bill to divide the state into senatorial districts along partisan lines. This change redistricted the state to make the Democratic-Republican votes count as much as possible and the Federalist ones as little as possible. This practice was nothing new, but since it was carried to extremes during Gerry’s administration, it was coined the “gerrymander.”³¹

The Democratic-Republican ascendancy aimed to capture patronage from the Federalists. They replaced the Federalists in state offices and captured Federalist organizations. As shown in the following section, they also tried to “gerrymander” the banking system by refusing to renew Federalist banks and instead chartering Democratic-Republican banks.

5 Banking Reform of 1811

As Democratic-Republicans assumed state power in 1811, they faced the problem of how to handle the banking system had long criticized as an exclusive Federalist privilege. They had to deal with both an economic problem and a political problem at the same time.

Before 1811, Democratic-Republicans had tried unsuccessfully to reform the banking system on at least two occasions. In 1807, when

Democratic-Republicans controlled both the State House and the governorship, they passed laws to appoint six Democratic-Republican directors in both the Boston Bank and the Union Bank for one year so that “another political sect...participate[d] in their management.”³² When the Federalists controlled the legislature in 1808, however, these Democratic-Republican directors were subsequently excluded from these banks. Also in 1807, to mitigate “the frequent & distressing inconveniences & losses... and also the immense quantities of bank paper in circulation,”³³ Democratic-Republican Governor James Sullivan recommended a bill refusing to grant new charters or renew old ones, and establishing a state bank by combining all existing banks. The bill was passed in the House, but it was killed in the closely divided Senate by the Federalists.³⁴ These failed attempts at banking reforms convinced Democratic-Republicans that they had to totally restructure the banking sector by abolishing existing Federalist banks and establishing new Democratic-Republican banks, instead of simply chartering boards of directors, and they had to have absolute control over both houses and the governorship at the same time. In 1811, when Democratic-Republicans captured both houses and the governorship, they finally had the opportunity to implement a successful reform.

In 1811, the Federalist banks petitioned for rechartering, as all existing bank charters would expire in 1812, except the charter of the Massachusetts Bank, which ran in perpetuity. The Democratic-Republican legislature, however, refused to renew any of them.³⁵ When these banks expired, Democratic-Republicans argued that new ones were needed “to make loans to those persons who are indebted to existing Institutions and thereby enable them to wind up their affairs with the least possible embarrassment.”³⁶ Democratic-Republicans chartered two new banks under their control: the Merchant Bank of Salem and the State Bank.

The charter of the Merchant Bank of Salem was granted to the Democratic-Republican elites in Salem. By 1811, Salem already had two Federalist banks—the Salem Bank and the Essex Bank. Unable to get loans from either bank, a number of Salem’s most prominent Democratic-Republicans, led by the Crowninshields, a powerful Massachusetts family, desired to start a new Democratic-Republican

bank. For years, their petitions for bank charters had been rejected by the Federalist legislature. When they assumed in 1811, Democratic-Republicans secured a charter for the Merchant Bank of Salem. The minister and writer William Bently explains in his diary, “To give weight to the Republican Interest in Massachusetts, the last Legislature placed several banks into the hands of their friends, and among others, one in Salem, which was completely organized this day, under the name of Merchant’s Bank.”³⁷ The Merchant Bank was started as a Democratic-Republican bank.

The Federalists questioned the value of the new bank even before it opened. On September 10, 1811, the *Salem Gazette* gravely censured the “new bank”:

It requires but little foresight to predict the influence which the institution will, and which the legislature intended it should have on the political circumstances of our Commonwealth, and particularly its elections. Viewing it in this light, it cannot be considered as an institution for the common benefit of our citizens, but on the contrary for the purpose of unblushing political corruption. Federalists will be excluded entirely from accommodation, as they were from the privilege of subscribing for shares, and Democrats only enjoy its benefits. We hesitate not to assert, that (until the Spring elections are over, at least) *any Democrat* (or “friend of the government” as the committee call them) who can bring good proofs of his attachment to the cause, *will be furnished with what money he wishes from this Bank, while federalists, let them be never so competent, will be sedulously refused a discount, except perhaps a few*, who will be held up as a mask to cover their gross, corrupt partiality. Let every candid man consider this course of conduct, lay his hand on his heart, and say if he can call it by any other name than BRIBERY.³⁸

The other charter was issued to the State Bank, the largest bank chartered in Massachusetts. The bank was granted a capital of \$3,000,000, which was thirty times more than most banks at that time.³⁹ The Democratic-Republican reform of banking policy was institutionalized in the State Bank charter. The state would take a significant ownership share in the bank, initially \$1 million. The state taxpayers would benefit from the bank both through dividends on state-owned stock and

through the levy of a tax on bank capital of 1/2% (Wallis et al. 1994). The State Bank charter is important because subsequent bank charters also included the same capital tax, increasing the incentive for the state to charter more banks. When new banks were chartered and the charters of existing banks renewed, the charters usually contained the provision, "That the rules, restrictions, limitations, reservations and provisions, which are provided in and by the third section of an Act, entitled, 'An Act to incorporate the President, Directors, and Company of the State Bank,' shall be binding on the bank hereby established" as in the rechartering of the Worcester bank in 1812.⁴⁰

The Democratic-Republicans directed the State Bank in its early history. Eight of its first twelve directors had been Democratic-Republican legislators, and none were Federalists. The first president was William Gray, who was a leader of the Democratic-Republican Party, the lieutenant-governor of the State, and a rich merchant ship-operator. In the circular of the bank published in July 1811, the bank committee declared, "the establishment of the present institution should be so conducted that its benefits shall be diffused as extensively as possible among the friends of the government throughout this Commonwealth."⁴¹

It was the Federalists' turn to denounce the Democratic-Republican monopoly over banking. They charged the State Bank of being "a powerful engine of bribery and corruption, and a machine established for the purpose of creating Democrats and destroying Federalists."⁴² In the *Boston Gazette* of August 22, 1811, "A Massachusetts Yeoman" addressed a letter to William Gray, declaring "it was beyond all precedent, and wicked in the extreme, to grant a set of men, who have always been borrowers, the whole control of the circulating medium of the State." In the *Columbian Centinel*, August 31, 1811, "A Constitutional Republican" listed two complaints, "1st, that the grant of a charter to the State Bank is a violation of the Constitution; second, that those who gave it countenance and voted for it have acted corruptly." The *Salem Gazette*, September 10, 1811, wrote a most violent denunciation,

The State Bank is managed as a powerful engine of bribery and corrupt influence. ... The constitutions and the principles of republican government are derided and contemned.... It is unblushingly avowed that

the new bank is intended as a machine to *create* Democrats and *destroy* Federalists. In this State there has been so much clamor by this very party against banks, bank directors, and exclusive privileges, that consistency required them to discountenance all. It appears that in each county an electioneering committee has been appointed, who through the influence of the new bank are to act as almoners of democratic bribes and commissioners of official corruption.

Aside from establishing new Democratic-Republican banks, the Democratic-Republicans wanted to eliminate the existing Federalist banks. The Massachusetts Bank was the first bank in Massachusetts, founded in 1784 with a perpetual charter to serve as the fiscal agency of the state. It was a Federalist bank, and its first president became the second state governor. After Democratic-Republicans chartered the State Bank, they tried to abolish the Massachusetts Bank. Afraid of losing their charter, a directors' meeting voted on February 15, 1812, "that the whole Board be a committee to exert themselves by every fair and honorable means in their power to prevent the passing of any act by the legislature to limit the duration of the charter of the Massachusetts Bank which charter is deemed perpetual." A subcommittee was given \$2000 "for the purpose," and "a remonstrance be offered and that the president signs the same in behalf of the Board." The bank had to accept a new charter with a limited duration (lasting only until 1831).⁴³ In fact, the Democratic-Republicans attempted to reshuffle the banking industry jeopardizing all Federalist banks.

The Democratic-Republican legislature, led by Governor Gerry, seized the chance in 1811 to implement a series of reforms. However, President Madison's unpopular foreign policy caused them to lose subsequent elections. In 1812, Federalists conducted a vigorous campaign and won a majority in the House and the governorship. The Federalist legislature rechartered existing banks in 1812 to prevent their expiration. The old banks were sustained under the same name but with a charter of the 1812 model, including a provision specifying a bank capital tax as in the State Bank charter.⁴⁴

The Federalists were chastened by the experience of 1811 and 1812. They realized that a future switch in government control might cause

them to lose their bank charters. To retain their own banks in case of another political turnover, the Federalists chose to cooperate with the Democratic-Republicans. While they continued to dominate the legislature after 1811, the Federalists chartered more banks and their banks also accommodated Democratic-Republican legislators. “The settlement of 1812 had substantially stabilized the banking system, withdrawing it from the grasping hands of a favored few,” as Handlin, and Handlin points out, “For a time thereafter, the question of currency was academic only.”⁴⁵ As shown in Fig. 1, more bank charters were granted after 1811 than previously. Compared to the years before 1812, it was “free and easy” to incorporate a bank, and the banks were no longer confined to one party. Farmers, manufacturers, artisans, and even merchants in every region demanded banks to serve themselves. People demanded banks in every city and every street.⁴⁶

6 Parties, Banks, and Laws, 1820–1850s

The Federalist and Republican Parties faded away in the mid-1820s to be replaced in the 1830s by the second party system which included the Whigs and Democrats as new parties. The second party system endured from the early 1830 to 1860s and included National Republicans, Whigs, Democrats, Americans, Know Nothings and other parties. Figure 4 is based on Dubin (2007) and shows the party composition of the Massachusetts Senate for this period. The National Republicans and then the Whigs usually controlled a majority of Senate seats in a competitive political regime. Figure 5 shows the party composition of the Massachusetts House. National Republican, Whig, and then Republican domination of the House are also apparent, again in the context of wild party competition and entry.

The Democrats often attacked Whigs’ banking policy and argued for reforms, but the argument was no longer about limited access to

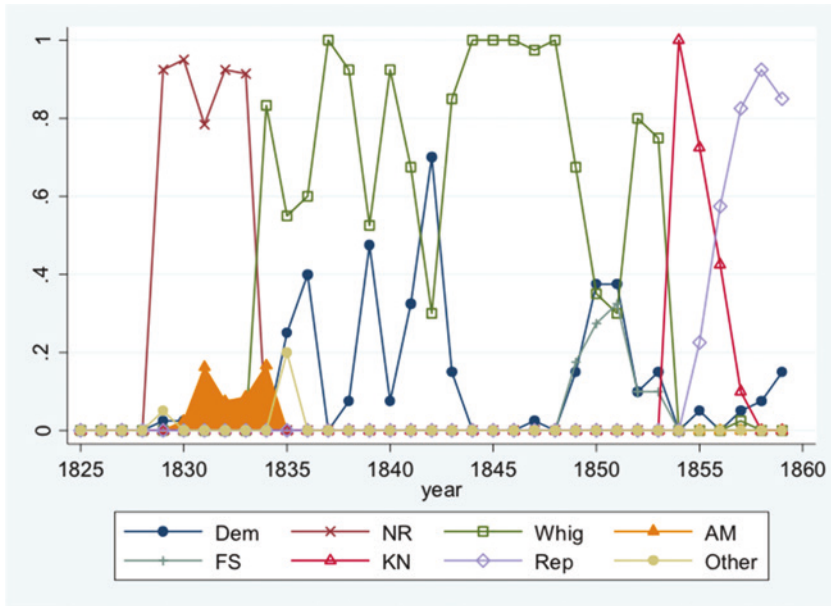


Fig. 4 Senate composition, 1825–1859

banking. In their 1830 address, Democrats acknowledged the significance of 1811 to the transition toward free banking:

Monopolies of various grades and characters, from exclusive privilege in banking, to an exclusive right to bridge navigable streams—from a compulsory support of a religious order, to unfair exemptions and exclusive privileges to members of the learned professions—from entails by literary and religious mortmains, to private entails in life annuities and life Insurance offices, have been the favourite means by which the federal party has built up an Aristocracy, and sought to establish its permanency. *Their banking monopoly crumbled beneath the democratic power in 1811: and by the wisdom of that measure which brought life into the State Bank, and established the principle that all were alike entitled to bank Corporations....* At the same period and by the same party, the link which in some degree bound together Church and State, was broken asunder.⁴⁷

Democrats' assertions were verified by their own internal disagreements on the banking reform. The famous Democratic reformer, the

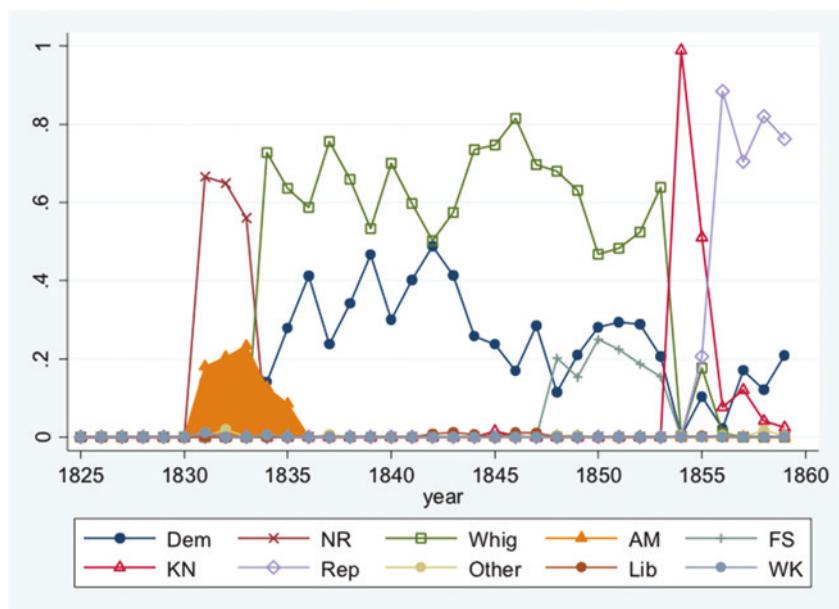


Fig. 5 House composition, 1825–1859. *Source* Dubin. *Note* Dem—Democrat, NR—National Republican, AM—Anti-Mason, FS—Free Soil, KN—Know Nothing, Rep—Republican

US senator and Massachusetts House Representative Robert Rantoul blamed the Whigs for fostering the evils of the paper-money system and sought a “complete and entire separation of Bank and State.”⁴⁸ However, many Democrats showed an inclination to vote for new bank charters for themselves.⁴⁹ Even Rantoul compromised when he knew many Democrats were involved in banking business. In 1837, before Rantoul was going to give a speech in Worcester to propose banking reforms, he talked with local Democratic leaders. However, he changed his remarks on banking reform after he learned that all local leaders were connected with bankers as stockholders or officers.⁵⁰ In the next year, Rantoul fought for banking regulations and tried to forbid legislators who were bankers from voting on the matter. However, his proposal failed with the support from just over one-fourth of the votes of

the House.⁵¹ In the second party system, both parties had connections with banks and were alike entitled to bank corporations.

De facto free banking was further consolidated by formal laws. The general law of 1829 included all essential provisions of the earlier acts^{52,53} and created uniformity of regulation. Its section 31 stated that “if during continuance of any bank charter, granted or renewed under the provisions of this act, any new or greater privileges shall be granted to any other bank now in operation, or which may hereafter be created, each and every bank in operation at the time shall be entitled to the same.”⁵⁴ As elites from both political parties obtained equal access to banks, what mattered were unequal privileges across banks. The 1829 Regulatory Act equalized banking privileges. In retrospect, the solution to the political problem in 1811 paved way for the passage of the law.

In April 1851, House Representative Richard Frothingham of Charlestown introduced a bill to permit self-incorporation of banks. Frothingham and other Democrats criticized the existing system as being monopolistic and inadequate to secure bank notes. The debate, however, focused on economic problems instead of political corruptions. The major argument for the law was that the demand for special legislative acts to create or amend corporations placed a burden on the legislature.⁵⁵ In May 1851, Governor Boutwell approved the new law, entitled “An act to authorize the Business of Banking”, authorizing any group of not less than fifty persons to incorporate a bank. The general law, however, did not forbid the grant of charters by special laws. In 1852, the alliance of Democrats and Free Soilers became the majority and they refused to grant special charters. However, bank petitioners waited for the return of the Whigs to political power. In the fall of 1852, the Whigs retained control of the legislature and issued special charters.

The Democrats and the Free Soilers also sought to solve the conflicts between public power and special privileges through amending the Constitution. The Massachusetts Constitutional Convention of 1853 tried to revise Article VI and VII and to replace them by two new propositions VII and VIII. The new Proposition VII stated that “the Legislature shall not create corporations by special act when the object of the incorporation is attainable by general laws.” Another new Proposition VIII stated that “The Legislature shall have no power

to pass any act granting any special charter for banking purposes, or any special act to increase the capital stock of any chartered bank; but corporations may be formed for such purposes, or the capital stock of chartered banks may be increased, under general laws.” However, these amendments were rejected, and as a result, the legislature the power to enact special acts of incorporation.⁵⁶

Until the Civil War, only seven banks were chartered under the general law and 44 banks got special charters. The general law of 1851 was unpopular and was threatened with repeal in the following years.⁵⁷ I found no evidence on why the law was unpopular in Massachusetts, but in Vermont and Connecticut, “banks chartered by special act were considered stronger financially, better regulated, and, being more limited in number, less likely to spring up during a period of inflationary excesses.”⁵⁸ Vermont passed the General Act for Banking in 1851, but there was “a general and widespread distrust to companies created under general laws,” and by 1870 only one bank formed under the general act.⁵⁹ For the same reason, the General Banking Act of Connecticut of 1852 was attacked and its use was prohibited after 1855.⁶⁰

7 Conclusion

The history of partisan banking shows that in a society where the legislature authorized corporations for public welfare, corporate privileges may be seized to benefit private interests of political and social elites. This outcome was possible in a deferential society such as early nineteenth-century Massachusetts, where elite factions played critical roles in webbing the whole society together. Powerful elite factions can determine the outcome of political and economic arrangements. However, these elite factions may fight with each other, leading to the instability of these arrangements. In order to achieve stable economic rents, elite factions must agree not to use their political power to compete for economic interest. The outcome of this arrangement is an open access social order in which all elites have access to organizational forms. The case of Massachusetts banking shows that Federalists and Democratic-Republicans formed a political arrangement in 1812 to accommodate

each other's banking interests, and then formally equalized banking privileges in the 1829 Regulatory Act. The 1851 general incorporation law provided an additional legal tool for self-incorporation. From underlying politics to formal legal rules, Massachusetts achieved open entry.

Notes

1. Emphasis mine. The Massachusetts Constitution of 1780 (Handlin, 1966).
2. Handlin and Handlin (1969, pp. 121–122). James Sullivan (1792), “Paths to Riches,” pp. 54, 56, 60. Gras (1937, pp. 530–532); Hall (1984), “Organization of American Culture,” p. 294; Jaher (1982, pp. 24–25); Redlich (1968, vol. 2, 1: pp. 33–36, 42, and 2: pp. 67–87); Whitney (1878), “The Suffolk bank,” pp. 7–15, 19–20; Hammond (1967), “Banks and Politics in America,” pp. 549–556.
3. Handlin and Handlin (1969, pp. 122–123); Dodd, pp. 202–203.
4. Dodd (1954, pp. 205–206).
5. Handlin and Handlin (1969, p. 128). Also see its note 60.
6. Pole (1962, pp. 640–641).
7. John Adams, *Defense of the Constitutions of the United States* ... (3 vols. Philadelphia, 1797), I, pp. 110–111. Pole (1966, p. 218). The pattern persisted from the colonial times. For example, Snell (1986) has shown that between 1731 and 1760, almost three-quarters of the officials in Hampshire County of Massachusetts were associated with one of a half-dozen elite River God families.
8. Formisano (1983); Goodman (1964).
9. Formisano (1983) studies the transformation from deferential political culture to partisan political culture.
10. There were only two national banks before the Civil War. All other banks were chartered by individual states.
11. Brooke (1989, p. 281).
12. Eastern Argus, April 2, 1807.
13. Ibid.
14. Eastern Argus, December 13, 1805, and February 22 and December 6, 1805; Salem Register, March 30 and April 2, 1807.
15. Eastern Argus, November 15, 1805.

16. *Republican Gazette*, April 27, 1803.
17. *Eastern Argus*, December 13, 1805.
18. *Boston Democrat*, May, 1804.
19. *Massachusetts Spy*, June 25, 1806. There were, in fact, two acts passed on February 10, 1807, titled: "An act, in further addition to an act, entitled, 'An act to incorporate sundry persons by the name of the President and Directors of the Union Bank'"; and "An act, in addition to an act, entitled, 'An act to incorporate the President, Directors, and Company of the Boston Bank.'" *Massachusetts Acts and Resolves*, 1807.
20. This vivid description of the life in early Massachusetts is from A. W. Dennis (1908), "The Merchants National Bank of Salem, Massachusetts: an Historical Sketch."
21. Dennis (1908, pp. 9–10).
22. Banner (1970, Chap. 5, pp. 182–183). William Whiney (1958), "The Crowninshields of Salem, 1800–1808"; Edward Gray (1914), "William Gray of Salem, Merchant"; Goodman (1964, pp. 123–127). Also see Sheidley (1998): "Sectional Nationalism" for the study on Boston elites.
23. See Goodman (1964).
24. Banner (1970, pp. 170–173); Goodman (1964, pp. 119–127). In 1800, 79% of the male voting-age population in Maine was under forty-five, compared to 65% in downstate Massachusetts (Banner 1970, p. 172).
25. See Goodman (1964, pp. 155–162). For election statistics, see Billias (1976, pp. 424–427), note 21, 30, and 63.
26. On Gerry and the issues in 1811, see the following reference: Formisano (1983, pp. 74–75); Billias (1976, pp. 314–322); James T. Austin (1829, pp. 333–342, 346–347); Seaburg and Patterson (1971, p. 228); Goodman (1986, pp. 154–181); Morrison (1913).
27. "Governor's Speech to the Representatives' Chamber, June 7," *Massachusetts Acts and Resolves* (1811, p. 184).
28. *Ibid.* p. 184
29. *Ibid.* p. 185
30. For Democratic-Republican reforms in other sectors, see Goodman (1964).
31. Griffith (1907, pp. 17–21); Austin (1829, p. 322); Dean (1892, pp. 374–383).
32. *Massachusetts Spy*, June 25, 1806. Two acts were passed on February 10, 1807, titled: "An act, in further addition to an act, entitled, 'An act to

incorporate sundry persons by the name of the President and Directors of the Union Bank”; and “An act, in addition to an act, entitled, ‘An act to incorporate the President, Directors, and Company of the Boston Bank.’” Massachusetts Acts and Resolves, 1807.

33. House Journal, January 8, 1807, MA.
34. Goodman (1964, pp. 177–178). For indications of group attitudes see *Columbian Centinel*, June 6, 1807, and January 27 and February 10, 1808. “Bill to Establish a State Bank, 14 Jan. 1808,” Massachusetts Legislative Documents, 1798–1809, Massachusetts State Library. For the legislative history, see House Journal, February 20, May 28, and June 5 and 9, 1807, and February 10 and 26, 1808, MA; *Boston Gazette*, February 11, 1807; *Columbian Centinel*, February 10, 1808.
35. The unpassed petitions for rechartering banks can be found in the Massachusetts State Archive.
36. Petition for the State Bank, June 11, 1811. Goodman (1964, p. 179).
37. Dennis (1908, p. 7).
38. *Salem Gazette*, September 10, 1811. Emphasis Mine.
39. Measured by Wealth/GDP, it is equivalent to 64 billion dollars in 2012, according to <http://www.measuringworth.com/>.
40. Massachusetts Acts and Resolves (1821), Chap. 26, “An Act to incorporate the President, Directors, and Company of the Worcester Bank,” p. 422
41. Stetson (1893, p. 13).
42. This and the following quotes are from Stetson (1891).
43. On the Massachusetts Bank, see Gras (1937, pp. 84–85), and Williams (1984).
44. Handlin and Handlin (1969, p. 129); Dodd (1954, p. 210).
45. Handlin and Handlin, p. 175.
46. Handlin and Handlin, pp. 177–182
47. *Boston Statesman*, February 13, 1830. Emphasis mine.
48. Bulkley (1971, pp. 202–204); Handlin and Handlin (1969, p. 232).
49. Handlin and Handlin (1969, pp. 232–233).
50. Formisano (1983, pp. 319–320).
51. Bulkley (1971, pp. 159, 201, 217–219); Formisano (1983, pp. 319–320).
52. Similar general laws were passed earlier in other sectors. Massachusetts enacted a law enumerating the “general powers and duties” of turnpike corporations in 1805, and a similar law for the manufacturing companies in 1809. Thereafter, the incorporation to turnpike companies and the manufacturing firms were made reference to this law. The

- charters were standardized, but each charter was still a special act. Acts and Resolves of Massachusetts (1805), Chap. 125; Acts and Resolves of Massachusetts (1809), Chap. 65.
53. As far as I read, the 1829 Regulatory Act was the first comprehensive general law to regulate banks in human history. Its emergence shows how regulation evolved gradually from standardization of specific contracts to general laws.
 54. Massachusetts Acts and Resolves (1829).
 55. “Unless we strike down this sort of special legislation, the legislature, because of the increasing business and enterprise of the community, ... must ... become not only a general court, but an everlasting and unad-journing court, the mere makers, managers, and agents of special incor-porations,” Debates and Proceedings of the State Convention of 1853, vol. 3, pp. 52, 69, Maier (1992). Rantoul and Morton had expressed similar argument.
 56. Dodd (1954, p. 287).
 57. Maier (1992) states that “The adoption of general laws of incorpora-tion for business enterprises was not, then so much a major departure in Massachusetts corporate legislation—the General Court had, after all, passed similar laws in the eighteenth century—as it was yet another in a series of changes adjusting a long-established regulatory tradition to altered economic and institutional circumstances.”
 58. Kessler (1948, p. 49).
 59. Ibid.
 60. Ibid.

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