Banks, Politics, and Political Parties:
From Partisan Banking to Open Access in Early Massachusetts

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This draft still needs some adjustments to the table numbering, figures, and references. As well as one more careful proofing.

We will repost the paper in the next couple of days.

Politics and Banking in Massachusetts

The United States was the first nation to allow open access to the corporate form to its citizens. The state of Massachusetts was not only one of the first states to provide its members with legally sanctioned tools to create organizations and enable open access but, on a per capita basis, had many more banks and other corporations than other states as early as the 1820s. Early nineteenth century Massachusetts is a natural place to look for the social processes that enabled societies to create large numbers of independent organizations, the central question of our conference and volume. Massachusetts also provides a window into how the emergence of open organizational access has been treated up until recently in the history and social science literature. A large literature describes what happened in Massachusetts and a smaller set of explanations for why it happened. At the most general level, the democratic reforms that stimulated, and then followed, the revolution supply an answer to "why" Massachusetts adopted sophisticated forms for organizations and allowed many citizens to form them. The title of Pauline Maier's article "The Revolutionary Origins of the American Corporation" gives the flavor of answers to the why question: political events in the revolution created the conditions under which the emergence of modern corporations and open access to those corporate forms was almost inevitable. The Handlin's classic *Commonwealth: A Study of the Role of Government in the American Economy, 1774-1861* has much the same tone and analysis. The state found itself confronted with political demands for corporate charters from a wide variety of citizens that it simply could not deny.[1]

[1] "The public purpose which justified extension of government powers to a bank, to a bridge, and to a factory soon comprehended a wide and ever widening circle of enterprises. The Commonwealth's concern with the entire productive system, its solicitude for the welfare of many diverse activities, all interdependent and all adding to the strength of Massachusetts, quickly put the corporate form to the use of many new ventures. The political balance deflated any notion of keeping the device exclusive; the expansive thinking, the excited spirits of the young state, brooked no casual denial. Charters in steadily mounting volume clothed with living tissues the skeletal hopes for an economy to serve the common interest." (Handlin and Handlin, 1969, p. 106)

Viewed from a narrow perspective, the Handlin's and Maier's explanation that Americans adopted open access for organizations because of the political and economic dynamics set in motion by the movements towards democracy in the colonial experience and the revolution is certainly correct. Something definitely happened to political and economic institutions in Massachusetts that led to open organizational access. But the Massachusetts story lacks an element so present in other societies, both of the early 19th century and today: elites. In a broader perspective, similar adoption of democratic political institutions in other societies did not lead to open organizational access, for example, in Latin American after independence. Those societies tried democracy, repeatedly, but elites persistently frustrated attempts to open political and economic organizations to a wider spectrum of the population. In Massachusetts and the United States, elites are the heroes. George Washington, Thomas Jefferson, James Madison, John Adams, even later elites like Andrew Jackson and Henry Clay are the heroic protagonists in the implementation of both an open and competitive democracy, a vibrant open economy, and a rich civil society full of organizations of all types that are recognized as legitimate. Really bad elites don't show up until seceding slave owners and gilded age robber barons come on to the scene. The bad elites who wanted to maintain their privileges were there from the very beginning, of course. The early heroes of American history were usually engaged in accusing each other of being corrupt abusers of power and manipulators of faction and economic interest. Since the history turned out well, historians have come to see the contributions that a wide range of elites made to the emergence of a more open society in the early nineteenth century. But a history that elides over the intense conflicts between elites in the early 19th century, cripples our ability to apply American history to the problems of modern political and economic development.

By ignoring intra-elite conflicts and asserting on the inevitability of open organizational access, the conclusion that democracy and American culture led to open organizational access in early Massachusetts does not lead us to an answer for the next question: "how" do we induce open organizational access in a society? The answer cannot simply be to adopt democratic political institutions, the history of the last two hundred years shows us that is not enough. The answer has to involve some understanding of the behavior of elites. Why, in the United States, did elites allow open access to emerge? Did they realize that they were doing so? And was organizational access ever limited to elites? If elites in a place like early nineteenth century Massachusetts did limit the formation of organizations in order to consolidate or protect elite interests, then the history of the United States has much more to offer the modern world about the political economy of development.

North, Wallis, and Weingast (2009) argue that, in most societies, intra-elite competition and violence is limited by the creation of elite economic rents which sustain coordination within the elite coalition. Their understanding of the transition limited to open organizational access is that competition within and between elites can, under the right conditions, lead elites to move towards rules that allow all elites to form organizations. Enabling open elite access reduces the rents from elite organizations, which no longer enjoy distinct privileges. The society moves toward a new pattern of open political and economic access in which a competitive economy sustains competitive politics.

In this paper we revisit the history of early Massachusetts to ask specifically how open entry into banking emerged in Massachusetts. Banking offers a particularly rich area for research because of the close connection between politics and banking, because a series of political decisions ultimately opened access in banking, and because we can connect banking and

politics in a unique way, by tracking the number and proportion of bankers in Massachusetts who are also state legislators (following the work in Qian Lu's dissertation). We hope that our conclusions will resonate with other papers at the conference:

1) Despite its democratic origins and active political competition from the 1780s onward, Massachusetts did not open access easily. Entry into banking was limited and highly partisan in the first thirty years of statehood. Citizen demands for bank charters were often not met. Despite two competitive dominant political parties, the Federalists and Democratic-Republicans which were roughly balanced politically in numbers, a large percentage of banks and bankers were Federalists until 1811 and Democratic-Republicans were denied charters. [2]
2) When the Democratic-Republicans gained simultaneous control of the House, Senate, and Governor's office for the first time in 1811, they threatened to disband the Federalist banks and chartered two new banks dominated by Democratic-Republicans.
3) Politics and banking continued to be closely connected. From 1812 to 1860, 40 to 50 percent of all bank presidents and bank directors also served in the state legislature at some point in time. The evidence suggests that the North, Wallis, and Weingast contention about intra-elite competition applies to Massachusetts banking. Banking and bankers remained elite throughout the period. At least by our working definition of an elite as a person who was bank president or bank director and member of the state legislature at some point in their life.
4) Despite the continuing close connection between politics and banking, limited partisan access to banking disappeared in the late 1810s and never returned. Before 1811

[2] In the late 18th and early 19th century the "Democratic-Republicans" were also often called either "Republicans" or "Democrats." Because the paper goes to 1860, a period in which the National Republicans, the Democrats, and the Republicans formed parties, we stick with the lengthy "Democratic-Republican" name.

groups found it extremely difficult to get a charter if they were not connected to the Federalist Party. By 1820, that changed permanently. Banking was still dominated by elites, but access to banking was no longer limited.

The paper documents the history of banking in Massachusetts and provides empirical support for our conclusions. We can show that all these things happened. The paper does not provide a definitive answer to how and why Massachusetts decided to move to open organizational access in banking after 1812. We have some ideas and we venture some hypothesis with partial support in the historical record, but we are still working on a definitive answer to the why question.

Massachusetts matters for the bigger conference questions because the revolutionary experience did not immediately or automatically produce open access to the corporate form. The partisan political competition unleashed by the adoption of competitive electoral democracy initially resulted in partisan control of banking and limited entry. Like Mexico in the 19th and 20th century (Haber and Haber, Razo, and Maurer, 2003) or New York from 1800 to 1836 (Hofstadter 1969, Benson 1961, Bodenhorn 2006, and Wallis 2006), Massachusetts Federalists used the rents created by limiting the formation of banks to political allies to cement their political coalition. Unlike Mexico in the 20th century, however, after a sharp political crisis in 1812 Massachusetts began moving towards open entry. Significantly, the close connection between politicians and bankers became slightly weaker but by no means disappeared. The importance of politics to bankers, and banking to politicians did not disappear. As late as 1860 almost half of all Massachusetts bank presidents and directors that we can identify had been or would become a state legislator sometime in their life.

But Massachusetts did move toward open entry. Initially it did so by changing the terms on which banks were chartered. In 1799, the legislature prohibited "private banking," that is bank note issue by unchartered banks, consolidating the market power and privileges of the chartered banks. The 1799 reform was a step toward more limited access. In 1811, the Democratic-Republicans chartered the "State Bank" with significantly different charter provisions. These increased the financial support that banks provided to the state. All of the banks chartered (or renewed) after 1812 contained the same provisions in their charters as in the State Bank charter. In 1829, the state adopted a general regulatory act that not only required that all bank charters follow a common form, but that any privileges granted to or obligations imposed on a new bank charter would automatically apply to all existing bank charters. This appears to have been a move to lessen the rents associated with special chartering. These were first steps towards opening access by guaranteeing that all existing banks had access to exactly the same set of organizational tools. But the legislature still exercised power over the grant of a bank charter. In the 1820s, the legislature began opening access *de facto* if not *de jure.* When a general incorporation act for banks was finally passed in 1851, not more than seven new banks were formed under the act (Knox, 1803). Massachusetts had already achieved, or was very close to, open access.

We emphasize that free entry into banking did not result from a divorce of economics and politics in Massachusetts. Massachusetts did not eliminate elites, or try to eliminate elites. We show that despite opening access in banking, bankers as a group did not lose their privileged economic status as measured by their assessed property income (for Boston bankers). The state did not miraculously discover that politics should no longer be involved in banking. If it had, almost half the bankers we can identify in 1859 would not also have been state politicians. What

changed was the government's role as coordinator and arbitrator of elite factions or coalitions. In the early years of the Commonwealth government was systematically used by the dominant elite faction, the Federalists, to create banks that favored the Federalists. Eventually elites came to see that the interests of all the dominant political factions would be better served if the government coordinated access to the privileges of corporate banking by making charters available to all individuals who met impersonal criteria. Understanding what they were trying to do is a complicated issue that we address at the end of the paper.

II. A Note on Sources and Measures

The empirical evidence presented here is not perfect. We made a serious attempt to identify economic and political elites and the political factions they belonged to. The solution we adopted was to link bankers and legislators. We employ several different methods to attempt to show that an elite faction controlled access to banking before 1812, and then access opened in principle and practice after 1812. We matched two datasets, one on bankers and the other on legislators from the late 18th century to 1859 to show that a close connection between bankers, legislators, and parties existed before 1812 that weakened, but did not disappear, after 1812.

The names of bank directors and presidents were collected from the Massachusetts Register (1790-1859). This is a sample of bank presidents and directors, because the registers (or almanacs) did not collect information on every bank in every year. Particularly in the early years, the Registers collected complete information on banks in Boston, but often only the name of the bank president for the "country" banks outside of Boston. The second database is a complete biographical history of every Massachusetts legislator between1780-2003 constructed by the Massachusetts State Library. We match bankers and legislators by their names, and after

comparing the years that bankers appear in the data and legislators' birth year and death year, we remove the matches that went beyond a reasonable age (20-80). The dataset has 20,457 banker-year observations, of which 16,794 (82.1%) are bank director-year observations and 3,663 (17.9%) are bank-president-year observations. We matched 9,749 (47.7%) of the banker-year observations with legislators.

We are confident that the banker sample includes almost all of the banks operating in Massachusetts between 1792 and 1836 and again between 1848 and 1859. We compared our bank series to the data collected by Weber, by Van Fenstermaker, and by Sylla and Wright and are confident that we have essentially all of the banks in operation (that data is available in more detail if necessary). Between 1837 and 1847, however, the Registers stopped collecting information on most banks outside of Boston. They resumed collecting data after 1848. The Registers also began to record every director after 1851. For most years we have complete information on presidents and directors for the Boston banks, but often only bank presidents for the banks outside of Boston. As a result, there are different ways to parse the data to obtain consistent data over time. The basic empirical results appear to be robust to what banks are included in the sample and whether we look at presidents and directors, or just presidents. Nonetheless, the gaps in the data create some uncertainty about our conclusions, which we discuss as they arise.

Figure 1 shows the number of banks in our sample compared to the number of banks in Weber's sample. Weber tended to include banks in the year they were chartered, and the registers usually recorded banks only after they were in operation for a year, Except for the 1837-1847 gap in the country banks, the series are quite close.[3]

[3] Weber estimated the beginning and ending year of banks. For some banks he relied on the chartering dates. Weber did not include Maine banks in Massachusetts before 1820, when Massachusetts split into two different states.

Figure 2 shows the number of new bank charters, excluding renewals of existing charters, created by the state legislature. Only eight banks were chartered before 1799, when the state restricted non-chartered banks from issuing notes. Between 1799 and 1805, the state chartered another 17 banks.[4] A second surge of chartering occurred between 1811 and 1813, followed by a lull. Chartering rose to higher levels in the 1820s and 1830s, but came to a halt after the financial crisis in 1837 and the early 1840s.

We have the universe of legislators, but only a sample of bankers. This causes a couple of problems. Many bankers appear in more than one year, but a significant number do not. As a result, if we use the entire sample of 20,457 banker-year observations we have a sample selection and weighting problem. Some bankers have more weight in the "total" sample because their banks appear more often in the registers. For some purposes this is not a problem, but for others it is. The second way of parsing the data, therefore, is to look at "new bankers." A "new" banker is observed in the year when he first enters the sample and only in that year. For each banker who enters, we note whether that banker had already been a legislator, whether that banker would become a legislator, or whether that banker would never become a legislator. The three categories: "had been" a legislator, "would be" a legislator, and "never" be a legislator is a complete and exhaustive set of categories. This is true whether we are looking at the "total" sample or the "new banker" sample. We determine whether a banker was a had been, would be, or never be legislator at the time they enter the banking sample for both samples. The total sample and the new banker sample generally show the same trends over time, but in individual years can be quite different. The third way of organizing the sample is by individual banks rather than bankers. All three methods are used.

Weber's data are better than Fenstemaker, Sylla and Wright because these two sources relied exclusively on chartering dates.

[4] In total 17 banks. 1799: 2, 1800: 1, 1802: 3, 1803: 7, 1804: 4.

By looking at bankers who were also legislators, we can directly identify the interests of bankers with political parties. The party affiliations of legislators are not given in the biographies until 1797, and even then many early legislators do not have a Party ID, that is they are not associated with a party in the biographies. A second limitation is that we cannot associate all bankers with political parties, because we only know the political party affiliation of legislators. This causes a couple of problems, particularly over the course of time. We began with 1790, but do not have party labels until 1797, and even when we have party labels the biographies often do not report a party ID for an individual legislator. Over time the number of legislators with party IDs increases. Since we can identify party only for bankers who are legislators and for whom the *Legislative Biographies* reports a party ID, we have to be aware of what is happening both with bankers and parties in particular time periods.

The share of all legislators who can be identified with a political party, not just legislators who were also bankers, is shown in Figure 3. Two periods are problematic: before 1800 and between 1823 and 1830. Since both of these periods figure prominently in our story, the absence of Party IDs for this period is substantive, not just a measurement issue.

The last step in the empirical analysis is to match the Boston bankers to the property tax assessment lists from 1829 to 1859. The tax lists are bottom coded, they only include the richest taxpayers and the sample cut-off varies over the years. We drew a large random sample of taxpayers from the tax list, and then compare the average wealth of bankers to the average wealth of (wealthy) taxpayers. Figure 4 shows the ratio of the wealth of bankers to wealthy taxpayers. From 1829 to 1859, there is essentially no trend in the ratio. Despite the fact that access to banking was opening, bankers were not suffering a loss in their relative wealth.

Measuring elites and elite coalitions is a difficult problem. For purposes of the paper, we define elites as anyone who was a banker or a legislator, and then measure the connection between elites and elite factions by dividing bankers into those who were legislators and those who were not, and for those who were legislators, by dividing them further into their parties. This is not a perfect way to measure who is an elite and the structure of elite coalitions, but it is a start.

III. A Very Brief History of Massachusetts Politics and Parties

From the early 1780s on, Massachusetts had an elected government comprised of a Governor, a Senate, and a House. Annual elections for all three were held in May, with terms that ran until the next election (which can produce some complicated dating, for example the legislature elected in the spring of 1811 held sessions in both 1811 and 1812, and the Governor served in both years as well.)[5] Towns had the opportunity to send representatives or not, so the number of legislators fluctuated, sometimes wildly. Figure 4 gives the number of legislators by legislative year. There are important stories in Figure 4 that we do not explore.

We take the overall party composition of the legislature from Dubin (2007).[6] The early years of the 19th century, from 1797 to 1824, the first party regime, was dominated by Federalists and Democratic-Republicans. Party labels were problematic in Massachusetts in the 1820s, and the second party regime from 1829 to 1859 included National Republicans, Whigs, Democrats, Americans, Know Nothings and other parties. In many years the Whigs dominated, but not in

[5] The 1820 Constitutional Convention proposed an amendment that would have moved the beginning of the political year to the first Wednesday in January, but it was rejected by the voters. Ten years later, the voters ratified Amendment X of the constitution making January the start of the political year. After 1832, the legislative sessions start in early January and end in late March or April.

[6] Dubin's data on party affiliations in Massachusetts also begin in 1797.

all. Figure 5 gives the party composition of the Senate for the first period, 1797 to 1824, and Figure 6 gives the party composition of the Senate for the second period.

While Federalists dominated the Senate in the earliest years, from roughly 1805 on the Democratic-Republicans were able to compete effectively and controlled a majority in six legislatures from 1808 to 1824. In the later period a kaleidoscope of political parties contended for control of the Massachusetts Senate. The National Republicans and then the Whigs usually controlled a majority of Senate seats, but in a much more competitive political regime. The relative control of the Whigs affords us an opportunity to see if majority control resulted in more Whig bankers.

Figures 7 and 8 show the party composition of the House for each period. The House follows roughly the same pattern as the Senate. Federalists dominated the early period, but Democratic-Republicans were competitive, controlling the majority in 4 sessions. In the second period, National Republican, Whig, and then Republican domination of the House is also apparent, again in the context of wild party competition and entry.

This very short history of Massachusetts establishes that there were two different political regimes in Massachusetts. In the first regime, from independence up to the mid-1820s, the Federalist Party usually held control of state politics. But their opponent, the Democratic-Republicans were occasionally able to seize control of the House, Senate, or Governorship. Critically, the Democratic-Republicans were able to control all three in only one year: the Governor and legislature elected in 1811. That session of the legislature met in1811 and 1812. Important events occurred in 1811 and 1812. The Federalists maintained their dominance of state offices through the early 1820s when, mirroring events at the national level, party identification became confused. In the second party regime, from the late-1820s to the beginning

of the Civil War, a number of parties contended for control in Massachusetts. The National Republicans and the Whigs usually possessed majorities in the legislature, but in a much more volatile partisan political environment.

IV. Politics, Parties, and Banks in the Big Picture: 1780 to 1860

The primary quantitative data we have starts with the lists of bank presidents and directors in the Massachusetts registers, then matches the names of the bankers to names of state legislators, then we record the party ID of the legislator if there is one. The main outlines of the data are shown in table 1. For different time periods, the 1790s, the 1800s, 1800 to 1812, the 1810s, 1820 to 1825, 1825 to 1839, and 1840 to 1859 the table lists the three basic datum in columns (1), (2), and (3).

The enormous increase in the size of the banking sector in Massachusetts is evident in column (1), the number of banker years in the 1790s was 307, from 1840 to 1859 it was 12,599 (in these numbers an individual banker can appear in more than one year). Part of the increase is due to the fact that the Registers listed all the country bank directors after 1851. The most significant numbers overall are found in column (4), which give the share of all bank years that were composed of bankers who had been or would become a legislator. In the 1790s, 76 percent of the banker years were for bankers who had been or would be in the legislature. From 1800 to 1812, that number was 73 percent. In the short period from 1820 to 1825 the share of bank years by bankers who were also legislators fell to 56 percent, more than half of the decrease to a 44 percent share of banker years for bankers who were never legislators between 1840 and 1859. (We can tweak the time periods, but this is a basic result). The 1820-1825 period was also when

the structure of parties, in Massachusetts and the nation, underwent uncertain changes, reflected in the sharp decline in the number of legislators with Party IDs in Figure 3.

The second way to measure the connection between legislators and bankers is to measure each banker just once, when he enters the banker sample, the "new banker" sample. Table 2 provides the number of individual new bankers in different time periods, and whether they had been or would become a legislator. The weights are different in Table 2 than in Table 1, since each banker enters only once. Between 1790 and 1799, 66 percent of all individual bankers had been or would become legislators, and was still 64 percent for bankers who entered the sample between 1810 and 1815. But between 1815 and 1825 the share of new bankers who were legislators fell to 42 percent. More than two-thirds of the decline in the share of new bankers who were also legislators from 76% in the 1790s to 37% in the 1840s, occurred in the years between 1815 and 1825.

The second take away from the tables is column (5) in Table 1. In the 1790s, only 42 percent of all the legislator years are for legislators with party IDs in the *Legislative Biographies.* (Again, a legislator can appear in more than one year, but if a legislator has a party ID in a later year he will be identified with it for the entire period. We will deal with this complication in more detail later in the paper.) If we look at individual bankers and legislators, as we do in table 3, the share of banker-legislators with Party IDs was 64 percent from 1790 to 1815, increases to 82 percent between 1816 to 1824 and to 88 percent from 1825 to 1859. (Tables 2 and 3 will eventually be combined).

Individual years mattered, which are easier to see in graphs. We begin with the Boston banks for which we have a continuous series in the Massachusetts Registers from the 1790s to 1860. The Boston banks provide a consistent set of banks and bankers over the entire period,

which is an advantage, but Boston banks are not perfectly representative of country banks, which is a problem. Figure 9 gives the number of bankers in Boston, both Presidents and Directors, annually from 1790 to 1860. Figure 10 gives the proportion of all Boston bankers in each year that had been or would become a state legislator. Figure 11 breaks out the proportion that had been legislators and the proportion that would become legislators

Figures 10 and 11 were initially the heart of the paper. The figures depict the sharp decline in the association of bankers and legislators that occurred between 1815 and 1825, a decline we thought was the shift from limited elite access to open access when we first saw it. Our confidence that 1815 to 1825 witnessed a profound change in the relations between politics and banking remains unshaken, but we have come to appreciate the North, Wallis, and Weingast point about intra-elite competition in a much more direct way. What happened between 1815 and 1825 was opening elite access. That was followed by much wider access in the late 1840s and 1850s, although bankers and politicians remained closely linked even then. This interpretation pivots on how we use the information on bankers, politicians, and parties to make inferences about elite coalitions.

The figures initially show a strikingly high proportion of bankers in Boston had been or would become legislators in the early years. For the period from 1790 to 1812, the proportion never falls below 67 percent and is as high as 83 percent, with the typical year somewhere in the 70 percent range (Figure 10). Figure 11 breaks out the proportions that had been and would become legislators. There is a marked shift in the composition of would be and had been legislators in the years before 1812. Remember both that there were a small number of banks, and the fluctuations in the number of legislators shown in Figure 3. The spike in the number of bankers who had been legislators in 1812 is accounted for by the Democratic-Republicans finally

establishing two Democratic-Republican banks in 1811, whose presidents and directors were drawn heavily from the ranks of legislators. The proportion of bankers who had been or would become legislators declined quickly from 1815 to 1825, 65 percent to 45 percent, and then declined slowly for the next 35 years (Figure 10). Over that time period banking continued to be an entryway to politics, with between 30 and 25 percent of bankers becoming legislators, while the proportion of bankers who had been legislators declined to between 12 and 17 percent. Both shares dropped from 1812 to 1860, however.

The reduction in the close association between bankers and legislators does not map neatly into the two regimes of party competition. As we discuss later in the paper, it appears to reflect the break down of party identities at the national and then at the state level in the 1820s as well as the break down of partisan politics in Massachusetts. Party associations began to weaken after 1815, while the Federalists remained dominant in politics until the 1820s. We examine the three regimes in the next two sections.

V. Politics, Parties, and Banks in the First Party Regime: 1780 to 1821

The Federalist party controlled Massachusetts politics for most of the 1790s and 1800s, and it showed in the party composition of bankers. Figures 12 and 13 use the sample of total Boston bankers from 1790 to 1825. Figure 12 shows the number of bankers that had already been a state legislator in the year they became a banker. Figure 13 shows the number of bankers who became a legislator at a later date.

As figure 12 shows, of the bankers before 1810, only 1 had already been a Republican legislator (out of roughly 50 bankers), while a significant number had already been Federalist legislators. Even more striking, figure13 shows that bankers were much more likely to become

Federalist legislators than Republican legislators. Of the 68 bankers in our statewide sample in 1810, 47, or 70%, had been (33%) or would become (37%) legislators. Of the 47 bankers, 4 had no party affiliation, 38 were Federalists (81%), and 5 were Democratic-Republicans (11%). This conclusion must be tempered by the relative small number of legislators with Party IDs in the 1790s, but it appears clear by 1810 that Federalists dominated banking. Banking in Massachusetts was not quite a Federalist monopoly but it was close. Of the 23 banks in our sample in 1810, only 3 banks can be identified as Democratic-Republican banks because they have presidents who were Democratic-Republican legislators. Two other Democratic-Republican legislators were directors in banks dominated by Federalists. Perhaps even more telling, of the 23 banks, only 4 did not have a state legislator as president or a director (and that is an underestimate since we do not have directors for most country banks). Of those 4, the Nantucket Bank was a Democratic-Republican bank, it had 3 Democratic-Republican legislators in 1803, the only year for which we have information on directors for that bank. The Berkshire Bank's president was Simon Larned. He was a legislator, but he was not identified with a party. While representation in the House and Senate was roughly 60% Federalist, 40% Democratic-Republican over the years, the Federalist banks outnumbered the Democratic-Republican banks by roughly a 5 to 1 ratio. In a later section we document what people said about this. The Democratic-Republicans were very upset about not getting bank charters.

For now, what stands out in many of the Figures, particularly Figure 12, is 1812. Although Massachusetts had elected Democratic-Republican majorities to the Senate and House before, it was only in the election of 1811 that the Democratic-Republicans held both houses and the Governorship (the election of 1811 selected the legislature for the 1811-1812 term). Eldbridge Gerry was elected governor in both 1810 and 1811. In the session of 1810-11 he attempted to

work out a compromise with Federalists over banking and a number of other issues. When he could not reach a compromise and when some Federalist leaders came out against what would become the War of 1812, Gerry campaigned actively for himself and a Democratic-Republican legislature in the elections of 1811.

The legislature of 1811-12 changed the banking policy of the state. It chartered two new banks: the State Bank and the Merchant's Bank of Salem (which we discuss later). The State Bank was a very large bank, with three times the capital of any existing bank. The State Bank was a Democratic-Republican bank. All twelve directors and the bank president had been or would be state legislators: 11 were Democratic-Republicans. The sharp jump in the number of Democratic-Republican bankers who had been legislators in Figure 8 for 1812 was a direct result of placing Democratic-Republicans on the Bank's board of directors. The State Bank was also intended to be a reform bank. One-third of the $3 million capital was subscribed by the state government, with an option to subscribe an additional $1 million. The Bank was to pay a tax to the state of ½ of 1 percent of its paid in capital each year. The reform ideas behind both state ownership of stock and the capital tax was that the Bank, rather than being a source of private privilege to its owners, would be a source of revenue for the state government.

The last element of the new banking policy resulted from the unusual fact that the charters of all the existing banks in Massachusetts expired in 1812. (We are not sure why all the charters were set to expire in 1812). In the 1811-1812 legislative session, the Democratic-Republicans refused to renew the charters of any of the existing banks. It was, literally, an existential crisis for the Federalist bankers. Without their charters they would not be able to issue bank notes, a basic function of their banks. A vigorous campaign was carried out in 1812. The Federalists regained the Governorship and the House, but the Democratic-Republicans had redistricted the

Senate (as a result of the "Gerrymander") and retained control of it. In the fall of 1812 (the 1812-13) legislative session, the charters of the existing Federalist banks were renewed. (We don't know what happened in 1812 that led the Democratic-Republicans in the Senate to concede to the charter renewals). Significantly, all of the renewals contained the reform provisions included in the State Bank charter, including the bank capital tax.

The War of 1812 was a turning point for the Federalists as a national party. Their opposition to the war ended their effectiveness in national politics, even as they continued to be a potent force in Massachusetts politics for another decade (as the Federalist shares of the Senate and House show in Figures 4 and 6). The rate of bank formation was high in 1811, 1812, and 1813, slowed for a time during the active part of the war in 1814 and 1815, and the economic recession in 1818, and then picked up rapidly in the 1820s, Figures 1 and 2. The pattern is clear in Figure 14, which gives the number of new bankers in Boston banks, where the number of new bankers picks up in 1816, but then falls back until 1823.

By 1815 the existing population of people who had been either bankers, legislators, or both was large, which gives the total sample of bankers more inertia. In order to focus on changes in the behavior of bankers after 1815, we turn our attention to the new banker sample which only includes a banker in the year in which he enters the banker sample corresponding to the data underlying Tables 2 and 3. Because the new banker sample is smaller, the proportion of new bankers that had been, would be, or never became legislators is much more volatile. Figure 15 gives the number of new bankers in Boston each year, Figure 16 gives the proportion of new bankers in Boston who had been Federalist or Democratic-Republican legislators for the entire period, and Figure 16 gives the proportion of new bankers in Boston who would become Federalist or Democratic-Republican legislators.

As you can see, the small numbers of new bankers leads to graphs that bounce around a lot from year to year. (The current graphs are a bit confusing/misleading as well because a "0" for a single year can reflect either that there were no new bankers, or that the proportion of new bankers was "0".) Nonetheless, a general trend is clear. In the decade before 1812 there were years when half of the new bankers had been legislators including 1812 when half of the new bankers were Democratic-Republican legislators (remembering there were years with a smaller proportion and years with no new bankers), Figure 15. In the next decade, there were three years in which a third of the new bankers had been legislators, all Federalist. After 1822, when the Federalists are disappearing as a party, but individuals who had been Federalist legislators in early years are still becoming bankers, the proportion of new bankers who had been Federalist legislators falls to less than 10 percent and then goes to zero. Similarly, the proportion of new bankers who would become legislators was highest before 1810, sometimes reaching 5 percent or higher for the Federalists. After 1810 the proportion was generally lower, rarely higher than 2.5 percent, again mostly for the Federalists. Again, remember that both the Federalists and Democratic-Republicans were in the process of disappearing as parties, so the potential number of bankers who "would be" in either party was diminishing rapidly. The share of bankers who would be legislators in Figure 11 does not suffer from this problem.

In summary, there was a very close relationship between bankers and state legislators in early 19th century Massachusetts. Up to 1812, two thirds of all individuals who became a bank president had been or would become a state legislator.

Federalists dominated the formation of banks up to 1811. The large majority of banks were under Federalist control. Federalist banker/legislators outnumbered Democratic-Republican

banker/legislators by at least 5 to 1. The ratio of the number of banks controlled by Federalists and Democratic-Republicans was also roughly 5 to 1.

In 1811, for the first time, the Democratic-Republicans obtained control of the House, Senate, and Governor's chair and turned the tables on the Federalists. They chartered two new Democratic-Republican banks. They refused to renew the charters of any Federalist banks, all of which were due to expire in 1812. The Federalists put on a determined effect to recapture the legislature. In the elections of 1812 they elected the Governor and won a majority of the House, but the Democratic-Republicans retained control of the Senate. In 1812, the existing bank charters were renewed, but on the same reform terms as the State Bank charter in 1811.

After the "bank war" of 1811 and 1812, the state continued to charter banks, but the close relationship between bankers and legislators began to weaken. In the surge of bank chartering in the 1820s, new bankers were significantly less likely to have been or become a state legislator. Although to the extent that they had been legislators, they still tended to be Federalists.

VI. Politics, Parties, and Banks in the Non-Party Regime: 1820-1830

For much of the 1820s, many state legislators were not identified with parties in the *Legislative Biographies.* As we saw earlier, Figure 3 graphs the share of legislators with a Party ID in the *Legislative Biographies* from 1797 to 1860. Although there was an increase in bank chartering in 1812 and 1813 (Figure 2), the explosion of banking occurred in the 1820s.[7] As Figures 1, 2, and 9 show, the number of bank charters and banks in operation increased dramatically. This was the same period in which the proportion of bankers who had been or would become legislators declined sharply, from roughly two thirds of all bankers to around 40 percent of all bankers. This can be seen in Figures 10 and 11. The proportion of bankers who

[7] The War of 1812 slowed the formation of banks, as did the recession of 1818.

were legislators dropped between 1816 and 1824, as can be seen in Table 3, but the share of all bankers or were legislators with a Party ID only went from 40 percent between 1799 and 1815 to 37 percent between 1816 and 1824. This is because the share of legislators with Party IDs rose in the second period.

The fact that the share of legislators with Party IDs is higher in 1816 to 1824 seems to belie the deep drop in party IDs of legislators shown in Figure 3. There is a complication here. We assign party IDs to a banker-legislator when they become a banker. If they later become a legislator we use the party ID from when they became a legislator. Most bankers did not become legislators in the same year in which they became a banker. If a banker-legislators enters the sample when most legislators did not have a party ID in the Legislative Biographies, we will still associate the banker with a party ID if the banker-legislator had been a legislator before, or would become a legislator after in a period for which we have party IDs. There is a kind of inertia in the party IDs that runs both forward and backward in time. This speaks to the difficulty of using the banker-legislator-party connection to establish the existence of elite coalitions. But it also helps us understand what may have been going on in the late 1810s and 1820s when the legislature began moving toward open access.

VI. Politics, Parties, and Banks in the Second Party Regime: 1830 to 1860

The structure of party politics in the United States fragmented in the 1820s. In three of the four national elections between 1824 and 1836, three or more candidates received electoral votes in the presidential elections. The exception was the election of 1828, featuring the John Quincy Adams and Andrew Jackson rematch of their 1824 race. In 1824, Jackson won a popular and electoral vote plurality, but Adams won the election in the House with the support of

Henry Clay. Elections from 1840 to 1852 resulted in electoral votes for only the Whig and the Democrat candidates. But, as we shall see, a caldron of party formation and loyalties boiled away at the state level. In 1856 and 1860, multiple parties and candidates won electoral votes, ending in the election of Lincoln and the onset of Civil War.

Figures 6 and 8 show the mix of parties that competed for dominance in Massachusetts between 1830 and 1860. The dominant parties in succeeding elections were National Republicans, Whigs, and Republicans, with a one brief period in which the Democrats challenged, and a second brief ascendancy of the Know Nothing Party. The sequence of parties could be seen as representatives of the same group of dominant political players with different labels, but that would be a mistake. They were not one continuous coalition that simply changed its name over time. The National Republicans, Whigs, and Republicans were parties that succeeded each other rather than competed with each other.[8] The connection between politics and banking remained important, but not as important as in the earlier period, although it is more complicated to show.

As we showed in the previous section, the number of bankers who were also state legislators dropped sharply between 1815 and 1824. For new bankers entering the sample, the share who had been or would be legislators dropped from over 60 percent to under 45 percent. From 1825 to 1959, the share of new bankers that had been or would become legislators stayed relatively steady between 40 and 45 percent.

Tracking the association between parties and bankers is more difficult, for two reasons. First, the number of parties after 1825 is much larger, with four parties commanding a

[8] The idea that the Whigs were a simple continuation of the Federalist party has a long history, but it appears to be wrong. Holt summarizes the idea: "Even historians routinely echoed Democratic propaganda and described Whigs as ex-Federalists. Experts now know better. Massive research in the past forty years has shown that the Whig Party evolved not from the Federalists but from divisions within the Jeffersonian party." (Holt, 1999, p. 2) Holt cites Benson (1961), Livermore (), and McCormick () as examples of a literature "too vast to list here."

majority at different periods of time. Second, as we noted earlier, in the early years many legislators did not identify with a party. As a result, while the number of bankers who were legislators dropped significantly from 1815 to 1824, the share of all bankers who became legislators and were associated with a party is not that much different over the entire period from 1790 to 1859. Table 3 summarizes the information on new bankers and political affiliation in three periods: 1790-1815, 1816-1824, 1825-1859. The first three columns give the number of individual bankers in each period, whether they were a legislator or not, if they were a legislator whether they had a party affiliation (PartyID), and which party they belonged to, if any. Columns (4), (5), and (6) give each of the numbers as a share of all bankers in each period, while columns (7), (8), and (9) give the numbers as a share of all banker/legislators in each period.

The difficulty can be seen in the second and third rows of the second panel, columns (4), (5), and (6). The percentage of bankers who are legislators drops from 63% in between 1790 and 1815, column (4), to 37% between 1816 and 1824, column (5). But the percentage of all bankers who can be identified with a party goes only declines from 40% in column (4), to 37% in column (5).

Comparisons across time are also complicated by the presence of many dominant parties in succession. In the lower panel of Table 3, the Federalist Party accounted for 25 percent of all bankers between 1790 and 1815 and 39 percent of all bankers who were legislators. Similarly, if we treat the Federalist, National Republican, Whig, and Republican as the "dominant party" they account for 28 percent of the bankers between 1825 and 1859 and a whopping 63 percent of all bankers who were legislators. The first difficulty comparing these numbers is the large number of legislators without party identification in the early period. If the 23 percent of all banker/legislators without a party ID between 1790 and 1815 were really

Federalists, then as many as 48 percent of all bankers in the early period could have been connected directly to the Federalist Party. In that case, entry into banking was limited by the need for political connections. In the later period, much less so.

The other difficulty is the multitude of parties after 1825. If the succeeding parties were simply a manifestation of an elite group in Massachusetts that responded to changing political conditions nationally by changing the party label attached to the political wing of the coalition, then it is possible that the coalition was still using access to banking as a way to create economic rents and hold the coalition together. On the other hand, the relative ease with which charters were made available, the declining, but not disappearing, direct association of bankers with legislators, and the fact that few banks after 1851 were established under the free banking law suggests that entry had opened considerably. This is not, unfortunately, a question we can answer in a definitive way with the quantitative information at hand. But we can turn to a closer look at the historical and legislative record to sort some of this out.

VII. Historical complaints about limited entry and corruption

In this section we shift to a different method, historical literary evidence. We can go back through the archives to find examples of banks closely associated with the Federalist party. For example, the Worcester Bank was chartered in 1804 and among its 135 subscribers, almost a quarter were members of the Washington Benevolent Society (the national Federalist political club). Nine subscribers were prominent members of Federalist county committees. In contrast, among the seventeen Democratic-Republican county committee members in of 1808, only two had signed the petition asking for a charter for the Worcester Bank in 1804, and Democratic-Republican elites such were absent. The president and directors were Federalists. The bank

president, Daniel Waldo, became the president of the Worcester branch of the Washington Benevolent Society.[9]

Democratic-Republicans complained about Federalists' exclusive control of banking. "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."[10] Banks were "engines of oppression," charged the Democratic-Republicans, enabling Federalists to exploit enterprising merchants and shopkeepers. Federalists monopolized "all the exclusive privileges . . . until the voice of private citizens is lost in the overbearing influence of privileged companies."[11] As long as "combined court parties grant banks and other privileged corporations to favored companies, equal rights cannot exist."[12] The purpose of chartering banks was to give exclusive privileges to Federal friends and "every incorporation for wealth and profit is a bulwark to aristocracy."[13] As most bank charters would expire in 1812, "incorporations should not be renewed unless the proprietors of banks consent that every officer of their banks be appointed by the State Government."[14] In 1803, after the legislature refused a petition for a "Town and Country Bank," Democratic-Republicans blamed Federalists and painted them as the champions of bank monopoly, opposing to "every measure calculated to promote the interest of the

[9] Brooke (1989), p. 281.
[10] Columbian Centinel, February 16, 1803. Quoted in Lake (1937), p. 32.
[11] Eastern Argus, April 2, 1807. Quoted in Goodman (1969), p. 176.
[12] Eastern Argus, Dec. 13, 1805, and Feb. 22 Dec. 6, 1805; Salem Register, March 30, April 2, 1807. Quoted in Goodman (1969), p. 176.
[13] Eastern Argus, Nov. 15, 1805. Quoted in Robinson (1916), p. 103.
[14] Eastern Argus, Dec. 13. 1805. Quoted in Robinson (1916), p. 104.

middling class of citizens."[15] "Will a director of the Boston Bank, or a man, whose 'projects' gripe every monied institution within the town, be advocates for such salutary measures as our situation calls for?" "Let the charters be free for all, if they are granted to any."[16] Before 1811, Federalist elites dominated politics, controlled banks, and excluded the Democratic-Republicans from banking. Democratic-Republicans demanded reforms to open access to banking. They seized the chance in 1811.

In 1811, Democratic-Republicans held power in both houses, when Democratic-Republican Elbridge Gerry (June 10, 1810 – March 4, 1812) was the governor. Gerry was elected as the Governor of Massachusetts in 1810 and 1811, and Vice-President of the United States in 1813 and 1814.[17] In his first term as the state governor, he sought to conciliate the two parties. He restrained radical Democratic-Republicans who hoped to remove Federalists from office. While Democratic-Republicans held power in the House, the Senate was equally divided. The Federalist leader Harrison Gray Otis was the Senate president and blocked every Democratic-Republican reform. Since they were not threatened, Federalists also adopted a moderate tone. [18]

In 1811, however, Gerry abandoned his conciliatory policy. The admission of Louisiana to the Union had already aroused animosities against President Madison among Federalists, and when Congress approved Madison's Non-Intercourse Act to cease commerce with Britain, in March 31, Boston Federalists organized a mass meeting and protested against 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

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[15] Republican Gazette, April 27, 1803. Quoted in Goodman (1969), p. 172.

[16] Boston Democrat, May, 1804. Quoted in Goodman, p. 173.

[17] Billias (1976).

[18] On Gerry and the issues in 1811, see the following reference: Formisano (1983),p. 74-75; Billias (1976), p. 314-322. James T. Austin (1829), p. 333-42, p. 346-347; Seaburg and Patterson (1971), p. 228. Goodman (1986), p. 154-181. Morrison (1929).

laws, which if persisted in must and will be resisted."[19] Gerry denounced the Boston mass meeting, claiming it advocated revolution. He was convinced that if Federalists returned to power, they would nullify the Non-Intercourse Act or resist their enforcement. The result would be: "our constitutions are nullities, our constituted authorities are usurpers, and we are reduced to a state of nature."[20] In his second inaugural address in June 1811, Gerry publically accused Federalists who "excite the spirit of the insurrection and rebellion to destroy our internal peace and tranquility."[21] In his second term, he began to remove Federalists from state offices and appointed Democratic-Republicans to any new office.

In the elections of 1811, Democratic-Republicans captured both houses of the state legislature. The Democratic-Republican legislature helped Gerry implement a series of reforms to capture the patronage in the state, to remove Federalists from the office, and to occupy Federalist-controlled organizations.[22] One of the most famous changes was the "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 not new, but has long since been associated with Gerry and his "gerrymander".[23]

All but one of the existing bank charters would expire in 1812. In 1811, the Federalist banks petitioned for rechartering, but the Democratic-Republican legislature refused to renew any of them.[24] As the old banks were going to die, Democratic-Republicans argued, new ones were needed "to make loans to those persons who are indebted to existing Institutions and thereby

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[19] "Governor's Speech to the Representatives' Chamber, June 7," Massachusetts Acts and Resolves (1811), p.184.

[20] *Ibid*. 184

[21] *Ibid*. 185

[22] For Republican reforms in other sectors, see Goodman (1965).

[23] Griffith (1907), p. 17-21; Austin (1829), p. 322; Dean (1892), p.374-383.

[24] The unpassed petitions for rechartering banks can be found in the Massachusetts Archive.

enable them to wind up their affairs with the least possible embarrassment."[25] 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. In 1811, Salem already had two Federalist banks— the Salem Bank and the Essex Bank. Unable to get loans from both banks, a number of Salem's most prominent Democratic-Republicans, led by the Crowninsheilds, decided to start a new Democratic-Republican bank. Their petitions for bank charters, however, were rejected by the Federalist legislature for many years. It was not until 1811 that they finally secured a charter. The minister and writer William Bentley described 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."[26] Add Joseph Story here.

The Federalists questioned the bank even before it opened. On September 10, 1811, the *Salem Gazette* gave grave censure of 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 partially. Let every candid man consider

[25] Goodman (1965), p. 179.
[26] Dennis (1908), p. 7.

> this course of conduct, lay his hand on his heart, and say if he can call it by any other name than BRIBERY.[27]

For contrast, here is the opening paragraph of the History of the Merchants National Bank, written in 1908.

> Looking backward to the beginning of the Merchants Bank takes us to a most interesting period in American history. It would seem strange today to read in the morning paper that a group of business men, belonging to a certain political party, had formed a new bank in Salem because all the other banks belonged to a different party and refused to lend their money to political opponents. Yet these are the conditions that prevailed and caused the establishment of the Merchants Bank.
>
> In 1811 there were two banks already doing business here: the Salem Bank (now the Salem National Bank) and the old Essex Bank; and both were under the control of men affiliated with the Federalist party.
>
> A number of Salem's most prominent citizens and business men belonging to the new Democratic-Republican party of Thomas Jefferson found it so impossible, on account of political animosity, to get proper banking accommodations from these two banks, that they decided finally to start a new bank of their own.
>
> It is hard for many persons to understand today how party feeling could be carried to such an extreme, because very few know how radical political antagonisms were in those days. This was the formative period of our present party system. Washington and Adams, the first two presidents, were Federalists, and when Thomas Jefferson, with radically different principles, was elected to the presidency, the opposition to him was intense, nowhere more so, perhaps, than here in Salem.
>
> Rev. Dr. William Bentley says in his diary in 1802: "There is nothing which angry passion can express which is not said and done . . . nothing is neglected which can inflame the people, or aid the report that all was unfair, false and factious." (This was in reference to Jefferson's election).
>
> The newspapers of the day indulged in the most violent and defamatory criticisms on both sides, printing "vituperative abuse that no self-respecting journal would imitate in this age." The *Essex Register* and the *Salem Gazette* kept up a constant warfare of words between themselves and the local party factions, making the basest insinuations and personal charges against Colonel Timothy Pickering on the one hand, and George Crowninshield on the other, opposing candidates for Congress. One of the papers brought a libel suit against the other, and there is a published account of an incident where three prominent citizens of the Democratic- Republican party called upon the editor of the *Gazette* and threatened that if he did not desist from his offensive personalities he would be shot. (Dennis, 1908, p. 7-8.)

The second charter issued in 1811 was to the State Bank, the largest bank created in Massachusetts up to that time.[28] The bank was granted a capital of $3,000,000, thirty times larger

[27] Salem Gazette, Sep. 10, 1811. Emphasis Mine.

than most banks. The Democratic-Republican reform of banking policy was institutionalized in the State Bank charter. The state took 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 ½ of 1% (Wallis, Sylla and Legler, 1994). The State Bank charter is important because subsequent bank charters included the same capital tax, creating an incentive for the state to charter more banks for fiscal reasons. Subsequent bank charters were modeled on the state bank charter, and contained the following clause: "subject to the rules, restrictions, limitation, taxes and provisions and entitled to the same rights, privileges and immunities which are contained in the State Bank charter."

Throughout its early history, Democratic-Republicans directed the State Bank. Eight of its first twelve bank directors had been Democratic-Republican legislators. The first president was William Gray, a leader of the Democratic-Republican Party, the lieutenant-governor of the State, as well as a rich merchant ship-operator. In the circular of the bank, July 1811, the bank committee said, "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."[29]

With the establishment of the State Bank, it was the Federalists' turn to denounce the Democratic-Republican's monopoly over banking. They charged the State Bank with being "a powerful engine of bribery and corruption, and a machine established for the purpose of creating Democrats and destroying Federalists."[30] The *Columbian Centinel* of July, 1811, called the State Bank "the mammoth bank," and denounced it as a "party bank." In the Boston *Gazette* of

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[28] The charter of the State Bank can be found in Massachusetts, 1812, p. 501, June 26, 1811, "An act to incorporate the President, Directors, and Company of the State Bank."

[29] Stetson (1891) p.13.

[30] This and the following quotes are from Stetson (1891).

August 22, 1811, "A Massachusetts Yeoman" addressed a letter to William Gray, "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 *Centinel*, August 31, 1811, "A Constitutional Republican" said, "1st, That the grant of a charter to the State Bank is a violation of the Constitution; 2d, that those who gave it countenance and voted for it have acted corruptly." The *Worcester Spy* said it was "a bill to secure to Mr. Gray and his political associates, for twenty years, a stupendous monopoly of all the banking privileges of the Commonwealth, or at least of the metropolis. The community would suffer incalculable injury from the uncontrolled speculations of a bank without a rival, and the total loss of confidence in the stability of corporations dependent upon the will of the legislature."

The *Salem Gazette* denounced the bank: "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."

The Aegis of Worcester asked, "Now, gentile readier [?? gentle reader], who are these men, what are their public services and private virtues? These are true specimens of the whole faction, greedy and needy office-hunters, -fleecing the people of their money, and laughing in their sleeves at the popular delusion by which they prosper. . . . Ten years ago it would not have been

believed that such men, influence by such motives, would have dared to insult and mock the people by such a series depraved, mercenary, and corrupt measures as we now behold publicly avowed and defended."

Such was the state of inter-elite conflict in Massachusetts in 1811 and 1812.

The Democratic-Republicans thought it was time to eliminate all of the Federalist banks and refused to renew the existing bank's charters. The Massachusetts Bank was the first bank in Massachusetts, founded in 1784. Its charter ranperpetually as did its privilege as the fiscal agent of the state (it was the only existing bank whose charter was not up for renewal in 1812). 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. Fearing to lose their charter, on February 15, 1812, a directors' meeting of the Massachusetts bank voted "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 sign the same in behalf of the Board." While the bank managed to prevent its charter from being revoked , it had to accept a new charter with a limited duration to 1831.[31] In 1813, when the Federalists again controlled the State and they denounced the State Bank: "A monied institution was created, founded on the determination to abolish those already existing, and its capital was apportioned to counties and towns, upon a digested scheme of premiums for political corruption."[32]

The Democratic-Republican legislature seized the chance in 1811 to implement a series of reforms. However, Madison's unpopular foreign policy cost them lose subsequent elections. In

[31] On the Massachusetts Bank, see Gras (1937) p. 84-85, and Williams (1984).
[32] Dodd (1954), p. 209.

1812, Federalists conducted a vigorous campaign, won the majority in the State House, and controlled the governorship. The Federalist legislature rechartered the existing banks in 1812. Significantly, all the new charters included a provision specifying a bank capital tax and allowing the state to make investments in the banks, just as in the State Bank charter.[33]

After 1812, Massachusetts began chattering more banks. According to the report of the Joint Committee on Banks in 1820, for several years, the liberal policy had granted bank charters in "almost all cases of apparent utility, leaving it to the actual wants of the community, and to the true perception of interest among its members, to fix the limits of capital, which would thus be employed."[34] By 1830, Massachusetts had only 4.7 percent of the nation's population, but 20 percent of the nation's banks and 18.5 percent of the nation's banking capital (Wallis, Sylla, and Legler 1994). In his research on free banking of different states, Sylla claimed, "After 1820, Massachusetts had essentially free banking in the general sense of that term, and the state remained a leader in terms of numbers of incorporated banks and capital invested in banking enterprises for several decades (Sylla, 1985, p. 111)." Why did they change?

VIII. What happened and why?

After 1812, Massachusetts moved to a system in which people were able to get bank charters, apparently without regard to their political party affiliation. There were no landmark political decisions that embody the change in policy. Massachusetts finally adopted a general law for the incorporation of banks in 1851, but very few banks took advantage of the act. Banks continued to be incorporated by special legislation, even though the special legislation resulted in the same charter features as the general law. Giving a detailed, and historical substantiated,

[33] Handlin and Handlin (1969), p. 129; Dodd (1954), p. 210.
[34] Columbian Centinel, June 17, 1820.

explanation for why this happened, particularly what people in Massachusetts thought they were doing and why they were doing it, is frustrated by the lack of a coordinated political debate on the question. Unlike other states which adopted general incorporation laws at times of political crises or at constitutional conventions, like the state Eric Hilt studies in his paper or Wallis (2005) looked at, there are no smoking guns.

This does not mean that there was not an active debate about banking, there was. Whether there should be more or less banks, whether the state should be more or less active in regulating the banks, and what regulation should consist of continued in volume from 1812 to 1860. There was an intense debate about banking at the national level, the Bank War, which spilled over into states throughout the country. The problem in Massachusetts, from our point of view, is that the decision to allow more banks to form was not made in a heated debate between anti-elite Jacksonians and their opponents as occurred in many states, but sometime quietly in the second decade of the century. The Handlins cannot explain why the state kept chartering banks after 1812, except to note that "…the critical decisions in 1812 had already implicitly circumscribed the capacity to exercise that power [withholding bank charters]." (1969, p. 163) Yet, their history of 1812 contains no discussion of those critical decisions, pp. 113 to 122.

Absence of evidence is not evidence of absence, and we hope that we will be able in the future to provide solid documentary evidence of the critical decisions made in 1812 that led Massachusetts to open access to bank charters after that year. For now, we describe what they did and its implications for elites, as we have defined them in this paper. We begin with a more detailed discussions of elites, review the history of banking policy, and then the outcomes for Massachusetts bankers.

VII.1 Elites

Intra-elite conflicts were intense in early 19th century Massachusetts. Elites were not necessarily individuals who begin life with privileges and advantages based on their social, economic, or political standing. Elites are individuals who through their intelligence, hard work, and often ruthlessness and single minded ambition, rise to positions of power and influence that bring with it the privileges and advantages of social, economic, and political standing. No doubt it helps to begin life with a leg up, but many people who became powerful elites, like Andrew Jackson, started life in extremely modest circumstances and faced serious challenges in their rise to influence, power, and status. What matters for open access is not that elites start out life as common men and women. What matters is that rising and existing elites do not consolidate their position by excluding and limiting others from access to the organizational tools that enable them to rise. This essential element makes competitive economic, political, and social organizations viable and, in the bigger picture, makes a competitive democratic capitalism sustainable. Elites exist in limited and open access societies, but the nature of intra-elite competition changes when all elites, and then all citizens, have access to organizational tools.

Both Federalist and Democratic-Republican party leaders and bankers were elites. All the politically active elites in early America were in competition with other elite groups. Their groupings did not fall neatly into national political parties. Every state had its own groups competing for control. Their conflicts were vituperous and loud, public rhetoric was vicious and personal, but it rarely broke out into open violence. Moreover, control of the government was rarely firmly in one faction's control. Even a well organized coalition like the Massachusetts Federalists had trouble defeating their political rivals. In that environment, the elites in control of governments initially were willing to use their control to enhance their privileges and weaken

their opponents. The evidence that Federalists used banking for political advantage presented so far seems compelling. There is no reason to doubt that an elite coalition like the Federalists could have, with time, figured out how to stabilize their coalition in the presence of democratic elections, just as elite groups have managed to do in many countries around the world today.

As the current debate over the top 1% of the income distribution and Thomas Piketty reminds us, modern developed societies with open access still have elites. What changes is not the presence or absence of elites (as defined here), but the dynamics of intra-elite relationships. Before 1812, banking privileges had been reserved almost exclusively for Federalist elites. After 1812 that changed, the dynamics of how elites contested for wealth, influence, and power changed. North, Wallis, and Weingast argue that the key element in the transition from limited to open access societies is not the elimination of elites, but the change in elite institutions that enables, or requires, elites to treat each other impersonally, to treat each other the same. Those rules must be embodied in institutions. Somewhat surprisingly, the key institutional change seems to have grown out of the charter of the State Bank in 1811.

VIII.2 What happened.

The refusal to recharter the Federalist banks in 1811 exemplified the logic of a winner take all political competition. Democratic-Republicans and Federalists may have been chastened by the events of 1811 and 1812. They came face to face with the reality that tying economic interests to political interests would produce unpredictable results if the winning party was not only able to promote its own interests, but was able to dismantle the economic organizations of the losing party.

What followed 1811 makes much more sense if we conceive of what happened as a settlement between elites, rather than a compromise between elites and masses. The Democratic-Republicans put the State Bank model forward as a reform bank, but was also a power grab, an attempt to start a very large Democratic-Republican bank and deny the Federalists their banks. The power grab failed the next year, when the Federalists recovered enough influence to recharter their banks. The reforms, however, had lasting effects.

The reforms created two new Democratic-Republican banks, a state tax on bank capital, and the requirement that all future bank charters contain the same provisions. The tax on bank capital, intended to return some of the profits of the bank to the state and the state's taxpayers persisted. "*Provided however*, That the same tax, payable in manner aforesaid, shall be required by the Legislature of all banks that shall be hereafter incorporated within this Commonwealth, from and after the said first Monday of October: *And provided further*, That nothing herein contained shall be construed to impair the right of the Legislature to lay a tax or excise upon any bank already incorporated, under the authority of the Commonwealth, whenever they may think proper to do so."[35] The capital tax provision could have been reversed by the Federalists when they came back into power, but it was not. Like the Democratic-Republican's State Bank, the Federalist could have chartered a very large Federalist bank, but they did not. All of the Federalist bank charter renewals in 1812 contained the capital tax provision.

The reform requiring that all bank charters share the same features also persisted. When new banks were chartered after 1812, the charters contained the provision that "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

[35] Massachusetts, 1811, Chapter LXXXIV, "An Act to Incorporate the President, Directors, and Company of the State Bank," p. 507.

State Bank," shall be binding on the bank hereby established…" [36] Common provisions included phrases like the new bank "subject to the rules, restrictions, limitation, taxes and provisions and entitled to the same rights, privileges and immunities which are contained in the State Bank charter." Rather than reverse the "reform" provisions of the State Bank charter, the Federalists embraced them.

This was clearly a shift in policy by the Federalists. How much was the result of adopting the same charter provisions for all banks is unclear. But that part of the agreement was continued when new bank charters formally became standardized on February 29, 1829 with the passage of the general regulatory act: "An Act to Regulate Banks and Banking." The Act required "That from and after the passing of this Act, every Bank which shall receive a Charter, from or by the authority of this Commonwealth, and every Bank whose Capital shall be increased, or whose Charter shall be extended, shall be governed by the following rules, and subjected to all the duties, limitations, restrictions, liabilities and provisions, contained in this Act."[37] The Act reconfirmed the bank capital tax and the ability of the state to invest in any bank, as well as borrow from it. The clincher was section 31: "*Be it further enacted*, That if, during the 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." (p. 161) The general regulatory act not only guaranteed that all existing bank charters would have the same provisions, but any new provisions introduced in the future would retroactively apply to all

[36] This is the language used in the charter of the Worcester Bank. Massachusetts, 1821, Chapter 26, "An Act to incorporate the President, Directors, and Company of the Worcester Bank," p. 422

[37] Massachusetts, 1831, Chapter XCVI, "An Act to regulate Banks and Banking," Section 1, pp. 145.

existing banks. Massachusetts had passed an "impersonal" rule for the creation and governance of banks: it was a rule that treated all banks the same.

VIII.3 Outcomes

Between 1812 and 1829, Massachusetts moved from limited access banking regime in which only members of the Federalist coalition had a significant chance of obtaining a charter, to one where political party association no longer mattered much to getting a charter. Equally important, the general regulatory act's provision insured that the legislature could not create a new bank in the future with special privileges unavailable to other banks. Nonetheless, while Massachusetts had established impersonal rules for the creation and governance of banks and bank charters, the legislature still controlled the bank chartering process. North, Wallis, and Weingast suggest that the opening stage of the transition from limited to open access would be the creation of impersonal rules for elites. That appears to be what happened in Massachusetts banking. We have defined elites and elite banks by identifying bankers and legislatures who are the same people. As we showed in Tables 1, 2, and 3 and in the figures, the share of all bankers that were legislators declined sharply from 1815 to 1825, but then remained fairly steady at about 40 to 45 percent of all bankers. This shift indicates a significant change in the way the state and the politicians dealt with banks, but was it a move to open access for everyone? The answer to that question more sharply defines what the question "why did Massachusetts change its banking policy after 1812" actually means.

The first item to clarify is the relationship between elites and banks. Remember that the Registers often only report the name of the Bank president for banks outside of Boston. Only one banker name is associated with those banks. The fact that the President is not a legislator

does not mean that the bank is not associated with the legislature through a Director. To control for the problem we made a few adjustments. Figure 17 shows the number of banks that had no legislators in each year. As we expected, the number rises over time, with some sharp fluctuations between 1815 and 1830. In order to control for the banks with only the president's name reported, Figure 18 excludes banks without directors reported in the Registers. The picture is much different. Only one bank, the Bangor Bank in 1819 and 1820, reported the names of directors and had no directors who had been or would become legislators among its president or directors. Moving our focus from individual bankers to individual banks, other than the Bangor Bank in 1819 and 1820, no bank in our sample before the late 1840s that reported directors failed to have a legislator on the board.[38]

We cannot follow the share of all banks that have a legislator as a director, because the Registers do not report bank directors for most of the country banks. But beginning in 1851 the Registers did report bank directors for all banks. The number of bankers that we can identify increases significantly as shown in Figure 20. In 1852, the number of bankers we can identify jumps from around 350 to almost 1,000. One might expect that the addition of over 600 directors of country banks would reduce the share of bankers that had been or would become legislators. But Figure 11(12) shows that is not the case. Indeed, after 1851 the share of all

[38] This criterion is narrow. To include a legislator in the board of bank directors may not mean it is an elite organization. For example, it may be that out of its 10 directors, 9 are ordinary people but they need 1 famous person in the board to make the banks more influential, build more social connections, or give people more confidence. Besides, if banks were mostly as a tool for rich people to be able to channel funds to their family business, as claimed by Lamoreaux, it cannot be a bank serving the ordinary people. These banks were commercial banks, not savings institutions or saving banks. Its purpose is not to serve the ordinary people to save their money and get good investment opportunity. It is not surprising that they were connected to some legislator. One interesting question is after the saving banks became more important after the Civil War, whether they were elite organizations or not. But it is beyond what we study in this paper.

bankers who had been legislators begins to rise. In 1859, when we have information on over 150 banks, including all their directors, there are only 4 banks without a legislator on their boards of directors or their president.

In 1842, the Washington Bank of Boston began operating without any legislators on its board (it had been in operation with a legislator on its board earlier), and in 1845 the Eagle Bank of Boston began doing the same. In 1852, five banks, the Cambridge Bank, the Chochituate Bank, the Essex Bank, the Grocer's Bank, and the Washington Bank were operating with no legislators as their president or on their boards. Most of these banks had been in operation before the General Incorporation Act for Banks passed in 1851. Few banks availed themselves of the general banking procedure, most still obtained a special charter, even though the terms of the special charters were the same as the terms in the general act.

Defining an elite bank as a bank where at least one of the president or directors was had been or would be a member of the state legislator, our working definition of elites, then it appears that almost all banks were elite banks even into the 1850s, when non-elite banks began to appear. The critical decisions that were made in 1812 did not reduce the incentive for banks to remain connected with politics.

Another dimension on which we can measure the "eliteness" of bankers is wealth. Naomi Lamoreaux and Eric Hilt at the second conference at Yale in October of 2013, was to look at the wealth of Massachusetts bankers relative to the rest of the population. Beginning in 1826, the City of Boston published a "List of Persons, Co-Partnerships, and Corporations who were taxed …" The title varied somewhat from year to year, as did the minimum amount of tax

paid to qualify a person, co-partnership, or corporation from inclusion in the list.[39] There are a number of technical issues about the property tax data, but the bottom line with respect to the relative wealth of bankers to all other wealthy taxpayers is not only clear, it is robust to a series of adjustments (Qian, 2014).

From 1829 to 1859, there were an average of 3,845 persons, partnerships, and corporations listed (ranging from a low of 1,836 in 1830 to a high of 5,883 in 1848).[40] We identified all the bankers in the sample whose names we could match, then drew several random samples from the tax lists. Our largest random sample includes an average of 1,617 individuals (excluding partnerships and corporations), or a 42% sample on average (only in 1833 and 1839 does the sample size fall below 20%). The Registers identify and average of 244 bankers in Boston (from a low of 200 in 1829 to a high of 281 in 1859), of which we identify an average of 102, or 42% (with identification share below 20% only in 1833, 1837, and 1839).

Figure 4(??) shows the wealth of Boston bankers relative to the other wealthy individuals included in the tax lists. There is no trend in the relative wealth of Boston bankers relative to the rest of the wealthy population. While calculating the relative wealth of Boston bankers to the whole population is beyond this paper, Steckel and Moehling (2001) match the Massachusetts Census records to property tax lists and show that wealth distributions became increasingly unequal between 1820 and 1860. We expect that information on the relative wealth of bankers

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[39] The lists of wealthy taxpayers in the city of Boston—from *List of Persons, Copartnerships, and Corporations, Taxed in the City of Boston*— document a person's or an organization's real and personal holdings and taxes paid between 1829 and 1859 (1831, 1834, 1854, 1855, and 1856 are missing). Only wealthy taxpayers with wealth above certain thresholds are included in the tax lists. From 1829 to 1848, the list includes wealth for individuals taxed $25 and upwards (since the tax rate was roughly 0.8% of wealth, the property cut-off was approximately $3,125); from 1849 to 1853, the list includes individuals whose personal property was $6,000 and upwards, and from 1857 to 1859, $10,000 and upwards.

[40] We begin with the 1829 tax lists, as the first few years of the list exhibit too much variation in names and assessments to warrant our confidence.

to all taxpayers would show a similar picture to Figure 4. The wealth data gives us the same picture as the banker-legislator data: banking remained a largely elite preserve from 1820 to 1860.[41]

The next two outcomes of interest concern the political parties and legislators. As we discussed earlier, in the 1820s party identification in the Massachusetts legislature broke down. Figure 3 shows the share of all legislators that the *Legislative Biographies* can associate with a Party ID. The share began to decline in after 1812 and took a steep drop in the 1820s. At the national level the demise of the Federalists and the confusion over who was a Democratic-Republican after the internal splits between Jackson, Adams, and Clay in 1824 led to the establishment of the National-Republicans followed by the Whig Party in the 1830s. The sharp decline in Figure 3 results from the inability of scholars who study parties to put labels on individual legislators. That reflects an increase in uncertainty about which political coalitions would control the legislature, particularly after the demise of the Massachusetts Federalists. The last legislature the Federalists controlled was in 1821. After that party IDs plummet in Figure 3. At the same time the number of banks chartered begins to increase sharply, Figure 2, and the number of banks in operation follows shortly, Figure 1.

The final outcome is the decline in the average tenure of state legislators, as calculated from the *Legislative Biographies.* For each legislative session the average tenure of all legislators serving in that year was calculated. This measure overstates the actual tenure that the members of a legislature had at any point in time, because it includes future as well as past

[41] Our results from the Boston tax lists paint a different picture of the relative wealth of bankers in Boston than Lamoreaux and Glaisek, 1991) which show that in Rhode Island, that new bankers were less wealthy than old bankers. In part, this is the result of different samples. We do not have all the bankers in Boston, just the richest ones. Lamoreaux and Glaisek compare two cross section of bankers in 1830 and 1845.

service. It is, however, relatively easy to compute. Figure 19 presents the average lifetime tenure of legislators serving in each legislature. The sharp drop after 1820, indeed all the way to 1850, stands out in the figure.

Individual legislators were serving much less time as lawmakers. Elite groups who wanted their voice in the legislature heard could much more easily do so, given the steadily rising turnover of legislators. But the turnover itself would have magnified the interest that all elites had in making sure that they could obtain a bank charter and that all the bank charters would be the same. This was particularly true for rising elites whose fortunes were tied to manufacturing or commerce and wanted access to their own banking facilities, ala Lamoreaux. Those elites were not shut out. There was open access for elites, at least in the limited way we have defined them here. Until the 1850s, however, there were no "non-elite" banks using the measures we have employed.

VIII.4 Why did Massachusetts open banking for elites?

The dynamics of the elite coalition certainly changed after 1812. The strong party orientation of banking under the Federalists faded away. Most bankers who were legislators after 1825 were members of a political party that held a majority at one time or another, but then a large majority of the member of the legislature in those years was a member of one of those parties, as well. There ratio of bankers who were majority party members to other bankers in the legislature was not 5 to 1 as it had been before 1812. The distinct relationship between parties and bankers seem to have weakened, but the relationship between bankers and legislators did not weaken after 1820.

The events of 1811 and 1812 surely brought to prominence the potential danger that changes in party control of the legislature posed to all economic organizations, if legal

recognition of organizations could be revoked at the pleasure of the party in control. That all the existing bank charters (with the exception of the Massachusetts bank) were up for renewal in 1812 was a unique occurrence that highlighted the danger. One limited response was the movement towards making all bank charters contain the same privileges and provisions, a move begun with the State Bank charter in 1811 and finalized in the general regulatory Act in 1829. Making all bank charters the same removed one dimension on which the parties could manipulate economic organizations.

Whether the decline in party identification in the 1820s was a cause or consequence of removing bank chartering from partisan control is beyond this paper. To the extent that the breakdown of parties increased elite uncertainty that their coalition would remain in power, all elites had an incentive to allow any elite to form a bank.

Another contributing force was the effect of the bank capital tax. As Wallis, Sylla, and Legler show, in the decade 1825-1834, the bank capital tax provided over 60 percent of all Massachusetts state revenues.[42] They developed a "fiscal interest" argument to explain why states that taxed bank capital, like Massachusetts, had a fiscal incentive to create more banks and more bank capital. States that taxed bank capital had many more banks and bank capital than states that owned stock in banks or charged high charter fees. States that owned bank stock wanted to maximize bank profits. States that earned substantial revenues from bank charter fees wanted to limit the number of banks to maximize the entry fees the state could extract. Their analysis was comparative across states and not as detailed as this paper, but it brings out an important implication of the bank capital tax. Everyone in the Commonwealth, all political interests, even ones without a direct interest in banking or in a bank in a specific town, would

[42] Massachusetts state fiscal data are difficult to interpret before the 1820s, the records are handwritten. The first decade Wallis, Sylla, and Legler provide data for is the years 1825-1834, (1994, p. 126)

find it in their interests to support the chartering of new banks to the extent that it raised revenues for the state that could be expended on other favored projects. The bank capital tax supplied a common interest to Massachusetts elites and non-elites to support more banks, particularly given the significance of the tax to the state Treasury.

Naomi Lamoreaux stressed another feature of elite banking in her study of New England banking in the early nineteenth century, *Insider Lending.* Many banks in Massachusetts were established to facilitate the business of local elite manufacturing and commercial interests. The banks were dominated by elite families, but offered the opportunity, through stock ownership, for non-elites to share in some of the returns of banking. The large number of small banks meant that most banks did not make above normal profits, there was enough competition to prevent that. Warren Weber's work documents that the dividends paid by Massachusetts banks declined after 1812 (http://www.minneapolisfed.org/research/economists/wewproj.cfm#discounts). The benefit of having a bank was the ability to access financing on favorable terms at low transaction costs.[43] This was an important element in the growing sophistication and productivity of New England manufacturing and commerce. Lower dividends do not seem to have lowered the relative wealth of Boston bankers, however.

The pattern of insider lending lay behind the promoters of the Merchants Bank in Salem's complaint that they needed "a new bank in Salem because all the other banks belonged to a different party and refused to lend their money to political opponents." (Dennis, 1908, p. 7) Insider lending was also a feature of land banks in the South (Wallis, 2008, Schwiekart 1987, Sparks 1932, and Worley 1950). What happened in Massachusetts was not that banks stopped

[43] As Hildreth, 1840 notes, p. 151-2: "Many of the Massachusetts and Rhode Island banks are constituted and managed much upon this principle. The stock is chiefly held by business men, who hold it, not for the sake of the dividends, which in these States are always moderate, but on account of the business facilities they derive from their concern in the bank."

lending to insiders, instead all the important insiders got their own bank. This is consistent with movement toward impersonal rules for banks as well. Every elite group who wanted a bank and was able to exert a minimum level of political influence got a bank, but all the banks would be the same.

More or less by chance, the charter of the State Bank in 1811 contained a provision requiring that all future charters follow the State Bank charter and levying a tax on bank capital. Both provisions could have been reversed by subsequent legislatures, but they were not. Federalists might have been startled when the state legislature refused to renew the charters of any Federalist banks, and Democratic-Republicans could certainly see what might happen if the Federalist returned the favor in kind when they were in power. What ensued probably began as a temporary arrangement to allow either party to charter a bank under the State Bank charter rubric.

We do not know that such an agreement was reached. Absence of evidence is not evidence. Yet, Massachusetts held a constitutional convention in 1820, to reconsider important elements of their democratic system, including the method of representing towns in the state legislature. In the report on the debates of the constitutional convention, corporations were mentioned in three contexts. Most often with regard to a proposed provision to require the legislature to issue charters to all towns of over 12,000 people, next often with respect to the corporation of Harvard University, and third with respect to churches. Banks as businesses were hardly mentioned at all, although they were sometimes included in sundry list of businesses. Samuel Eliot Morisons, *A History of the Constitution of Massachusetts* (1917), only includes the word banks when referring to individuals named "Banks." A generation later, banks and corporations would be hotly contested in the state constitutional conventions of the 1840s and

1850s. The Massachusetts Convention of 1820 was hotly contested as well, but not over banks, bank charters, or bank entry (Wallis, 2005). Some agreement had been reached, even if it only made it into state legislation in the form of the 1829 regulatory Act.

What elites did in Massachusetts, the critical decisions of 1812, was to take bank chartering out of the political process altogether. For the most part, it was wealthy merchants and manufacturers who want banks in the first place. Rising entreprenuers might find themselves wanting a bank to aid in the mercantile or manufacturing concerns. And, after 1811, they were likely to receive a charter. Elites and elite banks did not disappear after 1811, but elites eliminate one part of political dynamics that depended on limiting access to bank charters. It was a move toward open access, even if only open access for all elite factions.

IX. Lessons and Conclusions.

When we started working on this paper, we were very much of the mind that Richard Sylla's conclusion about banking in Massachusetts after 1820 was essentially correct: ""Massachusetts had essentially free banking in the sense that entry into banking was open or free, and the state remained a leader in terms of numbers of incorporated banks and capital invested in banking enterprises for several decades" (Sylla, 1985). Figures 2, 10, and 11 seemed to clearly confirm theat idea that something important happened in 1811 and 1812, events that took a decade or so to work themselves out. The decline of bank presidents and directors who were legislators seemed to offer concreted evidence that an elite coalition of bankers, legislators, and party under the Federalist Party system had given way to a open access.

As appealing as that conclusion was and how well it sets with the existing history of early banking, we couldn't quite make it fly. The substantial evidence for a large change in the relationship between banks, legislatures, and parties occurred in Massachusetts in the 1820s seems both beyond dispute. The 1820s changes have their roots in the crisis of 1811 and 1812, before the War of 1812 broke out. But as long as we maintain the working definition of elite banks as those banks with a president or director who served as a legislator, we find that almost all the banks up to 1850 were elite banks. Recognizing the caveat about country banks for which the Register's only report the name of the bank president.

Institutional development in Massachusetts seems to have followed a path in which the first step toward open access was homogenizing the elite privileges that came with a banking charter. By 1829, Massachusetts had moved to impersonal rules for forming and operating a bank. Those rules provided sophisticated and powerful tools to banking organizations. The tools

were not just listed in the charters, they were embedded in the economic, political, and legal systems that gave shape and substance to the organizations created by the bank charters. Critically, bank charters and access to those tools was first opened to elites. In the 1850s it spread to non-elites.

A complete test of this explanation would require much more detailed investigation into petitions for bank charters for the entire antebellum period, to see if non-elite petitions were denied with higher or lower frequency over time. Or, perhaps as interesting, whether non-elite petitions were common. But we have not attempted that very large empirical project.

What we have done is to show the complex relationship between bankers, legislators, and parties over time in Massachusetts. Ambiguities in the empirical data and our measures remain formidable, but we have shown how public support for private organizations in banking evolved in a critical time in American history. Does this history hold more general lessons for the process of development?

American history has a complicated relationship with the notion of elites. Elites participated in and led the American Revolution and played central roles in the formation of new governments in the late eighteenth and early nineteenth century at both the national and state level. The widespread antipathy towards political parties produced a curious politics in which elite groups competed for control of governments, attempted to plausibly deny that they had formed a political party to promote the interests and objectives of their group, and vehemently denounced the opposing elite groups as corrupt, dangerous, partisans who would wreck American society in pursuit of their own goals. It is difficult to overstate the sheer nastiness of early American politics.

There have been many approaches to this history by American historians. They differ in choosing the poles of their story: Federalists vs. Republicans, Hamilton vs Jefferson, Nationalist vs. Decentralists (not a good name for this, state's rights is too loaded.) In many histories the poles are abandoned as substantive devices, but retained as rhetorical ones. Accepting that the many sides of these many polarizing debates had merits as well as flaws, the interaction of elites is taken as a sign of the vibrancy of American culture and democracy. Then the bottom line often becomes a story of elites vs. non-elites, of Democrats vs. Whigs, of Populists vs. Plutocrats, and of communalists vs. capitalist. This is the story of the triumph of democracy and the interest of the common man. It is a great story, but not one that that goes down very well, since elites are the primary actors in the early part of the story. In order to rescue the story, America has to be endowed with good elites who acted in the nation's best interest. The fluctuating fortunes of founding fathers like John Adams, Alexander Hamilton, and to a certain extent James Madison results from the periodic recalculations of what it means to be a good elite in American history. George Washington and Thomas Jefferson seem secure.

That people outside the United States are doubtful that this kind of idiosyncratic and personalized American history holds much in the way of lessons for how their societies might attempt to promote development, and that is not surprising. Their societies are plagued by elites that propose reforms and then subvert them, by populist leaders who rise to influence and power and then act just like the elites they replaced. The only way American history makes sense in the development context is if we recognize that American elites were as competitive, vindictive, and personally motivated as well as idealistic and well motivated elites in nations around the world today. What differed about elites in the United States mattered was the dynamics of the way those how the elites interacted, not their moral character or political philosophy.

The central question for the conference is how societies come to provide organizational tools to large blocs of their citizens. That has to be a process that begins with the interests of elites who, in most societies, fail to provide organizational tools to anyone but themselves and the rising elites who demand recognition. What happened in the United States, as exemplified by Massachusetts bankers, was a change in the internal dynamic of intra-elite competition. The change produced a set of institutional changes that altered relationships between elites. Significantly, Massachusetts moved to a set of impersonal rules for elites. At that point the politics of banking moved from creating special privileges through unique provisions in charters (or geographic monopolies, for examples) to a system where all elites enjoyed the same organizational tools. Entry was still limited to those who possessed the political clout to get into the legislature, but that was becoming a lower bar as the dynamics of political parties shifted and the average tenure (commitment) of a state legislator declined.

Impersonal rules and relative open elite entry produced a large number of relatively small banks. The banks were profitable, but did not enjoy substantial rents from limited entry. Instead, banks were useful in combination with the growing manufacturing and commercial sectors (Lamoreaux, 1994). Under those conditions extending banking privileges to non-elites was no longer such a big deal.

The primary lesson to learn from Massachusetts is that even in a society with a long democratic tradition, with cultural norms that stress the importance of equality and charity, that it is difficult for a society to consciously and deliberately eliminate elite privileges. Support for, and limits on, organizations is a key element in those privileges. Until we understand the dynamics of how elites decide to move to impersonal rules for elites that can genuinely create

and sustain open access for elites, we are unlikely to understand how to do it for the larger population.

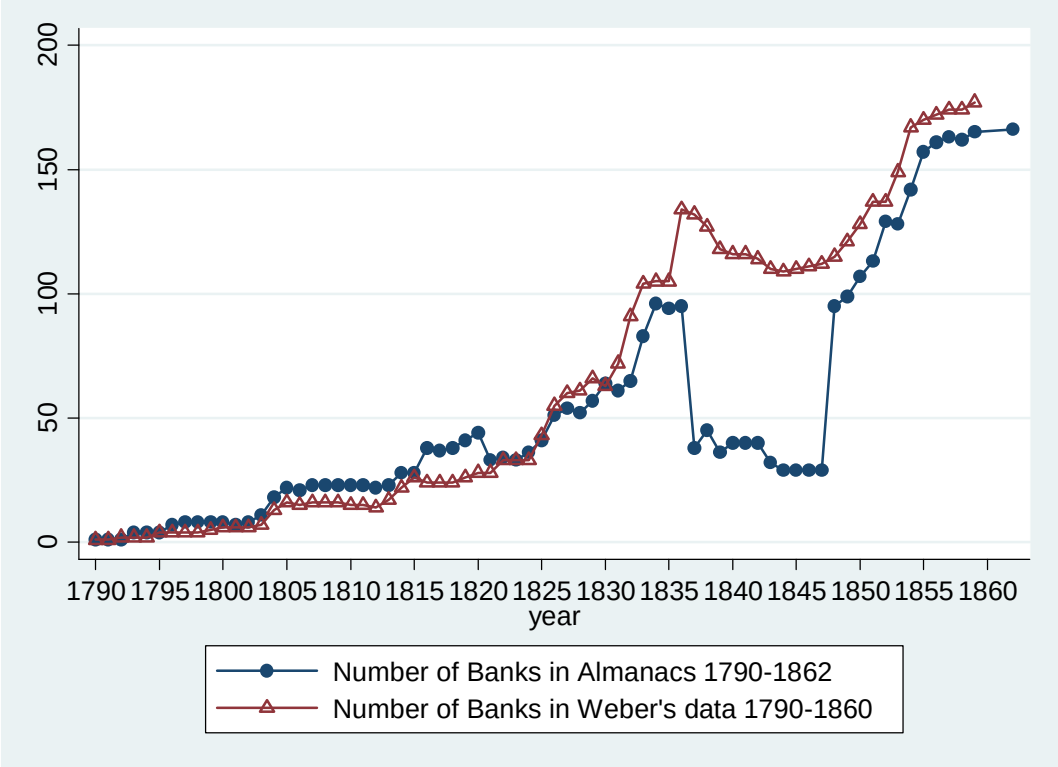


Figure 1: Number of Banks in the Registers and Weber's data, 1790-1862
Sources: Number of Banks in the Registers comes from Massachusetts Registers (1790-1862), Massachusetts State Library. Number of Banks in Weber's data comes from Weber "Census of State Banks" (2011)

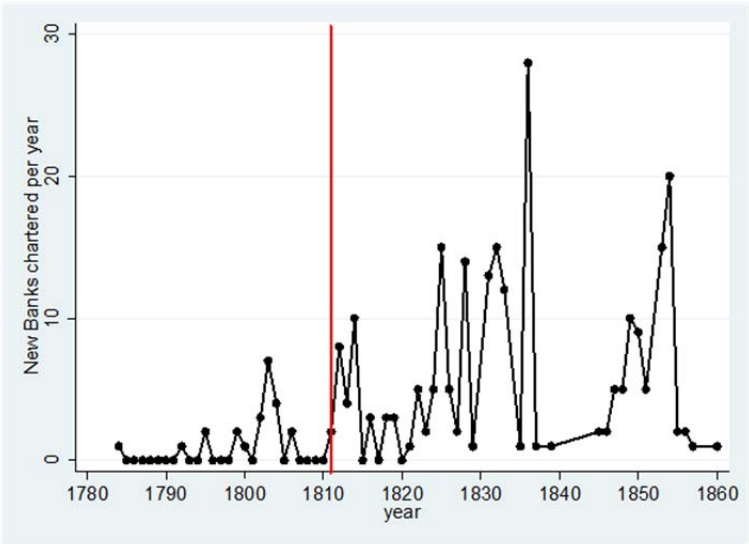


Figure 2: Number of New Charters excluding Renewals, 1780-1860

Source: Sylla and Wright (2012)

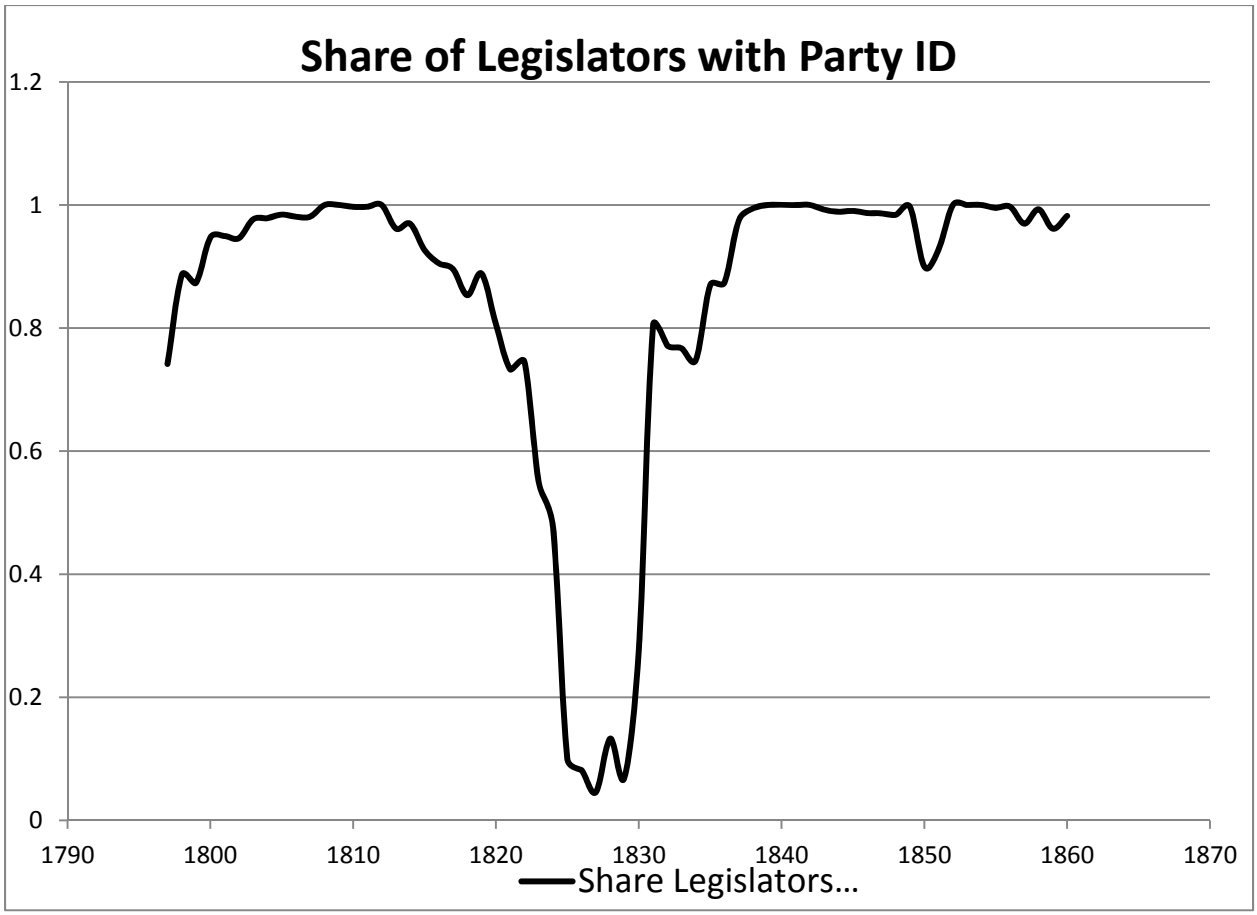


Figure 3: Share of all Legislators (not just bankers) who have a Party ID in the *Legislative Biographies*.

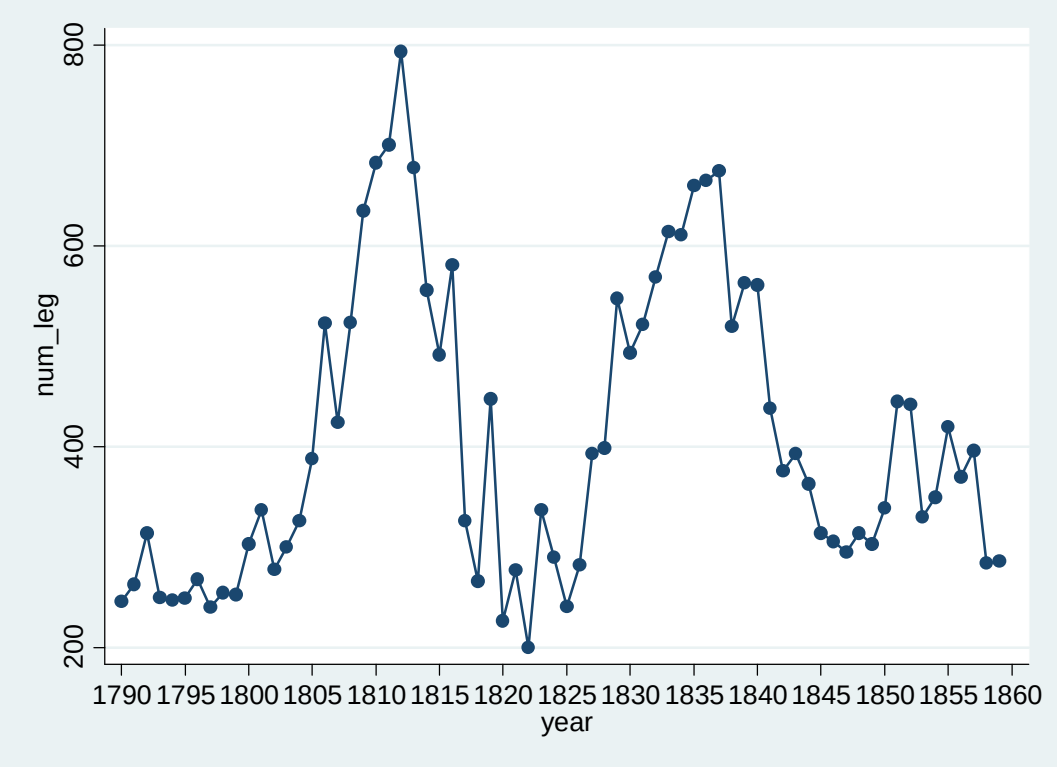


Figure 4: Number of Legislators, 1790-1859
Source: Massachusetts Legislators' Biographies, Massachusetts State Library.

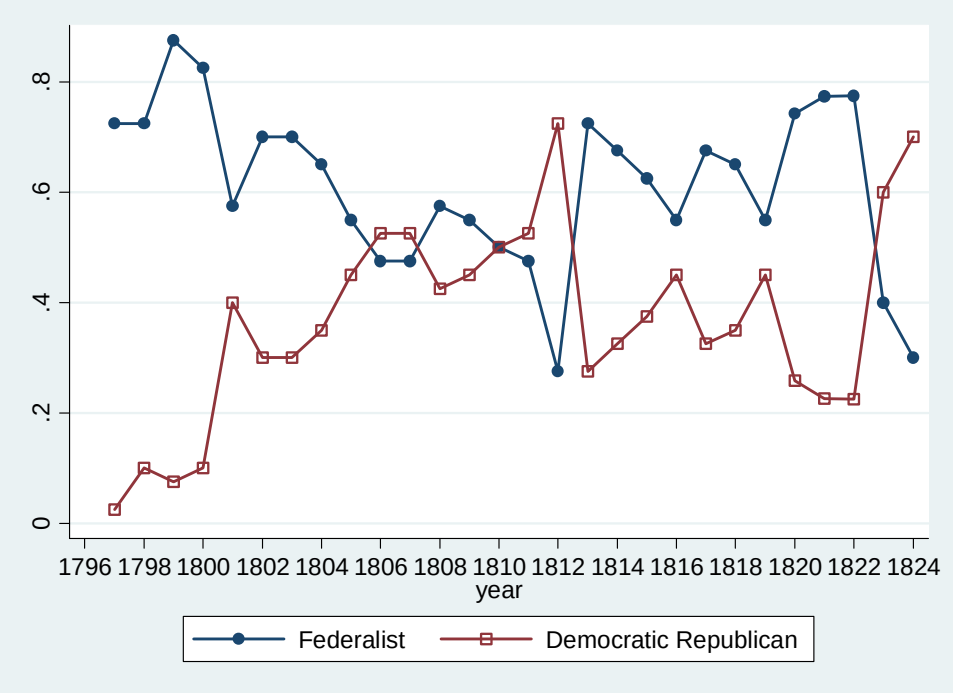


Figure 5: Senate Composition, 1797-1824
Source: Dubin

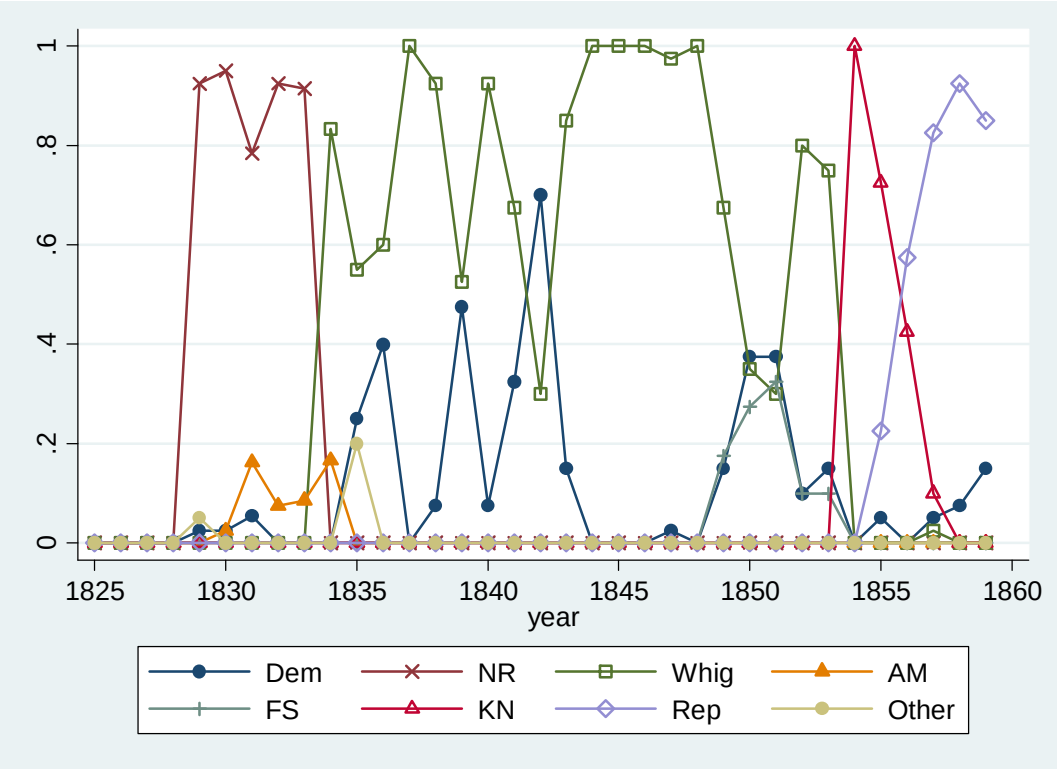


Figure 6: Senate Composition, 1825-1859
Source: Dubin
Note: Dem – Democrat, NR – National Republican, AM – Anti-Mason, FS – Free Soil, KN - Know-Nothing, Rep - Republican

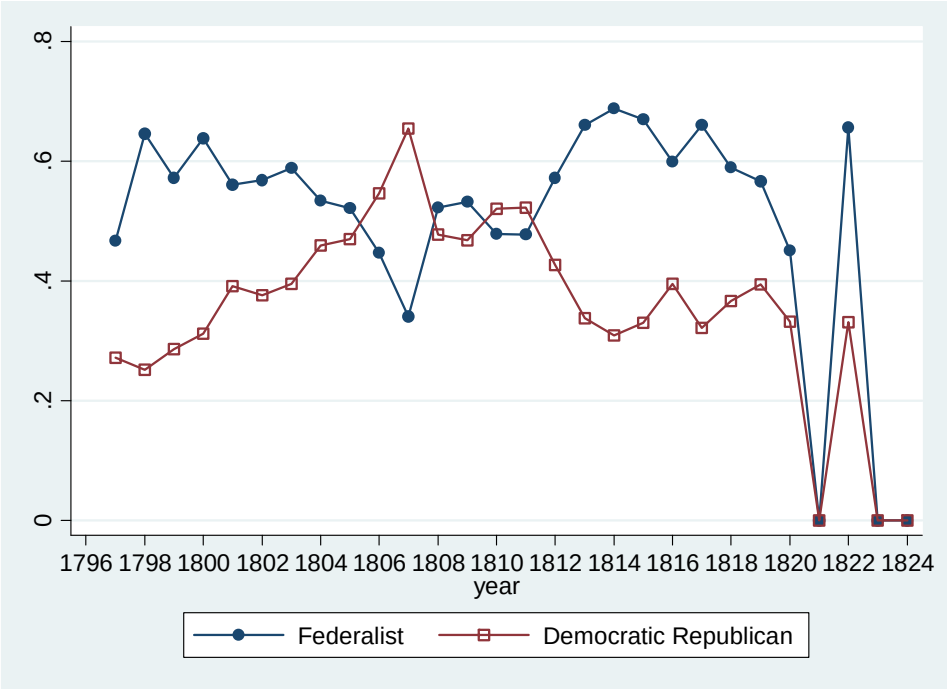


Figure 7: House Composition, 1797-1824
Source: Dubin

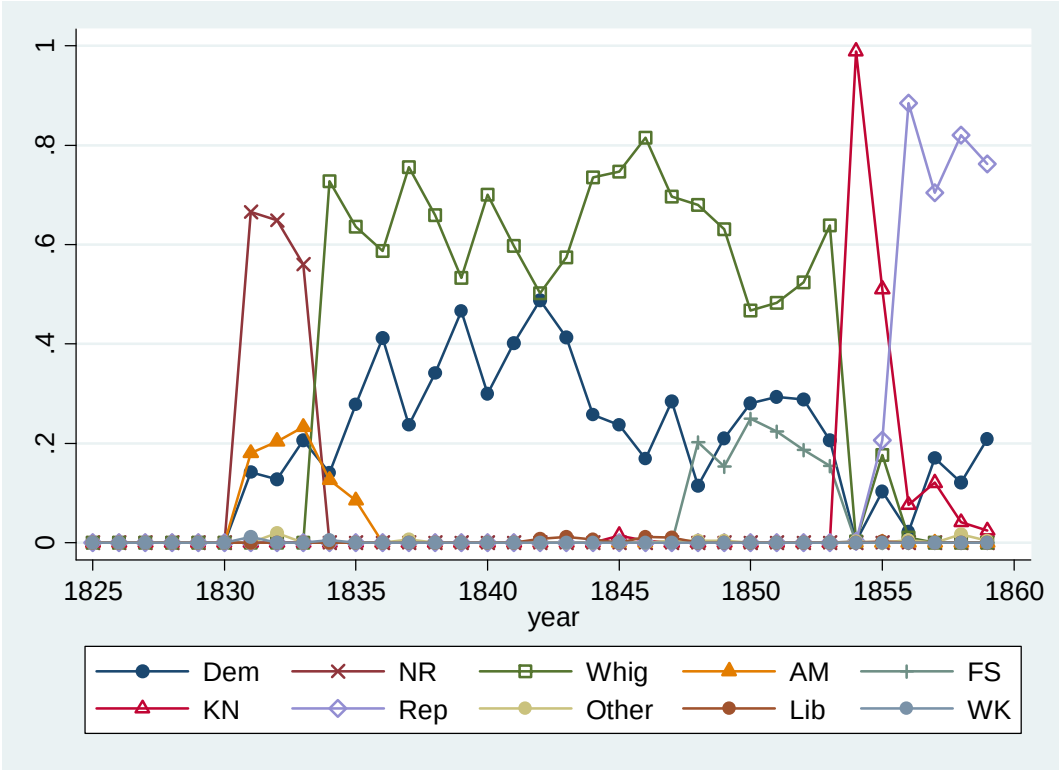


Figure 8: House Composition, 1825-1859. Source: Dubin

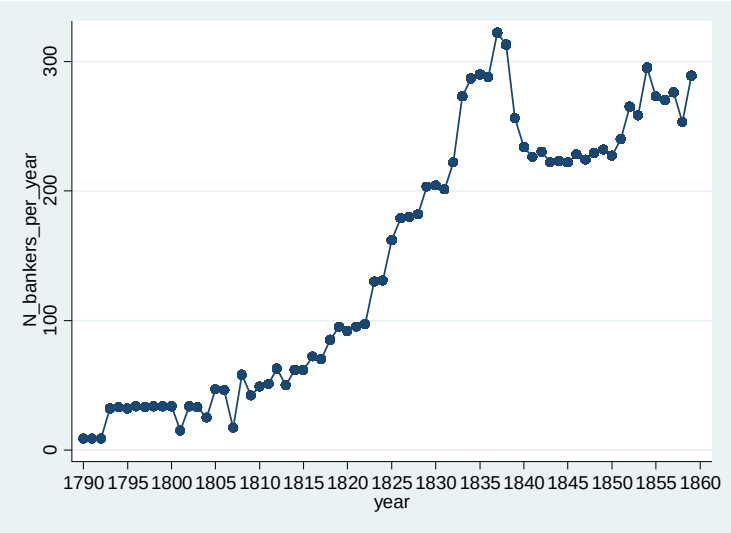


Figure 9: Number of Boston Bank Directors and Presidents in the Registers, 1790-1859

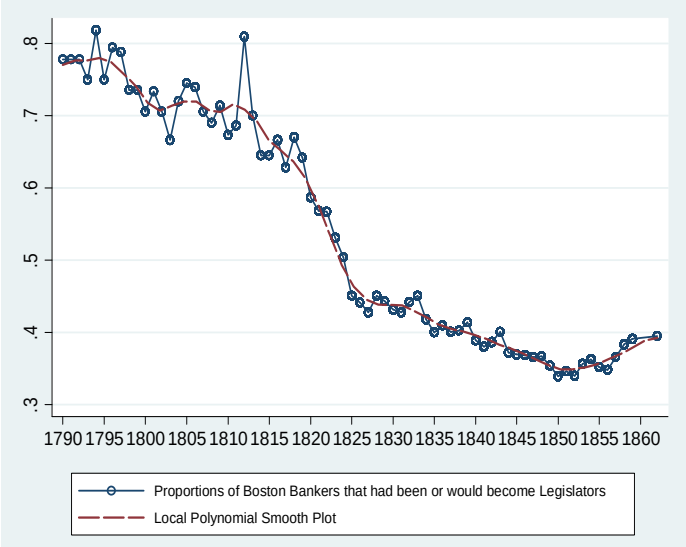


Figure 10: Proportions of Boston Bank Directors and Presidents who had been or would become Legislators, and Local Polynomial Smooth Plot, 1790-1859

Source: Massachusetts Registers (1790-1859), and Massachusetts Legislators Biographies (1780-2003). Both are from Massachusetts State Library.

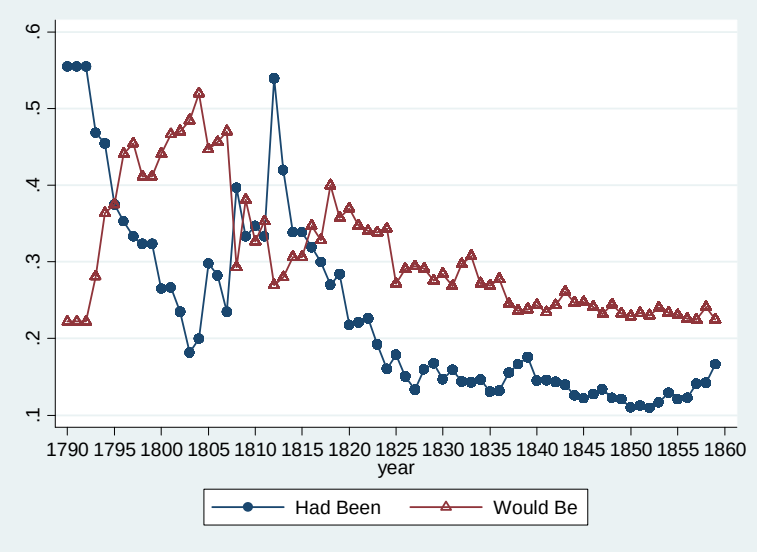


Figure 11: Proportions of Boston Bank Directors and Presidents who had been Legislators, and Proportions of Boston Bank Directors and Presidents who would be Legislators, 1790-1859.

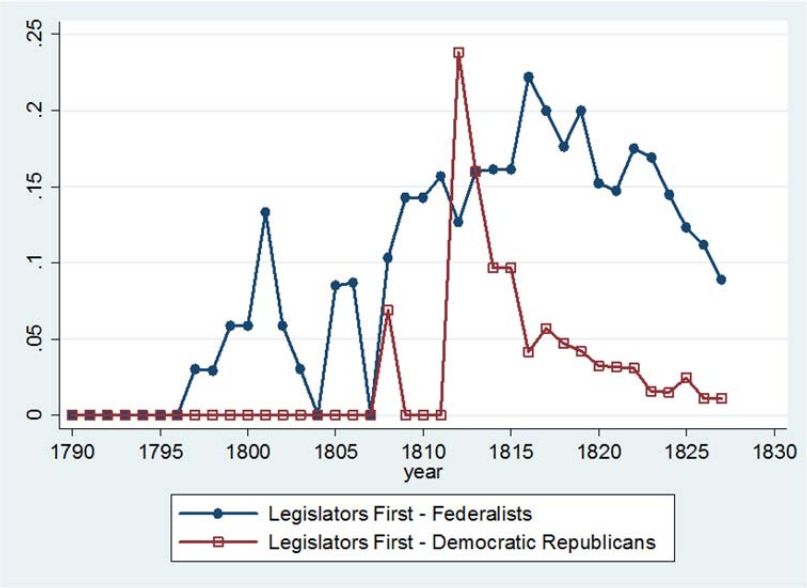


Figure 12: Proportions of Boston Bankers that had been Federalist or Republican Legislators before they became Bank Directors and Presidents, 1790-1827

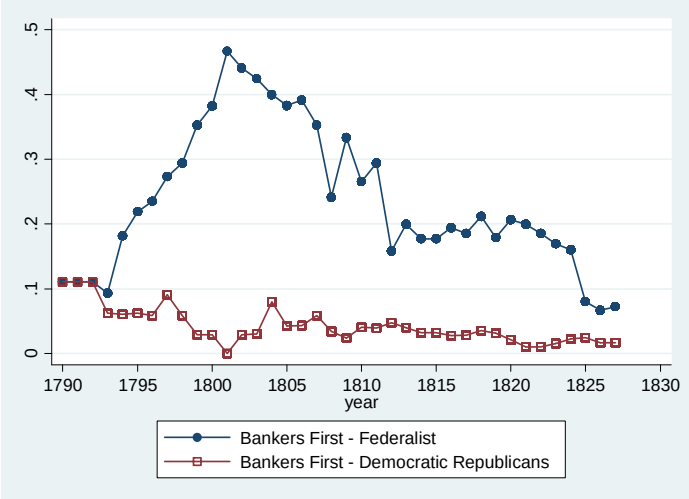


Figure 13: Proportions of Boston Bankers who became Federalist or Republican Legislators after they became bankers, 1790-1827

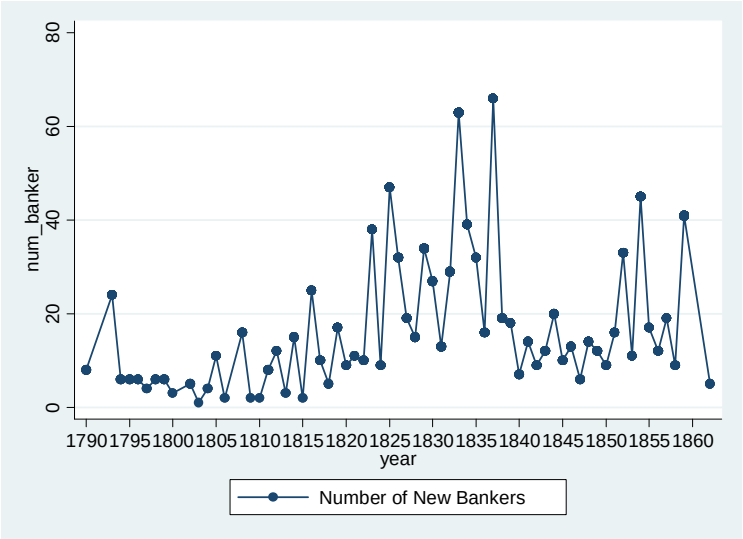


Figure 14: Annual Number of New Bankers, Boston Banks, 1790-1859

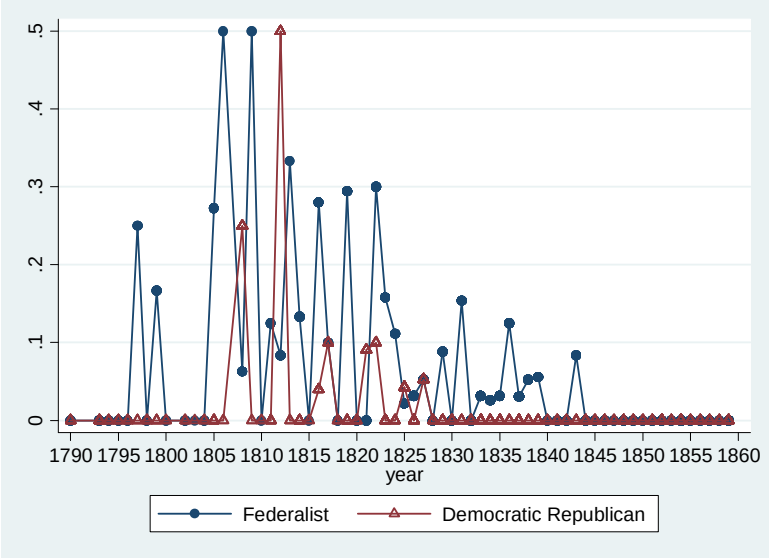


Figure 15: Proportions of New Bankers that had been Federalist and Democratic-Republican Legislators, Boston Banks, 1790-1859

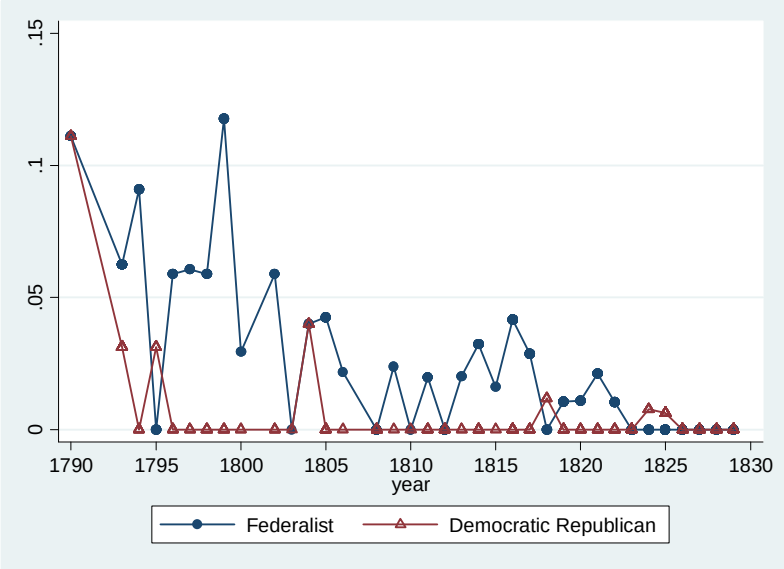


Figure 16: Proportions of New Bankers that would become Federalist and Democratic-Republican Legislators, Boston Banks, 1790-1830

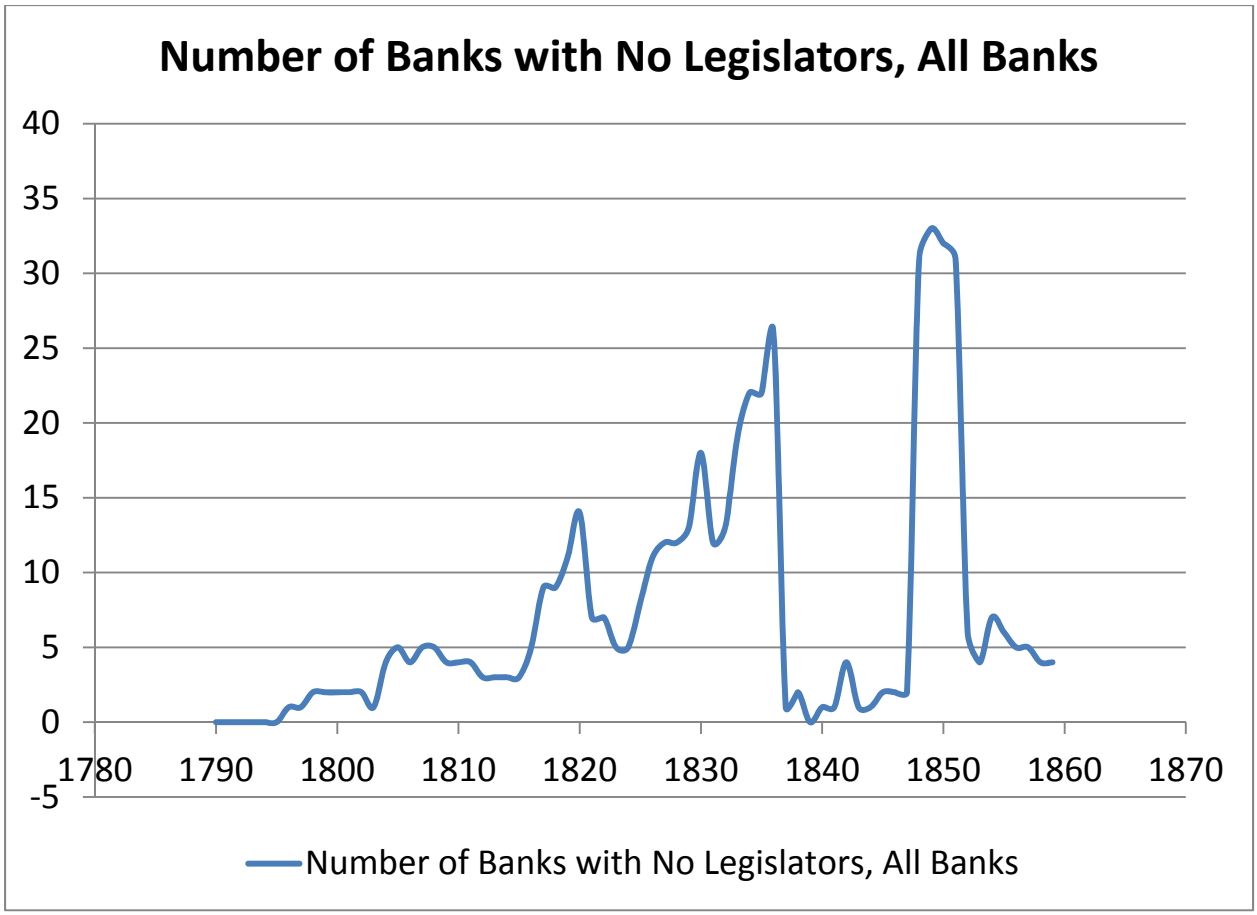


Figure 17: The Number of Banks with No Legislators as President or a Director, All Banks (whether they have Directors or not), 1790 to 1859.

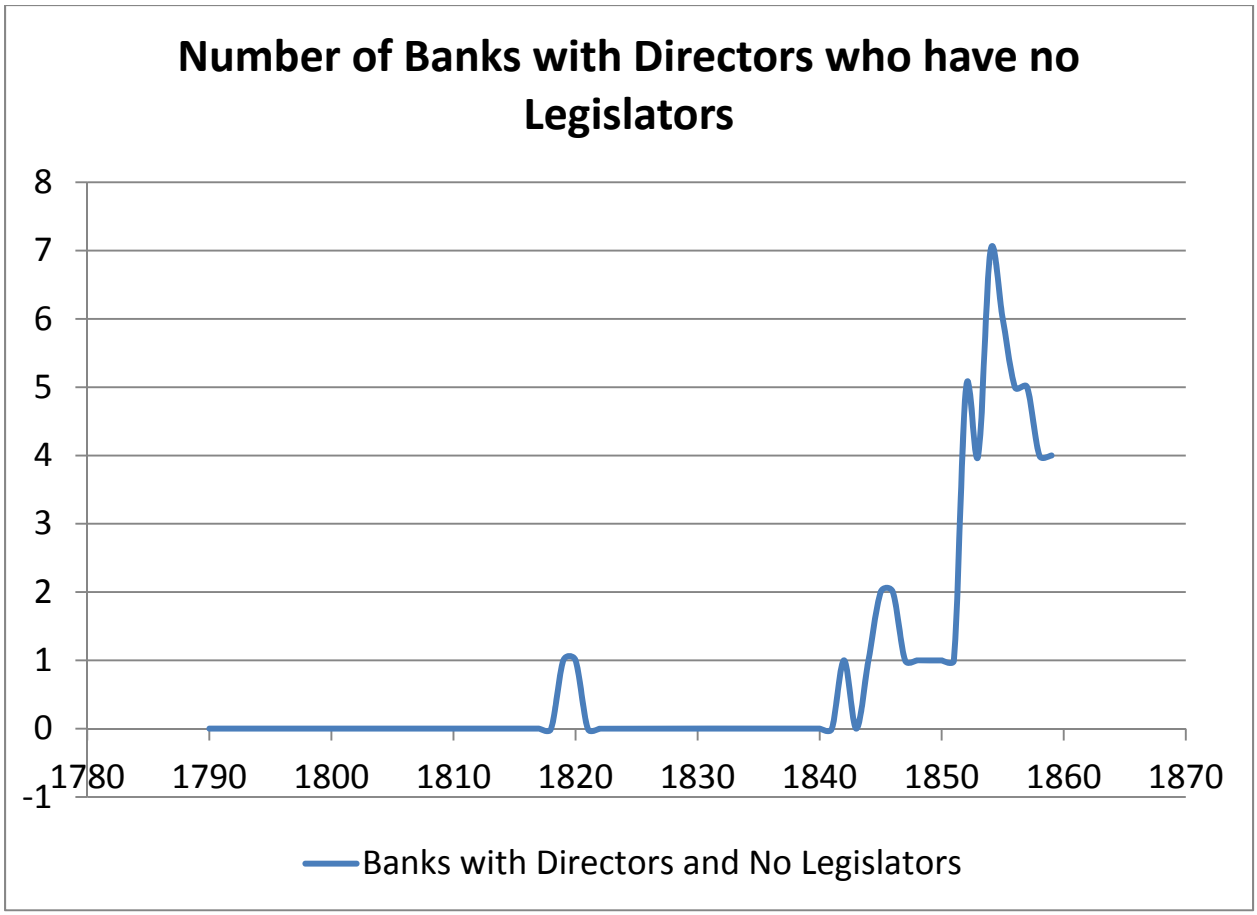


Figure 18: Number of Banks with Directors who have No Legislators, 1790-1859. This sample excludes banks with only Presidents in the Registers.

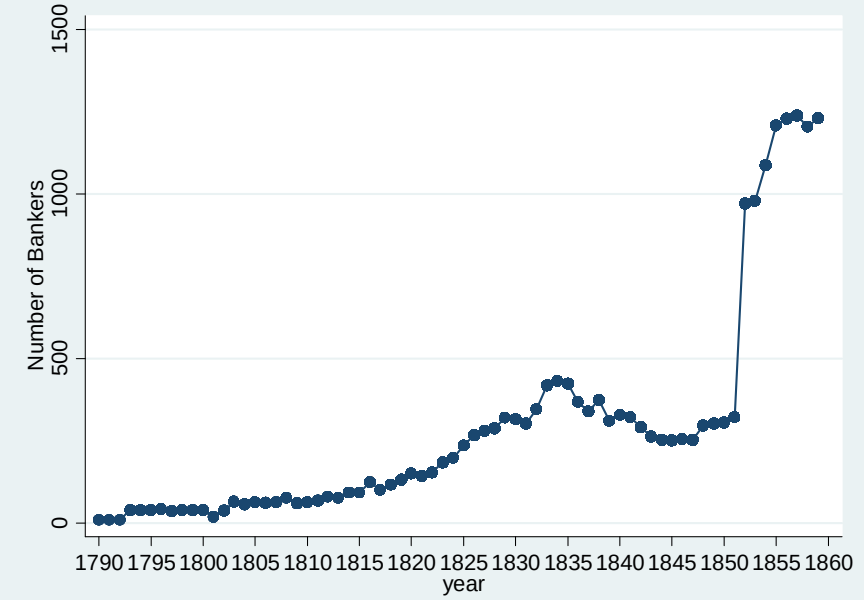


Figure 20: Number of Bank Directors and Presidents in the Registers (1790-1859)

Table 1
The Number of Bankers in the Massachusetts Registers Total,
The Number of Bankers who had been or would be Legislators,
And the Number of Bankers who were Legislators with a Party ID

Period	Number of Bankers	Number of Bankers who were Legislators	Number of Bankers who were Legislators w/Party ID	Share of Bankers who were not Legislators	Share of Bankers who were Legislators	Share of Legislators w/o Party ID
Column	(1)	(2)	(3)	(4)	(5)	(6)
1790-1799	307	233	98	0.24	0.76	0.42
1800-1809	545	391	272	0.28	0.72	0.70
1800-1812	771	562	399	0.27	0.73	0.71
1810-1819	954	664	503	0.30	0.70	0.76
1820-1825	842	475	395	0.44	0.56	0.83
1825-1839	5036	2302	1883	0.54	0.46	0.82
1840-1859	12599	5585	5032	0.56	0.44	0.90
Total	21054	10212	8582			

Source:
Data taken from the Massachusetts State Library *Legislative Biographies,* and Massachusetts Registers.

Notes:

For each time period, the total number of banker years is counted, column (1), an individual banker may be included in more than one year. Then bankers who had been or would be legislators are counted, column (2). Then bankers who were legislators and were given a Party ID in the *Legislative Biographies*, were counted, column (3).

Column (4) = ((1)-(2))/(1)
Column (5) = (2)/(1)
Column (6) = (3)/(2)

Table 2
Number of New Bankers in Sample
Number of New Bankers who are also Legislators

	ALL	Banker Only	Banker&Leg	%Banker Only	%Banker/Leg
	(1)	(2)	(3)	(4)	(5)
1790-1799	74	25	49	0.34	0.66
1800-1809	81	32	49	0.40	0.60
1800-1812	105	40	65	0.38	0.62
1800-1815	142	54	88	0.38	0.62
1810-1815	61	22	39	0.36	0.64
1815-1819	95	47	48	0.49	0.51
1815-1825	309	171	138	0.55	0.45
1820-1825	214	124	90	0.58	0.42
1820-1829	396	221	175	0.56	0.44
1830-1839	482	286	196	0.59	0.41
1840-1849	176	110	66	0.63	0.38
1850-1859	1346	749	597	0.56	0.44

Note:

All Bankers, column (1), are all the individual bankers reported in the Massachusetts Registers. In contrast to Table 1, each banker is only counted once in Table 2.
Bankers only, column (2), are never legislators.
Bankers& Leg, column (3), either had been or would become a legislator.

Table 3
All New Bankers, By Legislator or not, and By Party or not

				As Share of all Bankers			As Share of all Banker/Legislators		
	1790-1815	1816-1824	1825-1859	1790-1815	1816-1824	1825-1859	1790-1815	1816-1824	1825-1859
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Bankers	217	218	2285						
Not Legislators	80	121	1310	0.37	0.56	0.57			
Legislators	137	97	975	0.63	0.44	0.43	1.00	1.00	1.00
W/PartyID	87	80	857	0.40	0.37	0.38	0.64	0.82	0.88
Parties:									
Federalist	54	49		0.25	0.22		0.39	0.51	
Dem-Republican	29	17		0.13	0.08		0.21	0.18	
Other	4	14		0.02	0.06		0.03	0.14	
Whig			316			0.14			0.32
Republican			169			0.07			0.17
Democrat			159			0.07			0.16
Nat/Republican			80			0.04			0.08
Federalist			59			0.03			0.06
Know Nothing			25			0.01			0.03
Other			49			0.02			0.05
No Party	50	17	118	0.23	0.08	0.05	0.36	0.18	0.12

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