



The Common Thread: Slavery, Cotton and Atlantic Finance from the Louisiana Purchase to Reconstruction

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The Common Thread:
Slavery, Cotton and Atlantic Finance
from the Louisiana Purchase to Reconstruction

A dissertation presented

by

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to

The Department of History

in partial fulfillment of the requirements
for the degree of
Doctor of Philosophy
in the subject of
History

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Abstract

This dissertation focuses on the relationship between cotton, slavery and finance. At its core is a consideration of the Atlantic credit networks that supported the cultivation of cotton across the antebellum South. Planters relied on credit to finance their operating costs from year to year. The credit they received from British merchant banking houses made slavery a tenable labor regime in the antebellum South and enabled the plantation complex to function. This in turn contributed to the expansion of the American economy. The evolution of banking practices and credit mechanisms prompted by the burgeoning trade in cotton and the banking infrastructure developed to support this activity stimulated British industrialization and economic growth. The links between slavery and the development of an Anglo-American financial world are traced here through an examination of cotton sales, consignments and advances made to Southern planters. This dissertation highlights how cotton and the long reach of international finance in turn shaped banking practices across the Atlantic world.

The role cotton and slavery played in the growth and development of banks and financial houses as well as British and American economies is made clear when looked at

from a perspective larger than that of the Nation-State or national economy. This dissertation utilizes an Atlantic perspective to make sense of slavery, cotton production and economic development. In this light, slavery does not seem perversely unique to the American landscape. In fact, it looks like an externalized labor practice that markedly boosted British economic growth. In fact, this is more or less how nineteenth-century contemporaries understood the world they had created. In the end, the world of cotton and finance was one the slaves made, and although they do not have center stage here, they are at the heart of this story and the most fundamental argument of this dissertation: slave labor was vital to financial development and the evolution of banking practices in both the United States and Great Britain.

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Niall Ferguson initially directed me towards the Rothschild archive, a resource I would not have considered on my own. Likewise his emphasis on the importance of finance proved deeply infectious and influential. His generosity with time and advice while I was in the early stages of research I appreciated deeply. Susan O'Donnell provided astute commentary on initial project proposals and had an exacting vision of what this project could be. Robin Blackburn provided stimulating discussion and insightful commentary on this project, which I found particularly gratifying since he initially spurred my interest in the history of slavery and the economic realities of the Atlantic world. Oz Frankel has been an informative and helpful reader of much of my writing and a keen interlocutor regarding my thoughts since my student days at the New School. I have always valued his patience and his comments. Harold James and Cathy Matson provided encouraging and challenging feedback on some of my ideas regarding foreign investment effects on

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Introduction

In the nineteenth century cotton stood at the center of the global economy, and was the primary export item produced by the United States. Throughout the century the United States was the largest producer and Great Britain the largest consumer.¹ The commodity proved deeply important to the economic development and industrialization of both countries. As Friedrich Engels noted, ‘England and the United States are bound together by a single thread of cotton, which, weak and fragile as it may appear, is, nevertheless, stronger than an iron cable.’² The economic undercurrents that influenced political allegiances and policy decisions throughout the antebellum period were well understood in the nineteenth century by merchants and bankers on both sides of the Atlantic, as was noted in *Punch*:

Tho’ with the North we sympathize,
It must not be forgotten
That with the South we’ve stronger ties
Which are composed of Cotton.³

Yet the need to maintain these ties was problematized by differing patterns of development across regions of the United States: the hardy mechanics of New England

¹See Douglass C. North, *The Economic Growth of the United States, 1790-1860* (Englewood Cliffs: Prentice-Hall, 1961), 10.

² Quoted in Brian Schoen, *The Fragile Fabric of Union: Cotton, Federal Politics, and the Global Origins of the Civil War* (Baltimore: Johns Hopkins University Press, 2009), 225.

³ John Crosby Brown, *A Hundred Years of Merchant Banking: A History of Brown Brothers and Company, Brown Shipley & Company and the Allied Firms, Alexander Brown and Sons, Baltimore; William and James Brown and Company, Liverpool; John A. Brown and Company, Browns and Bowen, Brown Brothers and Company, Philadelphia; Brown Brothers and Company, Boston* (New York: [s.n], 1909), 225.

developed an economic system rooted in the production of goods for local trade. Economic relations in the early nineteenth-century North have been characterized in much of the literature as rooted in mutuality and the employment of small-scale credit.⁴ In contrast, economic development in the southern States revolved on the planting and harvesting of agricultural crops for sale in an international marketplace.⁵ These agricultural goods were the primary export of the young nation and were a source of much needed capital.⁶ Of course, the production of all these commodities for the international market was accomplished with slave labor, and this became problematic as the nineteenth century progressed.

This common thread of cotton, clearly, was not only woven from a raw fiber but also from increasingly sophisticated ways of providing credit. The provision of capital, through advances, consignments and the expansion of banks across the southern United States cleared the way for mills to be constructed, mules to spin, ships to alight from busy ports and for planters to purchase the slaves, land and goods that allowed them to focus exclusively on the harvesting of agricultural commodities for commercial sale. In short, the economic world that cotton made was one that benefitted the United States as a whole, and that was deeply reliant on credit. The pivotal role of finance is one that has

⁴ See for example Sean Wilentz, *Chants Democratic: New York City and the Rise of the American Working Class, 1788-1850* (New York: Oxford University Press, 1984).; Christopher Clark, *The Roots of Rural Capitalism: Western Massachusetts, 1780-1860* (Ithaca: Cornell University Press, 1990).

⁵ See Joyce E. Chaplin, *An Anxious Pursuit: Agricultural Innovation and Modernity in the Lower South, 1730-1815* (Chapel Hill: University of North Carolina Press, 1993).

⁶ See North, *Economic Growth*; Peter Temin, *The Jacksonian Economy* (New York: Norton, 1969).; Stuart Weems Bruchey, *Cotton and the Growth of the American Economy, 1790-1860: Sources and Readings* (New York: Harcourt, 1967).

too often been elided in the creation of the cotton kingdom. Additionally, this domain of cotton extended beyond American borders, as did profit from trade in the article. The dictates of the trade in cotton, including the need for large advances, shaped American political policies, and the habits and practices of merchants and bankers that engaged in the business. Since the realm of cotton included a nation of debtors, without some financial system in place cotton would never have become king. Following the money paints a different picture of the ascendancy of cotton, explaining why cotton became such an important crop to the American economy, and why southern planters, with initial reluctance, entered into a long and fruitful association with British capital. These financiers in turn were greatly influenced by their involvement in cotton markets in the South as well as Liverpool.

Given the importance of cotton to both Britain and the United States the vital role of slave labor in the production and sale of this crop is noteworthy for its contribution to self-sustaining economic growth across the Atlantic world. Yet the role of slavery in the development of this larger Atlantic financial system is rarely discussed. Historians of slavery are relatively silent on the role credit played in the formation of the cotton South. Likewise, financial historians have little to say about the methods of production of cotton although their nineteenth-century subjects were just as concerned with the peculiar institution as they were with bond issues, exchange rates and the prices of commodities in various global markets.

In everything from the purchasing of slaves and supplies to run the plantations to the sending of harvested crops to market, plantation agriculture was dependent on both coerced labor and frequent infusions of money to keep things running smoothly. What

happened on plantations in Georgia, Louisiana, Alabama and Mississippi contributed directly to economic development and growth in places like New York, Massachusetts and Rhode Island. An exploration of cotton bridges the worlds of finance and slavery and makes clear how one facilitated the expansion of the other across the nineteenth-century Atlantic.

The international market in cotton is testament to the vital role played by an Atlantic hinterland in European, and specifically British industrialization.⁷ This system of production required land, labor and, just as critically, capital. During the antebellum era agricultural, commercial and industrial expansion across the Atlantic was facilitated by the proliferation of banks capitalized with money flowing from London and New York into the American South. In the North, canal building and the rise of New York as the preeminent American port stimulated commercial activity and established it as a vital economic and financial hub.⁸ Much of this commercial activity in the city revolved around cotton, which assumed an increasingly important position as the most profitable export article for the young nation, and as a raw material that fueled the textile mills of Lancashire.⁹

This dissertation focuses on the relationship between cotton, slavery and finance.

⁷See Kenneth Pomeranz, *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton: Princeton University Press, 2000).

⁸ On the development of New York as the premier commercial port and financial center of the United States in the nineteenth century see Robert Greenhalgh Albion and Jennie Barnes Pope, *The Rise of New York Port, 1815-1860* (New York: Charles Scribner's Sons, 1939).

⁹ On the vital role played by the fiber in Lancashire see D. A. Farnie and David J. Jeremy, *The Fibre That Changed the World: The Cotton Industry in International Perspective, 1600-1990s* (Oxford: Oxford University Press, 2004). On the pivotal importance of cotton to American economic development see North, *Economic Growth*.

At its core is a consideration of the Atlantic credit networks that supported the increasing cultivation of cotton across the antebellum South. Rather than looking at how a plantation worked, or how Southerners conceived of their own economic worlds I consider how credit functioned to allow plantations to run and cotton to cross the Atlantic.

Correspondingly, I am also concerned with how the world of cotton in turn shaped the sensibilities and business practices of the creators of an Atlantic world of finance. I have looked to financial institutions and credit to understand slavery, and although the Bank of England might seem far from the reality of slaves picking cotton in the Louisiana heat, that is in fact not the case. Cotton, slavery and finance were amiable companions from the founding of the early American Republic through the Civil War. This alliance also formed the basis for many later disagreements, quite a few of which also had ties to cotton.

Southern planters, and Americans generally, did not have access to large amounts of cash, or capital, in the first half of the nineteenth century.¹⁰ Correspondingly, planters in the South simply were not interested in plowing funds into manufacturing or the development of infrastructure in spite of their anger and resentment at what was widely perceived as exploitation by the North. The majority of planters spent money on slaves and land. This behavior was noted at the time: “to sell cotton in order to buy negros – to make more cotton to buy more negros “ad infinitum,” is the aim and direct tendency of all the operations of the thorough going cotton planter; his soul is wrapped up in the

¹⁰ See Clark, *Rural Capitalism*.

pursuit.¹¹ The planter would spend profits, potential profits and future profits in this relentless quest for more slaves, and more land, to grow more cotton.¹² The increase in prestige, and the potential to make even more money seemed to obviate any potential risk in the planter's mind.

That being said, the use of credit for plantation improvements, expansion and the purchasing of slaves was not mere vanity on the part of planters. These were business decisions meant to increase productivity and profits from trade in what was in some years an incredibly lucrative crop. External finance, the advances received from outside of the cotton South enabled some farmers to give up subsistence farming and move into cotton planting. In some cases access to finance also allowed other planters to move from cotton planting to sugar, which was much more capital intensive and necessitated both slaves and machinery.¹³ Often the money borrowed was invested in equipment and supplies to increase capital and productivity, resulting in gains for the planter and for the economy as well. Much of this money came into the cotton belt directly, borrowed from European financiers without running through banks or other intermediaries. This makes the foreign funds flowing through the cotton South difficult to account for, and to track.¹⁴ One of the problems was that the majority of these improvements in efficiency remained on the

¹¹ J. H. Ingraham, *The South-West* (New York: Harper & Brothers, 1835), 91.

¹² See Harold D. Woodman, *King Cotton and his Retainers: Financing and Marketing the Cotton Crop of the South, 1800-1925* (Columbia: University of South Carolina Press, 1990), 131-8. For a more critical consideration of planter fantasies and the relentless motivations to buy slaves with a focus on the market itself see Walter Johnson, *Soul by Soul: Life Inside the Antebellum Slave Market* (Cambridge: Harvard University Press, 1999).

¹³ See George D. Green, *Finance and Economic Development in the Old South: Louisiana Banking, 1804-1861* (Stanford: Stanford University Press, 1972).

¹⁴ See *ibid.* ch. 3.

plantation and larger investments in the development of infrastructure in the South were not considered desirable or even necessary until the 1840s and 1850s. Planters remained narrowly focused on the production of cotton and making money.

In the short term this behavior made sense. Yet short-term planning often conflicted with long-term concerns, and this focus on immediate profit had far-reaching consequences for economic development that were not fully understood at the time. Because of this mentality, the South lagged behind the North in terms of developing infrastructure and local industries. The economy of the South, while based on the growth of commodities for commercial sale, militated against regional economic development. Since these products were produced for an international marketplace, and Southern planters had no need to lure laborers to towns or regions, the South did not develop much local or regional infrastructure.¹⁵ Additionally, the South produced few of the necessities of nineteenth-century life; all of these items were imported, often from Great Britain or the Northeast. The end result was a dependence on other regions that had evolved local industries but lacked commercial products to sell on a world market.

In the 1850s planters agitated for the transcontinental railroad to pass through the South, and began to address the need to develop manufacturing and production in Southern states but still vehemently opposed tariffs and restrictions on trade. Slaves and land remained important to Southern planters for social as well as economic reasons: their reliance on slave labor to produce crops and manage larger landholdings, at least theoretically, translated into larger harvests as well as increased prestige.

¹⁵ See Gavin Wright, *The Political Economy of the Cotton South: Households, Markets and Wealth in the Nineteenth Century* (New York: Norton, 1978).

Correspondingly, many financial houses and agents in the cotton belt were just as eager to make large advances to finance and derive profit from this trade. These same merchants and bankers were ill disposed to encourage or support any type of developmental projects in the South, especially after the repudiation of state and municipal debts in 1841 and 1842.¹⁶

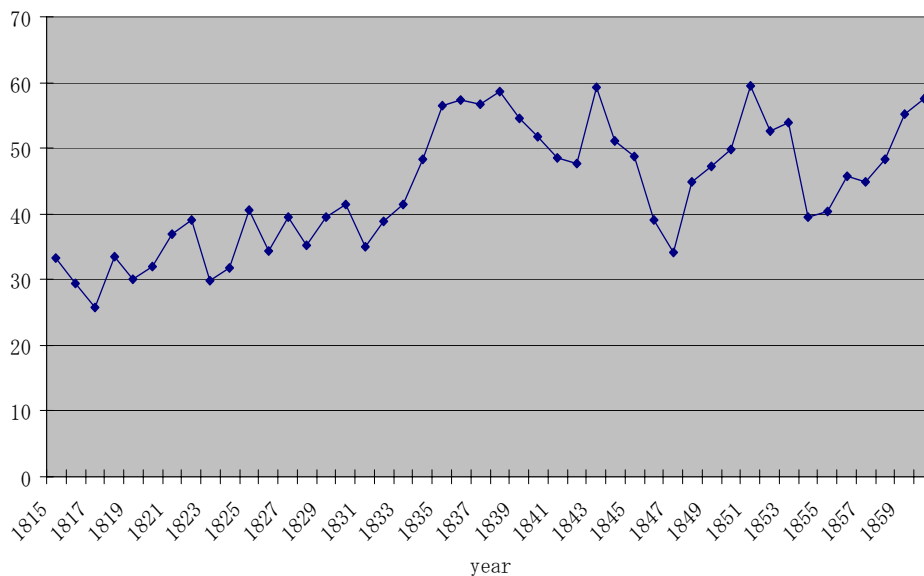


Figure 1: Cotton as a percentage of total annual exports from the United States

From Bruchey, ed., *Cotton and the Growth of the American Economy*, 22.

In many ways, the worlds of Manchester and the Mississippi River Valley were closer than we might imagine today. It is increasingly clear that cotton planters and factors had a distinctly international perspective that in some ways was more advanced

¹⁶ On these types of projects see John Majewski, forthcoming.

than that of their New England brethren toiling away in their regional manufacturing enterprises and weaving homespun. As early as 1820 products derived from cotton accounted for roughly 59 percent of British exports. Cotton planters and their slaves harvested 60 percent of the raw material used in the production of these goods. This ranged up to 75 percent within a decade and remained at that level through the Civil War. Raw cotton was a significant export item for the United States as well (see figure 1). Some historians have delineated the development of a cohesive planter class that drove political decision-making.¹⁷ Others have explored the workings of the interstate slave trade and the day-to-day rhythms of planter life.¹⁸ Still others have considered the economic visions and intellectual outlook of the planter class.¹⁹ Gavin Wright has suggested that Southern dependence on cotton retarded economic development in the region.²⁰ Given that credit was more often available for cotton than infrastructural projects it seems that finance played a role in the development of the built environment as well, and southern repudiation of state and municipal debts after the panics of 1837 and 1839 did little to bolster enthusiasm for investment in development in Southern states. Simply put, cotton looked like a much better bet than the development of regional

¹⁷ William Kauffman Scarborough, *Masters of the Big House: Elite Slaveholders of the Mid-Nineteenth-Century South* (Baton Rouge: Louisiana State University Press, 2003). Schoen, *Fragile Fabric of Union*.

¹⁸ On the interstate slave trade see Johnson, *Soul by Soul*. On planter life and sensibilities see Scarborough, *Masters of the Big House*. Wright, *Political Economy of the Cotton South*, Walter Johnson, *River of Dark Dreams: Slavery and Empire in the Cotton Kingdom* (Cambridge: Harvard University Press, 2013). Drew Gilpin Faust, *James Henry Hammond and the Old South: A Design for Mastery* (Baton Rouge: Louisiana State University Press, 1982).

¹⁹ In particular see John D. Majewski, *Modernizing a Slave Economy: The Economic Vision of the Confederate Nation* (Chapel Hill: University of North Carolina Press, 2009). James Oakes, *Slavery and Freedom: An Interpretation of the Old South* (New York: Knopf, 1990).

²⁰ Wright, *Political Economy of the Cotton South*; *ibid*.

infrastructure.

Credit extended on cotton, and the purchase of the commodity outright occurred with the most frequency when European markets were flat and, as is particularly evident in 1848, when political uncertainty made European investment less palatable. The types of credit extended on cotton took many forms, and some are more easily traceable than others.²¹ The most common variations included: whether through consignments, advances or on cotton used as collateral with Southern banks. Many Anglo-American financial houses sought productive deployment of their capital in the United States at these points, with political circumstances in Europe driving American financial expansion.

The Louisiana Purchase is one early example of this intertwining of global markets. The loan for the purchase was financed by Barings and Hope and Co. to aid the United States in a purchase that raised much-needed capital for France. This sale was financed outwardly by the Dutch to avoid the direct involvement of a British bank in providing funds to France, which might be used to finance a war with Britain. The British government had been less than happy with the involvement of Barings, and issued specific instruction to the bank not to fund the deal, given that they felt the sale could fund a potential invasion of the British Isles by Napoleon. France was eager to sell because of the desire for capital, and an increasing inability to defend these territories from British, Spanish and American incursions. The United States was interested, particularly because this would open access to the port of New Orleans, and allow for the shipment of commodities all the way down the Mississippi, in addition to doubling the

²¹ See Green, *Louisiana Banking*_Ch. 3.

territory of the emergent nation. Later, political events and the interests of European financiers drove expansion of the cotton trade, particularly in the 1820s, 30s and 50s. Credit continued to be vital to the development of the United States in the years immediately after the founding.

The Louisiana Purchase involved finance on a grand scale, yet the early Republic benefitted from much smaller financial operations as well. Initially advances on crops bolstered the tobacco trade, and the establishment of a factorage system in the Chesapeake around tobacco heavily influenced the mechanisms later adopted to facilitate the Atlantic trade in cotton.²²

Southern cotton was a commodity produced for an international market and for this reason it stitched together diverse communities and regions. This in turn made Manchester mule spinners acutely aware of the political economy of the cotton South and involved them in a dialogue around slavery. Likewise, with most operations being funded by British capital, the actions of the Bank of England exerted financial pressure in the far reaches of the Mississippi valley, affecting agents, factors, cotton planters and their slaves as well. They were all connected by a common thread of cotton and the flows of capital across the Atlantic. Slave traders, purchasers of cotton in New Orleans, or Natchez, planters and yeoman farmers, closely followed Cotton production in Brazil, India and sales on the market in Liverpool. Throughout the antebellum period harvests around the globe had pronounced effects on markets in Liverpool and the selling price of cotton in New York as well as in port cities across the South. As planters spread further

²² Stuart Weems Bruchey, *The Colonial Merchant: Sources and Readings* (New York, : Harcourt, 1966).

inland, becoming pivotal presences in Alabama, Mississippi, Louisiana, Arkansas and Tennessee consumption continued to match production, as Britain increasingly purchased more, and yet more, cotton. Eventually a domestic trade in cotton opened with mills in Massachusetts, yet the trade with Great Britain continued to be the most vital, and this trade shaped the development of free-trade ideology in the South, and the business practices and fortunes of many larger Anglo-American houses.

Credit and, by extension, debt was a pressing topic in the United States from the beginning. This question has been explored in terms of the eighteenth century, where changing conceptions of debt and credit created circumstances amenable to the evolution of a market economy. Bruce Mann describes this shift in *Republic of Debtors*. Indeed, Mann argues that ‘debt was an inescapable fact of life in early America’ and that debt and credit intertwined with other issues, fueling debates around dependence and independence and becoming imbricated in both republican and federalist arguments.²³ One of the key shifts Mann documents is the transformation of debt from a personal issue to something more commercial, and impersonal, which had the effect of altering moral perceptions of debt. These changes in perception of debt laid the groundwork for the transformation from a moral to a market economy. By the time cotton planters are seeking advances on their crops, conceptions of debt had changed, and the economy had correspondingly changed course as well.

Banking and business histories have been remarkably silent regarding the relationship between slavery and finance. Even at this relatively early point in American

²³ Bruce H. Mann, *Republic of Debtors: Bankruptcy in the Age of American Independence* (Cambridge: Harvard University Press, 2002)., 3.

financial development there was a deep reliance on British credit.²⁴ The need for credit was made manifest in the development of the trade in cotton. George Green highlights how this credit drove economic expansion and that often, this credit was employed productively.²⁵ Yet few histories of banking firms discuss the cotton trade all that much, with the exception of Edwin Perkins' *Financing Anglo-American Trade: The House of Brown, 1800-1880*. Perkins' history of the Browns illustrates just how important consignments of cotton were to the firm. He highlights the innovations the Browns brought to the system of advances and later, to working with bills of exchange. Yet Perkins has little to say about slavery even though it is evident that the influence of slavery on the dynamics of southern commerce did motivate their exit from the cotton trade in the 1840s.

Histories of Barings and Rothschild likewise devote little time to cotton or slavery, even though both houses were involved in the trade. Niall Ferguson notes that the trade in cotton was important in "The rise of the Rothschilds: The Family Firm as a Multinational" yet gives less consideration to the impact of the cotton trade on the development of the Rothschild houses in his two volume study *The House of Rothschild*.²⁶ To simply say, as Austin does in his more recent book on the House of Baring, that to trade with America in the nineteenth century seems, in the end, a bit reductive. A more nuanced consideration of the dynamics of this trade tells us a good

²⁴ Ibid., ch. 1.

²⁵ See Green, *Louisiana Banking*, 37-70.

²⁶ Niall Ferguson, "The Rise of the Rothschilds: The Family Firm as a Multinational," in *The World of Private Banking*, ed. Youssef Cassis (Farnham: Ashgate, 2009); Niall Ferguson, *The House of Rothschild* (New York: Viking, 1998).

deal about the nature of these firms, how they evolved over time, as well as providing a different understanding of how national economies developed in response to international conditions.

In the nineteenth century these financiers were keenly aware of the use of slavery, and particularly concerned with the fragility of the institution as well as a perceived necessity in its perpetuation. This is a point on which bankers with the most ardent of abolitionist sentiments would have been forthright. Many of the merchant bankers and financiers involved with cotton had abolitionist views but saw slavery as necessary to the production of cotton, sugar and other Southern staples. They simply could not imagine how their world would function without it. Jay Sexton has examined some points of intersection between slavery and finance but suggests that abolitionist sentiments outweighed pragmatic concerns around profit and risk. That decidedly was not the case.²⁷

In spite of all of this, slavery and finance, for some reason, are rarely discussed in conjunction with one another, even when we make allowances on occasion for wide-ranging discussions that might bring together the larger realities of concepts like labor and capital. Some work has been done looking at the development of slave mortgages, most notably by Richard Kilbourne and Bonnie Martin. But slave mortgages were a small-scale localized practice that did not result in an appreciable increase of the money supply, either in the colonial period with which Martin is concerned or the later era

²⁷ Jay Sexton, *Debtor Diplomacy: Finance and American Foreign Relations in the Civil War Era, 1837-1873* (Oxford: Clarendon Press, 2005); Jay Sexton, "Transatlantic Financiers and the Civil War," *American Nineteenth Century History* 2, no. 3 (2001).

Kilbourne considers in Feliciana parish.²⁸ Nevertheless, slaves played a vital role in the shaping of our larger economic world: they planted and harvested the labor-intensive crops that were eagerly purchased in European markets in the eighteenth and nineteenth centuries. Ed Baptist outlines the contingent nature of the development of the cotton South through a consideration of two counties in Florida, noting that white, black and Native-America residents of Florida were all attempting to fashion different plots and outcomes for the region, often violently.²⁹ The creation of the image of a changeless South is one with which he disagrees, noting this belies much of the struggle and contingency of development in the region. His history nevertheless illustrates how their exertions drove economic, industrial and financial expansion along with disagreement and on occasion, rebellion. The need shared by planters and many citizens of the young United States for money and credit in turn contributed to the creation of the plantation economy in the Deep South, leading to the embrace of cotton planting as an answer to the economic woes of the cash poor region after the Revolutionary War. The system of cotton production, the world of finance that provided the credit, and the profits from sales, provided benefit to citizens of the early Republic and to Britain as well.

There is a tendency to view slavery and the cotton economy as a Southern anomaly, and to suggest the South was insular and economically backward. Like many recent studies of the American South this project sees the region in a very different light.

²⁸ Bonnie Martin, "Slavery's Invisible Engine: Mortgaging Human Property," *The Journal of Southern History* 76, no. 4 (2010); Richard Holcombe Kilbourne, *Debt, Investment, Slaves: Credit Relations in East Feliciana Parish, Louisiana, 1825-1885* (Tuscaloosa: University of Alabama Press, 1995).

²⁹ Edward E. Baptist, *Creating an Old South: Middle Florida's Plantation Frontier Before the Civil War* (Chapel Hill: University of North Carolina Press, 2002).

The South produced a commercial crop for sale in international markets. This benefitted the United States as a whole, and combined what we have come to see as North and South into one larger economic unit with each unit making different contributions to a larger economy.³⁰ These cotton planters were integrated within a larger global network of credit, finance and exchange as has been noted in more recent work on the antebellum South.³¹ These same planters were well aware of the political thought and ideological sentiments of their era, both in the United States and across the Atlantic. The majority of planters in the cotton belt, and the writers of the works they read, tended towards decidedly classically liberal economic views, embracing free trade but not free labor. This seems contradictory now, similar to claiming that freedom for some is freedom for all, but this was not the case at the time. Many residents of the cotton belt saw no contradiction or tension between the ideas at all, and additionally failed to see their ideas as anything other than modern.³² The rise of scientific racism and eugenics from the 1830s forward only added fuel to the flames, as thoughts with tenuous links to the enlightenment seemingly justified enslavement and ideas of racial superiority and

³⁰ Recent works that see the South as more modern and forward looking include John D. Majewski, *A House Dividing: Economic Development in Pennsylvania and Virginia Before the Civil War* (Cambridge: Cambridge University Press, 2000). Johnson, *Soul by Soul*; Johnson, *River of Dark Dreams*. Schoen, *Fragile Fabric of Union*. L. Diane Barnes, Brian Schoen, and Frank Towers, *The Old South's Modern Worlds: Slavery, Region, and Nation in the Age of Progress* (New York: Oxford University Press, 2011). Of course, James Oakes noted the global aspirations of southern thinkers in Oakes, *Slavery and Freedom*. See also Mark M. Smith, *Mastered by the Clock: Time, Slavery, and Freedom in the American South* (Chapel Hill: University of North Carolina Press, 1997). The division of the United States into discrete regions labeled North and South is a shallow gloss for slave and free states, an ex post facto interpretation that suggests much more ideological, social and economic separation than existed at the time.

³¹ See for example Barnes, Schoen, and Towers, *Old South's Modern Worlds*.

³² See Majewski, *House Dividing*; Schoen, *Fragile Fabric of Union*; *ibid.* and Drew Gilpin Faust, *A Sacred Circle: The Dilemma of the Intellectual in the Old South, 1840-1860* (Baltimore: Johns Hopkins University Press, 1977)., especially 126-9

inferiority.³³

Long before planters in the antebellum South embraced cotton their interests were already yoked to the Atlantic trade, and this relationship is one that puts the political squarely back into play as a concern in studies of the history of political economy. Initially these planters sought out access and relationships in markets outside of British domination and control, an outgrowth of virulent anti-British sentiment. Their passionate Anglophobia, a lingering result of the Revolutionary War, led them initially to a heartfelt embrace of federalism, and to support for the War of 1812. Yet cotton reinforced extra-national ties to international trade and altered the relations of the cotton South to the emergent nation. As the cultivation of cotton was pushed ever more deeply inland and production increased Britain became the primary trading partner of the Southern states. Ironically, free trade with Great Britain came to dominate the economic vision of the South, and this shaped the way the South responded to the War of 1812, westward expansion, manifest destiny and the preservation of commercial and financial relationships across the Atlantic world.

Unfortunately, the dictates of cotton planting and the needs of local and regional manufacturing interests more prevalent in the Northeast, were radically different and pulled at the bonds of the Union as divergent ideologies, trade policies and labor regimes grew increasingly pronounced over the course of the nineteenth century. As the nineteenth century progressed Southerners had decreasing faith in the earlier notions of

³³ See Winthrop D. Jordan, *White Over Black: American Attitudes Toward the Negro, 1550-1812* (Chapel Hill: University of North Carolina Press, 1968); George M. Fredrickson, *Racism: A Short History* (Princeton: Princeton University Press, 2002); Andrew S. Curran, *The Anatomy of Blackness: Science and Slavery in an Age of Enlightenment* (Baltimore: Johns Hopkins University Press, 2011).

Madisonian plurality and tolerance of different labor regimes. By 1860 it was abundantly clear that a recently unified South did not believe a Republican administration would respect their interests, production practices and investment in slaves as property. I would suggest that the threats and bellicosity of the South would have received a very different reception had they occurred earlier, before money and the United States as a whole had moved away from a keenly felt reliance on cotton. Numerous historians have argued compellingly that slavery was the primary cause of the Civil War and this is a claim that is hard to deny. Nevertheless, had the cotton belt states threatened secession in 1848, the outcome might have been very different.³⁴ An international perspective, one actually in line with the actors discussed here, reveals a different picture of the development of American and Atlantic finance as well as industrialization in England and the United States, and perhaps most pivotally, the American Civil War.

On the other hand, British financiers had different views of cotton, planters and the political economy of the cotton belt. British investment in American markets increased from the 1820s forward. By the outbreak of the Civil War British investment in the United States totaled \$444,000,000. Britain had become deeply reliant on the United States for cotton as well as grain. Yet at this juncture most of the investment of larger Anglo-American houses no longer centered squarely on cotton. In fact, of all the major

³⁴ See Eric Foner, *Free Soil, Free Labor, Free Men: The Ideology of the Republican Party Before the Civil War* (Oxford: Oxford University Press, 1995); Charles B. Dew, *Apostles of Disunion: Southern Secession Commissioners and the Causes of the Civil War* (Charlottesville: University Press of Virginia, 2001). William W. Freehling, *Prelude to Civil War: The Nullification Controversy in South Carolina, 1816-1836* (New York: Harper & Row, 1966). William W. Freehling, *The Road to Disunion*, 2 vols. (New York: Oxford University Press, 1990). William W. Freehling, *The Reintegration of American History: Slavery and the Civil War* (New York: Oxford University Press, 1994). See also Elizabeth R. Varon, *Disunion! The Coming of the American Civil War, 1789-1859* (Chapel Hill: University of North Carolina Press, 2008).

Anglo-American houses, none was heavily invested in cotton by 1860. The house with the most involvement with cotton in the 1850s, Barings, bought no cotton at all in the 1859 season. In 1860 planters held back a good deal of their crop so, once again, Barings bought little. As the United States moved towards disunion and Civil War the decidedly neutral stance of most of Great Britain was in essence a rejection of the Southern Confederacy, which simply did not have the same material resources that the North had to fund a war; the lack of support from European powers was deeply damaging to the Confederacy.

It is helpful as well to place this work in the context of the larger debate around slavery and capitalism. Most discussions of the issue focus on the slave trade, and profits derived from the sale of slaves. The debate around the precise nature of the relationship between slavery and capitalism has its roots in Eric Williams' *Capitalism and Slavery*.³⁵ Williams argues that the profits from the slave trade and the Atlantic economy financed industrialization in Britain, and further, that the profitability of slavery declined dramatically after the American Revolution. Williams considered both the trade in slaves as well as the profit derived from the labor, a fact dismissed by many of his initial critics.

³⁵ C.L.R. James's *The Black Jacobins* is also often cited in this context, but deals with capitalism in France. Cyril Lionel Robert James, *The Black Jacobins* (New York: The Dial Press, 1938). James is cited by Eric Williams as the source where the thesis advanced in *Capitalism and slavery* was 'stated clearly and concisely, and as far as I know, for the first time in English.' James described how 'the slave trade and slavery were the basis of the French Revolution,' citing statistics on a triangular trade from Nantes in France to Guinea and on to the West Indies and involving a wide range of French commerce similar to Britain. Genovese makes a similar argument in Eugene D. Genovese, *The Political Economy of Slavery: Studies in the Economy & Society of the Slave South* (Middletown: Wesleyan University Press, 1989). His arguments here, and in *Roll, Jordan, Roll* complicate Williams' model, and elide the issue of what role the development of plantation slavery played in the rise of a capitalist system first in Britain, and later in the United States. Eugene D. Genovese and Alfred D. Chandler, *Roll, Jordan, Roll: The World the Slaves Made* (New York: Pantheon Books, 1974).

His second argument, that emancipation was driven more by economic expediency than by humanitarian sentiment is also economic in character. Engerman and others in the 1970s refuted Williams' arguments, claiming first that the slave trade itself could not have contributed enough profit to finance industrialization, and some later arguing that the entire economic trade was not even that significant.³⁶ Many also questioned Williams' contention that abolition and emancipation were economically motivated, preferring instead to locate the origins of abolition in humanitarian sentiment. More recent works have acknowledged the role played by the slave trade and goods produced by slaves in the economic development of Great Britain, as well as the American colonies. However, there are no books presently published that specifically address the economic importance of the slave trade and slave labor to economic development and industrialization in the United States.

Much of this historiography has been primarily concerned with the relationship between the slave trade and the Industrial Revolution in England. Central points of debate have focused on the profitability of the slave trade, and on Williams' arguments around the decline in profitability in slavery.³⁷ Early arguments tended to dispute Williams'

³⁶ Some historians that have disagreed with Williams: Roger Anstey, *The Atlantic Slave Trade and British Abolition, 1760-1810* (Atlantic Highlands: Humanities Press, 1975). Stanley L. Engerman, "The Slave Trade: A Comment on the Williams Thesis," *Business History Review* 46, no. 4 (1974). and Seymour Drescher, *Econocide: British Slavery in the Era of Abolition* (Pittsburgh: University of Pittsburgh Press, 1977). For rebuttals to Engerman and others disputing Williams' thesis see: Hilary Beckles, "Down But Not Out: Eric Williams' Capitalism and Slavery After Nearly Forty Years of Criticism," *Bulletin of Eastern Caribbean Affairs* 8(1982). Barbara L. Solow, "Caribbean Slavery and British Growth: The Eric Williams Hypothesis," *Journal of Development Economics* 17(1985). J. E. Inikori, *Slavery and the Rise of Capitalism*, Elsa Goveia Memorial Lecture; 1993. Mona, Jamaica: Dept. of History the University of the West Indies, 1993, J. E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Economic Development*. Cambridge: Cambridge University Press, 2002.

³⁷ Scholars who have examined the profitability of slavery to Britain include, Engerman, "Slave

arguments but in the 1980s there was a shift in the historiography, and historians like Hillary Beckles, and Joseph Inikori began to defend and expand upon his original argument. Joseph Inikori in particular has worked to resurrect the thesis and encourage further work on the relationship between slavery and capitalism. Inikori and other proponents of the thesis have also highlighted the fact that Williams argued that it was the entire system of economic connections that made slavery such a catalyst to the British economy.

Inikori's work in particular raises some important questions. One is why the focus remains on England in these debates, with the Americas playing an ancillary role. The fact is the United States produced the cotton that was converted into textiles. Not only did the British take advantage of American land, they also externalized their reliance on slave labor by purchasing American cotton. A second, and larger question is what is the precise relationship between coerced and free labor in the rise of capitalist systems? And additionally, how is it that capitalism, freedom and democracy work with and against one another?

Trade." J. E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Economic Development* (New York: Cambridge University Press, 2002); J. E. Inikori and Stanley L. Engerman, *The Atlantic Slave Trade: Effects on Economies, Societies and Peoples in Africa, the Americas and Europe* (Durham: Duke University Press, 1988); Joseph Calder Miller, *Way of Death: Merchant Capitalism and the Angolan Slave Trade, 1730-1830* (Madison: University of Wisconsin Press, 1988). Work that has examined, and contested the decline in the profitability of slavery include Anstey, *Atlantic Slave Trade*. Howard Temperley, "Capitalism, Slavery and Ideology," *Past & Present: a Journal of History Studies* 75(1977). Robert Fogel and Stanley L. Engerman, *Time on the Cross: The Economics of American Negro Slavery* (Boston: Little and Brown, 1974). J. E. Inikori and Stanley L. Engerman, "Gainers and Losers in the Atlantic Slave Trade," in *The Atlantic Slave Trade: Effects on Economies, Societies and Peoples in Africa, the Americas and Europe*, ed. J. E. Inikori and Stanley L. Engerman (Durham: Duke University Press, 1992). David Brion Davis, *The Problem of Slavery in the Age of Revolution, 1770-1823* (Ithaca: Cornell University Press, 1975), especially 150-64.

By acknowledging the Atlantic character of these transactions and events we benefit through a more complete understanding of states and economies that remained deeply entwined after the American Revolution. In turn, our understandings of slavery, capitalism and finance are also expanded. We are left with a more complete picture of what happened, how, and why. We also reach an understanding of the nineteenth-century Atlantic world that aligns more closely with the participants that lived at that time. Cotton planters, merchants, factors, stevedores, barkeeps and deck hands all had a much more cosmopolitan outlook than can be adequately captured in a history narrowly confined to the nation state. Cotton factors were monitoring prices in India and British reactions to articles in the American press. Manchester mule spinners were aware of American slavery, and Afro-British sailors were suspected of spreading unrest among slaves in New Orleans. How can we make sense of this world solely through a national lens?

Unfortunately, the implicit assumption in Atlantic history tends to be that the Atlantic world vanished around 1800. In this way, many Atlantic histories have actually been histories of empire by another name.³⁸ This limitation in the conventional

³⁸ Two illuminating works on methodological approaches in Atlantic history are David Armitage and M. J. Braddick, *The British Atlantic World, 1500-1800* (Basingstoke: Palgrave Macmillan, 2002). The chapters on the economy, migration and “The British Atlantic world 1500-1800” are especially pertinent. Also Bernard Bailyn, *Atlantic History: Concept and Contours* (Cambridge: Harvard University Press, 2005). Both works confine themselves predominantly to a British Atlantic perspective, (suitable to our purposes here) but restricted to a world in motion before 1800. These both stand in pointed distinction to Paul Gilroy, *The Black Atlantic: Modernity and Double Consciousness* (Cambridge: Harvard University Press, 1993). which considers the Atlantic truly as a space unto itself, and in the twentieth century and Albion and Pope, *New York Port. or Robert Greenhalgh Albion, Square-Riggers on Schedule; The New York Sailing Packets to England, France, and the Cotton Ports* (Princeton Princeton University Press, 1938). both of which are literally centered in the nineteenth-century Atlantic. For some more critical appraisals of the state of Atlantic history see Trevor Bernard. “The British Atlantic” Jack Greene, “Hemispheric History and Atlantic History” and “Beyond Atlantic History” Jack P. Greene and Philip D. Morgan, *Atlantic History: A Critical Appraisal* (Oxford: Oxford University Press, 2009).

periodization observed in Atlantic history has a distorting effect on the histories that presently fall under the Atlantic rubric. The result is that the history of Anglo-American finance and its connections to the slave system in the American South is not considered within the contexts of larger Atlantic connections, and divorced from the historiography surrounding slavery and capitalism as well. The conventions of fields and periodization, in this case, work against a full understanding of the history of connections between North and South, and slave-based and nominally ‘free labor’ economies.

Work on industrialization in the United States tends to either see industrialization as a uniquely Northern story, or a financial one that does not pay much attention to how cotton was in fact produced. This is an issue that has been addressed in the historiography of industrialization in Britain, first by Eric Williams and later by Joseph Inikori and Kenneth Pomeranz. In contrast, works on the Industrial Revolution in the United States can be categorized as being more concerned with explaining why the United States experienced unprecedented economic expansion in the nineteenth century, or with the transformation of social relations and institutions in conjunction with the transition to a capitalist economy. Douglass North’s *The Economic Growth of the United States, 1790-1860*, attempts to explain why the United States experienced rapid development when it did. He argues that exogenous trade is vital to economic development in any system. In his model, the income from trade spurs endogenous expansion of the market, resulting in greater integration of markets within the system. The commodity that spurs the exogenous trade vital to sustained economic growth in North’s version of American

industrialization, or expansion, is cotton. Ironically, the plantation system of production receives no mention in North's book.

Unfortunately, many global historians writing on the Industrial Revolution have ignored the United States, focusing instead on industrialization in Great Britain. Kenneth Pomeranz does not. Although his work is concerned primarily with explaining why Great Britain industrialized when other Eurasian cores did not, he gets to the heart of why slavery, and access to an American hinterland, was vital to British industrialization.³⁹ Pomeranz's work demonstrates how important slavery, as well as the Louisiana Purchase, was to economic development in Britain and by extension in the United States as well.

In the United States, the larger thread of historical inquiry that links capitalism, slavery and industrialization has been ignored. Yet the fact remains that 'canals did not dig themselves any more than cotton picked and converted itself into shirts and pants. Early republican boosters and their historians have pretended otherwise, erasing unfreedom from the story of American capitalism.'⁴⁰ When historians ignore the role of coerced labor they systematically deny the contributions made by African slaves, Native-Americans, and indentured Europeans. The resulting political and economic picture is a

³⁹ See R. Bin Wong, "The Search for European Differences and Domination in the Early Modern World," *American Historical Review* 107, no. 2 (2002)., Kenneth Pomeranz, "East Asia and the North Atlantic in Global Economic History" (paper presented at the World History Association, Seoul, 2002). David Ludden, "Modern Inequality and Early Modernity: A Comment for the AHR on Articles by R. Bin Wong and Kenneth Pomeranz," *American Historical Review* April(2002); Jack A. Goldstone, "Efflorescences and Economic Growth in World History: Rethinking the 'Rise of the West' and the Industrial Revolution," *Journal of World History* 13, no. 2 (2002); Pomeranz, *Great Divergence*.

⁴⁰ Seth Rockman, "The Unfree Origins of American Capitalism," in *The Economy of Early America: Historical Perspectives and New Directions*, ed. Cathy Matson (Philadelphia: Pennsylvania State University Press, 2006)., 316.

gross parody of the realities on the ground and has resulted in a spurious association of free markets, capitalism and democracy which has no really basis in the American past and represents an ideal of development in which few nations with struggling economies have any really hope of creating strong independent economies.

The influence of present concerns on the past is not something unique, or particularly exceptional in terms of American historiography. As Fredric Hayek noted in *Capitalism and the Historians*, ‘political opinion and views about historical events ever have been and always must be closely connected. Past experience is the foundation on which our beliefs about the desirability of different policies and institutions are mainly based, and our present political views inevitably affect and color our interpretation of the past.’⁴¹ The tinting of the past with shadings from the present, whether lightly, heavily or with a wholesale whitewashing is common to this thread of the historiography of the Industrial Revolution in its entirety. Eric Williams was heavily influenced not only by C. L. R. James, but also by the enduring legacy of British colonial practices in Africa. Engerman’s response to Williams’ thesis was rooted in the political concerns of the Cold War as well as prevalent economic discourse. The shift in the consideration of the relationship between capitalism and slavery in England has been attributable to changes in methodologies and the unrelenting work of scholars influenced by decolonization. Likewise, current shifts in the understanding of the American past and an opening of the historiography to Atlantic and global perspectives is reflective of an increasing awareness of the United States as one nation among many, as opposed to an exceptional one guided by one or another form of manifest destiny

⁴¹ Friedrich A. von Hayek, *Capitalism and the historians* (London: Routledge, 2003)., 210.

Recent writings have focused on seeing the South as a much more modern and cosmopolitan place. Works like John Majewski's *Modernizing a Slave Economy: The Economic Vision of the Confederate Nation* and the essays in *The Old South's Modern Worlds* encourage a different view of the South, and southern planters as forward thinking and cosmopolitan in outlook.⁴² Yet, aside from Philip Foner's *Business and Slavery* few histories have tackled the interconnectivity of regions in American economic development.⁴³ The interconnectivity of different regions in the United States allowed the South to focus on producing commodities for commercial sale. From the beginning, the United States economy was a national one and slavery was just as important to New York as New Orleans. Examining the links between North and South in the American colonies and the antebellum United States would not only shed light on the validity of reparations debates presently involving numerous banks and corporations but also provide a much deeper and more nuanced understanding of the American past.⁴⁴ To truly understand capitalism, despite our wishes to the contrary, capitalism seems invariably to have certain favorites that run roughshod over the less fortunate.

The following chapters are roughly chronological and demonstrate both how the trade in cotton developed and contracted as well as the conflicts that arose in the context of the demands of the Atlantic trade. Chapter one considers the development of the cotton

⁴² See Majewski, *Modernizing a Slave Economy*, Barnes, Schoen, and Towers, *Old South's Modern Worlds*.

⁴³ A few who have made the effort include Edward Baptist, forthcoming,

⁴⁴ Brown University recently published an investigation of its own links to the slave trade. See: http://www.brown.edu/Research/Slavery_Justice/. On the reparations debate see John Torpey, *Making Whole What Has Been Smashed: On Reparations Politics* (Cambridge: Harvard University Press, 2006).

kingdom and how a crop that had grander associations with locales such as Brazil and India became the primary crop and number one export in the United States in very short order, in large measure based on the availability of credit.

Chapter two considers how a financial system evolved to support the cotton trade, examining in particular the rapid proliferation of banks across the American South. This chapter highlights the involvement of British merchant bankers in this process, and how this contributed to economic expansion across the United States as well as the panic of 1837.

Chapter three considers how the trade comes together, considering the heightened presence of Barings and entry into the trade by the Rothschilds. After 1837 these two firms moved in to fill the void left by the Browns' slow departure away from the consignment business. The Rothschilds and Barings had a brief but intensive involvement with cotton that informed their understandings of American markets generally. This chapter also considers how trade worked in the South, examining the role of factors and agents, as well as how planters did business through a consideration of the career of Rice Ballard, who entered the trade in 1837 as well. All of these larger firms learned a great deal from their involvement in cotton markets, and all of them eventually moved on from cotton, taking their profits and knowledge and applying them in other, more lucrative ventures.

Chapter four examines how these major firms shifted their allegiances to cotton up to Lincoln's election and the secession of South Carolina. By the advent of the Civil

War none of the three major houses was purchasing the article or making advances. In fact, the Browns were considering exiting the South entirely.

Chapter five returns squarely to finance demonstrating that the larger financial houses had all learned their lessons and moved on, while planters did not see, at least initially, that the world, and their place in it, had irrevocably shifted. These shifts had profound consequences for the South and these strategic miscalculations around the power of a commodity assured the South would not prevail in the Civil War.

Chapter One: The Commencement of the Reign of Cotton

Over the course of the nineteenth century the landscape of the American South was transformed from what some might consider frontier, into neatly spaced parcels for sale. Previous to his surveying of land and its division into neat, rectangular parcels represented on maps this land had been charted differently by the Native American tribes that hunted in the woods and fished in the rivers, using topographical markers as their guides. These people were unconcerned with European ideas of ownership and paid scant attention to notions of boundaries, soil quality or ease of irrigation. They were more concerned with the presence of game in the woods and hunting for fur pelts to trade to Europeans. The first squatters to arrive cleared land, planted corn and built small cabins. They settled the land but their clearing and improvements rarely extended beyond their homesteads. With the surveying of the land, division into neat lots and eventual sale formal settlement followed as yeoman farmers tried to reconcile the surveyors' mathematical precision with the natural reality of the parcel they had purchased. Often these lots cut across geographical features like woods, rivers, streams, hills and ridges. Initially settlers arrived with families. The first decades of settlement were characterized by subsistence-oriented farmers carving out homes and small farms in what still in many ways resembled a wilderness. Eventually, as cotton became an increasingly attractive and lucrative crop, a plantation based economy emerged.

The transformation of the American landscape and economy through cotton production was instigated by a sequence of unrelated, international events that coalesced to create the cotton kingdom. These events occurred in different locales and through the long reach of capitalism contributed to the formation of an integrated Atlantic economy

based around cotton and the productions of textiles. In Great Britain, a series of changes in conceptions of the self, personal hygiene and the emergence of a working class purchasing ready-made fabrics created a demand for raw cotton. Revolutions, political compromises, ideological shifts and a series of negotiated settlements in the formation of the United States created a need in the southern United States to find a crop suitable for commercial production. In this environment the United States generally, and the American South in particular, needed to find new trading partners, as well as ways of doing business. The allegiance of many nation states to mercantilist ideas made it difficult for the United States to form international trade relationships, something the country needed to spur economic growth and development.⁴⁵ Additionally, technological advances in the production of cotton, the opening of the Deep South through the Louisiana Purchase and the development of a domestic slave trade resulted in a dramatic shift away from Jefferson's vision of an agrarian republic where slavery would eventually fade away with the establishment of a nation of independent farmers. Instead, the Louisiana Purchase resulted in a second life for the peculiar institution and the development of a domestic slave trade that moved slaves out of Virginia and the Chesapeake and into newly opened areas amenable to cotton and sugar cultivation.⁴⁶ The

⁴⁵ On mercantilism see Jacob Viner, "Mercantilist Thought," in *Essays on the Intellectual History of Economics*, ed. Douglas Irwin (Princeton: Princeton University Press, 1991); William Allen, "Modern Defenders of Mercantilist Theory," *A History of Political Economy* 2(1970)., A. W. Coats and William R. Allen, "The Interpretation of Mercantilist Economics: Some Historiographical Problems; With a Rearguard Response," *History of Political Economy* 5, no. 2 (1973).

⁴⁶ On the internal slave trade see Johnson, *Soul by Soul*. Johnson, *River of Dark Dreams*. Adam Rothman, *Slave Country: American Expansion and the Origins of the Deep South* (Cambridge: Harvard University Press, 2005). The Deep South is defined generally as Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Texas. These states, through which the cotton belt runs, include the first seven states that seceded from the United States during the Civil War.

development of the cotton kingdom was the result of the creation of very strong demand and a corresponding need in the American South to find a good to produce for sale internationally, along with access to credit. These two factors combined with technological advances and the opening of large amounts of land through the Louisiana Purchase to extend the reach of slavery throughout lands initially intended for small-scale settlement. These events had a profound influence on the development of the of the newly formed United States, and an understanding of the political economy of the early republic is pivotal to an understanding of the creation of the cotton kingdom. After a brief consideration of the forces that made cotton a viable international crop, this chapter will examine the political economy of the newly formed United States in terms of cotton.

Technological Development

The rate at which fibers could be spun into yarn constrained the textile industry's growth until 1769, when James Hargreaves, an illiterate woodworker and weaver, invented the spinning jenny, a simple, hand-cranked improvement upon the spinning wheel that allowed one operator to spin multiple threads simultaneously. Wealthy mill-owner Richard Arkwright employed John Kay, a clockmaker, to devise a spinning jenny of much greater capacity. Known as the spinning frame, this machine was operated by waterpower and later by steam engines. In 1785 another Englishman, Edmund Cartwright, invented the power loom. Power-operated looms enabled cloth to be produced cheaply and in quantities never before possible, creating a demand for cotton that outstripped supply. The pressing need for a fiber that was more plentiful and cheaper than wool became apparent. Cotton became the fiber of choice. Cotton imports increased

more than tenfold between 1750 and 1790, to 25 million pounds. England's cotton suppliers remained the Levant, the West Indies, Brazil, and Dutch Guiana. Cotton was a scarce and expensive commodity, however, because it was necessary to separate the seeds from the fiber by hand, a slow and tedious process. An American, Eli Whitney, overcame this last hurdle constricting the manufacturing process in 1793, when he invented the saw gin, a simple machine that separated cotton lint from the seeds.⁴⁷

The rise of the British cotton manufacturing industry and invention of the cotton gin changed the trajectory of economic and political development in the United States. Prior to Whitney's development of the gin, cotton was a sideline crop grown mostly in small garden plots for making homespun cloth.⁴⁸ Slave labor was not employed in cotton growing on a large scale. It appeared that slavery was becoming economically unviable as agricultural labor in the South as had already happened in the North. The cotton gin created a tremendous new demand for field hands to pick the cotton bolls, and thus reinvigorated slavery. Of equal importance to the gin was the introduction of a variety of cotton, *Gossypium hirsutum*, more commonly known as 'Petit Gulf,' the first seeds of which were obtained from central Mexico at an uncertain date around 1800. Prior to the introduction of Petit Gulf, the upland cotton grown in the United States was *Gossypium herbaceum*, the foundation seed of which came from the Near East in the 1600s. Petit Gulf cotton was a hardy upland plant that adapted readily to the soil and climate of the lower Mississippi Valley, and it provided the foundation stock of all subsequent American varieties known collectively as 'New Orleans' cotton. Petit Gulf cotton yielded

⁴⁷ Ezekiel J. Donnell, *Chronological and Statistical History of Cotton* (New York: J. Stutton & Co., 1872), 25-69.

⁴⁸ For more on the development of the cotton gin see Angela Lakwete, *Inventing the Cotton Gin*.

more per acre than the Near Eastern variety previously grown for domestic homespun, its seed were easier to remove, and its longer staple length and fiber characteristics imparted superior spinning qualities.⁴⁹

The Stimulation of Demand

By the time Southerners first understood the potential power of cotton production to ease their burdens, and the greater ease with which it could be cultivated, demand for the article was already strong in England. Printed calicoes had become fashionable in the eighteenth century and demand exploded when these calicoes, and cotton textiles in general, were popularized by the East India Company. Until the mid-1700s, sheep wool remained the staple material of the English textile industry. Cotton fabrics were luxury goods imported from India by the East India Company and from the Ottoman Empire by the Levant Company. Indeed, cotton fabric became popular enough that English weavers felt the pinch and pushed through legislation prohibiting initially the sale, in 1700, and eventually, in 1721, the production of pure printed cotton cloth. The distinction here is an important one. Cotton blends, most notably fustians, a fabric worn by the working classes, were composed of linen and cotton. Because of this association, blends were not eagerly embraced. The wearing of cotton clothing, however, could not be prohibited because there was by that time a small English handicraft cotton spinning and weaving

⁴⁹ Joseph Addison Turner, *The Cotton Planter's Manual: Being a Compilation of Facts from the Best Authorities on the Culture of Cotton; its Natural History, Chemical Analysis, Trade, and Consumption; and Embracing a History of Cotton and the Cotton Gin* (New York: C.M. Saxton, 1857), 94-128. Popular antebellum varieties were known as Sugar Loaf, Vick's 100, Tarver (also called Alabama), Brown's, Pitt's Prolific, Hogans, Prout, Chester, Pomegranate, Multibolus, Rob Smith's 25-cents, Mammoth, and Mastodon.

industry. To supply it with raw material, England imported about 2 million pounds of raw cotton per year from 1700 until 1750, most of it from the West Indies and the Near East.⁵⁰ When the sale and production bans were lifted in 1774 the cotton manufacturing industry quickly moved into the British Midlands and production accelerated to at least attempt to meet demand. Lancashire manufacturers quickly seized the global lead in terms of annual cloth production and in just a few decades Manchester was transformed into one of the largest and most powerful manufacturing metropolises in the world. Neighboring communities in Lancashire were carried along on her meteoric rise. Oldham, just a few miles north of Manchester grew even more quickly as essentially a factory town, becoming the largest producer of cotton cloth in Great Britain by the 1850s.⁵¹ During the nineteenth century the cotton textile production of Oldham was double that of Germany and France combined. Other towns, like Salford, Rochdale, Bolton, and Altrincham, experienced similar socio-economic transformations, resulting in extreme class struggle and the development of urban poverty as well as the production of incredible amounts of cloth.⁵²

The popularity of the cloth is not such a surprise. The fact is cotton is more comfortable than wool and can be woven or printed with a variety of patterns that had,

⁵⁰ R. Robson, *The Cotton Industry in Britain* (London: Macmillan, 1957).; Donnell, *History of Cotton.*, 16-25.

⁵¹ R. McNeil and Michael Nevell, *A Guide to the Industrial Archaeology of Greater Manchester* ([England]: Association for Industrial Archaeology, 2000).

⁵² John Foster, *Class Struggle and the Industrial Revolution: Early Industrial Capitalism in Three English Towns* (London: Weidenfeld & Nicolson, 1974). See also McNeil and Nevell, *Industrial Archaeology of Greater Manchester*.

and still have, fashionable appeal (see Figure 2).⁵³ Cotton was easier to dye and process than wool and cheaper than wool, silk or linen. As production increased to meet demand, prices fell even more and the fabric became even more accessible by a wider range of people by virtue of the economy of scale. Given the increasingly reasonable price it gained more universal appeal.⁵⁴ Aside from the practical, dress choices began to shift and there was a move towards increasing refinement in the presentation of self.⁵⁵ British women began to favor printed cotton dresses, waistcoats and white stockings. The ease of cleaning cotton compared to wool also appealed to an increased concern with personal hygiene and cleanliness. A nascent awareness of fashion and the ability to participate in sartorial trends subsequently became something more easily within reach of a greater variety of people. This burgeoning interest in the presentation of self across a wide demographic swath of society occurred in the United States as well, as people of various social classes evinced a burgeoning interest in fashion and possessed the means to afford

⁵³ On the enduring allure of cotton, and how global capital flows continue to move with the article through the global economy see Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power and Politics of World Trade* (Hoboken: John Wiley & Sons, 2005).

⁵⁴ On eighteenth-century fashion, and by extension, the increasing popularity of cotton in terms of fashion see Beverly Lemire, *Fashion's Favourite: The Cotton Trade and the Consumer in Britain, 1660-1800* (Oxford: Oxford University Press, 1991). and Sarah Levitt, "Clothing," in *The Lancashire Cotton Industry: a History Since 1700*, ed. Mary B. Rose (Preston: Lancashire County Books, 1996).

⁵⁵ See Norbert Elias, *The Civilizing Process*, 1st American ed. (New York: Urizen Books, 1978). and Pierre Bourdieu, *Distinction: A Social Critique of the Judgement of Taste* (Cambridge: Harvard University Press, 1984). Bourdieu highlights how refined and exclusive products that are initially very desirable become more affordable over time and greater numbers of people enjoy these items or pleasures. This process occurred with sugar, see Sidney Wilfred Mintz, *Sweetness and Power: the Place of Sugar in Modern History* (New York: Viking, 1985).

items based on current trends and taste in addition to strict necessity.⁵⁶

This shift added an additional impetus to a demand for cotton textiles that had been growing across Europe and beyond. This in turn created an unprecedented demand for raw cotton. The problem, at least initially, was one of supply. Britain first looked to her colonies as a source. The West Indies was one place some British planters sought success. Unfortunately, the climate proved less than ideal, insects were a perennial problem and, ultimately, sugar simply proved more profitable. In the face of so many obstacles there was little land available for cotton cultivation, and even less motivation to devote any land to it when sugar planting was so much more lucrative.⁵⁷ The British also attempted cotton cultivation along the west coast of Africa in the late eighteenth century. Again, the climate was ill-suited to the crop, the soil was poor, insect infestation was a problem and in the end low crop yields convinced investors that their efforts were wasted in these areas.⁵⁸

India seemed a viable locale, and indeed over the course of the nineteenth century

⁵⁶ Kathy Peiss discusses this shift in the behavior of nineteenth-century working women in Kathy Lee Peiss, *Cheap Amusements: Working Women and Leisure in Turn-of-the-Century New York* (Philadelphia: Temple University Press, 1986). See also Michael Zakim, *Ready-Made Democracy: A History of Men's Dress in the American Republic, 1760-1860* (Chicago: University of Chicago Press, 2003). The eighteenth century roots of some of these shifts are noted as well in Sean Wilentz, *The Rise of American Democracy: Jefferson to Lincoln* (New York: Norton, 2005). Dror Wahrman, *The Making of the Modern Self: Identity and Culture in Eighteenth-Century England* (New Haven: Yale University Press, 2004).

⁵⁷ See J. R. Ward, "The British West Indies 1745-1815," in *The Oxford History of the British Empire*, ed. William Roger Louis, et al. (Oxford: Oxford University Press, 1998), 421-4 and P. J. Marshall, "Britain Without America," in *The Oxford History of the British Empire*, ed. William Roger Louis, et al. (Oxford: Oxford University Press 1998).

⁵⁸ Michael M. Edwards, *The Growth of the British Cotton Trade, 1780-1815* (Manchester: Manchester University Press, 1967). 79, 82.

produced enough raw cotton that Southern planters could not view their trade with Britain as monopolistic.⁵⁹ This perpetuated a healthy fear in the cotton belt that Britain could find other sources of the commodity if necessary. It is important to note here that in transforming Indian subcontinent into a supplier of raw cotton as opposed to purveyor of finished goods, which she was previously, competition to British textiles was effectively eliminated within the empire and Britain created more consumers for British textiles. India had the additional advantage of being a colonial holding and had India been able to meet British demand this would have been the preferable option.

Brazil seemed another potential source, and a good one. The country had been a large supplier of raw cotton in the eighteenth century. In fact, at the close of the eighteenth century most would have said Brazil would be a more certain locale for an expansion of cotton planting and production. Yet, Brazil was also outside the empire and could not produce enough of the article to satisfy the increasingly hungry mills of Lancashire. The majority of the cotton was also rough and ill suited to clothing an increasingly discerning public. In sum, there was a good deal of demand looking to be filled at the end of the eighteenth century. Much to the chagrin of many Britons, especially those with mercantilist leanings, it seemed no source of cotton within the empire would prove sufficient to meet the very large and increasing need for the raw good. The former colonial hinterlands of the British Empire were not the most desirable place to look given the recent revolution. Nevertheless, Britain was advantageously

⁵⁹ For one account of this process see C. A. Bayly, *The Birth of the Modern World, 1780-1914: Global Connections and Comparisons* (Malden: Blackwell, 2004). C. A. Bayly, *Imperial Meridian: The British Empire and the World, 1780-1830* (London: Longman, 1989), 100-32.

positioned in terms of developing trade relationships with the former American colonies.

More than any other factor, what worked most in the favor of the Deep South as a site for cotton production was that the Manchester mills had fairly quickly become exceptionally partial to American Petit Gulf cotton, which happened to grow fantastically well in the sandy upland areas containing acres and acres of fallow land. Suddenly, this land looked much more valuable. The only strains spinners liked more were Sea Island and Egypt's exceptionally fine and expensive arboreal 'Jumel' variety. These preferences held constant with consumers as well. American cotton could be spun into much finer yarn than could the Indian Surat or similar coarse, short-staple varieties from Brazil and the Near East. Finer diameter, softer yarn meant that cloth woven from American cotton was much softer, smoother, and more comfortable to wear than cloth made from Indian cotton. Spinners optimized their machinery to the characteristics of American cotton, an adaptation that made it extremely difficult to spin coarser, shorter staple Surat-type cotton. This further reinforced the American monopoly, since even if the economic and physical obstacles to obtaining cotton elsewhere could be overcome, that cotton was not suitable for the machinery in British mills. Modifying the machines was also a near impossibility. In 1860 it would have involved modifying or replacing more than 30 million individual spindles.⁶⁰

The downward trend in prices that occurred in conjunction with the exponential

⁶⁰ Sir R. Arthur Arnold, *The History of the Cotton Famine, From the Fall of Sumter to the Passing of the Public Works Act* (London: Saunders), 36. Sven Beckert, "Emancipation and Empire: Reconstructing the Worldwide Web of Cotton Production in the Age of the Civil War " *The American Historical Review* 109, no. 5 (2004).

increase in American production was disastrous for cotton growers in other parts of the world. Cotton prices fell below their costs of production and transportation, and they either stopped growing cotton entirely or reduced their planting to the amount needed to sustain local textile manufacture by traditional handicraft methods. The British West Indies, for example, exported 11,223,446 pounds of cotton to England in 1815. The quantity had declined to half that in 1825, to a tenth in 1840, and to just 427,735 pounds in 1850. In the Ottoman Empire, once continental Europe's major cotton supplier, exports virtually ceased and production plummeted as English manufactured yarn and cloth forced local handicraft textiles out of the market. Brazilian planters, although they did not abandon cotton growing as did those in the West Indies, did not increase the size of their crop. England's yearly imports from Brazil remained stagnant at around 20 million pounds for four decades. India's output of cotton and the volume that it exported to Britain increased substantially, but because of high transportation costs and the low quality of indigenous Indian 'Surat' cotton, its share of the English market declined from 26 percent in 1815 to an average of less than half that for the next forty-five years. That Indian cotton retained the share that it did is probably because it found a niche in the production of coarse cloth used for making grain sacks. By the 1850s, Brazil, India, and the British West Indies, which between them supplied 49 percent of the cotton consumed in English mills in 1815 versus 46 percent from the United States, had shrunk to insignificance, leaving the United States as the monopoly supplier, as is demonstrated in Tables 2 and 3.⁶¹

⁶¹ James A. Mann, *The Cotton Trade of Great Britain: Its Rise, Progress, and Present Extent* (London: Frank Cass, 1968), 42-3; Charles Philip Issawi, *The Economic History of Turkey, 1800-1914* (Chicago: University of Chicago Press, 1980), 233-4.

Table 1: Cotton production globally, 1791-1860, in millions of pounds

	1791	1801	1811	1821	1831	1840	1850	1860
Brazil	22	26	35	32	38	30	40	36
West Indies	12	10	12	10	9	8	3	6
Egypt	-	-	1	6	18	25	30	34
Rest of Africa	45	46	44	40	36	34	34	35
India	130	160	170	175	180	185	210	450
Rest of Asia	190	160	146	135	115	110	120	132
Mexico and South America	68	56	57	44	35	35	40	57
Other Areas	-	15	11	8	4	13	15	100
United States	2	48	80	180	385	654	990	1650
Total	469	531	556	630	820	1044	1482	2500
U.S. Share	0.4	9.0	16.3	28.6	49.6	62.6	67.8	66.0

Brucyey, *Cotton and Economic Growth*, 7

Table 2: Cotton exports to Great Britain from U.S. ports

	1830-32		1853-55	
	bales	%	bales	%
New Orleans	623,631	33.67	2453150	50.90
Mobile	161362	8.71	683770	14.19
Savannah	371004	20.03	386848	8.03
Charleston	424768	22.94	558378	11.59
New York	189701	10.24	654360	13.58

Ezekiel K. Donnell, *Chronological and Statistical History of Cotton* (New York : J. Sutton & Co., 1872).

The Development of the Cotton Kingdom

Although cotton was not much of an export crop for the American South until the 1790s the foundation for the eventual formation of the cotton kingdom was laid during the colonial period. As early as the 1760s Southern planters had requested their West Indian correspondents send them cotton seeds so they might find out what types of cotton could be cultivated in American soil. In the 1780s the return of loyalists from Florida and the Caribbean brought both planters and slaves with experience growing and harvesting the crop. These slaves knew how to grow, pick, and gin cotton and provided the necessary knowledge and work models for successful plantation production in the Deep South.⁶² In 1788 *The Georgia Gazette* featured a sale advertisement for a male slave from St. Croix ‘well acquainted with the culture of cotton’ who had the ability to build and operate ginning equipment. It is clear that these slaves and their skills were already desirable to planters who sensed opportunity in the crop, and aspired to find commercial crops that would readily sell.⁶³

This relationship between England and the United States, especially planters in the American South, was initially tense, and few would have predicted that the hatred and resentment felt towards the British would be set aside in favor of a firm, stable and enduring trade relationship following hard on the Revolution. This was especially true of the Deep South, where British occupation and manumission of slaves was remembered with a bitter and lingering resentment. After the Revolution acts of vengeance and the

⁶² This exchange of knowledge of crop cultivation and production from slave to owner occurred also with rice. On rice cultivation see Judith Ann Carney, *Black Rice: The African Origins of Rice Cultivation in the Americas* (Cambridge: Harvard University Press, 2001).

⁶³ Chaplin, *Anxious Pursuit*. 154.

murder of loyalists and British subjects had become such a problem that state and municipal leaders demanded an end to the violence.⁶⁴ Suffice it to say that after the Revolution, economic reintegration did not come easily and it looked like Anglophobia, violence and pent-up rage might trump the need to fill coffers. Southerners, and Americans generally, looked to develop trade relationships with other European nations, most notably France and the Netherlands. Yet both of these nations remained committed to restrictive mercantilist policies, particularly France, and Americans were left with few alternatives to the British, who even then offered the best terms on credit and were open to forming trade relationships with the former colony. In many states British sympathizers and loyalists were stripped of their citizenship and their property confiscated. Yet at the same time, the economic dislocations of the war forced leaders in the lower South to make concessions. Georgia officials allowed British merchants to remain in the state, provided they did not abuse their monopolistic position. In South Carolina, merchants were allowed to take the classification of ‘neutrals’ and could remain in Charleston after the withdrawal of troops in 1782.⁶⁵ Thus it seems very early on an alliance was formed between planter and merchant in the Deep South, one that benefitted both and permitted the free flow of funds that maintained the plantation system. It is clear, even at this early point, that Southern planters and elites understood the vital

⁶⁴ On Anglophobia after the American Revolution see Lawrence A. Peskin, "Conspiratorial Anglophobia and the War of 1812," *Journal of American History* 98, no. 3 (2011). Sam W. Haynes, *Unfinished Revolution: The Early American Republic in a British World* (Charlottesville: University of Virginia Press, 2010). More generally these patterns of vengeance, including murder, occurs with regularity in post-colonial societies. See Martha Minow, *Between Vengeance and Forgiveness: Facing History After Genocide and Mass Violence* (Boston: Beacon Press, 1998).

⁶⁵ See Schoen, *Fragile Fabric of Union.*, ch 1.

importance of maintaining strong links to an international economy and actively engaging in trade internationally. This is a far cry from the insular portrait of the Deep South as a marginalized and reclusive region that has been a recurrent view of the region.

Once Southerners discovered that cotton, a commodity Britain desperately wanted, would grow in the South they began very early on to work at improving yields as well as the commodity itself. They saw they had found a crop they could produce for a world market, for a consumer willing to advance credit and do business free of the long shadow of mercantilism. In other words, Southern planters recognized a chance to do business if they could overcome their own biases. In a letter from Hindley and Gregorie the Charleston cotton factors to McConnel and Kennedy, it is evident that planters frequently experimented with hybridizing seeds to create an improved crop or ‘staple.’⁶⁶ Over the course of the nineteenth century planters would also strive to formulate cotton strains that were easier to pick, grew in patterns that made them easier to harvest and thrived in the upland areas and piney woods where cheaper land was readily available.⁶⁷ This is a theme that carries forward throughout the history of cotton production in the antebellum South and is demonstrated by the publication of magazines like *The Cotton Planter* and more commonly in the notebooks, journals and letters of planters like James Henry Hammond, who mulled extensively over increasing the productivity of his fields and, more ominously, his slaves.⁶⁸ Just as these planters endeavored to find and develop

⁶⁶ Hindley and Gregorie to McConnel and Kennedy, July 13, 1809, MCK 1/1/105, The University of Manchester Library.

⁶⁷ See Johnson, *River of Dark Dreams*.

⁶⁸ See Faust, *Design for Mastery*. Johnson, *River of Dark Dreams*. For examples of planters efforts to increase efficiency see for example, the papers of James Henry Hammond Library of

greater efficiencies through experimentation with varieties of cotton and the hybridization of crops, they also sought to increase the labor efficiency of their slaves, all in the name of increasing profit and productivity, as Walter Johnson has demonstrated in his analysis of planter thought in terms of ‘bales per acre per hand.’⁶⁹

The Political Economy of Cotton

Not long after the ratification of the Jay Treaty in 1794, South Carolina and Georgia assumed global leadership in the production of raw cotton, a development made possible by political changes, diplomatic maneuvering, economic necessity, technological change and the luck of access to good soil. The end result was the development of a system of production of cotton that would alter a very large region of the United States and solidify a commitment to a brutal and deeply exploitative labor regime in which people were treated as property. Further, a hated dependence on a former colonial power would evolve into a cherished trade relationship for many Southern planters, who became deeply committed to free trade based upon a system of coerced labor. These forces created the cotton kingdom and in turn necessitated the development of a financial system to support the growth, sale and transport of this article from the Deep South to the

Congress. Additionally there is a series of letters from Hammond to Edmund Ruffin that are especially detailed regarding agricultural subjects and improvement of plantation production. After 1825, as is discussed by Hammond, planter experimented with fertilizing fields with manure, using guano, and composting. See also Freeman Hunt, *Hunt's Merchants' Magazine*. DeBow's Review and *The Southern Agriculturalist*. Related to issues of production and efficiency is the changing relationship to time on the south and the embrace of timekeeping, on this see Smith, *Mastered by the Clock*. On planters attempting to increase the offspring of their slaves, whether through pairings or rape see Johnson, *River of Dark Dreams*. Amy Dru Stanley, *From Bondage to Contract: Wage Labor, Marriage, and the Market in the Age of Slave Emancipation* (Cambridge: Cambridge University Press, 1998). also Amy Dru Stanley, forthcoming.

⁶⁹ For a discussion of measurements of slave productivity on antebellum cotton plantations see Johnson, *River of Dark Dreams*. 244-80.

British Midlands.

Cotton gained increasing economic importance for the emergent nation in the 1790s as an export crop to Great Britain. The mutually beneficial and incredibly profitable relationship formed between Southern planters, British manufacturers and Northern merchants has its origins here. An acknowledgement and understanding of this relationship is pivotal to a full understanding of American economic development as well as the relationship between the Deep South and the larger United States. In the nineteenth century Anglo-American trade centered on cotton. But cotton came to the fore in Atlantic commerce earlier, with Sea Island cotton. This initial trade in the commodity occurred in the midst of a series of revolutions that upset the previous global order.⁷⁰ For Britain and the United States, the links formed through cotton involved the navigation of a difficult relationship between a former imperial power and colony, one deeply reliant on credit from the other, with Great Britain still caught in need of the raw materials produced by her former hinterland. The emergent nation was just as dependent on this trade, and this speaks to the legacy of colonialism in some ways. The deep dependence Britain had on her colonial hinterlands to circumvent ecological bottlenecks on the path to industrialization illustrates very well the large-scale advantages that accrue to imperial

⁷⁰ On global revolutions see Eric Hobsbawm, *The Age of Revolution* (New York: Vintage Books, 1996). David Armitage, *The Declaration of Independence: A Global History* (Cambridge: Harvard University Press, 2007). David Armitage and Sanjay Subrahmanyam, *The Age of Revolutions in Global Context, c. 1760-1840* (Basingstoke: Palgrave Macmillan, 2010). Laurent Dubois, *Avengers of the New World: The Story of the Haitian Revolution* (Cambridge: Belknap Press 2004); *ibid.* and Laurent Dubois, *A Colony of Citizens: Revolution and Slave Emancipation in the French Caribbean, 1787-1804* (Chapel Hill: University of North Carolina Press, 2004). For an overview that takes into account Anglo-American cultural histories see David Armitage, Conal Condren, and Andrew Fitzmaurice, *Shakespeare and Early Modern Political Thought* (Cambridge: Cambridge University Press, 2009). This shift also involved a shift from the Mediterranean to a gradual reorientation around the Atlantic world.

powers.⁷¹ This dependence, ironically, is what in large measure enabled the independence of the early Republic since the nation was desperately reliant on international trade, especially in the aftermath of the British passage of the Navigation Acts, which effectively closed West Indian markets to American produced rice and tobacco. This had been devastating to the economy of the lower South, a region already committed to commercial agriculture. As Brian Schoen has noted, in 1770 the South produced approximately 64 percent of North American exports and 46 percent of the continent's private wealth. By the 1790s Southern produce accounted for only 48 percent of American exports and held only 32 percent of the wealth.⁷² Yet even securing this trade their optimistic hopes of a post-revolutionary return to prosperity were dashed with the onset of a severe post-war depression.

It seems that Southerners were well aware that they needed to work within larger international and, more prosaically, national systems as well. Additionally, non-slaveholding states seemed just as aware of the need to come together to form a larger economic and political union. Southerners benefitted from the protection offered by the

⁷¹ For more on this argument within a comparative context see Pomeranz, *Great Divergence*. Pomeranz compares the development of China and Great Britain, beginning with the premise that at 1800 both economies had a rough parity in terms of development and sophistication, but then Britain surpasses China during the nineteenth century. He attributes this advancement to access to colonial hinterlands and, just as critically, slave labor.

⁷² See Schoen, *Fragile Fabric of Union*; Brian Schoen, "The Fragile Fabric of Union: The Cotton South, Federal Politics and the Atlantic World, 1783-1861" (University of Virginia, 2004), 27. See also John J. McCusker and Russell R. Menard, *The Economy of British America, 1607-1789* (Chapel Hill: University of North Carolina Press, 1985), 375. James F. Shepherd and Gary M. Walton, "Economic Change after the American Revolution: Prewar and Postwar Comparisons of Maritime Shipping and Trade," *Explorations in Economic History* 13, no. 4 (1976). Stanley L. Engerman, "A Reconsideration of Southern Economic Growth, 1770-1860," *Agricultural history* XLIX(1975); *ibid.* and Timothy Pitkin, *A Statistical View of the Commerce of the United States of America: Including also an Account of Banks, Manufactures and Internal Trade and Improvements* (New Haven: Durrie & Peck, 1835).

constitution and a larger federal government. This alliance offered increased social and economic stability. On very practical grounds given Spanish occupation of Florida and a region densely populated with slaves a relationship with other states to the north also provided protection. Southerners also knew that, in spite of any suggestions to the contrary, slaves were quite capable of rebelling. As has been noted by other scholars, they were a dangerous form of property.⁷³ Given these concerns the South was prepared to cede ground on trade agreements in exchange for the protection of the institution of slavery. Northern states, perceiving the vital need for the income from commodities harvested for sale on international markets yet also mindful of the need for protectionist policies to encourage the development of nascent industry in states in New England and the mid-Atlantic, found proverbial common ground with their fellow southern citizens.⁷⁴ Through a process of negotiated compromises slavery was protected in the constitution and trade was left to the federal government to regulate, meaning protection and tariffs would become much-resented thorns in the side of the South throughout the antebellum

⁷³ On the development of slave codes and slave societies, particularly in the American South see Philip Morgan “British Encounters with Africans and African-Americans, circa 1600-1780” in Bernard Bailyn and Philip D. Morgan, *Strangers Within the Realm: Cultural Margins of the First British Empire* (Chapel Hill: University of North Carolina Press, 1991). On the threat planters felt in regard to slave rebellions in the American South see Rothman, *Slave Country*. ch 2, particularly 21-3. Southern planters had confirmation of their worst fears first with rebellion in Haiti and subsequent establishment of independence there in 1804. The German coast rebellion on 1811 confirmed southern fears and American military intervention to put down the insurrection confirmed for many southerners the wisdom of stronger ties with northern states. On the German Coast rebellion of 1811 see *ibid.* 106-17.

⁷⁴ On the ratification of the constitution see Jack N. Rakove, *Original Meanings: Politics and Ideas in the Making of the Constitution* (New York: A.A. Knopf, 1996). On slavery and the constitution see William W. Freehling, "The Founding Fathers and Slavery," *The American Historical Review* 77, no. 1 (1972). Edmund S. Morgan, *American Slavery, American Freedom: the Ordeal of Colonial Virginia* (New York: Norton, 1975). and Richard R. Beeman, Stephen Botein, and Edward Carlos Carter, *Beyond Confederation: Origins of the Constitution and American National Identity* (Chapel Hill: University of North Carolina Press, 1987).

era.

This is not to suggest that the Southern states had anything like consensus on how to approach negotiations around the constitution. The Northern slaveholding states like Virginia avoided direct discussion of issues around slavery while those from the Deep South sought explicit guarantees and assurances around the institution, seeking genuine, concrete and specific concessions on the issue. In the debates John Rutledge demonstrated a deep understanding of both the issues and the perceived necessity of slavery to plantations in the South. He also made clear that slavery was about producing goods, and selling these for profit. He stated bluntly: ‘Religion and humanity have nothing to do with this question. Interest alone is the governing principle.... The true question... is whether the southern states shall or shall not be parties to the union’, adding that ‘the increase of slaves ... will increase the commodities of which they become carriers.’⁷⁵ At this early date Rutledge made clear what many Southerners felt: slavery was vital to the region and their production processes. This argument would become more refined and reframed later in the context of ‘traditions’ and a ‘way of life.’ In the end New Hampshire, Massachusetts and Connecticut delegates joined representatives of the slaveholding states of North Carolina, South Carolina, Georgia and Maryland in support of a compromise that prohibited government intervention with the slave trade until 1808. Further non-slaveholding states eventually settled on the three-fifths compromise that granted the South three-fifths representation for the enumerated slave population, increasing their seats in the House of Representatives and their influence within the electoral college without increasing voters in the region. The more slaves on

⁷⁵ United States Constitutional Convention (1787) and Max Farrand, *The Records of the Federal Convention of 1787*, 3 vols. (New Haven: Yale University Press, 1911). 364.

the plantation, the more representatives Southerners added to the House. Southerners also derived benefit from Southern states holding the balance of political power, granting white Southerners from slave holding states radically increased voting power per capita in comparison with their non-slaveholding peers. They paid higher taxes for the privilege, but this act gave the South incredible political power vis à vis the North.

It seems the Northern delegates perceived where the larger economic interests of the Union might lie, at least in terms of the raising of exogenous capital. Further bolstering the suggestion that individual states were well aware of their individual interests, Virginia opposed government inaction on the African slave trade preferring that it be closed immediately.⁷⁶ Closing this trade would keep the price of slaves in the United States high, and increase state revenue, as Virginians were well aware. In return it seems many Southern delegates supported the right of Congress to regulate commerce. This move was likely regretted repeatedly by Southern states after the passage of the Navigation Acts and approval of tariffs and restrictions on trade throughout the antebellum era. In the end, slavery remained protected and Southerners accrued an incredible amount of political power destined only to increase as slave populations increased. The federal government had the power to set trade policy and tariffs, yet Southerners had more power because of the three-fifths compromise.

Additionally, many Southerners involved in international commerce were

⁷⁶ See Don Edward Fehrenbacher and Ward McAfee, *The Slaveholding Republic: An Account of the United States Government's Relations to Slavery* (New York: Oxford University Press, 2001), 33-5. Virginia lost this battle but seemingly won the larger war after the African slave trade was closed in 1807 and slaves began to be sold en masse from the Chesapeake into the Deep South, a trade which proved incredibly lucrative to slave holders in that state.

cognizant that federalist policies would serve to protect their larger economic interests and promote trade more generally by offering greater stability. Private contracts, foreign treaties and the shielding of the currency from deflationary policies were all necessary to the maintenance of the nation's economic and political standing, as was protection of private property, all of which had been threatened at various points during the Revolutionary era.⁷⁷ All of this, in conjunction with the protection of a strong military, made a strong central Union very appealing to many Southern planters and merchants. Unfortunately, many European diplomats and merchants found the system difficult since it seemed there were two governments and it was unclear when national solutions to international problems would be implemented and how to resolve conflict when different states responded in unique ways. The resolution, and sometimes lack thereof, had a pronounced influence on the formation of the cotton south and the development of Atlantic financial relationships that grew out of the trade. Primarily, these conflicts resulted in the preservation of slavery but with restrictions on trade: with these types of compromises nobody was completely happy. The ratification of the Jay Treaty (formally the Treaty of Amity, Commerce and Navigation between His Britannic Majesty and the United States of America) did little to mollify the South, even though the agreement resulted in increased trade and the uninterrupted peace was likely very conducive to the

⁷⁷ On the importance of protection of property rights see Douglass Cecil North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *The Journal of Economic History* 49, no. 4 (1989). For a discussion of how laws, including property laws, came to be adjusted to suit the needs of an emergent capitalist class in the nineteenth-century United States see Morton J. Horwitz, *The Transformation of American Law, 1780-1860* (Cambridge: Harvard University Press, 1977). Horwitz argues, fundamentally, that law is also a political process and looking at the rulings of circuit courts demonstrates how smaller courts established legal precedents that re-shaped the American legal system.

development of the Anglo-American cotton trade before the War of 1812. Southern animosity in regard to this treaty was particularly ironic given that the prolonged peace is what enabled Southerners to pay off many of their debts to English creditors and establish an industry to which many would remain committed through the Civil War.⁷⁸ Primarily, Jay's Treaty deferred war until the United States was more capable to fight one, and this allowed for a good deal of economic development in the intervening years between 1794 and 1812.

These political decisions, acted out on an international stage, had profound repercussions across the United States, creating possibilities for trade, the expansion of slavery, economic development and eventually the severing of the Union. None of this would have been clear at the time. Instead, yeoman farmers and planters might simply have noted that there seemed to be a larger market for cotton, and it was growing better than indigo or tobacco. From there they may have simply planted more with each passing year. Planters would, perhaps, have purchased a few more slaves and put them to work, picking, harvesting, ginning, packing and carrying cotton on to Charleston or Savannah (in the earlier trade these ports exported more cotton than New Orleans). In Savannah a factor may have purchased the cotton and sold it to Alexander Brown in Baltimore or to a

⁷⁸ On the Jay Treaty see Samuel Flagg Bemis, *Jay's Treaty: A Study in Commerce and Diplomacy* (New York: The Macmillan Company, 1923). Stanley M. Elkins and Eric L. McKittrick, *The Age of Federalism* (New York: Oxford University Press, 1993), ch. 9, Todd Estes, "The Art of Presidential Leadership: George Washington and the Jay Treaty," *Virginia Magazine of History and Biography* 109, no. 2 (2001): 127–58, Todd Estes, *The Jay Treaty Debate, Public Opinion and the Evolution of Early American Political Culture* (Amherst: University of Massachusetts Press, 2006). Joseph M. Fewster, "The Jay Treaty and British Ship Seizures: The Martinique Cases," *The William and Mary Quarterly* 45, no. 3 (1988). Rakove, *Original Meanings*. Jerald A. Combs, *The Jay Treaty; Political Battleground of the Founding Fathers* (Berkeley: University of California Press, 1970).

broker in Liverpool, like William Rathbone. Alternately they might have sold to one of the agents of McConnel and Kennedy who would likely have bought the cotton. The firm had two very active factors in Savannah at the time, James Gregorie and James Speakman. The firm purchased Sea Island cotton for their own use in the manufacture of high-quality lace. They also purchased large amounts of cotton for resale to spinners in Paisley and Glasgow, turning a nice profit on their own speculative sales.⁷⁹ Whoever bought the cotton, it would have been paid for with a draft drawn on a New York or London financial house and shipped to Liverpool, where another group of laborers, in this case, those working for a wage in Manchester, would transform the raw cotton into thread and textiles, which in turn would be sold, either in Manchester or further afield. In Manchester in the early nineteenth century some of those textiles would have been purchased by a young N. M. Rothschild, who had set up shop as a cloth merchant. From his sample book it is clear that he, like most cloth merchants, had to carry a wide variety of fabrics to appeal to the discerning tastes of his clientele. What Nathan Rothschild did that differentiated him from his peers was to buy large lots of a fabric in advance and store them for future sale. This was a move contrary to the practice of many of his fellow merchants and allowed him to make a larger profit on his sales in exchange for the risk of not selling all the cloth he had purchased. The textiles he purchased in the city and sold to clients were shipped from Hull to Hamburg and on to Frankfurt for resale in Germany

⁷⁹ McConnel and Kennedy were initially mechanics, producing spinning mules for use in mills in the greater Manchester area. When a client could not pay they opted to enter the spinning business themselves and became very well known for the production of incredibly fine, and very strong yarns, particularly some used to produce lace. See James Speakman letters to McConnel and Kennedy, Papers of McConnel and Kennedy and earlier McConnel & Co. 1715-1888. MCK 1/1/25

and continental European markets through an extensive network of kith and kin.⁸⁰ The page from N.M. Rothschild's sample book in figure 2 illustrates as well the variety and vibrancy of the printed textiles, illustrating the novelty and appeal of the fabrics produced in Lancashire in the early nineteenth century. At this early date the majority of cotton textiles were sold in continental European markets. Later, this cotton would be transformed into slop and ill crafted ready to wear clothing and dumped on American markets.⁸¹

⁸⁰ See papers of N. M. Rothschild in Manchester c.1800-8, I/218, RAL, in particular the cotton sample book used by Rothschild, (Figure 2.)

⁸¹ See Zakim, *Ready-Made Democracy*.



Figure 2: Page from the cotton sample book of N. M. Rothschild, 1802. I/218, RAL.

The emergence of cotton as an important export item in the 1790s, in conjunction with technological advances and the opening of new lands to planting, changed the direction and future of the entire region. Western lands acquired in the early nineteenth century suited the growth of the crop, and western movement of the slave population followed cotton's geographical expansion. As previously mentioned, advances like the development of Cartwright's water loom in 1785, more efficient carding machinery and eventually Eli Whitney's cotton gin in 1793, made cotton increasingly important to both the United States and Britain.⁸² The cotton gin allowed short-staple cotton to be produced more efficiently. Since short-staple cotton could grow in areas where Sea Island, or long-staple cotton did not fare well this allowed for an increase in acreage planted with cotton.⁸³ This cotton, planted and picked by slaves, in turn contributed to the development of credit and finance across the nineteenth-century Atlantic world, linking slavery and finance together with one supporting the other. This nascent financial world was deeply dependent upon their labor. By the same token, the maintenance of the institution of slavery was contingent upon the streams of credit provided by banks in London and merchants in Manchester and Liverpool. These funds allowed plantation owners to pay their operating costs over the course of a year and to purchase necessary equipment, supplies, slaves and land.

⁸² See Angela Lakwete, *Inventing the Cotton Gin: Machine and Myth in Antebellum America* (Baltimore: Johns Hopkins University Press, 2003); *ibid.*

⁸³ See Rothman, *Slave Country*. Rothman points out, additionally, how the Louisiana Purchase contributed to this expansion, even though Jefferson had felt that this increase in land would lead to a gradual fading away of the institution as more independent farmers settled in the region. See also Thomas Jefferson and Merrill D. Peterson, *Writings* (New York: Viking Press, 1984).

Of course, there are usually at least a few push factors involved in the move into new areas of production and commercial activity, and cotton was no exception. In the 1790s the price of tobacco and indigo declined and crop infestations in turn made both articles more problematic and less profitable to cultivate. At the same time cotton reached 25 cents a pound in 1791 and rose as high as 44 cents a pound in 1798.⁸⁴ Clearly, even at this early date the conditions for a cotton boom were favorable, leading one Louisiana planter to remark in 1799 ‘we are all in cotton now.’⁸⁵ It is tempting to gloss over such a simple quote, especially given present preconceptions of the cotton South, but cotton planting was not the obvious choice. What made it attractive was a confluence of factors, developments and choices. The presence of several British merchants already established in the South, ready and able to offer credit at lower rates and to provision their clients with European goods, helped as well. In this, Southern merchants often could not compete. Cotton offered a perceived opportunity to prosper, but this very narrow focus came at a long-term cost to the region. In the end this resulted in a drag on commercial development in the cotton belt states that was felt throughout the antebellum period, and sowed the seeds of dependence on foreign capital at a very early date. The comparative advantage that divided the American economy was at work here as well: British merchants granted citizenship after the Revolution had the advantage in terms of shop keeping and the provision of credit.⁸⁶ The ‘native’ merchant class

⁸⁴ Rothman, *Slave Country.*, 47.

⁸⁵ Quoted in *ibid.*, 48.

⁸⁶ For a discussion of colonial trade with European markets see R. C. Nash, "South Carolina and the Atlantic Economy in the Late Seventeenth and Eighteenth Centuries," *The Economic History Review* 45, no. 4 (2008). John E. Crowley, *This Sheba, Self: The Conceptualization of Economic Life in Eighteenth-Century America* (Baltimore: Johns Hopkins University Press, 1974). See also

perceived greater potential in staking their capital to western lands purchased cheaply, slaves and cotton.⁸⁷

As planters became more invested in cotton, and the article filled ships crossing the Atlantic, new ideas and ways of doing business had to be found, influenced by the heady revolutionary ideologies of the era. Interestingly, Southern planters tended to prefer large-scale or small-scale explanations in terms of how well they fit their needs at the time. They often espoused very liberal economic principles on a macro level, when considering the relationships between states and nations, for example, while endorsing chattel slavery at the micro level and seeing no contradiction between the two. Although much ink has been spilt worrying over whether slavery was capitalist or pre-capitalist, at the time few people cared.⁸⁸ Slavery simply was a part of cotton production and one labor regime among many. Some opposed it, some profited from it but the issue of how it fit within a capitalist economy did not really even keep Marx up at night in the end. The contradictions seeming so clear to the modern eye were not readily perceived by Southern planters. Modern economic principles of the time could be, and often were,

Bruchey, *Colonial Merchant*. Menard and McCusker show that Colonial America actually had a vibrant and productive economy, in contrast to the blighted view suggested by many colonists on the eve of Revolution. See McCusker and Menard, *Economy of British America*. Crowley, *Sheba*. See also Bruchey, *Colonial Merchant*. McCusker and Menard show that Colonial America actually had a vibrant and productive economy, in contrast to the blighted view suggested by many colonists on the eve of Revolution. See McCusker and Menard, *Economy of British America*.

⁸⁷ See Schoen, "Fragile Fabric (Ph.D. thesis)."

⁸⁸ Eric Eustace Williams, *Capitalism and Slavery* (New York: Russell & Russell, 1961). comes to mind, but Genovese, *Political Economy of Slavery*. And Genovese and Chandler, *Roll, Jordan, Roll*. are germane to this type of discussion. Additionally see Wright, *Political Economy of the Cotton South*. and James Oakes, *The Ruling Race: A History of American Slaveholders* (New York: Knopf, 1982).

used to defend slavery and when these needed bolstering the emergent racial classifications that would be incorporated into the development of phrenology were called on to justify the practice.⁸⁹ And although some did object, many slave owners at the time believed free trade and slavery were natural, ineluctable and mutually supporting.⁹⁰ That these views served to justify slavery served an economic and political interest in the cotton states and across the country. The contradictions of these views when transplanted across the Atlantic were much more difficult to reconcile given the closing of the slave trade by the British in 1807 and the emancipation of slaves throughout the empire in 1833. Nevertheless, for much of the antebellum era British financiers, cotton brokers and mill owners across the Midlands purchased American cotton and viewed the production methods as necessary, if repugnant. In sum, many felt slavery was a necessary evil and threats to the plantations system in the South affected markets, interest rates and the provision of credit to planters, slave traders, agents and factors.

The debates around the constitution and the Jay Treaty had lingering effects and a pronounced impact in terms of nineteenth-century political economy as well as the formation of divisive regional identities over the course of the antebellum era. Ironically, some Southerners had wished to develop a vibrant and more robust national economy through the encouragement of the development of manufacturing in the early Republic.

⁸⁹ Barbara Fields has pointed out that most slave holders of the nineteenth century could debate pro-slavery viewpoints with a great deal of eloquence and grace. See Barbara Jeanne Fields, *Slavery and Freedom on the Middle Ground: Maryland During the Nineteenth Century* (New Haven: Yale University Press, 1985).

⁹⁰ On free trade and unfree labor See Peter S. Onuf and Nicholas Greenwood Onuf, *Federal Union, Modern World: The Law of Nations in an Age of Revolutions, 1776-1814* (Madison: Madison House, 1993). and Schoen, *Fragile Fabric of Union.*, ch 2.

Others actually embraced a thoroughgoing free trade ideology even at this early date and preferred direct trade with Britain to any potential sacrifice involved in nurturing national industries. This tension created contradiction and disagreement between Southerners, problematizing the often monolithic regional characterization of the 'The South' as a unified entity with a definite identity. The closest 'the South' ever came to this was when states began to secede from the Union to form the Confederacy. Speaking of the South as an ideologically cohesive region is deceptive at the dawn of the nineteenth century and is about as accurate as pretending that Americans across the early Republic agreed upon issues of political economy, foreign policy, slavery or appropriate actions for federal or state governments. In short, across the burgeoning United States, consensus was elusive. The passionate debates between Federalists and Republicans are testament to this conflict, and contained the seeds of much of the disagreements that eventually crystallized into the sharp regional divisions that characterized the United States in the 1850s and precipitated secession of the confederate states.

In the 1790s a Republican opposition gained a good deal of strength in opposing many Hamiltonian policies. These Republican critics were particularly scornful of the increasingly close trade relationship between Britain and the United States that was forming around the export of raw cotton and the importation of manufactured goods. Thomas Jefferson and James Madison led this group of Jeffersonian Republicans that insisted Federalist policies would exploit the majority of Americans in favor of the interests of an elite group of merchants or, even more noisome, British financiers. Republicans had a better alternative, inchoate and ill formed, but one in which the country would not continue in a humiliating relationship of dependency with her former

colonial oppressor. Jefferson's approach was much more pragmatic and inclusive than has been acknowledged in some scholarly works but it is a stretch to claim he had a coherent policy.⁹¹ What he had in essence was a utopian vision that was general enough to appeal to a wide swath of the population. On the one hand the lack of clarity meant broad appeal and many followers. Unfortunately, each different faction felt their cause to be uniquely representative of the true republican ethos and all saw themselves individually as the rightful heirs of the tradition resulting in a fractured and a seemingly contradictory movement.

Like Federalists, these Republicans were concerned with commerce and the economic position of the United States, especially in terms of international trade. Yet despite advocating free trade theoretically they objected vociferously to Hamiltonian approaches to the development of Anglo-American exchange, stressing the necessity of neo-mercantilist policies to promote the development of American business, and ironically, agriculture.⁹² A faction of the movement that included Tench Coxe saw an alternative to an Atlantic-centered economic world that revolved around trade with Great

⁹¹ Drew R. McCoy, *The Elusive Republic: Political Economy in Jeffersonian America* (Chapel Hill: University of North Carolina Press, 1980). Doron S. Ben-Atar, "The Origins of Jeffersonian Commercial Policy and Diplomacy," *The Pennsylvania Magazine of History and Biography* 119, no. 4 (1995). On Jefferson as a pragmatic and flexible thinker see Joyce Appleby, "Capitalism and a New Social Order: The Republican Vision of the 1790s," *The William and Mary Quarterly* 42, no. 3 (1985). On Republicanism see also Gordon S. Wood, *The Creation of the American Republic, 1776-1787* (Chapel Hill: University of North Carolina Press, 1969). J. G. A. Pocock, *The Machiavellian Moment: Florentine Political Thought and the Atlantic Republican Tradition* (Princeton: Princeton University Press, 2003). Appleby, "Capitalism," and Daniel T. Rodgers, "Republicanism: The Career of a Concept," *The Journal of American History* 79, no. 1 (1992). On Republicanism and the working class see Wilentz, *Chants Democratic*.

⁹² See Thomas Jefferson "Report on the Privileges and Restrictions on the commerce of the United States in Foreign Commerce" 16 December 1793 in Peterson ed. *Thomas Jefferson: Writings* New York: Viking Press, 1984, 434-48. See also Thomas Jefferson, "Report on the State of Virginia."

Britain. They led the calls to ensure economic protection for burgeoning American industries, with Coxe himself arguing that cotton cultivation in the South would promote American manufacturing.⁹³ Obviously, these types of policies did have appeal to those engaged in production, and did not have appeal to those involved in commercial agriculture. Since Hamiltonian policies had also highlighted the importance of imported goods, those that believed the United States needed to develop her own industrial sector fell more firmly in the Republican camp. This gave greater support to the call to implement protectionist policies to encourage the development of manufacturing. Hamilton had been unabashedly business friendly and decidedly supportive of trade relationships with Great Britain and he had very little patience with commercial discrimination, whether its roots lie in Anglophobia or the desire to promote the development of industry in the United States. Yet many disagreed and saw opportunity in policies that might restrict Britain's economic advantages in the United States. American shippers, manufacturers, bankers and some merchants saw the appeal. Ironically so did quite a few slaveholders, and planters. That the Jeffersonian vision was ambiguous meant that it seemed to have something for everyone and this perceived universality carried Jefferson into office in 1800. Jefferson's 'four pillars of prosperity' seemed to guide the early nation into an era of economic stability, finding a judicious balance between the interests of planters, manufacturers, mechanics and farmers.⁹⁴ By 1804, economic prosperity and an increase in exports seemed just testimony to the efficacy of Jefferson's

⁹³ Tench Coxe, *A Statement of the Arts and Manufactures of the United States of America for the Year 1810* (Philadelphia: A. Cornman, 1814).

⁹⁴ In his first annual message Jefferson spoke of the four pillars of Prosperity: agriculture, manufacturing, commerce and navigation. See Thomas Jefferson "First Annual Message" in Jefferson and Peterson, *Writings.*, 507.

policies. In fact, the early Republic experienced a period of unprecedented economic growth during Jefferson's first term. This growth was partially attributable to an increased trade in cotton, which was made possible, in part by the expansion of short-staple cotton production into newly opened lands in the Southwest.⁹⁵

As early as 1803, at the time of the Louisiana Purchase, intimations of a future radically differing from Jefferson's vision of an agrarian republic were present. Planters had land and, more pivotally, the right kind of soil. The richest soil for cotton production was the alluvial river bottoms along the Mississippi River in the states of Mississippi, Louisiana, and Arkansas, and the Red River region of Louisiana, all of which were admitted to the Union after 1800. Not surprisingly, highly productive plantations with large concentrations of slaves quickly appeared in the area.⁹⁶ Cotton became one way to rapidly accrue cash and credit, and profits were quickly reinvested to enlarge landholding and work forces. Unlike rice or sugar, cotton could also be grown on a small tract of land, and was often grown on family plots without the employment of slave labor.⁹⁷ The majority of Southerners did not own slaves, and those who did generally had very few. In 1850, 71 percent of slave owners owned less than 10, and 89 percent owned less than 20,

⁹⁵ See Joyce E. Chaplin, "Creating a Cotton South," *Journal of Southern History* 57, no. 2 (1991), 171-200 and Douglass Cecil North, *The economic growth of the United States, 1790-1860* (Englewood Cliffs, N.J.,: Prentice-Hall, 1965). 17-60.

⁹⁶ Wright, *Political Economy of the Cotton South.*, 22. On increasing efficiencies in the ginning of cotton, see Lakwete, *Inventing the Cotton Gin*.

⁹⁷ See Stephanie McCurry, *Masters of Small Worlds: Yeoman Households, Gender Relations, and the Political Culture of the Antebellum South Carolina Low Country* (New York: Oxford University Press, 1995).

the threshold necessary to be considered a planter.⁹⁸

At the time of the Louisiana Purchase, the United States already produced 45 percent of the cotton consumed in British markets and this market share continued to expand throughout the antebellum period. These conditions contributed to the expansion of a system of coerced labor that Jefferson had hoped and anticipated would fade away. The growth of cotton as an item produced commercially for sale in an international marketplace resulted in a marked increase in the demand for credit and bills of exchange. The Jeffersonian vision of a nation of farmers producing a surplus for sale in distant markets but not farming commercially gave way to the establishment of large plantations growing crops, primarily cotton, for sale in an international market to the detriment of regional development and the growth of domestic industries in much of the plantation South. Just as vitally, his vision of an agrarian republic, unintentionally resulted in the reality of an unprecedented expansion of slavery throughout the Union, financed with British capital.

Additionally, as early as 1800, Alexander Brown, an Irish linen merchant who immigrated to Baltimore, was already purchasing cotton through a Savannah agent and sending it to England. With these initial purchases he laid the groundwork for a family firm that would dominate cotton consignments and later, the trade in bills of exchange throughout the antebellum period. In 1805, Vincent Nolte made the first of his journeys into New Orleans on behalf of Baring Brothers and Hope & Co. He claimed that he was the foremost dealer in cotton in New Orleans, and that he had monopolized the market at

⁹⁸ Bruchey, *Cotton*, 165. See also Scarborough, *Masters of the Big House*.

one point.⁹⁹ He continued to work peripatetically in the city engaging in the cotton business and other ventures through the 1850s but Nolte was seemingly unable to establish himself commercially, unlike Alexander Brown. Although Brown did not have Barings' capital behind him he entered into a diverse array of ventures, and was involved in the foreign exchange business at this early date as well, purchasing bills drawn by a Virginia tobacco exporter and selling them to Baltimore importers.¹⁰⁰ Alexander Brown rode the initial effervescent years of the manifestation of Jefferson's vision to early wealth. By 1810 he was able to establish his son in a branch office in Liverpool. The opening of this branch under the leadership of his son John allowed the firm to expand rapidly because of its ability to create its own sterling bills of exchange. The ability to write bills immediately, and for any amount, resulted in a substantial increase in business. The Liverpool office also stimulated consignments of cotton and tobacco, and the Baltimore office actively sought out these types of transactions. Alexander Brown attempted to drum up business with letters that advised: 'when shipments are made to William Brown & Co., the bills of lading sent us and insurance ordered thro' us, we are at all times ready to negotiate a reasonable advance free of any commission.'¹⁰¹

Yet the very nature of Brown's business model revealed some of the problems lurking under this newfound prosperity. First and foremost Southern planters were

⁹⁹ Vincent Nolte, *Fifty Years in Both Hemispheres: Or, Reminiscences of the Life of a Former Merchant* (Freeport: Books for Libraries Press, 1972).

¹⁰⁰ Edwin J. Perkins, *Financing Anglo-American Trade: The House of Brown, 1800-1880* (Cambridge: Harvard University Press, 1975), 20. On Nolte, see Ralph Willard Hidy, *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861* (Cambridge: Harvard University Press, 1949). and Nolte, *Fifty Years*.

¹⁰¹ Quoted in Perkins, *Financing Anglo-American Trade*, 269.

dependent upon British markets to sell all of the cotton they were planting in all those newly opened lands, particularly in the states of Georgia, North and South Carolina, and Tennessee. To rub salt in the wound, Great Britain remained the primary destination for the tobacco grown in Virginia and North Carolina as well.¹⁰² In 1804 it seemed that a healthy and vibrant Atlantic trade coupled with an emerging domestic market had united to create a functional, profitable and unified national market. The integrative approach had apparently worked, that is until 1805 when Britain objected to the use of broken voyages by American ships to carry goods from French and Spanish colonies to their home ports in Europe. The *Essex* decision resulted in British naval action against American vessels, resulting in the end of a period of goodwill and the disruption of a coalition of American economic interests.¹⁰³ At this juncture the cotton South actually supported Jefferson's administration in its attempts to protect American shipping and agrarian interests through commercial restrictions. Although the embargo threatened their livelihood, Southern planters also realized that the maritime autonomy of the nation was at stake: without the embargo the United States could be rendered powerless. This trade, while it was permitted between 1800 and 1804 resulted in a \$20 million boost in

¹⁰² See Edwards, *British Cotton Trade*. Norman Sydney Buck, *The Development of the Organisation of Anglo-American Trade, 1800-1850* (New York, : Greenwood Press, 1968). Thomas Ellison, *The Cotton Trade of Great Britain* (New York: A. M. Kelley, 1968). C. H. Lee, *A Cotton Enterprise, 1795-1840: A History of M'Connel & Kennedy Fine Cotton Spinners* (Manchester: Manchester University Press, 1972).

¹⁰³ The *Essex* decision, rendered by the British High Court of Admiralty in 1804 contributed to increasingly acrimonious relations between the United States and Great Britain that eventually resulted in the War of 1812. The American merchant vessel *Essex* had been captured by the British while transporting goods between Spain (a French ally) and Cuba (a Spanish colony). Because U.S. merchant vessels were forbidden by the British to carry cargo directly between the French colonies and France, American ships evaded this prohibition by interrupting the voyage with a stop at an American port. The court, citing a precedent of 1756, disallowed the legality of this practice and ruled that such a stop did not constitute an interruption of the voyage. The British were thus given broader legal sanction for action against neutral ships trading with France.

American shipping revenue. The issue around the re-export trade created a dilemma, since this trade, although profitable, was of narrow benefit, primarily producing profits for American shippers but creating tension in Anglo-American markets. The behavior of these shippers was in effect threatening the trade in agricultural commodities produced in the South since if these crops could not be shipped they could not be sold. Planters and merchants perceived the conflict and that an embargo, although defending American shipping through commercial restrictions, nevertheless placed a disproportionate burden on planters and those engaged in commercial agriculture. This conflict also meant a lack of access to British manufactured goods with the passage of the Non-Importation Act in 1806. After the Chesapeake incident in June of 1807 Jefferson's embargo was ratified quickly and with a large amount of support in Congress, even though Georgia's representatives in particular worried about the impact on the cotton trade.

Unfortunately, the embargo was likely more damaging to the United States than nations in Europe. The Republicans had seriously overestimated, and not for the last time, the importance of American crops to European markets. The embargo's effects were also reduced by the fact that Americans were still consuming British exports since only the Non-Importation Act remained in effect at this juncture.¹⁰⁴ Americans had assumed, in essence, that the goods they supplied to European markets provided more leverage in forcing change. Part of the problem, obviously, was that they were still consuming British products. Yet the larger issue here recurs throughout the nineteenth century: the United States, and later the Confederacy, assumed again and again that American products, especially cotton, had more importance in international markets than they did in fact.

¹⁰⁴ See Schoen, *Fragile Fabric of Union.*, ch 2

Instead, the embargo of 1807-8 had a deleterious effect on the cotton trade and the economy as a whole. Goods remained locked in storage as the American economy came to a standstill. Jefferson was heavily criticized for what was perceived to be a needless interruption of commercial activity, both from those in the cotton trade as well as those outside it. One Boston cooper decried Jefferson's policies stating in a letter to the president that he would 'pay \$400 to four of my friends to shoat you... I can't eat my house and ...I can't git no work by working about on the wharves for you have destroy'd all our commerce.'¹⁰⁵ Undoubtedly, many cotton planters felt similarly, having finally found a crop they could readily market and sell only to be shut out of business yet again, and through the actions of a federal government to which they felt they had already shown great tolerance. Many thought the embargo gave up too much for very little return, and placed the majority of the burden of this coercive move on cotton planters left unable to sell their crops. These planters felt they were injured more deeply and had little sympathy for the grievances of Northern interests. The embargo increased sectionalist sentiment, at least among cotton planters, contributing to the early formation of an identity distinct from the North. Even though Southerners did feel unified in their suffering, this unity splintered once solutions to the trade and shipping issues were considered.

Ultimately, the embargo was scuttled in 1809 but the problems with Britain remained unresolved. Non-intercourse and non-importation options were entertained by Congress but no resolutions were deemed acceptable, least of all simple submission. The

¹⁰⁵ "To Thomas Jefferson," September 19, 1808, in Jack McLaughlin and Thomas Jefferson, *To His Excellency Thomas Jefferson: Letters to a President* (New York: W.W. Norton & Co., 1991).

country had shown itself simply unable to carry out a complete embargo, whether from lack of discipline or too pronounced a reliance on British markets. Non-intercourse and non-importation were not viable options because of their unequal effects on North and South. Facing the humiliation of complete submission to Britain, Madison began rallying the support of Republicans behind preparations for war, instigating a congressional debate that led to the declaration of war against Britain on June 17, 1812. This was a war that some may have expected, but that caught many merchants and bankers completely off guard. This is surprising given the importance of maritime power at this juncture. Nevertheless, Alexander Brown did not believe war would come, and was blindsided by the outbreak of fighting, with one son and a good deal of money in Liverpool. Alexander Brown passed the war in Baltimore and hoped for the return of peace and trade. Ironically, Barings continued to serve as the bankers of the United States in Europe during this time, processing payments and monitoring accounts. They also attended to the concerns of Stephen Girard throughout the war. What these merchants apparently missed was that this war was inevitable. Submission to British will in these areas was an unacceptable option because Americans would have been left at the complete mercy of British naval dominance, giving Britain a monopoly that likely would have ruined the United States economically.

The war drew to a close in 1815. Southern planters had in fact shouldered much of the economic hardship. The nascent cotton trade had been brought to a standstill and markets had been closed to American planters for three seasons. Fortunately, cotton markets bounced back quickly. Nevertheless, manufacturing interests called out for increased protectionist measures and the imposition of tariffs, suggesting that

protectionist policies would bind the Union together. In contrast, Southern commitment to free trade policies seemed stronger than ever, especially in the face of debates over increasing policies to protect the development of manufacturing interests in the North. What prevented prolonged conflict around the issue was the re-election of Madison and his persuasive ability to make protection seem like a logical, and more importantly, temporary measure. Additionally, in 1817 Congress passed a Navigation Act that excluded foreign vessels from the inter-coastal trade, which provided Northern merchants with a virtual shipping monopoly. The bill, sponsored by John Forsyth of Georgia, displayed the cotton South's commitment to the preservation and development of economic integration between regions and differing economic systems. It was one example of how Northern commercial and Southern agricultural interests might support one another. Unfortunately in the 1850s this Navigation Act would come to be viewed as one of the reasons for overdependence on a rapacious cabal of Northern elites, an irony given the initial sponsorship of the act by a Southern planter.

The primacy of cotton as a crop in the southern United States was not in any way a given and the development of the system of finance that facilitated trade in the article was equally contingent. Ultimately, the availability of easy credit at good rates made trade with the British attractive in spite of a good deal of resentment towards the former colonial power. Without the need for trade, and a source of credit, cotton likely would not have been the first choice of crop for cultivation in the Deep South. If ever demand was able to create supply it seems the development and growth of cotton cultivation in the South would be a prime example. In the end the need for cotton, and money, brought the former metropole and colony together in a relationship guided by new terms, the initial

test of which was the War of 1812. This trade in cotton that developed between the two countries also slowly worked to give two regions very different ideologies, political motivations and labor regimes. From the beginning, the cotton belt was tied to international trade, the harvesting of crops on a commercial scale for a global market and the use of slave labor to accomplish these ends. And Britain, in spite of William Wilberforce and a good deal of abolitionist sentiment, became the primary supporter of this system and consumer of its products.

Chapter Two: Making Money: Cotton, Slavery and Finance Across the Atlantic 1815-1837

By 1815 the United States was the largest producer and Great Britain the largest consumer of cotton. In the period from 1815-37 British merchant banks found productive deployment of capital in the Americas and all were eager to increase investments in American markets and, specifically, the trade in cotton. This in turn influenced their development, growth and the evolution of business practices across the Atlantic as Anglo-American finance became increasingly integrated. The development of this nascent Anglo-American financial world supported the plantation system in the United States while simultaneously contributing to the development of an increasingly sophisticated Atlantic financial system and the growth of British banks. Their involvement with cotton effectively increased the money supply and easy money fed increased speculation, in turn encouraging all parties towards more leveraged positions. The result of all this money coursing through the American economy was the creation of periods of exuberance and mania followed by panics, resulting eventually in the panic of 1837, one of the largest in American history. From 1815-37 these firms metaphorically ‘made money’ through consignments on cotton, the expansion of banks and banking through the American South, and the increase in the circulation of discount paper. The wealth created and profit gained by many of these Anglo-American houses resulted in profound shifts in the distribution of wealth and a consolidation of resources in the hands of larger houses and firms. The money made by these firms also contributed to the expansion of the money supply in the United States. While there were profits to be taken here as well, it also contributed to economic instability. In the end, the firms that profited

had superior access to information and resources and large enough buffers not only to withstand economic downturns but to re-enter markets after economic shocks when prices were low. The investment of these British and Anglo-American houses in the early American Republic transformed the United States and British economies as well as financial practices across the Atlantic world.

After the War of 1812 it seemed to many citizens of the United States that the country would flourish and prosper, that good times and sustained economic expansion were assured. Peace brought a resumption of cotton trading and credit began to flow once again. The chartering of the second bank in 1816 seemingly brought greater stability, with the bank sometimes assuming some of the functions of a central bank. With the backing of a line of credit from Baring Brothers, the Bank of the United States was able to decisively direct capital flows throughout the country. Further, their access to these funds injected liquidity into American markets. Occasionally this liquidity was aimed squarely into cotton to shore up prices, much to the chagrin of European financiers who viewed this as an overstepping of boundaries by Nicholas Biddle. Few could understand what might impede a return to unchecked growth. The first in a series of nineteenth-century panics, that of 1819, seemed a bolt from the blue for many caught in its midst. In New York Charles King declared ‘a singular and rapid change has occurred... in the state of our money market.’ Banks would no longer extend credit, debtors could not make payments and ‘a very general and extensive pressure for money is experienced.’¹⁰⁶ These statements became an increasingly familiar refrain of merchants in New York, factors in

¹⁰⁶ Charles King to Rufus King, April 19, 1820 in Rufus King, *The Life and Correspondence of Rufus King; Comprising His Letters, Private and Official, His Public Documents, and His Speeches*, 6 vols. (New York: G. P. Putnam's Sons, 1894). vol. 1, 1816-1827, 333.

the South and planters caught in the middle. Throughout the antebellum period American and British markets were embroiled at various points in panics. These contractions had a pronounced effect on cotton markets and credit flows across the Atlantic or, as James Campbell, an attorney in Winchester Tennessee put it in reference to Southern cotton markets, the South ‘begins to look rather gloomy.’ In a letter Campbell remarked that an old song ‘the chorus of which was “hard times,” that I think eminently applicable – for a funeral over the fallen prosperity of our cotton planters.’¹⁰⁷

The search for economic stability during the panic of 1819 cast a long shadow on political, economic and cultural developments in the young Republic: it played a direct role in the formation of a dual party system and engendered intense animosity towards financial institutions because of repeated failures and suspension of payments. Many saw banks as nothing more than tools of elites catering to the wealthy at the expense of more common men and women. Many also felt resentment that the United States had failed to escape the imperialist clutches of Great Britain, since Britain was still the primary creditor of the emergent nation. All this contributed to enthusiastic support of Andrew Jackson, the Democratic Party and a policy of free, open economic growth. By the same token, there were also calls for increased economic order, structure and controlled economic expansion, which seems contradictory; it was. There was resentment towards banks, and anger around the economic destructiveness of the war across the country. In the South and West this resulted in increasing hostility towards merchants and financiers. The purported greed and rapacity of New York merchant bankers has its origins here, as does much of the anger planters and yeoman farmers felt towards urban elites. As

¹⁰⁷ James Campbell to Arthur Campbell, October 31, 1822, Campbell Family Papers, Duke University.

Southerners grew increasingly defensive this gave rise to a renewed sense of honor that pulled on elements of earlier republican virtues. These views served to preserve and justify the institution of slavery. This in turn proved incredibly convenient for planters, mollifying their less privileged neighbors and allowing cotton and finance to continue their mutually beneficial alliance. In the end, the contradictory impulses to free the economy and exert control over growth fell loosely along regional lines and class-based sensibilities. Planters wanted free trade and growth. Manufacturers, artisans and mechanics argued in favor of a more controlled economy. Ironically, anger at Northern merchants and banks held a similar contradiction at heart in that planters as well as manufacturers were deeply reliant on their services.

After the panic of 1819 many British merchant-manufacturers who had previously invested in cotton stepped back. The panic created an opening allowing new players to gain a larger share of the market, and Anglo-American financiers had abundant reason to do so. Between 1820 and 1830 over a third of American exports went to Britain, and more than 40 percent of American imports were British. A remarkable 80 percent of the cotton in Lancashire came from the southern United States.¹⁰⁸ According to statistical records, in 1820 cotton yarns and manufacturers were valued at £22,532,000 of the £38,400,000 of British overseas trade.¹⁰⁹ Further, because of a marked expansion in trade across the Americas, a relative dearth of investment opportunities in England and the use of British sterling as a global currency, British capital became an export item in the

¹⁰⁸ Leland Hamilton Jenks, *The Migration of British Capital to 1875* (New York: A. A. Knopf, 1927).

¹⁰⁹ Brian R. Mitchell and Phyllis Deane, *Abstract of British Historical Statistics* (Cambridge: Cambridge University Press, 1962).

1820s. London had become ‘the money meter of the world’ yet houses that failed to invest in the Americas stagnated.¹¹⁰ To wit, for the house of Baring this was a period of negligible growth. They were still regarded as a stable, prosperous and well-capitalized firm, but comparatively speaking they had lost ground. They returned to United States markets with renewed energy in the late 1820s, appointing Thomas Wren Ward their American agent in 1828. Yet in 1830, still seeking a foothold, the firm was losing ground to its main competitors. The combined resources of the five Rothschild houses amounted to ten times the capitalization of the once preeminent British financial house. Barings held a relatively modest £492,803, (\$2,500,000 in American dollars) to the Rothschilds’ excess of £4,330,433.¹¹¹ The combined capital of the Brown houses in Baltimore, New York, Philadelphia, and Liverpool stood at \$3,230,000.¹¹²

The importance of cotton produced for a global market in an economy reliant on credit is best exemplified by the growth of the Browns’ network of offices. They grew quickly after the war, as the firm continued to place increased emphasis on the financial elements of business and to seek consignments. The Brown family firm and network of offices grew to be one of the leading firms involved in the Atlantic trade in cotton, and later, the leading house in foreign currency exchange in the mid-nineteenth century. With the establishment of linked offices in Liverpool in 1810,

¹¹⁰ Charles P. Kindleberger, *A Financial History of Western Europe* (New York: Oxford University Press, 1993).p. 216. On Barings in the 1820s see Hidy, *House of Baring*. and Peter E. Austin, *Baring Brothers and the Birth of Modern Finance* (London: Pickering and Chatto, 2007).

¹¹¹ Ferguson, *House of Rothschild*. On the capitalization of the house of Baring see Hidy, *House of Baring*. and Austin, *Baring Brothers*. 28.

¹¹² See Perkins, *Financing Anglo-American Trade*.19.

Philadelphia in 1818, and New York in 1825 the Browns came to assume an advantageous position in the Atlantic market in no small measure because of the nature of the organization of their firm.¹¹³ By 1820, the Browns' Liverpool office was the second largest recipient of cotton consignments in England and the firm continued to place increased emphasis on the financial elements of business and to seek consignments throughout the decade.¹¹⁴

It is not such a surprise that after the panic British capital coursed through the United States once more, leading to an era of immense financial expansion with exuberance and euphoria giving way to manic investing through 1826. British financial houses continued to invest in cotton and banks throughout the South and the effects of capital and credit coursing through the American system increased the price of cotton and had material effects in the lives of many citizens. On February 20, 1823 North Carolina congressman Lewis Williams penned an optimistic letter to his constituents claiming that after years of reduced spending the federal treasury was, once more, solvent and that the nation was on the path to economic recovery. 'The people have resumed those habits of industry and economy from which they had been seduced by improvident issues of bank

¹¹³ On structuring of firm and innovations in management of a large-scale enterprise see *ibid.*, also John R. Killick, "The Cotton Operations of Alexander Brown and Sons in the Deep South, 1820-1860," *The Journal of Southern History* 43, no. 2 (1977). Alfred Chandler suggests that the Browns were a transitional model evincing many of the characteristics of the modern firm he describes arising after the Civil War in Alfred Dupont Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Belknap Press, 1977). The same claim could be made for Barings, with Ward as their American agent and Joshua Bates serving as a partner in London. On the Barings see, Hidy, *House of Baring*. and Austin, *Baring Brothers*.

¹¹⁴ Perkins, *Financing Anglo-American Trade*. 24.

papers, and a desire to engage in schemes of wild adventurous speculations.¹¹⁵ Williams suggested that a renewed focus on hard work and financial independence would bring about a new era of prosperity and growth, which is quite ironic for a lawmaker from a region ineluctably dependent on speculation, credit and slave labor. Although the cotton belt was deeply reliant on credit, the Jeffersonian vision that guided the Louisiana Purchase still colored American conceptions of success. Williams spoke from the perspective of a man caught between worlds, confronting a new world order with understandings formed in a different time. The world of the American South was changing rapidly, and the panic of 1819 demonstrated some of these shifts in a way incomprehensible to most citizens at the time. The Southern economy was producing a crop for commercial sale in an international marketplace.¹¹⁶ This is a long way indeed from Jefferson's vision of an agrarian republic, as noted earlier. This new way of life was difficult for many individuals to understand as well: plantations reliant on credit to function, and foodstuffs and manufactured goods imported from other states or Great Britain. This was not the world many expected to find in the wake of the Louisiana Purchase. Individual industry meant little in a world of cotton picked by slaves in which a fortune could be won or lost by fluctuations in distant markets and the easing or constricting of credit. Nevertheless, any observant individual would have perceived that the newfound capital underpinning the establishment of banks and financing plantations

¹¹⁵ Lewis Williams, 'To the Citizens of the thirteenth congressional district of North Carolina' February 20, 1823, 1167, in Noble E. Cunningham and Dorothy Hagberg Cappel, *Circular Letters of Congressmen to their Constituents, 1789-1829*, 3 vols. (Chapel Hill: University of North Carolina Press, 1978). Indeed this volume is full of similar proclamations and celebrations of a weaning of the nation from credit. See Burwell Bassett, 1170-1174, David Trimble, 1174-1187, and onward through pages 1259.

¹¹⁶ See also Johnson, *River of Dark Dreams*. and Rothman, *Slave Country*.

was not native to the region. Given that cash was something invariably in short supply in the early Republic, it had to be coming from elsewhere.¹¹⁷ Likewise, it was equally clear that the majority of cotton harvested was being shipped to Liverpool and not being consumed in a local, regional or even national market.

Obviously, many merchant bankers invested heavily in regional banks in the American South. Aside from providing an open line of credit to the Bank of the United States, Barings had extensive involvement with the plantation banks established in New Orleans. Rothschild had a large, and at times controlling, interest in the New Orleans Canal Bank. The Browns, however, pursued a different path and eventually other banks followed their lead. After the war of 1812 they focused increasingly on the consignment of cotton shipments to Liverpool. In due course, other houses followed suit, but the Browns set the pace and established the business precedents. They also seemed to see earlier the most profitable directions in which to venture, arrived first and tied up the majority of business for themselves. On occasion they did ship cotton on joint account with Southern merchants and also purchased cotton on their own account, usually when they desired to give their ships some weight if they came up light. The firm realized early

¹¹⁷ See Clark, *Rural Capitalism*. See also James A. Henretta, "Families and Farms: Mentalité in Pre-industrial America," *The William and Mary Quarterly* 35, no. 4 (1978); Winifred B. Rothenberg, "The Market and Massachusetts Farmers, 1750-1855," *Journal of Economic History* 41(1981). On market forces in southern society see Genovese, *Political Economy of Slavery*. Wright, *Political Economy of the Cotton South*. and Allan Kulikoff, "The Transition to Capitalism in Rural America," *The William and Mary Quarterly* 46, no. 1 (1989). More recent scholarship that has highlighted the modern elements of the cotton states includes Majewski, *Modernizing a Slave Economy*. Barnes, Schoen, and Towers, *Old South's Modern Worlds*. Schoen, *Fragile Fabric of Union*.

that consignments and a focus on the provision of credit and financial services allowed them to profit from the cotton trade while radically reducing the risk of loss. Since the Browns never actually owned consigned cotton, price fluctuations were less of a concern. Likewise, they developed a system of consigning cotton that became the standard: they retained the bill of lading on all shipments of consigned cotton until it was sold and they were paid. This gave the house an incredible advantage in the trade in Liverpool.¹¹⁸

Generally, advances on cotton ranged between two-thirds to three-quarters of the value of the crop on the local market. An advance of 75 or 80 percent would be risky even when cotton was priced lower. Simply put, an advance on cotton meant that the firm to which the article was consigned would provide the consignor with a portion of the anticipated sale price in advance. The consignor, whether he was a planter, factor, merchant or broker did not have to wait until sale for money – partial payment was made immediately. Upon the eventual sale of the article fees and commissions would be deducted before the final remittance on sold goods was made to the consignor. In addition, factors often carried costs and made advances to planters on crops still in the fields, a more informal type of credit that allowed plantations to bring crops to harvest¹¹⁹

To consider offering an advance over that amount with prices already running inordinately high would be foolish, yet planters found creditors willing to indulge them again and again. William Bowen, the Browns' trusted agent in the South, reflected later in a letter to Joseph Shipley, a partner in the Liverpool house: 'it seems as if the cotton trade was never to be governed by the same commonsense rules that prevail in other

¹¹⁸ See Perkins, *Financing Anglo-American Trade.*, 24.

¹¹⁹ On advances on cotton see *ibid.*, 94-6. Also Woodman, *King Cotton.*, 34-5.

commercial transactions, there seems to be a charm in the great southern staple that leads people out of their sober senses.¹²⁰

In conjunction with increased attention to consignments the Browns moved heavily in the 1820s towards the issuing of letters of credit. In this business they did very well, in no small measure because by 1826 their acceptances were passing ‘in Manchester as cash with as much freedom as ... any other banker in the place which cannot be said of any other Liverpool house.’¹²¹ Their involvement in the extension of credit to merchants on both sides of the Atlantic continued to increase and they became thoroughly involved in these transactions as well as the issuing and acceptance of bills of exchange. Other houses followed in due course, and these various credit mechanisms contributed to an effective expansion of the money supply coursing through this Atlantic system, which fuelled speculation in cotton, banks and other investments in the United States. Since the United States lacked an effective central bank to check much of the speculative activity private merchant banks had much more influence in the financial affairs of the early Republic. The Browns effectively managed these markets in much the same way a central bank might have but for their own ends, sending money through various regions of the United States in conjunction with the seasonal needs for capital in the North, South and western United States.¹²² The incredible wealth amassed by the Browns in the cotton

¹²⁰ William Bowen, "William Bowen to Joseph Shipley," in *Brown Brothers Harriman Records* (New York Historical Society, 1845).

¹²¹ Brown Bros. & Co., New York, to Benjamin Story, New Orleans, April 5, 1826, Brown Brothers Harriman Records, MS78, NYHS.

¹²² Killick, "Cotton Operations." On the Browns' greater accommodation of risk handling bills of exchange, see Perkins, *Financing Anglo-American Trade*, and Killick, "Cotton Operations."

trade up to the passing of Alexander Brown in 1834 qualified them, at this point in time as ‘...one of the premier merchant-banking firms in the Anglo-American economy.’¹²³

The role of credit and financial relationships in the sale of cotton was just as clear to planters, who often relied on factors to keep them apprised of the state of cotton markets.

Often, the most important business relationship a planter established was with his factor. Although private bankers, agents and brokers also purchased and offered advances on cotton in the South, the common belief was that factors provided the best service because it was often so individualized. Because of their congenial relations and in depth knowledge of their clients, factors were generally reputed to have a thorough knowledge of the credit-worthiness and legitimacy of planters and their business activities.

Additionally, their own creditworthiness was key to operating successfully in Southern as well as Northern markets. Consequently, their notes and endorsements were trusted by both banks and the planters. The ability and function of the factor to draw capital resources from around the world, not only in sterling bills but also in French francs and Dutch guilders for tobacco and grain sales to Europe, made the commodity market and the credit structure in the South virtually unique. Factors and agents played a fundamental role in marketing and moving crops, and the structure of the Southern economy made such arrangements both possible and inevitable.¹²⁴

¹²³ Perkins, *Financing Anglo-American Trade*, 34.

¹²⁴ The general role of factors and their expertise is illustrated with plantations records in Woodman, *King Cotton*. 15-29, 40-1, 124-5, 130, 175-86. On endorsements, see *ibid.* 114-8. When banks discounted planters’ notes with their factors’ endorsements, they were lending on promissory notes (accommodation paper) rather which were renewed into long-term loans, issuing second note to pay the first.

Factors were usually held responsible for the marketing, but planters had some influence on their strategies, especially by holding their crop back and waiting for prices to improve. One factor complained that ‘notwithstanding our repeated advices to the planters there are a great many of them who either limit their crops or refuse to send them forward,’ which they thought was caused in part by ‘the anxiety of planters to pick their fields clean during the late fine weather, and not before, remarked the opinion of a large number that our prices must yet advance.’¹²⁵ Although planters at times gave instructions on how they wanted their crop to be marketed and what transactions to make, factors were the experts in handling the crop to generate the highest profit and in the end followed their own judgment more often than not, to the benefit of all parties. Factors were familiar with the various types of cotton and how it was graded. They also tracked annual harvests and predicted price fluctuations according to the annual crop projections. If the amount of cotton in Liverpool was predictably high, prices would most likely drop. They also had cotton inspected by specialized brokers, one of whom wrote to southern planter Rice Ballard, complaining that, ‘so large is the proportion of low washy cotton that has some time past come in,’ that it would not sell in the market.¹²⁶ Liverpool, being the center of the world cotton trade, had a diverse market and often even low and inferior qualities of cotton found buyers. Dupuy, Tate & Nalle indicated at various points to their

¹²⁵ Thomas Barrett & Co. to Jackson, Riddle & Company (hereafter JRC), December 19, 1835, folder 1, Jackson, Riddle and Company Papers, Southern Historical Collection, University of North Carolina at Chapel Hill. Ibid., 181.

¹²⁶ On grading terms of cotton, the Liverpool terminology such as brood, middling, ordinary, fair, and good fair, began to have influence in the U.S., where they would term them such as prime, seconds, inferior, etc, and by 1840, the Liverpool terms dominated. See L. C. Gray and Esther Katherine Thompson, *History of Agriculture in the Southern United States to 1860*, 2 vols. (Washington: Carnegie Institution of Washington, 1933). vol.2 ,719.

client Ballard that it would be to his advantage to 'ship the inferior to Liverpool and intend to have it classed and valued and get an advance upon it.'¹²⁷

All of these activities contributed to the expansion of the money supply nationally, as well as regionally. In the South it must have seemed money multiplied or expanded in the sunshine. All of these bills and advances meant more paper that passed as money was moving through the economy, and this paper, like cotton with plantation banks, served as collateral for the lending of yet more money. This is a process bound to create trouble on its own, as has been seen again and again in various times and places. Another way in which all of this financial activity increased the money supply and precipitated the panic of 1837 was with the issuing of racehorse bills, or bill kiting. These bills too increased the money supply. Racehorse bills were a type of accommodation paper often used to assist planters, or factors, when they had not received payment for the sale of the planter's cotton but their bills had matured. In these cases the factor would issue a draft on a partnership firm in another city and then have this bill discounted at a bank. Then the factor would use these funds to pay off the initial matured bill. With this technique, factors were able to hedge. They could provide additional credit to planters, hold cotton inventories for sale at better prices, purchase more cotton and not pay until funds came through from New York or London to retire the debts. This problem became compounded in places like New Orleans and Natchez when these mercantile credits were

¹²⁷ Thomas Barrett to JRC, October 7, 1836, folder 7; Bryne Hermann & Co to JRC, February 20 1836, folder 2; and unknown author to JRC, February 17, 1836, folder 3; all from Jackson, Riddle and Company Papers. Dupuy Tate and Nalle to Ballard, December 31, 1842, folder 57, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

cashed with banks, in that way becoming bank credits, and the bills becoming part of a bank's reserve.¹²⁸

As more cotton was planted and sold, all these forms of speculative activity increased. Speculation in the article increased as well, with frenzied buying from 1824-6 driving the commodity to excessive heights and resulting in a corresponding crash in price later in 1826. Prices fell by a third in the autumn of 1826 and many Liverpool houses involved in the American trade suspended payments, including Peter Pole and Company, one of the larger Liverpool cotton houses. Five London houses were pulled down in their wake. The frenzied monetary expansion of the early 1820s was over. This crash, unlike the panic of 1837, had far greater effects in England than the United States, and resulted in a bullion drain and 20 percent drop in specie.¹²⁹ The resolution of this crisis, in the form of an accidental intervention by the Bank of England, lends credence to the effectiveness of a lender of last resort. At the depths of the panic, Bank of England employees miraculously found a massive stash of £1 notes that had been previously taken out of circulation. As Bank of England Governor Jeremiah Harman later explained to Parliament, an old box containing a quantity of one-pound notes had been overlooked, and they were forthcoming at the vital hour.¹³⁰ Buoyed with a larger reserve of notes than had been thought, the Bank increased its discounts accordingly, and the crisis began to

¹²⁸ See Green, *Louisiana Banking*, ch. 3

¹²⁹ J. H. Clapham, *The Bank of England: A History*, 2 vols. (Cambridge: Cambridge University Press, 1945).

¹³⁰ Lawson, *History of Banking*, 113; and Frank Whitson Fetter, *Development of British Monetary Orthodoxy, 1797-1875* (Fairfield: A. M. Kelley, 1978). Samuel Evelyn Thomas, *The Rise and Growth of Joint Stock Banking* (London: Sir I. Pitman & Sons, Ltd., 1934). 56.

subside. The mysterious box of £1 notes, Governor Harman later testified, ‘saved the country.’¹³¹ Asked in Parliament whether there had been any foresight regarding the box of notes, Harman vehemently denied it.¹³² This accidental move on the part of the Bank of England effectively ended the crisis, but not the questions that began to percolate around British investment in American cotton, questions that would become more pronounced in the 1830s. In the interim, many English merchant-manufacturers who had previously been active in cotton operations pulled out of American markets, leaving the field open for larger merchant bankers eager to invest their capital in ventures that offered more potential for profit than was available in England or Europe. Given the conditions in Europe many Anglo-American houses were eager to invest in the United States, especially in cotton, in spite of the risks.

Throughout the early 1830s the price of cotton increased steadily as the United States economy expanded. From 1834 to 1836 the price of cotton rocketed skyward, bolstered in large measure by access to easier credit in the southern United States. By 1835 there were close to 700 banks operating in the American South, and over the course of the decade another 200 would open their doors for business with a total capital that exceeded \$358m.¹³³ Large advances on crops became common and the price of cotton rose in markets in New York and Liverpool. As cotton continued to rise in price and become more widely available, banking practices, most notably credit mechanisms, were

¹³¹ William John Lawson, *The History of Banking* (London: R. Bentley, 1855), 113

¹³² Clapham, *Bank of England*, 100.

¹³³ Larry Schweikart, *Banking in the American South from the Age of Jackson to Reconstruction* (Baton Rouge: Louisiana State University Press, 1987), 48-9

increasingly developed in accordance with the dictates of commercial production and marketing of the commodity. Cotton not only served as security for advances; when specie was scarce it also served as a reserve for the issue of notes, and as collateral for the issuing of stock by property or plantation banks.¹³⁴ However they were ultimately financed, whether privately or capitalized by states, property banks sold bonds to planters, who paid for their stock with mortgages on their estates for up to two-thirds of their market value. The banks, or in some cases, states, then issued bonds backed by this mortgage pool and typically sold them for working capital in the money markets of the Northeast, or in London.¹³⁵ Subscribing planters could then borrow from the fund thus created, pledging their crops as security.¹³⁶ So long as commodity prices held reasonably steady – and this was the key - the land bank system in the South provided capital and credit to a region chronically short of both. Cotton planters needed it and the banks provided one way they could convert cotton into cash, often employing British and Northern capital to do so.

Part of the problem here was all the forces that might exert pressure on the price

¹³⁴ Irene D. Neu, "J. B. Moussier and the Property Banks of Louisiana," *Business History Review* 35, no. 4 (1961).; Ralph Willard Hidy, "The Union Bank of Louisiana Loan, 1832. A Case Study in Marketing," *The Journal of Political Economy* 47, no. 2 (1939). and Schweikart, *Banking in the American South*. In colonial America, and the early American Republic other commodities served as currency as well, to compensate for a lack of cash. On coffee see Michelle Craig McDonald, "From Cultivation to Cup: Caribbean Coffee and the North American Economy, 1765-1805" (University of Michigan, 2005).

¹³⁵ It is worth noting that Barings offered the bonds issued by the Union Bank of Louisiana on the markets in London and in cooperation with Hope & Co. on markets in Amsterdam.

¹³⁶ Schweikart, *Banking in the American South*.; Neu, "J. B. Moussier."; Hidy, "Union Bank."; Jenks, *Migration of British Capital*.; Austin, *Baring Brothers*., 32-6 and Richard Holcombe Kilbourne, Jr., *Slave Agriculture and Financial Markets in Antebellum America: The Bank of the United States in Mississippi, 1831-1852* (London: Pickering and Chatto, 2006).

of cotton from one year to the next. Aside from environmental threats, damage to the cotton crop as a whole through weather or pestilence, there might be a glut of cotton – overproduction or decreased demand; all these factors contributed to fluctuations in price. But these were all only one piece of the puzzle. Cotton was a commodity produced and sold in an international market, a point highlighted by Benjamin Story, the New Orleans agent of the Browns, in a letter to Isaac Franklin, a slave trader, in 1835. Story noted that, regarding cotton ‘future prices depend on the raw material at Liverpool and Havre and at the manufacturer in England.’ He went on to note that the house was receiving reports that prices were currently too high, which would likely precipitate a decline in price by the end of the season. He also pointed out that despite the prediction that supply from the United States to Liverpool would be lower ‘the expected prices from Egypt and Bombay will have an effect to put down prices.’¹³⁷ Story also ominously noted that ‘agitation for the abolition of slavery will cause those who have money out on interest in this country to withdraw those funds from this country.’¹³⁸ Although Franklin was a slave trader, his world revolved around the elusive white boll as well and he understood the links between slavery, cotton and credit as well as the fact that the price of slaves was tied to the price of cotton.¹³⁹

It did not help that reckless speculation characterized the business throughout the antebellum period. Investment in cotton, and American operations generally, was widely

¹³⁷ Benjamin Story to Isaac Franklin, August 30, 1835, folder 17, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

¹³⁸ *Idem*.

¹³⁹ See Johnson, *River of Dark Dreams*.

understood to be risky. As N. M. Rothschild & Sons noted in a letter to Alphonse de Rothschild, son of the head of the Paris house, James de Rothschild, during his American travels: ‘you will find while living among the Americans, that they are too fast in many more ways than with their horses. We have noticed ...that upon getting our orders + credits in America they had a notion they were ‘great guns’ + that they could not do things on too large a scale or draw too largely on our capital.’¹⁴⁰ Quite frequently, advances were made on cotton for the convenience of the planter or agent and to provide an incentive to use the services of a particular firm. The lack of sense in both their granting and acceptance had pronounced repercussions. In the 1830s demand for cotton was often high and firms were more forthcoming to secure business. Agents and factors frequently offered advances backed by larger merchant-banking houses. The amount of the advance was important; too large an advance often meant a ‘reclamation’ on the shipper when the advance was secured with cotton. In cases where advances had not been secured, or plain and simply been beyond the planter’s capacity to meet the debt, firms had to suspend payment. S. L. Josephs & Sons, the New York agent of the Rothschilds until 1837, are but one example. They became over involved in mortgages on real property in the South and were compelled to suspend payment in March 1837. As they explained the situation to the Rothschild London house, they were taken down by the fall of associates in the South: ‘The unexpected suspension of Mssrs Hermann Briggs + Co. of New Orleans carrying with them Mssrs. Tho. Barrett + Co. and Mssrs Saint Germann + Co. ... for all of whom we are under acceptances to an amount exceeding two millions of dollars in the aggregate making it impossible for us to continue our own payments. ...

¹⁴⁰ N. M. Rothschild & Sons, London, to Alphonse de Rothschild, December 27, 1848, 58/1/224, The Rothschild Archive, London, (hereafter RAL).

This unfortunate occurrence has, as you may imagine, given a severe blow to our credit + we shall no doubt experience for some time considerable difficulty...'¹⁴¹ Invariably firms did what they could to avoid a loss, but at times prudence seemed to take a back seat to greed. Often, when planters were unable to pay, the end result was a loss of slaves or the entire plantation for the planter and a highly resented lock-up of funds for the imprudent creditor.

By 1835, some actors in American markets, notably Thomas Wren Ward and Joshua Bates, the American agent for Barings and a partner in the London house respectively, had noted the formation of what we would call a bubble in cotton markets and anticipated a decline in cotton prices. Ward in particular spotted trouble and in a letter to Joshua Bates voiced agreement with his dour assessment of American markets. 'If your views of cotton are correct, business must be lessened considerably....we are now on top of a wave. It requires care in descending.'¹⁴² Ward also noted that the competition was fierce and that this created chaos in the markets because '...there is very little calculation to be made on what others are willing to do.'¹⁴³ The frantic activity and abundance of easy credit in Southern markets contributed to rising cotton prices, along with advances. The cotton and the credit make this an Atlantic story. The origins and effects of this panic, likewise, are Atlantic in nature, with the effects of policies set in

¹⁴¹ "J. L. & S. Joseph & Co., New York, to N. M. Rothschild & Sons, London," (The Rothschild Archive, London, 1837).

¹⁴² Thomas Wren Ward to Joshua Bates, October 10, 1835, Baring Brothers and Company, Public Archives Canada.

¹⁴³ Ibid.

London altering the lives and actions of cotton planters, and yeoman farmers as well as slaves picking cotton on plantations in Louisiana and Alabama.

Empowered by Parliament to maintain the value of British paper money, the Governor and Directors of the Bank of England faced the daunting task of ensuring that the supply of gold coins in their vaults could sustain the circulation of paper money and simultaneously produce profits for private stockholders. Apart from selling shares in long-term Government loans, they made money by ‘discounting acceptances’ or using its specie to buy bills of exchange for slightly less than face value with the understanding that the commercial paper would be redeemable for the full value in specie after a short period of time.¹⁴⁴ The Directors raised or lowered the discount rate, the amount they charged for these short-term loans, based on the supply of coins in the Bank’s vaults. Low discount rates encouraged higher volume of trade. When the vaults emptied, the Bank of England raised discount rates to protect the specie reserved for the currency.¹⁴⁵ The Bank of England was obligated to protect the national currency, even at the expense of international trade. Thus, the currency was steadied as mills in Lancashire eventually slowed down or closed because of the chaos generated in markets across the Atlantic and the disruption of the American cotton market. In this way a policy decision in the Square Mile was felt by an enslaved family in Louisiana or influenced the decision of a planter to

¹⁴⁴ On discounting bills see Perkins, *Financing Anglo-American Trade.*, 6 and Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-building* (Cambridge: Cambridge University Press, 2000); *ibid.* 148-9.

¹⁴⁵ Joshua Bates explains the mechanics of raising discount rates in his letter to the Bank of England, see: Joshua Bates to Directors of the Bank of England, October 26, 1836, in ‘Committee of the Treasury Minute Book,’ vol. 22, G8/29, Bank of England Archive.

send cotton to market, and of a broker to purchase it.

Although there were many sources of London merchant banking capital, the Bank of England was by far the largest and most powerful bank. It had acted as an effective lender of last resort for the government, ensuring that the British Empire remained solvent during the panic of 1826. As a lender to private merchant banks, the Bank's responsibility in a crisis was less clear. Nevertheless, because it became involved in the discount trade it was also tied to global trade and finance, and when London merchant bankers extended credit to cotton brokers, factors and agents in New York or New Orleans, they loaned Britain's specie to the United States and used British capital to support American financial and economic development.¹⁴⁶ Thus the policies of the Bank of England directly affected planters, factors and even yeoman farmers in the American South. The credit and discounting policies of the Bank of England reverberated through the American South, a fact lost on many but abundantly clear to the heads of Anglo-American houses, as is demonstrated by Joshua Bates' increasing concerns regarding the Bank's policies and their effects in global markets. In May of 1836, Bates grew concerned when he heard 'a good deal of talk about gold going out and a sentiment of money matters in the City.' While Bates felt some inquiry into specie flows and American markets would 'probably do good,' he was rightly worried that 'if carried too

¹⁴⁶ For more on the guiding principles of the Bank of England, see Clapham, *Bank of England*; Larry Allen, *The Global Financial System, 1750-2000* (London: Reaktion Books, 2001). 72-81 and Andreas Michaël Andreadēs, *History of the Bank of England, 1640-1903*, 4th ed. (London: Cass, 1966). For a history of the Bank that links its policies to imperial debates around political economy, see Daniel M. Abramson, *Building the Bank of England: Money, Architecture, Society, 1694-1942* (New Haven: Yale University Press, 2005).

far it must end in panic.’¹⁴⁷ The talk in the City eventually spread, and investors far outside the Square Mile grew alarmed. Having recently agreed to sell a bond issue for a Louisiana state bank, Bates’ correspondents in Amsterdam complained that newspaper reporting on American banking ‘was not calculated to strengthen the confidence in trans-Atlantic loans.’¹⁴⁸ Bates recorded in his diary that ‘the Newspaper contains accounts of the great increase of Banks in the U.S. and expressed fears that seem well founded that a crisis may happen in consequence.’ He concluded, ‘we must prepare for consequence.’¹⁴⁹ London houses, aware of the turning of the tide, braced themselves. In the meantime, planters went about their daily activities, slaves picked cotton, and cotton and capital continued to circulate across the Atlantic.

Because of the interweaving of national responsibilities and involvement in international trade, the Governor and the Directors of the Bank of England were particularly concerned by the reports of the instability of the American financial system. In the months leading up to August, the Bank of England’s bullion holdings had declined by more than two million pounds, forcing the ratio of paper in circulation to metallic reserves well under the Bank’s target of thirty percent.¹⁵⁰ The Governor became convinced that his institution was losing specie because London investors were sending it

¹⁴⁷ Diary of Joshua Bates, June 18, 1836, Dept 74, vol. 3, The Baring Archive, London.

¹⁴⁸ Hope & Co to Baring Bros., May 3, 1837 HC.8.1.1836, The Baring Archive, London.

¹⁴⁹ Bates Diary June 18, 1836, Dept 74, vol. 3, The Baring Archive, London. For more on Joshua Bates see Austin, *Baring Brothers.*, Hidy, *House of Baring.*, and Philip Ziegler, *The Sixth Great Power: A History of One of the Greatest of All Banking Families, the House of Barings, 1762-1929* (New York: Knopf, 1988).

¹⁵⁰ Andreadēs, *Bank of England.*, 265.

to the United States to supply capital to America's many new banks, many located in the American South. Joshua Bates warned Ward in early July that 'the Governor of the Bank pretends to be or really is most alarmed about the gold going to America and the amount of American bills in circulation.'¹⁵¹ Troubled by declining specie levels it seems the Directors focused on withdrawals of gold from the vaults not considering that their coffers might have been fuller than reasonable because of gold pouring in after the end of the East India Company's monopoly on trade with China as well as the indemnity to compensate slave owners after the 1834 Emancipation Act. Thus, rather noting what had come in, they focused only on the depletion of their coffers, and then blamed the American trade for the reduction of specie.

While the Bank could not control the American financial system, it could influence British firms that offered commercial credit to American merchants and sold American bonds and stocks to British investors.¹⁵² In 1836 it seemed the Bank would no longer offer American houses the opportunity to discount bills of exchange. While bills of exchange were not directly tied to American banks or bank money, they were the principle financial instruments traveling between firms in the United States and London. Thus, the Bank would no longer provide short-term loans for firms that sold American stock, bonds, and other type of paper 'however high may be their standing and credit.'

¹⁵¹ Bates to Thomas Wren Ward, July 9, 1837, LB5C, The Baring Archive, London.

¹⁵² Clapham, *Bank of England.*, 149, 152. See also Andreadēs, *Bank of England.*, 273-7. Economic historians have demonstrated that the specie supplies in America were composed primarily of Mexican silver, not English gold, thus the Bank of England's coins had not literally traveled across the Atlantic. Finally, the Bank 'lost' about \$17 million in gold and the United States imported only \$7 million in 1835. For the larger argument around global specie flows as the cause of the Bank of England's fluctuating specie levels, see Clapham, *Bank of England.* 145-54, and Temin, *Jacksonian Economy.* 136-9, 173.

This policy of not accepting commercial paper threatened the reputations of individual firms as well as investors' confidence in the larger Anglo-American trade. Wiggin passed this information along to his firm's American correspondents warning of dire consequences. He wrote, 'this decision places all houses in jeopardy that do business with American dealers in British merchandise.' In response, he announced that his firm would contract the credit offered to American dealers in British merchandise. This letter, published in American newspapers, should have warned American confidence brokers and cotton merchants of the coming contraction of British credit.¹⁵³ Apparently the news traveled faster and with greater effectiveness in Great Britain. The cashier of the Bank of England's Liverpool branch 'notified all the Banks at Liverpool' that he had received orders to no longer accept the paper of American houses. England's Liverpool-based cotton merchants had extended millions of pounds of credit to American cotton factors. They expected the year's harvest to be easily large enough to cover their debts and turn a profit, but the cotton had not yet arrived. While they waited for shipments from such places as New Orleans, Natchez and Mobile, Liverpoolian merchants and bankers would be ruined if they could not continue to discount their bills. News of the Bank of England's decision 'excited such alarm that a deputation came immediately to London' to seek the repeal of what Joshua Bates termed 'the obnoxious edict.'¹⁵⁴

At the end of August 1836 the Treasury Committee members met with William Brown, the head of Brown Brothers' Liverpool office. Brown recognized that the decision not to discount bills would be disastrous for the American trade, his family's

¹⁵³ *The Times*, London, October 28, 1836.

¹⁵⁴ Joshua Bates to Thomas Wren Ward, September 6, 1836, LB5C, The Baring Archive, London.

firm and his own personal fortune. He offered calculations to ‘convince that the Bank has not at present any cause to apprehend a further drain of Gold’ to the United States. Brown blamed the specie drain of the previous months on the ‘measures of the President’ arguing that ‘to guard themselves against a run from their opponents ... [the banks] deemed it advisable to have more specie in their vaults than usual.’ Brown believed that political power struggles had threatened financial security but that the Specie Circular and distribution of the federal surplus had not precipitated a crisis because American banks acted wisely.¹⁵⁵ Contrary to the argument in the *Times* article, Brown asserted that American banks were drawing specie not to finance. Thus, Brown reinterpreted the drain on British specie as a reason for increased confidence in American banking rather than a source of doubt.

Brown’s letter made explicit to the Bank of England the folly of their policies. Historians estimate that at this juncture approximately \$175 million of British capital was invested in American financial securities and tens of millions more financed American commercial endeavors.¹⁵⁶ The British had invested a staggering amount of money and these funds effectively integrated the two economies through cotton. Brown informed the Directors that in the week following the Bank’s decision to no longer discount the bills of exchange of American houses, textile factors dealing in the Manchester market

¹⁵⁵ The Specie Circular limited payment for federal lands to gold or silver coin. Issued after Congress went into recess for the summer, Jackson hoped that this executive measure would check land speculation and prevent the increase in the circulation of bank paper that he assumed would follow the Deposit Bill. The Specie Circular however did not have the desired effect. Instead, it caused coin to be shipped from financial centers to peripheral frontier outposts. For more on the Specie Circular and American concerns over repayment of international debts in the aftermath see Wilentz, *American Democracy*. 443-7.

¹⁵⁶ Jenks, *Migration of British Capital*. 84-5.

‘suspended their orders as far as practical and apprised their correspondents in America of the measure taken by the Bank of England.’ Liverpool cotton prices fell, but after traders learned that the Bank had heeded Brown’s advice and agreed to continue discounting American paper, the cotton market rebounded. Even after Brown’s interview, one merchant sought his advice regarding whether ‘it would be safe to go on with the purchase of goods on American accounts.’¹⁵⁷ Not for the first or last time, and not without reason, involvement with cotton and the American trade generally was perceived to be highly risky.

Joshua Bates felt the Bank of England had been ‘playing some shabby tricks’ and predicted that this would cause ‘a crisis in the U. States.’ Having acted quickly by contacting Thomas Wren Ward earlier in the summer, Bates felt that Baring Brothers would stand to lose ‘not much probably.’ Nevertheless his outlook was not nearly as sanguine for other American houses.¹⁵⁸ He wrote to Ward, in Boston, that, ‘the Bank seem [sic] incompetent and unqualified to comprehend what they are about.’ With ‘incompetent’ men playing ‘tricks’ with the American trade, Bates instructed Ward to buy Barings’ own bills in order to ‘avoid getting loaded with a description of paper that will be no use in case of extreme pressure.’¹⁵⁹ Bates wanted to avoid holding bills of exchange that might be dishonored when firms lost liquidity and failed to pay their debts; purchasing debts drawn on his house would prevent Barings becoming a creditor of

¹⁵⁷ Minutes, September 7, 1836, Committee of the Treasury Minute Book, vol. 22, G8/29, Bank of England Archive.

¹⁵⁸ Bates Diary, September 17, 1836, Dept 74, vol. 3, The Baring Archive, London.

¹⁵⁹ Joshua Bates to Thomas Wren Ward, September 9, 1836, LB5C, The Baring Archive, London.

bankrupts. Ward was instructed to ‘manage cleverly so as not to let slip any word of hostility towards any one.’¹⁶⁰ While he anticipated that his actions might increase economic difficulties in the United States, he also realized that ‘we cannot prevent a crisis on the U. States.’¹⁶¹

As September turned to October in 1836, the Bank of England continued to threaten the discounting privileges of American merchant bankers. Joshua Bates fumed that ‘the Bank has been on very bad principles for the last 18 months and it will be difficult to get matters righted.’¹⁶² Nevertheless, he recognized that the Bank of England’s folly left him in a very advantageous position, one he pointed out to Thomas Wren Ward in Boston: ‘we think the present crisis will operate beneficially for us and if a stop is put to the circulation of competitors we shall have the field to make ourselves.’ The Bank’s incredibly conservative monetary policies would bankrupt American houses that lacked capital reserves. Bates’ early awareness of the situation transformed the position of Barings from one of vulnerability to one of advantage in a troubled market. A master confidence broker, Bates anticipated the crisis and laid foundations for a future where the Bank of England, other American Houses and American correspondents would look to Barings for credit.¹⁶³ Of course, events did not play out exactly as he had envisioned.

¹⁶⁰ Joshua Bates to Thomas Wren Ward, ‘Private,’ September 9, 1836, LB5C, The Baring Archive, London.

¹⁶¹ Joshua Bates to Thomas Wren Ward, September 9, 1836, LB5C, The Baring Archive, London.

¹⁶² Bates Diary, October 9, 1836, Dept 74, vol. 3, The Baring Archive, London.

¹⁶³ Joshua Bates to Thomas Wren Ward, September 14, 1836, LB5C, The Baring Archive, London.

Like Barings, the Browns stepped back quickly, both in their discounting activities and their involvement with cotton markets. Although both firms missed claiming a share of the profits in 1836, they also avoided the catastrophic losses of the following year. Alexander Brown & Sons held their ground going into the 1836-7 season stating, 'as regards cotton we have made up our minds to do nothing in it this season except to put a few hundred bales in our ships to give them a start in freight.'¹⁶⁴ They further made clear they were not willing to advance over three-quarters or four-fifths of the present value of cotton, in spite of higher advances offered elsewhere. In the summer of 1836 President Jackson ordered the secretary of the treasury, Levi Woodbury, to issue the specie circular in an attempt to curtail rampant speculation in public lands paid for with paper money of questionable value. The circular permitted the use of paper money by settlers for purchases up to December of that year. Yet money continued to course through the American markets, and because of the amount of credit already extended and sundry bills moving through the system, the money supply continued to expand.

In January of 1837 the price of cotton began to decline, right at the height of the season. The timing of the fall in prices was particularly troubling given that the tumble commenced as cotton was coming to market, consignments and advances often already made. From January to May the price of cotton declined by 18.5 percent in New Orleans. By April, cotton prices were 30 percent lower than a year previously, a catastrophic decline following a boom period from 1832 to 1837 where cotton prices had consistently risen between January and April. Shippers from New Orleans lost 18 percent on cargoes to New York and 15 percent on those destined for Liverpool. For many firms involved in

¹⁶⁴ Cited in Perkins, *Financing Anglo-American Trade*. 99. See also Bruchey, *Cotton*; *ibid*.

the speculative frenzy and already overextended from bloated advances, the losses were unsustainable.¹⁶⁵ Financial houses, agents and factors began to fall like dominoes as all actors began calling in debts, creating a shortage of money. It is important to note here that British capital played such a large role in financing the American economic boom of the 1830s, that the mere threat of the withdrawal of funds actually provided a legitimate cause for panic in every city and town connected with the global economy.¹⁶⁶ In many ways, the panic is made comprehensible through this fact alone. But the point is few Americans, aside from bankers and savvy players in cotton markets, were thinking about the vital role played by British credit in the American economy at the time.

Why is the panic of 1837 so vitally important to the trade in cotton? What happened and what can we learn from it? According to Charles Kindleberger and, by extension, Hyman Minsky, bubbles have a general form; they are not unique or necessarily historically specific and have common characteristics.¹⁶⁷ Bubbles generally form in reaction to some type of displacement or shock. This can be a political event, bumper harvest, financial success, or an unanticipated change in monetary policies. I

¹⁶⁵ For cotton prices see Bruchey, *Cotton.*, table 3-P.

¹⁶⁶ For the economic growth of the 1830s, see North, *Economic growth*. 68, 189-203; Robert E. Gallman, "Economic Growth and Structural Change in the Long Nineteenth Century," in *The Cambridge Economic History of the United States: the Long Nineteenth Century*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000). 9, 23; and Stuart M. Blumin, "The Social Implications of U.S. Economic Development," in *The Cambridge Economic History of the United States: the Long Nineteenth Century*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000)., 813-63. Few American historians have recognized the significance of British investors in bringing about the economic crisis that ended the 1830s. For exceptions, see Bray Hammond, *Banks and Politics in America, from the Revolution to the Civil War* (Princeton: Princeton University Press, 1957).457; and Hidy, *House of Baring*. 207.

¹⁶⁷ See Kindleberger, *Financial History*; *ibid.*; Hyman P. Minsky, *Stabilizing an Unstable Economy* (New Haven: Yale University Press, 1986).

would suggest, also, the surprising surge of employable cash into a system, very much like what occurred in the United States from 1826 forward as British investors sought to effectively employ their capital. This displacement creates a boom, with investment and productivity increasing. The boom is fed with an expansion of credit that enlarges the total money supply, whether in the form of bank notes, or credit mechanisms. In the southern United States banks opened and were capitalized with European funds, cotton and, occasionally, slaves. At this point, numerous European firms were eager to enter the cotton trade either by granting credits, negotiating exchange or buying cotton outright. The eagerness of Anglo-American firms to employ their capital profitably, in conjunction with the opening of numerous Southern banks, resulted in a large influx of capital into the American South. It is indicative of the sheer volume of money passing through the cotton South that two of the most active branches of the Bank of the United States were located respectively in New Orleans and Natchez, before 1837.¹⁶⁸ The end result was that money flowed, credit was widely available and this fueled speculative activity. Kindleberger specifically notes that money supply can be increased through an expansion of the existing system of banks, the development of new credit instruments and the increase in availability of personal credit outside of banks. In the cotton belt, all three occurred and drove the inflation of cotton prices.¹⁶⁹

¹⁶⁸ Hidy, *House of Baring*, 180.

¹⁶⁹ Kilbourne, *Slave Agriculture*; *ibid.* Schweikart, *Banking in the American South*.; Perkins, *Financing Anglo-American Trade*. and Austin, *Baring Brothers*. On the expansion of banks and development of financial instruments like cotton as currency, discount paper, bills etc. On credit supplied outside the banking system see Kilbourne, *Slave Agriculture*. and Elbra David, "In Pursuit of their Livelihood". Credit and Debt Relations Among Natchez Planters in the 1820s," in *Southern society and its transformations 1790-1860*, ed. Susanna Delfino, Michele Gillespie, and Louis Kyriakoudes (Columbia: University of Missouri Press, 2011). 217-49.

The expansion of money fuels euphoria and the manic purchasing of certain articles, like tech stocks and real estate at the dawn of the twenty-first century, and cotton in the 1830s. What is clear is that whatever terms we use to describe these financial processes they become enmeshed in the larger movements of capital, and these crises have very real consequences that profoundly influence the distribution of wealth and resources.¹⁷⁰ As economists so often point out, somebody always benefits, the question on any given day is who.¹⁷¹ When bubbles form, it looks very easy to make money. It almost seems that one cannot lose, because assets keep inflating, rising in price. In the 1830s, as firms and individual actors saw others making money from purchases of cotton and sales they also entered the market. Eventually, the allure of easy money pulled in even those who would normally have no such involvement, and a market that might still have been governed by some modicum of rationality became manic. One example would be Rice Ballard, a former slave trader who moved west, bought some land and entered the cotton trade. Ballard had more awareness of the intricacies of the cotton business than most but his entry into cotton planting suggests a lack of awareness of global financial currents in advance of the panic. Had Ballard been cognizant of the actions of the Bank of England and their impact on American financial markets one would assume he would have delayed his plantation purchases. In the end, he acted with the herd that was pulled

¹⁷⁰ See Edward Baptist “Toxic debt, liar loans, securitized human beings and the panic of 1837” in Michael Zakim and Gary John Kornblith, *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America* (Chicago: University of Chicago Press, 2012).69-90. See also John Cassidy, *How Markets Fail: The Logic of Economic Calamities*, 1st ed. (New York: Farrar, Straus and Giroux, 2009). and additionally Justin Fox, *The Myth of the Rational Market: A History of Risk, Reward, and Relusion on Wall Street* (New York: Harper Business, 2009).

¹⁷¹ See N. Gregory Mankiw, *Principles of Economics* (Fort Worth: Dryden Press, 1998).

into investment in cotton in a way that has been seen over and over again.¹⁷² As more people were pulled into the frenzy a larger and larger group sought to profit without understanding the mechanisms of the market, or the fundamentals of exchange.

Obviously this generated chaos, as individuals followed the herd and began to act en masse. As the speculative boom grew, interest rates, the velocity of circulation and prices continued to rise. Eventually, what some would term smart money moved out as insiders cashed in and took their profits. The fact is, for the seasoned traders and many of the bankers with ties to the City of London it was abundantly apparent that money would become tighter because of the policies of the Bank of England. The moniker would include most Anglo-American financial houses, well aware of the formation of an anomaly in the cotton trade and changing sentiments among merchant bankers. At the height of the market, this appeared as hesitation. What is often referred to by traders as 'hot money' moved on. Savvy investors pulled their money out of cotton earlier and invested in other ventures, or held their resources in cash. Meanwhile, newcomers bought in as prices hit new highs, giving way to an uneasy period of financial distress as some firms and actors begin to contemplate the possibility that they might fail to meet their obligations. For many actors in the financial world of early 1837 the dawning realization that people were moving away from cotton and prices were beginning to fall resulted in the dumping of cotton and discount paper quickly in attempts to get hold of cash. This race to get out became a stampede and firms failed on both sides of the

¹⁷² For a historical overview of this type of behavior see Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009).

Atlantic as everyone called in debts in vain attempts to meet their own liabilities.¹⁷³

In May 1837, as the panic reached its apex, meaning in fact that business had come to a complete standstill, newspaper editors and elite financiers cast the crisis in larger political terms, pointing to the banking wars as the impetus for the crisis. A fair number of historians have agreed, perhaps taking their sources too much at face value, and considering the panic through the narrow lens of the bank war between Andrew Jackson and Nicholas Biddle. In 1967, Peter Temin's *The Jacksonian Economy* challenged this interpretation, arguing that shifting global specie flows throughout the 1830s caused the crisis.¹⁷⁴ Some have also suggested that cotton and cotton markets played a larger role than has been appreciated.¹⁷⁵ Given the importance of cotton to the American economy, its pivotal role in British textile production, and the amount of British capital caught in the financial web spun around its production, shipping and sale it is safe to say cotton played some role.

¹⁷³ Charles Poor Kindleberger and Robert Z. Aliber, *Manias, Panics, and Crashes: A History of Financial Crises* (Hoboken: John Wiley & Sons, 2005); *ibid.* 38-90. See also Kindleberger, *Financial History.*, 264-80.

¹⁷⁴ Temin, *Jacksonian Economy*. On the larger historiography of the panic of 1837 see: Arthur M. Schlesinger, *The Age of Jackson* (Boston: Little, Brown and Company, 1945); Hammond, *Banks and Politics*. Glyndon G. Van Deusen, *The Jacksonian Era, 1828-1848* (New York: Harper, 1959).; James Roger Sharp, *The Jacksonians Versus the Banks: Politics in the States after the Panic of 1837* (New York: Columbia University Press, 1970).; John M. McFaul, *The Politics of Jacksonian Finance* (Ithaca: Cornell University Press, 1972). and Meyers, *Jacksonian Persuasion*. For a critique of the entrepreneurial-consensus school, see: Edward Pessen, *Jacksonian America: Society, Personality, and Politics* (Homewood: Dorsey Press, 1969). Harry L. Watson, *Liberty and Power: The Politics of Jacksonian America* (New York: Hill and Wang, 2006). On the general historiography of panics and economic contraction see Nouriel Roubini and Stephen Mihm, *Crisis Economics: A Crash Course in the Future of Finance* (New York: Penguin Press, 2010); Reinhart and Rogoff, *This Time is Different*; Cassidy, *How Markets Fail*. and more critically Fox, *Myth of the Rational Market*.

¹⁷⁵ Killick, "Cotton Operations."

Many associates of Anglo-American houses likely would have agreed. The Browns in particular had developed more negative views of the cotton business over the course of the 1830s and when Alexander Brown passed away in 1834 the four sons met and discussed the future direction of their activities. In the decade between 1825 and 1835 the Browns' combined capital had grown from \$1, 531,000 to \$4,957,000.¹⁷⁶ The brothers were well aware of the fortune they had amassed from operations in cotton but were also quite cognizant of the attendant risks and increasing chaos in markets. The brothers contemplated the choice before them: to continue in merchant banking, with all the vagaries and stresses attendant on an increasingly volatile cotton trade, or to expand into other global financial markets. They all agreed, with varying degrees of enthusiasm that '...we had better curtail rather than extend operations... we shall confine ourselves chiefly to our exchange & commn business keeping that as moderate as we can, employment of capital being more an object now than acquisition of further wealth.'¹⁷⁷ This echoed the spirit of N. M Rothschild's advice to a brewer in London at roughly the same period that 'it requires a great deal of boldness, and a great deal of caution, to make a great fortune; and when you have got it, it requires ten times as much wit to keep it.'¹⁷⁸ Speculation in cotton was simply not as enticing when the preservation of wealth was given precedence over the potential of high returns. Thus, although cotton might be one very compelling way to make a fortune, it was no place to preserve one and after the brothers completed a thorough analysis of their business activities and investments, they

¹⁷⁶ Perkins, *Financing Anglo-American Trade*. 34.

¹⁷⁷ *Ibid.*, 35.

¹⁷⁸ Thomas Fowell Buxton and Charles Buxton, *Memoirs of Sir Thomas Fowell Buxton, Bart* (London: [s.n.], 1849).293.

concluded that consignments of cotton were not as lucrative as in the past, and shipping was not worthwhile either. They quickly saw that restricting themselves to banking would prove the most profitable and least risky path.¹⁷⁹ Shortly thereafter, the dry goods section of the New York office was sold off to Amory Leeds & co.¹⁸⁰ This strategic focus on the performance of financial services for foreign trade was prescient, and the Browns emerged from the financial panic of 1837 with minimal losses but this was due in part to a fortunate two million pound loan negotiated from the Bank of England at the eleventh hour.¹⁸¹

Whatever explanation is employed, whether the panic is attributed to specie flows, overextension in cotton markets or the lock up funds because of Jackson's bank war the reality is that in 1837, the financial contraction led to the fall of virtually all the key players in the Southern cotton market and the suspension of quite a few larger New York firms with involvement in Southern commerce as well. Prices fell and suspensions were widespread as it became clear there was simply not enough cash to cover all the debt and the Bank of England's restrictive policies regarding discount paper did play a role. Regardless of the cause, the end result was what Minsky termed a state of revulsion, which created a panic that fed on itself as all parties raced for the exits.

In the end, most panics that have had any type of successful resolution have

¹⁷⁹ Perkins., 35. Perkins' discussion of the decision process is much more detailed. Additionally, see the unfiled letters from 1834-1837 at the New York Historical Society.

¹⁸⁰ John Atlee Kouwenhoven, *Partners in Banking: An Historical Portrait of a Great Private Bank, Brown Brothers Harriman & Co., 1818-1968* (Garden City: Doubleday, 1968).51.

involved the provision of cash, usually through some type of lender of last resort.¹⁸² In 1837, the Bank of England intervened with an emergency loan to the Browns which saved the firm and quelled the panic on one side of the Atlantic, but on American shores the picture was a different one, with no central bank or effective lender of last resort on hand to tame the markets and ease distress.¹⁸³ The panic left the American economy at a standstill, and cotton markets wide open to the few firms still above water. Most of these were Anglo-American houses with a detailed understanding of events transpiring in London, and the mechanics of discount paper. These firms were the ones best positioned to take advantage of the decline in American markets and remain relatively unaffected by the credit policies of the Bank of England.

Capital flows, specie reserves, the monetary policies of the Bank of England and the concerns of London bankers all seemed very far away from the land of cotton, the reality of life in the South and the rhythms of agricultural life, yet it was these exact rhythms that made the provision of credit and the use of discount paper vital to the perpetuation of the plantation slavery in the American South. Cotton went to market in the winter and only once a year. A consideration of the cycle of the plantation year reveals in itself why so many planters were deeply reliant on advances. By looking at a

¹⁸² The term 'lender of last resort' was first used by Francis Baring in his 1797 pamphlet Francis Baring, "Observations on the Establishment of the Bank of England," (London 1797). On lenders of last resort see also C. A. E. Goodhart and Gerhard Illing, *Financial Crises, Contagion, and the Lender of Last Resort: A Reader* (Oxford: Oxford University Press, 2002). Forrest Capie and Geoffrey Edward Wood, *The Lender of Last Resort* (New York: Routledge, 2006).; Jacob Viner, *Studies in the Theory of International Trade* (London: Allen & Unwin, 1955)., ch. 3; Fetter, *Monetary Orthodoxy*. See additionally Michael D. Bordo, "The Lender of Last Resort: Some Historical Insights," *NBER working paper series*, no. 3011 (1989).

¹⁸³ On the loan to the Browns and the negotiations by Shipley with the Bank of England see Brown, *Hundred Years of Merchant Banking*. and Perkins, *Financing Anglo-American Trade*.

calendar of events from Ballard's Magnolia plantation in 1845 it is readily apparent why credit was pivotal to the functioning of the system:

22 January	Began plowing for corn
5 February	Finished plowing for corn
6 February	Began plowing for cotton
18 February	Began planting corn
27 February	Finished planting corn
5 March	Finished plowing for cotton
20 March	Began scraping corn
26 March	Began planting cotton on stable field
3 April	Finished scraping corn
4 April	Finished planting cotton on stable field
16 April	Began scraping cotton
18 April	Began planting cotton on hill and Petit field
19 April	Finished planting cotton on hill and petit field
1 May	Finished scraping cotton
26 May	Cotton began to bloom
10 July	Cotton began to open
4 August	Finished plowing
13 August	Began picking ¹⁸⁴

The cotton picking continued through the fall. Through this cycle slaves needed clothing, brogans, bags for cotton and a bit of food. All of this, along with the luxury items that made plantation life pleasantly refined for planters, was purchased with credit, usually on the following year's crop. This credit worked its way south from London, and this London money was ultimately backed by the Bank of England, so when the bank decided

¹⁸⁴ Magnolia plantation journal, 1845, vol. 19, folder 438, Ballard Papers, University of North Carolina Chapel Hill.

an adjustment was necessary areas far removed from the Square Mile felt the pinch, and when cotton prices plummeted the Bank of England shared a bit of the financial pain of Southern planters. The threat of the withdrawal of funds by the Bank of England and increasing caution of Anglo-American houses in 1837 proved the value of foreign investment in American markets in the breach. From New Orleans to New York, Liverpool and London, many diverse interests made cotton king, and a common thread of concerns that became increasingly pressing during the years of the market revolution tied together diverse groups with radically variant agendas.¹⁸⁵ The activities of all of these participants had repercussions in financial markets and because so many of them were using credit in all types of ways, ramifications for the money supply as well. Every draft issued, each credit extended was effectively dumping more money into the economy. Credit is neither bad nor good in itself. Often credit is precisely what allows markets and economies to grow develop and expand, but when credit is securing credit, or one asset is being used to secure multiple lines of credit the system becomes unstable. If anyone feels edgy and a few players begin to call in debts the entire system crashes, which creates a panic as Charles Kindleberger has illustrated, and which is also very apparent in the panic

¹⁸⁵ On the market revolution of the 1830s see Melvyn Stokes and Stephen Conway, *The Market Revolution in America: Social, Political, and Religious Expressions, 1800-1880* (Charlottesville: University Press of Virginia, 1996). especially the introduction. Since this was also the area of unprecedented financial failures see also Edward J. Balleisen, *Navigating Failure: Bankruptcy and Commercial Society in Antebellum America* (Chapel Hill: University of North Carolina Press, 2001); *ibid.* Brian P. Luskey, *On the Make: Clerks and the Quest for Capital in Nineteenth-Century America* (New York: New York University Press, 2010). Mann, *Republic of Debtors.* and Scott A. Sandage, *Born Losers: A History of Failure in America* (Cambridge: Harvard University Press, 2005). For the culture of capitalism in Britain, see: Margot C. Finn, *The Character of Credit: Personal Debt in English Culture, 1740-1914* (Cambridge: Cambridge University Press, 2003). On the construction of capitalism, see: Naomi R. Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in New England* (Cambridge: Cambridge University Press, 1994).

of 1837.

In 1836, Lord Ashburton noted marked instability in financial markets and mentioned in a letter to his former colleagues at Barings that 'variations of all stocks & their wild fluctuations seem to arise much from Nathan's death. In the end the emancipation of the money market will be a benefit, but the sudden cessation of a despotic rule is apt to exhibit such symptoms.'¹⁸⁶ Unfortunately, he overestimated the long reach of Nathan Rothschild's influence in foreign exchange, as well as the severity of the nascent difficulties. The fluctuations he noted were but the smaller rumbles of the panic of 1837 approaching, a panic that illustrates like no other the increasing integration of British and American financial markets in the nineteenth century. Other scholars have noted, if only in a peripheral fashion, the role played by the downturn of the American economy in the financial fallout in England, but few have considered the role played by rampant speculation in slave-produced commodities, most notably cotton, in the formation of this panic.¹⁸⁷

The panic of 1837 has received much attention from scholars of American as well as British banking and financial history but few have placed the panic within a larger Atlantic context, considering the operations of British finance in the American South, specifically in cotton. Firms failed in Britain and the United States, resulting

¹⁸⁶ Baring Brothers, HC I.20.1.2 C. See also David Kynaston, *The City of London: A World of its Own 1815-1890* (London: Chatto & Windus, 1994). 108.

¹⁸⁷ For a discussion of the British market reaction, particularly actions by the Bank of England that initially fomented and eventually ameliorated the panic (very similar to arbitrary actions taken by the fed in 2008!) see *ibid.*, 107-31. John Killick briefly hypothesizes on the role of cotton speculation in the panic of 1837, Killick, "Cotton Operations."

in a different playing field in cotton operations, and sowing the seeds of a transformed economic order. The period from 1837-45 witnessed stabilization of the cotton and Atlantic credit markets as well as the trade in discount paper. This era also saw many firms fold while a few players in the cotton markets solidified their standing and increased their profits. This resulted in a radical decrease in the profits that could be made in the trade but increased stability in the market and in credit relationships. Interestingly some firms, most notably the Browns, moved away from dealings in cotton at this point and began to focus exclusively on credit and trade in discount paper. At this point the Rothschilds began to enter the market with greater interest through the urgings of August Belmont, arriving in New York in 1837, after the collapse of Josephs, their previous representatives in the United States.

I argue that the panic of 1837 was precipitated in large measure by wanton speculation in inherently unstable southern cotton. When cotton prices began to slide and factors began to call in debts banks far removed from the scene began to experience pronounced crises of liquidity, as money that had been easily lent, often on a handshake, was not easily recovered. Likewise, as speculations in cotton soured, many agents, factors and well-known houses folded, leaving only the strongest houses in a position to weather the storm. In the aftermath only the proverbially strong survived, in a market rendered more stable through the elimination of smaller wildcat firms, and wide open to those still able to operate in the Atlantic trade. In the end, these firms were able to solidify their business across the Atlantic and reap the rewards of working in a more stable environment with

greater shares of the trade, which allowed them to eventually diversify into other speculative ventures, like railroads, or greater specialization in financial markets.

The panic of 1837 demonstrates the vital importance of British credit had for the American economy. It also provided the first intimation that American finance needed to change. These changes were put off until the Civil War as cotton prices remained low through the 1840s and the American economy remained mired in a period of slow growth. It was at this point that many larger British banks, Barings and Rothschild among them, aggressively entered cotton markets learning how to effectively work in American markets during their brief engagement with the cotton kingdom. The lessons they learned would inform their subsequent financial activities in American markets, where they played a different role after the Civil War.

Chapter Three: The World the Slaves Made: Anglo-American Finance and the Atlantic Cotton Trade 1837-1848

In May of 1837 August Belmont arrived in New York and found the city strangely silent and bereft of commercial activity. Amschel von Rothschild, the head of the Rothschild Frankfurt house, had sent him to Cuba to investigate the repercussions of the first Carlist War for Rothschild interests in the region. Belmont disembarked in Manhattan in the midst of one of the largest financial contractions ever to seize the United States. As he walked the subdued streets of the city observing the malaise he saw only untarnished opportunity. For Belmont, the barren commercial landscape of New York offered both business opportunity and a once in a lifetime chance to create himself anew in a place where people saw a cultivated wealthy young European with important financial connections, allowing him to leave behind his humble beginning as an apprentice and poor clerk in the Rothschild Frankfurt house.¹⁸⁸ Although many affected by the financial turbulence saw no further than the personal ramifications of the financial contraction, Belmont had a different, and larger vision.¹⁸⁹ What was obvious to the young man eager for something more than what he had known as a humble apprentice, clerk and eventually secretary, was that he had skills and connections that could be put to good use

¹⁸⁸ See David Black, *The King of Fifth Avenue: The Fortunes of August Belmont* (New York: Dial Press, 1981).ch. 3.

¹⁸⁹ See Temin, *Jacksonian Economy*. Killick, "Cotton Operations." and Jessica Lepler, *1837: Anatomy of a Panic*, unpublished dissertation, 2008. Lepler in particular suggests that in the aftermath of the panic people reacted to the contraction in an individual and immediate way, as opposed to considering the larger ramifications of the financial contraction or considering a range of explanations. It is worth noting that some historians, John Killick in particular, attribute the panic to overspeculation in cotton.

in a city bereft of commercial activity.¹⁹⁰ Further, in this newfound land of opportunity, nobody would know of his modest background and years of scraping by.¹⁹¹ In New Orleans, in New York and in commercial entrepôts across the South markets were inactive. One suspects a description of activity as ‘dull’ would have been a relief. Even those that might desire to buy cotton at rock bottom prices were unable to do so. *The New Orleans Price-Current* reported ‘this inactivity may be chiefly attributed, we believe, to the utter inability of buyers to raise funds, as the banks are not purchasing either sterling or domestic change.’¹⁹² With cash at hand Belmont knew this was his moment.

Against the wishes of his employers Belmont set to work establishing his own agency. He rented a small office at 78 Wall Street and wrote to the London and Paris Rothschild houses requesting their business for his new firm, August Belmont and Company, leaving James de Rothschild to conclude, ‘he is a stupid young man.... Such an ass needs to be kept on a short leash.’¹⁹³ Yet within three years of his arrival, Belmont was reputed to be one of the wealthiest men in New York, as well as one of the most important bankers in the country, known as ‘the king of the money changers’ because of his mastery of arbitrage.¹⁹⁴ Belmont’s initial impressions of the potential in American business after the panic were sound, and his view of cotton shared by other knowledgeable observers of the market at the time. Belmont, and by extension his

¹⁹⁰ See Woodman, *King Cotton*. 167

¹⁹¹ See Black, *King of Fifth Avenue*, chs. 1-3

¹⁹² *New Orleans Price Current*, April 15, 1837.

¹⁹³ James de Rothschild, Paris, to his nephews, London, May 25, 1837, XI/101/0/8/13, RAL.

¹⁹⁴ Black, *King of Fifth Avenue*. 5, 22 and 39.

employers, engaged in what became increasingly common speculative activity in agricultural commodities produced with slave labor.

An examination of Belmont's activities in cotton from 1837 forward provides one vantage point from which to examine some large-scale shifts in the cotton trade after the panic of 1837. The date and circumstances of his arrival on the scene make him an ideal guide, since Belmont was learning the ways of American markets himself, and eager to lead both houses into diverse areas of investment. His letters provide a great deal of insight into both the economics and politics of the cotton kingdom. When placed within the larger context of the cotton business they provide a type of primer on navigating trans-regional economic activity in the United States as well as across the Atlantic. The irony is that his misapprehensions and mistakes are often more instructive than his successes. The work he carried out for the Rothschild houses in London and Paris demonstrate how wealth and knowledge generated from what was a brief and intensive engagement with cotton facilitated later specializations in American markets by firms that have come to define modern capitalism. Belmont's activities also demonstrate clearly the centrality of slavery to Atlantic economic development, and the growth of international banking and capitalism in general.

In the aftermath of the panic, as Belmont began to make himself at home in New York, prices for cotton fell even further and the few houses left standing began to operate in cotton markets again. The Rothschild houses, along with the Browns and Barings, both of whom re-entered the market in spring of 1837, made money through the consignment,

sale and outright purchase of these goods. It was, after all, most advantageous to enter the market after panics, when money was scarce, prices were low and competition was minimal. It was at this juncture, with the Browns handling all the business they could and Barings taking a good deal of the rest that Belmont began to discuss investments in cotton in earnest with the London and Paris Rothschild houses. He wrote to London that the Paris house was considering accepting consignments of cotton during the coming season. 'I think that no more precipitous time could be selected. The low prices of cotton and the want of competition will allow those who come early in the market to make their own conditions...' ¹⁹⁵ Belmont saw the money to be made in the article but his employers had a different view of cotton that considered the interplay between profit and risk. Baron James de Rothschild advised his nephews in London that, 'all the people are speculating on cotton which will now be sold at any price and we will have to consider very carefully whether we do in fact want to get so deeply involved in the American business.'¹⁹⁶ The Rothschild houses were also not inclined toward the consignment business. In October of 1837 the firm had been approached by factors in New Orleans and Liverpool seeking advances on cotton and replied flatly that advances and consignments were presently outside the purview of their operations.¹⁹⁷ In spite of Belmont's repeated efforts to explain the process and assuage their fears of risk, they most often preferred to purchase cotton outright.

¹⁹⁵ August Belmont, New York, to N. M. Rothschild & Sons, London, September 12, 1839, XI/62/0C/2/35, RAL.

¹⁹⁶ James de Rothschild, Paris, to his nephews, London, September 15, 1839, XI/101/2/4/63, RAL.

¹⁹⁷ N M Rothschild & Sons, London to C. G. Allhussen Esq, New Orleans, October 3, 1837, II/10/1, RAL.

After the panic of 1837 many of the larger Anglo-American houses, nevertheless, did see the appeal of purchasing cotton when prices had bottomed. The appeal of this was not lost on bankers closer to Louisiana, either, and Nicholas Biddle, the former director of the second Bank of the United States used his newly created post at the United States Bank of Pennsylvania to decisively intervene in cotton markets from 1837-9, much to the chagrin of his European associates. Some felt that in his interventions Biddle ‘corrupted’ state banks and, by extension, the market through encouraging this type of speculative activity. Biddle had several reasons for engaging in this activity and profit was actually not one of them. For the United States Bank of Pennsylvania cotton sales provided necessary foreign exchange to replace that formerly received from federal fiscal operations and Southern branch operations.¹⁹⁸ These foreign bills were needed to meet the bank’s debts in Europe. This is not to deny that some people did not make money, including Biddle’s son and many of Biddle’s associates.¹⁹⁹ These interventions also profited many in Louisiana and throughout the South. Eventually, Biddle’s scheme failed when his machinations could no longer influence the price of cotton in the face of overwhelming market pressures.

Nevertheless, Biddle’s activities set a precedent for other American banks in Louisiana. These banks had also engaged in the speculative purchase of cotton after the panic. A committee of the Louisiana state legislature learned in 1840 that six out of seventeen banks that reported on the matter had purchased over \$1.3 million of cotton on

¹⁹⁸ For more on Biddle’s cotton manipulations see Hidy, *House of Baring.*, 240-2; Hammond, *Banks and Politics.*, 468-72; Temin, *Jacksonian Economy.*, 150 and Green, *Louisiana Banking.*, 93-7.

¹⁹⁹ Nicholas Biddle to Edward C. Biddle, October 1, 1838, Biddle Papers, Library of Congress.,

their own account for sale in Liverpool or Le Havre. Their nominal objectives were to recover debts owed by banks in others states. Since these banks could only pay in local banknotes, the Louisiana banks used these local notes to purchase cotton, which they could then sell to meet their obligations in England and the rest of Europe. The banks claimed this was one way to work around a breakdown of domestic and foreign exchange that allowed them to meet their obligations, and make a profit while doing so. Leland Jenks suggested that ‘the apparent success of Biddle’s undertaking was corrupting the mores of every American state. Following the example of the Bank of the United States, each commonwealth in turn sought to support the cotton market by chartering new banks and selling fresh issues of stock.’²⁰⁰ It is difficult to ignore the speculative character of these transactions or the fact that in essence these banks were buying prodigious amounts of cotton in order to inflate cotton prices. Many Anglo-American houses, including Barings, impugned this behavior and gross manipulation of the markets. With the panic of 1839 the bottom fell out again, and many of these firms then lost money.

Given price manipulations, questionable banking practices and the ramifications of a few bad loans related to cotton, the Rothschild houses had understandable concerns about the cotton trade. After the panic of 1837 the Browns ended up the reluctant owners of a series of plantations across the cotton belt, which they were compelled to run, resentfully but profitably, for years before they could resolve the unwelcome ‘lock-up’ of funds. Barings ended up running sugar plantations in the Caribbean and American South. It was not uncommon for Anglo-American houses to find themselves on the wrong end of a protested bill in return for their lack of foresight. Too often these firms found

²⁰⁰ Jenks, *Migration of British Capital.*, 93.

themselves the reluctant owners of plantations they were unable to sell when credits and consignments extended to planters went unpaid. Both the Paris and London Rothschild houses assiduously avoided using slaves or plantations to securitize debts, but on at least two occasions found themselves chasing payment in money and becoming entangled with slaves. In the first instance, in 1833, Nathan Mayer Rothschild and James de Rothschild were counter-claimants as mortgagees on compensation due under the slave compensation process initiated after the abolition act of 1833. They pursued the compensation due for 88 slaves on an estate in Antigua, for which Charles Chatfield, the trustee of Nathan's executors was awarded £1,570 18s after his death. The two houses pursued this conveyance as counter-claimants on a claim filed initially by Robert Hyndman for 158 slaves on the Matthews and Constitution Hills estates in Antigua. To clarify, this was a counter-claim filed against a claim filed by a defaulting debtor, Hyndman. As a means of seeking compensation on a debt he failed to pay, the two houses filed a counter-claim against his claim for funds on a debt he was owed. The houses in essence, were pursuing payment on a bad debt. They went after an award of money that happened to be compensation for slaves. Thus the houses were twice removed from owning or securing debts with enslaved peoples.²⁰¹

In 1841 the Paris house of Rothschild narrowly avoided a similar entanglement

²⁰¹ To suggest from the information above that the Rothschilds were in fact slave owners is a stretch. Likewise, to suggest that the houses securitized mortgages with slaves is inaccurate. For more on the filing and compensation received under the Abolition Act see the forthcoming work on slave compensation by Nicholas Draper, et. al. See also T71/1/877, The National Archives, Kew and Nicholas Draper, *The Price of Emancipation: Slave-ownership, Compensation and British Society at the End of Slavery* (Cambridge: Cambridge University Press, 2010).

when John Forsyth, then serving as Secretary of State, passed away unexpectedly in Washington, DC. They had surmised he would likely be a future President of the United States and generous lines of credit had been forthcoming to secure his good will.²⁰² One of the Rothschild business policies was the cultivation of ‘friends in high places.’ As Salomon had mentioned to Nathan Mayer Rothschild in 1815 ‘you know, dear Nathan, what father used to say about sticking to a man in government.’²⁰³ And their father had been forthright about how this should be done: ‘our father taught us that if a high-placed person enters into a partnership with a Jew, he belongs to the Jew.’²⁰⁴ So James de Rothschild extended to him every financial courtesy on the basis of his prominence, political standing and future promise. Forsyth proved to be very amenable to the arrangement. He also happened to be a cotton planter, and made use of frequent advances. In return, he assured that, among other things, the Rothschilds retained their position as bankers to the United States in Europe. When he passed away suddenly in Washington, DC in 1841 he left a large amount of unsecured debt in his wake, including his debt to the Paris house. He was, incidentally, succeeded in his post by Daniel Webster, who promptly notified the Rothschilds of a change in policy and awarded the prestigious post, once again, to Barings.²⁰⁵

In settling his accounts his son found the estate unable to offer immediate

²⁰² August Belmont, New York to N. M. Rothschild & Sons, London, April 27, 1842, XI/62/2A, RAL.

²⁰³ Salomon von Rothschild, Paris, to Nathan Rothschild, London 21 October 21, 1815, XI/109/2/2/149, RAL.

²⁰⁴ Quoted in Ferguson, *House of Rothschild*. p.25

²⁰⁵ See Hidy, *House of Baring.*, 351.

remuneration in cash and instead suggested the Paris house accept the plantation and 50 slaves as payment at what he suggested was a ‘very favorable valuation’ of the property.²⁰⁶ This was refused out of hand, the firm opting to wait, begrudgingly, until 1850 for payment of the debt in full.²⁰⁷ Belmont brokered this settlement, working out an agreement on repayment with Forsyth’s son. On the one occasion when the Rothschilds might have actually ended up holding chattel property they opted to wait patiently for payment, losing access to their capital for nine years, but keeping their hands (somewhat) clean.²⁰⁸

To be fair, although these stances may have had some abolitionist sentiment behind them, after all N. M. Rothschild did provide the loan of funds vital to the slave indemnity act that enabled abolition in the West Indies, many of these financiers simply did not believe chattel slavery was a particularly wise or secure investment. This had nothing to do with ethics. They saw an unacceptable amount of risk in these types of activities, and that was in large measure something well-established houses sought to avoid. Often greater risk yields higher profits but once one has a fortune, the first concern is wealth preservation. As Nathan Mayer Rothschild noted “it requires a great deal of boldness, and a great deal of caution, to make a great fortune; and when you have got it,

²⁰⁶ John Forsyth to August Belmont, New York, May 31, 1842, XI/62/2A, RAL. Probably the initial advances were made because of Forsyth’s prominence in American politics, and it seems reasonably clear that the mortgage was not secured with either land or chattels. The initial mortgage was issued from the Paris house.

²⁰⁷ The offer from John Forsyth Jr. to settle includes 60,000 acres and fifty slaves. See August Belmont, New York, to N. M. Rothschild & Sons, London, May 31, 1842, XI/62/2A/86, RAL. On the refusal of real property for the settlement of the debt, see August Belmont, New York, to N. M. Rothschild & Sons, London, XI/62/2A/124, RAL. The remaining \$7,457.68 due was received by August Belmont on May 13, 1850, August Belmont, New York, to N. M. Rothschild & Sons, London, May 13, 1850, XI/62/4B, RAL.

it requires ten times as much wit to keep it.”²⁰⁹ At heart, these men were investors, keen to build and eventually preserve fortunes first. The Browns state in letters discussing the running of plantations that they resent the lock-up of funds. Even though the plantations were run at a profit they saw all too well they could make more money with less capital outlay, and much less risk, elsewhere.

By the close of 1839, in spite of their success, the Browns had become convinced, understandably, that the cotton consignment business was too risky, as they continued to run their cotton plantations and look for a way to sell them. They still consigned cotton, but the rules they adopted and the advances offered were not palatable to planters and did not draw in or generate business. Instead the firm focused on exchange negotiations, a move that became even more attractive after the collapse of the Bank of the United States, which had formerly sought to control this area.²¹⁰ In this capacity, the Browns provided Northern and British merchants in the South with ready cash to purchase cotton at their discretion. By 1840 the Browns also controlled the letter of credit business. Thus, although they still made money from the cotton trade they were no longer actively trading.²¹¹ The Browns re-directed the flow of credit and foreign exchange to the South and eastward, stepping into a void left by the demise of the second Bank of the United States, and engineering the flows of capital to their own advantage. The directions followed by paper and credit coincided with the movement of cotton to the North and on

²⁰⁹Buxton and Buxton, *Memoirs*.293.

²¹⁰ On Biddle’s attempts to dominate this area through the New Orleans branch of the Bank of the United States see Green, *Louisiana Banking*., ch 3. Biddle’s control in this area was reduced in 1836 and completely lost after the panic of 1837.

²¹¹ Perkins, *Financing Anglo-American Trade*., 124.

to European shores.²¹² The Browns controlled this trade in New Orleans. Additionally, they were the largest provider of foreign exchange in the United States. It is not surprising that one historian would state, ‘they were thus probably the principal financial intermediary of short-term funds between the South and the outside world at this time.’²¹³ From the 1840s forward the Browns dominated this trade, moving out of cotton and firmly into the business of finance.

At this juncture, Barings began to purchase increasing amounts of cotton, and from 1839-41 they were the largest receivers of cotton in Liverpool.²¹⁴ From this point through the 1850s they diverted the majority of their funds in American markets into cotton. Most of the cotton they had bought on their own account because they considered the advances sought by planters to be too high. Moving into the 1840 season they were convinced that the crisis of 1839, by knocking out much of the competition, would force planters to accept smaller advances. In this context the firm named Stetson & Avery its New Orleans agent. By 1842 the house of Baring perceived American markets to be open to them, especially cotton markets. At this point, they cleaned house, cleared old accounts and expanded their operations in cotton. They set in place a program to ensure receipt of substantial volumes of cotton in Liverpool for the coming season, mollified the packet owners and began to conduct a larger proportion of business with Grinnel, Minturn & Co.

²¹² Killick, "Cotton Operations."; *ibid.*

²¹³ *Ibid.*, 185.

²¹⁴ See Hidy, 298.

Nevertheless, the firm very consciously chose to avoid specialization, either in cotton, securities or a region. Bates felt that ‘there is something apparently in this but not in reality.’²¹⁵ He noted that all of the larger firms were using brokers anyway, and believed that his firm sold all of the commodities they dealt in, including sugar, coffee, tea, tallow, cotton and indigo more efficiently than any of their specialized competitors. The firm continued to deal in a wide range of items, worked as ship owners and even went into iron manufacture, secretly controlling the Weardale iron company, makers of pig and bar iron.²¹⁶ They had every intention of remaining generalists, merchant bankers, in spite of their drift towards the marketing of American loans in European markets.

Through 1848 Barings took the lead in cotton imports to Liverpool. Correspondingly they ceded the exchange business to the Browns, noting that, like Belmont, they simply could not compete. They too, in large measure had been chasing the Browns. After Brown Brothers moved away from cotton, Barings stepped into the gap and in most years through the 1840s were happy to purchase on their own account and avoid the potential complications and administrative overhead that came with consignments. Planters’ frequent demands for higher advances and insistence on limits on sales in Liverpool also made purchasing cotton outright much more attractive. They substantially reduced the capital they had reserved for that sphere of business and they also moved out of American securities. This shift and the liquidity it generated allowed

²¹⁵ Quoted in Hidy, *House of Baring.*, 349.

²¹⁶ Ward Papers, Diary, May 31, 1844; Ward papers, Bates to Ward, August 1, 1842. Massachusetts Historical Society.

them to decisively pursue the marketing of American loans in Europe, which they did with increasing frequency after 1848.²¹⁷

On the other side of the fence were men like Rice Ballard, a Virginia slave trader turned planter. Ballard was typical of many of the planters that would have worked with any of these firms directly, or through a factor or agent in New Orleans or Mobile. He is also one example of a man lured by the high prices of cotton into the trade. The difference is he had enough capital to buy in as a planter, as opposed to a broker. This makes Ballard something of an exceptional figure, given that most slave traders did not accrue enough capital to move from trading to planting cotton, and it suggests he was a good businessman. Nevertheless, it seems that Ballard was one of the many ‘led out of their sober senses’ because, at the least, he should have known that buying a plantation in 1837 was not the best idea. Ballard had worked with Benjamin Story in New Orleans and corresponded with him occasionally. Story generally gave him good advice and provided insight in terms of international influences on American cotton markets. Ballard also had formed a lucrative trading partnership with Franklin and Armfield, two successful slave traders in the 1830s and was fairly well connected to international news that might affect slave and cotton prices. He embarked on cotton planting at roughly the same time Belmont established his agency in New York. Although their paths never seem to have crossed Ballard is representative of the planters that Belmont would have corresponded with directly or through the Rothschild agent in New Orleans, J. N. Hanau, or later, Timothy Farish, Belmont’s correspondent and agent in the 1850s.

²¹⁷ See Hidy, *House of Baring*.369-456. See also Perkins, *Financing Anglo-American Trade.*, 88-104.

Ballard's activities are of interest because he entered into the cotton business contemporaneously with Belmont, but as a planter. He had a keen awareness of the value of cotton. He would have realized that the value of slaves was pegged to the price of the commodity and watched as slave prices soared along with cotton through the 1830s. He had a thorough understanding of the vital importance of both enslaved people and the commodities they harvested in the Deep South, yet seemingly lacked an understanding of the value of information and intelligence regarding international events and markets when trading cotton, although, obviously, this would have affected the slave trade as well. By the time he became involved with cotton he seemed cognizant of how his movement into the world of planting imbricated him within an international web of trade and finance. When he purchased his first plantations immediately before the panic of 1837, cotton was booming, but there were intimations of trouble ahead. At the time of his first harvest he was undoubtedly aware that he should have listened a bit more closely to Benjamin Story's advice. Nevertheless, like many Southerners he developed a global perspective, on business, slavery and the political economy of the cotton South. The problem was this view was somewhat flawed. Like his contemporaries, he was fairly certain cotton and slave prices would bounce back and rise much higher in subsequent years, and the 1850s did not disappoint. Nevertheless, this unquestionable belief in profit, rising prices and infinite growth proved to be misplaced.

Ballard's shift from slave trading to cotton planting also increased his status and prestige in the antebellum South.²¹⁸ It marked a move in his life towards increased stability. What Ballard took from his slave-trading days was a keen awareness of the

²¹⁸ See Scarborough, *Masters of the Big House* on the status associated with owning slaves and being a planter. See also Schoen, Towers, et al (eds.), *The Old South's Modern Worlds*.

importance of slaves to the agricultural system of the cotton belt. It was no coincidence that the price of a slave was pegged to the price of cotton, and as cotton prices soared slave prices rose as well. Beyond the issue of the status of slaves as a speculative investment in their own right, or as collateral for loans and mortgages, slaves planted and picked the cotton, regardless of the price in New York or Liverpool, and in spite of whether their own value as chattels rose or fell.

The most important new business relationships Ballard had to establish were with those who would sell his cotton in the competitive global market. Albert G. Nalle, who initially was associated with the firm of William R. Glover & Co. of New Orleans, became his main commission merchant and factor. Nalle later left his partnership with Glover and became a principal member of Dupuy, Tate & Nalle. He later embarked on another partnership with William Cox to form Nalle & Cox in 1844. At this point, Ballard would have had his choice of factors in New Orleans, and could have chosen also to sell his cotton to J. N. Hanau, an agent of the Rothschilds, or to Benjamin Story, or to Edmund Forstall who purchased cotton on Barings' account. Many large planters dealt with several factors at one time, and Ballard was no exception. He worked with a factor in Louisville, Kentucky for his supply of pork and other plantation goods, but most of his transactions went through Nalle & Cox.²¹⁹ Like most factors Nalle & Cox made every arrangement to market the crop at the best price obtainable.

The lingering effects of the panic of 1837 pushed cotton prices downward and financial intermediaries were understandably wary of taking on high risks, especially in

²¹⁹ After Nalle & Cox dissolved in 1854, Ballard continued his relation with W. Cox and companies he formed. These firms were all located in New Orleans.

the form of high advances on crops in the field. Ballard's plantations were producing cotton as early as 1838, and in the following year another panic hit the region. In 1839, the New York price for 'middling' upland cotton was 8.92 cents, more than a 33 percent decline from the 13.36 cents in 1838. The price at Liverpool declined from 7.19 pence to 5.42 pence. The 1841-2 season was even worse with 7.85 cents in New York and 4.86 pence in Liverpool, which caused Ballard's factors to report 'a general panic' among the houses in New Orleans, that 'there seems to be great distrust and want of confidence on all sides, failures are taking place daily and before the season closes it is predicted that there will be general bankruptcy, every house in the city is more or less suspected.'²²⁰ Dupuy, Tate & Nalle wrote in January 1842, that 'times look gloomy in the extreme, and some say worse than they were at the corresponding period in 1837.' After examining samples of their cotton, they judged that some had 'undergone some process which has coloured it too highly, almost amounting to stain,' in which the brokers judged it was the result of 'the heat in the gin house, and the smell of it goes somewhat to confirm the opinion.'²²¹ They knew this cotton would fetch even less in Liverpool, if it sold at all. The 1840s were not the best years for cotton planting, or cotton generally, but the corresponding jump in Ballard's status might have offered some small compensation.

Under such circumstances, Dupuy, Tate & Nalle advised Ballard to use up the credit Ballard had on their account since there was 'terrible confusion among the banks

²²⁰ Dupuy, Tate and Nalle to Ballard, February 12, 1842, folder 46, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

²²¹ Dupuy, Tate and Nalle to Ballard, January 26, 1842, folder 44, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

and we should not be surprised to see some of our money going at 50 cents in the dollar in less than 60 days.’ Ballard’s factors kept his money on deposit in a bank with a good reputation, but they felt quite uneasy about the future of the banks in the city generally. Eventually, in May of the same year, they informed Ballard that Bank of Louisiana notes were available, but ‘canal, commercial, citizens, Carrolton, and consolidated are somewhat suspected,’ and reminded him to exercise caution. Their predictions proved sound when in the next month ‘all our banks have suspended specie payments except the Bank of Louisiana, Union Bank, Mechanics and Traders and Carrolton.’²²²

As we have seen, agents and factors informed their respective clients of market conditions, advising on price trends in Europe, and America as well as important political developments concerning wars and conflicts that might impact the market. During the 1844 season cotton prices hit bottom at 5.63 cents in New York and 3.92 pence at Liverpool. Nevertheless, Ballard expanded production. The season started with demand in ‘qualities above ‘middling’ for some scattered orders for the French and Spanish markets,’ and for the large bulk of the stock of low quality cotton, purchasers had a ‘wide field for their operations and demand constant concession.’ Ballard’s factors, by this time Nalle & Cox, suggested that overproduction had contributed to the depression, since the English market ‘having a supply fully sufficient for 30 weeks consumption, are sending out their orders at extremely low limits.’²²³ Their news sources were international in

²²² Dupuy, Tate and Nalle to Ballard, February 2, 1842, folder 46; Dupuy, Tate and Nalle to Ballard, February 12, 1842, folder 46; Dupuy, Tate and Nalle to Ballard, February 15, 1842, folder 46; May 4, 1842, folder 49; Nalle to Ballard, June 3, 1842, folder 51, all Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

²²³ Nalle & Cox to Ballard, October 4, 1844, folder 78, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill. Ballard’s principle commission merchant

scope, reflecting the global nature of the cotton market. Belmont had reached similar conclusions but with different sources.

With the entry of Texas to the Union as a slave state in 1845 slave prices jumped an average of 150 percent between annexation and the Civil War. The price of cotton began to revive as well. Looking quite attractive by 1848. The Alsops of Virginia reported to Rice Ballard that in January 1847 the price of male slaves in Richmond ranged from \$600 to \$700 and were selling well, because the ‘rise in cotton, together with Texas, has produced this change in the price of negroes.’²²⁴ The rise in slave prices was tied to increased demand and an increase in price for cotton as the South slowly came out of a lengthy depression at the end of the 1840s. The annexation of Texas became a key moment that seemed to prove that European commercial interests and the abolitionist movement were not sufficient to alter the established economic structure of the American South. The addition of another slave state resulted in a sharp increase in the velocity of the domestic slave trade and a rise in slave prices, which corresponded with an increase in the price of cotton.²²⁵ It seemed that perhaps cotton was still a vital commodity, and planters still had a surfeit of political sway.

At this juncture many planters, like Ballard, were also concerned with the political

changes its name and partnership forms from Dupuy, Tate and Nalle in 1843 to Nalle and Cox in 1843-4, which continued to 1850, then changed its name to Nalle, Cox and Co. from 1850-4, then to Cox, Gillis, and Boyd from 1854-6 which included Samuel Boyd’s brother James Boyd among the chief concern, and W. Cox and Co. from 1857-60.

²²⁴ Joseph Alsop to Ballard, January 29, 1847, folder 108, Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

²²⁵ Steven Deyle, *Carry Me Back: The Domestic Slave Trade in American Life* (New York: Oxford University Press, 2005), 64-70; Fehrenbacher and McAfee, *Slaveholding Republic.*, 119-26, 266-71.

economy of the cotton South. Planters began to hold conventions that focused on establishing direct trade relationships with England and other European consumers of cotton, thus deconstructing the triangular trade and cutting New York out of the picture. This became an issue of increasing import to Southerners after the panic of 1837. Direct trade with Europe, bypassing the middlemen in the North, would greatly decrease the costs associated with running cotton, or cotton samples, through the city.²²⁶ Delegates at the conventions claimed that this ‘voluntary tribute’ to the North drained \$10,000,000 or more profit annually from the South, which in the long run depleted capital for internal improvements and investing in manufacturing industries.²²⁷ Southerners also believed there was a lack of sufficient credit provided by Southern financial institutions. At one convention, delegates suggested that Southern banks form European alliances more directly and encouraged the development of agencies in European cities to facilitate direct trade. With the damage from the panic, Southerners saw a perfect opportunity to attract European capital directly to the South that would contribute to the development of larger and more sophisticated financial institutions. Southern port cities such as New Orleans, Mobile, and Charleston, in their view, had the capability to function in a similar capacity as port cities in the North, and for a limited time, their efforts seemed successful.

Alexander Brown and Sons had Benjamin Story as their representative in New Orleans,

²²⁶ Woodman, *King Cotton*. 142-53. In the last few years before the Civil War, the issue of reopening of the slave trade became a main issue in the commercial conventions, including movement into Cuba and Nicaragua. On this see Johnson, *River of Dark Dreams*. chs 9-11.

²²⁷ These conventions were held at a time when most southern states were aggressively pursuing to establish connections of railroads and canals with the north and Midwest. Connecting South and the West was desirable for the South, to both purchase foodstuffs and sell imported goods. Robert Royal Russel, *Economic Aspects of Southern Sectionalism, 1840-1861* (New York: Russell & Russell, 1960)., 21-30.

and in 1842 the Rothschilds sent J. N. Hanau to New Orleans to represent their interests and purchase cotton, tobacco and sugar on their account.²²⁸ Southern banks also attracted European capital, but the banking system Southerners desired was unrealistic: credit has limits.

Almost as quickly as these agents had arrived it seems many of these firms were beginning to move away from cotton, and many planters were eager to follow them out of the South and into wider global networks of trade. Cotton planters realized that dependency on the North and nascent conflicts might be most easily remedied by looking beyond the borders of the nation state. With this point in mind Southern planters and businessmen held fast to their free trade principles with some representatives arguing ‘the true American policy is to encourage the purchase of our cotton, rice and tobacco, on the continent of Europe.... And if possible, open the European market to the same.’²²⁹ In making this case lower South Democrats gave prominence to recent global developments they believed would benefit commercial agricultural and manufacturing interests across the union. Trade with France had increased since 1833 but this would only continue if free trade prevailed and the United States was able to follow European expansion into Asian and African markets. They thought they would be able to accomplish this by essentially riding in on Britain’s coat tails. This seemed possible if direct trade with Britain continued. Of course, this all redounded to the good for the lower South in particular since they supplied the majority of the cotton Britain consumed in the

²²⁸ Schoen, *Fragile Fabric of Union.*, 243-53. On the policy of establishing agencies for the House of Brown, see Perkins, *Financing Anglo-American Trade*. On letters of credit, see *ibid.* 114-46.

²²⁹ _Congressional Globe, 27th Cong 2nd session, Appendix 634.

production of textiles for global export. The cotton South, in essence, would reap the benefits of England's imperial and commercial expansion, and Southern democrats saw this as precisely the time to seek to expand markets and deepen trade with England, and Europe more generally. They felt protective measures at this juncture would be particularly debilitating for the North as well as the South.

The financial collapse of 1839 following hard on the devastating panic two years previously destroyed other financial relationships with Southern banks and forced the Browns and other houses to establish special agencies in New Orleans. The primary task of these firms was the negotiation of sterling exchange for Liverpool cotton buyers. At this juncture, the Browns saw cotton as simply too volatile and had discovered other elements of finance much more to their preference. They instead entered exchange negotiations, a move that looked even more attractive after the collapse of the bank of the United States, which formerly dominated that market. Basically, the Browns provided British merchants and Southern planters with ready access to sterling whenever they needed it. 'There was thus a huge flow of domestic and foreign exchange southward and eastward matching the flow of cotton to the North and Europe.'²³⁰ The Browns, at this juncture, controlled a large proportion of this trade in New Orleans. They were probably the principal financial intermediary of short-term funds between the South and the outside world at this time, moderating capital flows throughout the United States. Naturally, they viewed this as preferable to being at the mercy of the vagaries of the cotton market. In directing bills of exchange across the Atlantic they managed to profit

²³⁰ Killick, "Cotton Operations." 185

from the cotton trade whether prices rose or fell; they profited from the transactions without being involved with cotton at all.

By 1840, Southern agriculture was in the midst of yet another deep recession and prices were down for every commodity, although grain production was able to revive by the latter half of the decade owing partially to the repeal of the Corn Laws in 1846 and a series of poor harvests in Britain. Cotton, however, did not fully recover until the end of the decade. In the early 1840s, critics warned of cotton overproduction and advised planters to focus their attention more on investing in the manufacturing sector. Not only were Southerners aware now of the speculative, unstable nature of the cotton market, but they were also hearing news of potential foreign competition from India and Brazil.²³¹ Led by cotton planters and manufacturers in South Carolina, many Southerners began to advocate for the need to diversify Southern industry, beginning with encouraging the development of cotton factories. Ideally, this would combat the overproduction problem not only by turning out final products that would yield higher profit, but also by strengthening the region through the development of industry. Diversification, in their view, would work to lessen dependency on the North by producing goods within the

²³¹ Russel, *Southern Sectionalism*, 35-7. *DeBow's Review*, among others, was influential in spreading the notion that cotton was being overproduced and diversification was necessary. British Corn Laws were passed between 1816 and 1818, crippling the grain export trade for many mid-Atlantic states. The repeal of the Corn Laws in 1846 was seen as a victory for free trade supporters in the South. Economic analysis on the positive and negative effect of the repeal in Britain and Ireland can be found in Kevin H. O'Rourke and Jeffrey G. Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge: MIT Press, 1999).77-92. Also see François Crouzet, *The Victorian Economy*, trans. Anthony Forster (New York: Columbia University Press, 1982)., 158-66. For cotton, from the early nineteenth century Britain had experimented in fostering cotton production in various regions, especially India, Egypt, and Brazil, and these regions, unlike the U.S. offered open markets for British manufactured goods and had the potential to replace the American South as the main contributor for the British textile industry. See Schoen, *Fragile Fabric of Union*. 198, 289.

region.

At this point Barings supplanted the Brown Brothers as the leading recipients of cotton during the 1840s. Over half of their imports to Liverpool were composed of cotton purchased on their own account. From 1842-8 they sought to maintain some balance between purchases and consignments with the ratio being determined in the end by market conditions. In the 1850s the firm continued to evince a preference for purchases of cotton instead of offering advances on the article.²³² It is not that Baring Brothers perceived any less risk in holding the article, or had necessarily gained greater confidence in the market. Rather, because of the demand for increasingly large advances the outright purchase of cotton became more attractive. The move towards outright purchases was therefore a smart one. Nevertheless, this shift by most firms towards outright purchases of cotton has been suggested as one explanation for the Browns' abandonment of cotton transactions.²³³

Belmont was an astute observer of all of this activity, and was well aware of the movements of commodities, discount paper and specie. Like other merchants, agents and factors, he read the *New Orleans Prices- Current* and other circulars, carried on regular correspondence with 'friends' across the United States and kept his finger on the pulse of American as well as international political events. Nevertheless he did not see what other brokers and larger houses, particularly Barings, had ascertained: buying cotton outright in this type of climate was actually prudent. Theoretically, extending credit to the planter

²³² See Perkins, *Financing Anglo-American Trade*; *ibid.* 100-2.

²³³ See *ibid.* and Killick, "Cotton Operations.", also correspondence at LOC – Papers at Library of Congress are Brown Brothers papers

and letting him carry the risk of fluctuation in market prices in different ports made the most sense, but with planters demanding exorbitant advances in a downward market the outright purchase of cotton gave these firms more latitude for action in exchange for a negligible increase in risk. Yet Belmont insisted, 'it would be perfectly safe & you might do some very good & profitable business. I recommend these suggestions ... as by the general distrust a good many houses in that line are altogether thrown out & your house would have a beautiful chance.'²³⁴ Belmont stated that as long as the cotton was sold before the drafts were due there was no risk, but that was simply not true. There was no risk *unless* the amount of the advance exceeded the value of the cotton, which was exactly what happened in the winter of 1837, and again in 1839. Belmont went further and insisted he could pull in many profitable consignments for his employers, if only they would ease their objections and fall in with what he presented as standard practice: 'consignments of cotton are also very safe with the present cheap rates, but ...you must, as I had the honor to observe to you on former occasions, give me more latitude for the amount you authorize me to advance. With an advance of $\frac{3}{4}$ of the invoice I cannot compete with Brown, Tilden & others ...who advance $\frac{7}{8}$.'²³⁵ Belmont was obviously eager to enter into this trade, so eager that he misrepresented the policies of these long-established houses and presented risky activity as sound. As discussed earlier, even with cotton dropping as low as it did in 1837, the Browns never advanced $\frac{7}{8}$ of an invoice. Rather, they purchased cotton on their own account and held it in Liverpool until prices

²³⁴ August Belmont, New York to N M Rothschild & Sons, London, November 30, 1847, XI/62/3B, RAL.

²³⁵ August Belmont, New York to N M Rothschild & Sons, London, October 26, 1848, XI/62/3B, RAL.

rose. Belmont saw that money could be made on consignments, and overplayed his hand. Like many of the Americans he criticizes as being overly confident and reckless, he minimized the risk of large advances and the speculative nature of the cotton trade generally, apparently sharing that same ‘... speculative & impressionable character of the Americans ... they always push under the apprehension of short cotton crop prices much beyond what the facts warrant & on the other hand depress them more than necessary in anticipation of a large yield.’²³⁶

In 1848 he again raised the issue of consignments, claiming that the Browns had gained the upper hand because of the reluctance of both houses to offer higher advances.

...consignments ...offer ...a safe & profitable business. Last season after the commercial disasters of England & the French revolution had put aside almost all competition Brown Brothers & co agency in New Orleans had the whole field to itself & made enormous profits in the way of advances on cotton & exchange, by advancing a moderate amount on the cotton charging the full commission & taking the bills of the consigning parties on their Liverpool house at 5 to 6% below what they could draw themselves from New Orleans or New York, thereby realizing from 8 to 10% out of one of the safest operations that can be entered into which don’t require any actual outlay of capital.²³⁷

Contrary to Belmont’s claims, records show that the Browns had already moved decisively away from consignments at this juncture. They consigned cotton intermittently to Liverpool until 1845. After that point, they were effectively no longer involved in the article at all, opting instead to focus on letters of credit, currency

²³⁶ August Belmont, New York to N M Rothschild & Sons, London, October 26, 1848, XI/62/3B, RAL.

²³⁷ August Belmont, New York to N M Rothschild & Sons, London, November 7, 1848, XI/62/3B, RAL.

exchange and the operation of the Collins packet lines. In 1845 the Liverpool branch's commission revenues on cotton consignments totaled \$53,000. By 1852 these revenues had dropped to around \$5,000, a reduction of 90 percent. Other firms in the industry adopted their system of making consignments during the 1840s and took up a good deal of the consignment business the Browns left behind. Through their operations in cotton, both purchasing and making consignments, the Browns developed an expertise in the handling of letters of credit and bills of exchange, a business they came to dominate after 1845 as they had the consignment business earlier. For this house, their involvement in a commodity produced for a commercial market with slave labor in the antebellum South enabled their transition into a business focused exclusively on banking and finance.

Belmont was keen to follow their lead and work with bills of exchange as well but when he attempted to do so in the 1840s he found himself, yet again, shut out of the market. He was never able to compete effectively for Southern paper. As early as 1843 he complained that, 'the agents of Brown & some others buy all what they can lay hands on.'²³⁸ In 1845 the London house authorized Belmont to operate in bills of exchange, but he found the market unattractive. 'As regards direct arbitrages between London + here I have always a watchful eye upon them...unfortunately the high rates of all continental exchanges here & the sudden decline of £ precludes...every chance of doing anything in that line to advantage.'²³⁹ The fact that the Browns undercut and undersold him at every turn did not help matters. Even though one of Belmont's strengths was in fact arbitrage,

²³⁸ August Belmont, New York to N M Rothschild & Sons, London, April 29, 1843, XI/62/2a/2/44, RAL.

²³⁹ August Belmont, New York to N M Rothschild & Sons, London, November 29, 1845, XI/62/3A, RAL.

he was able to do little business in bills of exchange around cotton. By 1859 he lamented, ‘...Brown bros who buy up all the cotton + produce bills all over the south having their agents in every shipping port ...monopolize the market as they can sell 1/8 - 3/6 percent below me.’²⁴⁰ Given that Belmont and, by extension, the Rothschild houses were unable to effectively control operations in various areas tangential to the cotton trade, and more often than not felt frustrated by what trade they could get, it is not surprising that they made an exit from these markets after 1848, especially given all the perils of activity in the commodity.

In retrospect, it is clear that the advice Belmont proffered on cotton investments was often, but not always, sound. His letters display a thorough consideration of the complex influences at play in determining supply, demand and pricing and an astute grasp of the interplay of larger regional and geographic interests. Belmont often considered commodity sales, the abundance or scarcity of money, and political events when determining what investments were most likely to yield ‘handsome profits’ and was quick to scold when his advice was not followed and profit forfeited as a result. He also anticipated the effects that sales, or lack thereof, would have in other markets. ‘The effect of the heavy transactions in cotton at the southern markets is beginning to be felt upon exchanges & I think that henceforth the export of specie to Europe will be on a small scale until next spring.’²⁴¹ He went on to note that exchange had already dropped in New Orleans

²⁴⁰ August Belmont, New York to N M Rothschild & Sons, London, April 19, 1859, XI/62/8, RAL.

²⁴¹ August Belmont, New York to N M Rothschild & Sons, London, October 12, 1852, XI/62/5, RAL.

and that, in this instance, the London house lost out on a handsome profit by not giving him permission to act. Even Betty de Rothschild begrudgingly acknowledged Belmont's detailed understanding of the American markets, stating that, 'he knows inside-out all the country's resources; he holds the key to all the wheeling and dealing in the commercial world and he knows which sources to tap, which are the means of success, which are also the pitfalls that must be avoided.'²⁴² Much of this knowledge was hard earned, the result of years of hard work and time invested in the cultivation of business relationships in the North and South.

Belmont was compelled to master quickly many of the difficulties attendant on trade in cotton, and by extension, stocks, bonds and discount paper. Planters were often cash hungry and capable of all types of crafty tricks in order to increase their profits, resulting in the need to evaluate critically all reports from the South. Since Southern planters were often deeply in debt they looked to create opportunities to bolster prices when the fruits of their slaves' labor were sent to market. Their chronic indebtedness, like their machinations to increase the price per pound paid on cotton was connected to the rhythms of the plantings and harvests.²⁴³ The rhythm of the year made advances helpful, but as has been noted, credit also played a vital role because of the nature of plantation life. Planters frequently spent a good deal of their money on the relentless quest for more slaves and land to grow more commodities.²⁴⁴ Thus the wisest of agents and cotton

²⁴² Betty de Rothschild, Paris to Alphonse de Rothschild, March 7, 1849, 000/930 58/1/222, RAL.

²⁴³ See excerpts from the journal of Leven Covington in 'The Routine of The Cotton Year,' Bruchey, *Cotton*. 176-182.

²⁴⁴ See Woodman, *King Cotton*; *ibid.* also Johnson, *Soul by Soul*.

merchants learned when a healthy dose of scepticism was warranted, developing an intimate sense of weather, borrowing and sale patterns throughout the cotton belt. Additionally, like Belmont, they cultivated information networks across the region, often receiving daily reports from correspondents. In years when there was an expectation of a large crop, knowledge of which pushed prices downward, planters would sometimes spread rumors of frost striking the plants, of worms or bolls reducing yields. Often, they would hold back the cotton in hopes of diminishing expectations of the yield and driving up the price, in spite of the advice of factors to send cotton to market as quickly as possible. Invariably Belmont would pass on the reports of these erratic and spontaneous outbreaks of frigid weather, infestations and early frosts, noting when he had ‘not much belief’ in the veracity of the accounts.²⁴⁵

One of the questions easily raised at this juncture is why did none of these houses or anyone involved in the cotton trade in this period band together to form an exchange, and a futures market in the article? The Chicago Board of Trade was established in 1848 and although initially offering forward contracts, moved to futures contracts in the 1860s. The timing and the financial expansion that accompanied the establishment of the board certainly make the question relevant. The opening of a formal exchange would have stabilized trade, increased profits and opened up more stable as well as lucrative speculative possibilities, including trading in futures. Riskier and less salubrious

²⁴⁵ Belmont’s letter to N. M. Rothschild & Sons, May 6, 1851, XI/62/6, RAL is one example: ‘There has been some news in our cotton market and prices have gone up about 3/8 ct from the lowest point, in consequence of advices from the south of a killing frost in some parts of Alabama & Tennessee in which I have not much belief. . . .there has been so much cotton planted that we have every prospect for a large crop & this with the now established fact that the present crop cannot fall short of 2300m bales must keep prices down.’

possibilities would have been created as well, including the potential to corner the market.²⁴⁶ As has been seen repeatedly in the past, forward and futures contracts would have likely brought stability to cotton markets, allowed planters to receive a guaranteed price for their crop, and given merchants and manufacturers the ability to gauge present and future costs. In the case of cotton, a futures market would have brought a new level of stability to credit relationships. Obviously, this would have introduced large-scale changes to operation in the South, New York and Liverpool but the establishment of a board would have eliminated a great deal of volatility and radically reduced risk. Given that a relatively accepted grading system in cotton had been in place since the 1820s and advances were common, it seems a more formal futures market would and could have developed earlier either in New Orleans or New York.²⁴⁷ Advances certainly protected the creditor, and did nothing to stabilize prices, or interfere with market set prices. Had an exchange been established it is quite likely these larger houses would have continued to bet on cotton.

Given developments in Chicago what might have been seen initially in an exchange in New Orleans or New York would have been forward contracts. To be clear: an advance is credit extended cotton before it was sent to market, or often, even

²⁴⁶ On corners in grain see William Cronon, *Nature's Metropolis: Chicago and the Great West* (New York: W. W. Norton, 1991), 97-148.

²⁴⁷ A system of grading was established in Liverpool in the 1820s see Liverpool Shipping... On the preference of British merchants for purchases made on the basis of samples see *ibid.*, 97-148 as well as the extensive discussion in his endnotes on page 418. On the development of futures markets see also, Jeffrey Williams, *The Economic Function of Futures Markets* (Cambridge: Cambridge University Press, 1986); Jeffrey Williams, "The Origins of Futures Markets," *Agricultural History* 56(1982). and Henry Crosby Emery, *Speculation on the Stock and Produce Exchanges of the United States*, Studies in history, economics, and public law, v 7, no 2 (New York: AMS Press, 1968).

harvested. In essence the cotton served as collateral for the loan. Often the bill of lading would remain in the hands of the creditor until the cotton was sold and the advance paid off. A forward contract is an agreement to sell an asset at a pre-agreed future time for a specified price. A forward contract is usually made to meet a customer's need - it is a contract in the sense of being an agreement between two individuals. With a forward contract there is no margin or money exchanged in advance. A futures contract is an agreement to buy or sell a certain good at a certain date in the future at a specified price that is traded on an exchange or in a market; such futures contracts can be traded speculatively. Because futures contracts are traded on an exchange and impersonal they are also highly liquid. In essence the contract itself becomes the good – another level of abstraction, and in the actual trade in the commodity becomes secondary, at least until it is time to honor the contract. In the nineteenth century many viewed futures trading as a whole to be a legislated form of gambling.²⁴⁸ The prevalence of various attempts to corner markets only contributed to the disreputable view of exchange markets.

William Cronon has suggested, in his examination of the evolution of the futures market in grain, that the system of grading wheat paved the way for the development of the exchange and trade in grain futures, the classification of grain into various grades allowing for an abstraction away from specific bags of wheat to a view of grains as being interchangeable – instead of thinking in terms of bushels of wheat, merchants were encouraged to think in terms of weight. The shift from volume to weight encouraged a

²⁴⁸ See Ann Fabian, *Card Sharps, Dream Books, and Bucket Shops: Gambling in 19th-century America* (Ithaca: Cornell University Press, 1990).

view of a flow of commodities.²⁴⁹ Of course, one of the obvious problems here is that, even with grading, a bale of cotton did not often equal any other bale of cotton. First, cotton bales varied in weight, generally totaling between 400-500 lbs per bale. And second, these bales could be packed inconsistently, with higher grade cotton packed around a lower grade or stained material on the inside. In the end, cotton was not as fluid as grain, and because of this was more difficult to combine into one larger mass of a standard good. Nevertheless it could be bought and sold in accordance with similar market dictates. One of the other factors that worked against the development of futures exchange was the British preference for sampling, which delayed the use of grain elevators in New York and stalled futures trading in wheat in the Empire City until the 1870s. The fact is the British preferred sampling to a grading system that treated commodities in more general, or abstract terms; this inhibited the flow of goods. Thus it seems partially attributable to the system in place and the Atlantic trade in cotton that a futures market was not established earlier.²⁵⁰

Ultimately though, it may have been factors, and the planters themselves that objected to an exchange. Exchange markets are more difficult to fool with random reports of frosts and infestations. Planters, aside from receiving many services from factors, were able to obtain multiple advances and ask for additional credit and a polling over of their accounts. In a more formalized market, these types of accommodations would have been very difficult to come by. More importantly, forward and futures contracts would have eliminated the consignment business entirely and much of the work of factors as well.

²⁴⁹ See Cronon, *Nature's Metropolis*. 118-47.

²⁵⁰ See Albion and Pope, *New York Port*.

Factors had a pronounced interest in maintaining the older system; they derived power, profit and prestige from their positions. With forward contracts, and even more so with futures contracts the work factors performed in selling the crop and obtaining the best price would have rapidly become irrelevant.

Interestingly, futures contracts and eventually the New York Cotton exchange developed quickly after the Civil War with the consolidation of national markets in the United States. Kenneth Lipartito argues exactly this point, suggesting that the New York exchange developed out of a need to bring greater stability to cotton trading in the aftermath of the collapse of the factorage system. Once factors were out of the picture an exchange developed quickly. He highlights that that the futures market and the exchange did function as tools for organizing and rationalizing cotton markets, much as the grain exchange in Chicago did with wheat, and at roughly the same time. It seems apparent that the explicit use of futures contracts was possible only after the Civil War, even though an exchange for cotton would likely have created much greater economic stability in the antebellum United States and calmed markets and financial operations across the Atlantic world. An established exchange might also have prevented the exit of larger Anglo-American houses from the trade in cotton in the 1840s and 1850s. That being said, when the exchange was established in the 1870s it contributed to depressed economic growth and a distortion in cotton prices that inadequately reflected market conditions. This would have created certain chaos in the Atlantic markets of the antebellum period, although few would have anticipated wild price fluctuations in advance of creating an exchange, or development of a futures market. In the end this type of exchange was seemingly impossible to organize prior to the Civil War. The required centralization of economic

and political power and collapse of the factorage system would only occur during the years of fighting as the Union developed a much more cohesive financial system.²⁵¹ Had it been otherwise the story of King Cotton, and the South might have been radically different. As it happened, cotton was losing its allure, even as prices began to rise once again.

Part of their reluctance to move further into the trade was volatility, and this volatility was attributable to the lack of any party ever controlling a decisive share of the market (exactly the situation an exchange would address through establishing grades and regulating the trade). From 1839-48 the Rothschild London house purchased, on average, in excess of 3,000 bales per year. The Paris house purchased much more. From 1837-48 many larger Anglo-American houses initially became even more thoroughly involved in operations in cotton, and they all increased their capital through transactions in the article. The California gold rush, commencing in 1848 drew the attention of the Rothschild houses, and they established an agency in San Francisco in 1849. They continued to purchase cotton but focused more heavily on the purchase of gold bars and bullion from 1848 forward. As we have seen, Barings became more active in cotton in the 1840s because of the lack of competition, but they purchased cotton on their own account and eventually withdrew from the trade later in the 1850s. As has been noted, all three firms had backed away from consignments, and by extension, from the political concerns of Southern planters. Smaller firms, agents and speculators filled the void they left. They had moved on to other opportunities, but the planters had not followed suit, although they perceived some need to do things differently.

²⁵¹ See Chandler, *Visible Hand*.

In sum, for many Anglo-American firms, their operations in cotton gave them knowledge of markets, connections and capital that provided the base for their further development and expansion. As has been noted, the Browns transferred the knowledge and capital they gained through sales and consignments of cotton into Atlantic exchange and credit operations after 1845. Barings in spite of their explicit desire to remain generalists became increasingly involved in the marketing of American loans on European markets. Their experience in cotton and property banks allowed them to determine the relative strength of banks throughout the country. Each firm chose a different area of expertise. This was determined by the presence of other firms in the market, the unique expertise they gained in their American operations and in what cities they had placed agents or opened offices.

Chapter Four: Lessons Learned, and Not Learned, From Cotton: 1848-1861

Against a background of increasing sectionalist strife Anglo-American financiers moved away from cotton as slaveholding states experienced a deepening rift with their free labor contemporaries. By 1848 larger commercial houses had begun to diversify into other financial activities, and political parties in the United States seemed increasingly to split along regional lines. Some historians have suggested that this rift, or clash of disparate economic systems, was what led to the Civil War. This line of thought can be traced from Charles and Mary Beard down through the writings of Eugene Genovese and eventually through John Ashcroft's *Political Economy of the Antebellum Republic*.²⁵² These arguments have a certain appeal but do not explain how the larger American economic system continued to function for so long, and at increasing levels of sophistication. Nor do they account for the role finance played in fomenting economic discord, as has been demonstrated in the previous chapters. The fact is slaveholding and free labor states worked together to form a larger economic system which functioned well and allowed the United States to raise enough surplus capital to fund industrialization and give rise to self-sustaining economic growth.²⁵³ The credit cotton brought in through

²⁵² Charles A. Beard and Mary Ritter Beard, *The Rise of American Civilization*, One volume ed. (New York: Macmillan, 1930). and Charles A. Beard, *An Economic Interpretation of the Constitution of the United States* (New York: The Macmillan Company, 1913). Eugene D. Genovese, *The World the Slaveholders Made: Two Essays in Interpretation* (New York: Pantheon Books, 1969). Genovese, *Political Economy of Slavery*, and Elizabeth Fox-Genovese and Eugene D. Genovese, *Fruits of Merchant Capital: Slavery and Bourgeois Property in the Rise and Expansion of Capitalism* (Oxford: Oxford University Press, 1983)., John Ashworth, *Slavery, Capitalism and Politics in the Antebellum Republic*, 2 vols. (Cambridge: Cambridge University Press, 1995). Interestingly, George Fitzhugh suggested a similar interpretation of the sectional conflict in the 1850s in George Fitzhugh, *Sociology for the South; Or, the Failure of Free Society* (Richmond: A. Morris, 1854).

²⁵³ See North, *The Economic Growth of the United States*.

consignment and outright advances bolstered the economy, stimulating growth. In turn, the prominence of cotton as an export article contributed greatly to expansion of the American economy through the attraction of foreign capital. Many histories all too often isolate the South and, as we have seen, the South was very much a part of a larger Atlantic, and indeed, global economy.²⁵⁴ At the time, cotton planters were concerned with free trade, tariffs and, really, the expansion of slavery. They were also preoccupied with the workings of international credit and financial markets in ways that their manufacturing cousins in the North were not. Their correspondents in the North were attentive to the concerns of Southern planters insofar as they affected their political decisions and their interactions with slaveholders. To suggest that capitalism and slavery were two antithetical forces tearing apart the union ignores the economic and social realities of the era.

Indeed, much of the Atlantic world was deeply concerned with the fate of slavery as an institution, but they were attentive to trade policies and navigations acts as well. Their engagement with all of these issues was at heart a concern with prices, exchange and the supplies of raw cotton available at any given time. American manufacturers desired to protect native industry and manufacturing concerns from being undercut by European goods and workers in the Northeast were increasingly preoccupied with free labor ideology.²⁵⁵ Slavery in some ways was a secondary issue in light of what seemed to be more pressing matters at the time. And the fact is the institution of slavery might have continued had it not been for a lack of resolution on many of these other points,

²⁵⁴ See Fogel and Engerman, *Time on the Cross*. Majewski, *House Dividing*, and Majewski, *Modernizing a Slave Economy*.

²⁵⁵ On free labor ideology see Foner, *Free Soil*.

which drew slavery into the discussions and debates, sometimes indirectly. Without these disagreements, or had some resolution been found, the larger integrated American economic and financial system might have continued to function, peacefully, profitably and as difficult as it might be to conceive of now, for a much longer period of time. The fact that many Anglo-American houses had moved away from the trade in cotton and that the South was being superseded by the production of goods from the western states made all of these other matters more pressing for Southern planters as they experienced a diminution of political power and felt increasingly marginalized within the Union. In fact, the movement away from cotton, in conjunction with the opening of land and markets in the west exerted more pressure on Southern states to secede than many of the direct threats to the peculiar institution.

Over the course of the 1850s debates around slavery, free trade and tariffs intensified both within the United States and across the Atlantic. Increasingly, the cotton South seemed eager to free itself from a tangled web of prohibitive national policies and hoped to strengthen international trade and financial relationships. The annexation of Texas, the Compromise of 1850, refusal on the part of states in the Northeast to honor the fugitive slave law and the raid at Harper's Ferry contributed to a growing sense of alienation. This was not imagined: the South was becoming increasingly marginalized, lacking the political capital once commanded by cotton. In times past, Southern planters or politicians might have leaned on their New York or London correspondents to press a point but after 1848 and into the 1850s the power of King Cotton was clearly weakened, even though the South was producing and selling more than ever before. What had changed? Financiers had moved on to other ventures and threats from the South around

cotton did not carry the weight they once did with gold pouring in from California, produce arriving from the western states and the interlinking of regional economies through railroads and canals.²⁵⁶ Nevertheless, production, and the prices commanded by cotton through the 1850s, were impressive. By way of comparison, production in South Carolina cotton increased 17.5 percent, while in Georgia it increased 56.5 percent. In Alabama production basically doubled, in Mississippi it more than doubled and in the same period in Louisiana it tripled. In this context, prices rose to levels not seen since the panic of 1837, but with much greater production. Moving into the Civil War, cotton remained the primary export of the nation. It was still incredibly important to the American and British economies. The point is it had diminished in importance to many New York merchants and Anglo-American financiers; it was no longer vital to an Atlantic financial community.

²⁵⁶ On the increasing interconnectivity of the west with New York see Cronon, *Nature's metropolis* which illustrates the importance of Chicago as a gateway to the west, and really, to the east as well. Cronon highlights the importance of the railway in linking these distant economies and how the economic needs of New York contributed to the shaping of the west. Philip Foner captures very well how this social and economic shift decreased the political and social capital of the cotton South in terms of relationships between politicians merchants and planters, see Philip Sheldon Foner, *Business and Slavery: The New York Merchants and the Irrepressible Conflict* (Chapel Hill: University of North Carolina Press, 1941). See also Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850-1896* (Cambridge: Cambridge University Press, 2001).

State	1821	1826	1833	1834	1839	1849	1859
South Carolina	50.0 28.2% (1)	70.0 21.2% (2)	73.0 16.7% (2)	65.5 14.3% (4)	61.7 7.8% (5)	120.0 12.2% (4)	141.0 6.9% (7)
Georgia	45.0 25.4% (2)	75.0 22.7% (1)	88.0 20.0% (1)	75.0 16.4% (3)	163.4 20.7% (2)	199.6 20.2% (2)	312.3 15.4% (3)
Alabama	20.0 11.3% (3)	45.0 13.6% (3)	65.0 14.8% (4)	85.0 18.6% (1)	117.1 14.8% (4)	225.8 22.9% (1)	440.5 21.7% (2)
Mississippi	10.0 5.7% (5)	20.0 6.0% (6)	70.0 15.9% (3)	85.0 18.6% (1)	193.2 24.3% (1)	194.0 19.7% (3)	535.1 26.4% (1)
Louisiana	10.0 5.7% (5)	38.0 11.5% (4)	55.0 12.5% (5)	62.0 13.5% (5)	153.9 19.5% (3)	71.5 7.2% (6)	311.0 15.4% (4)

Table 3: Cotton production by individual states (in millions of pounds), percentage and relative rank 1821-1859

Bruchey, *Cotton and the Growth of the American Economy*. 18-20

Throughout the 1850s debates over slavery, free trade and tariffs continued to rage and grew increasingly impassioned. Cotton planters felt increasingly isolated but still believed they had great importance nationally through the production of cotton and the revenue generated from sales. On the basis of production and prices this viewpoint is understandable. Also, since cotton was still the most important export of the United States this was arguably true. It would have seemed that Southern cotton was still of immense importance to England as well since imports rose to their highest levels of the antebellum period. Nevertheless Northern anger and frustration over the Kansas-Nebraska Act, the Lecompton Constitution and the Dred Scott decision left some feeling the country had become the toy of a heavy handed slave power that dictated national policy and commanded more political power than was equitable, both on the basis of the

economic power of cotton as well as the three-fifths compromise. Yes, cotton did generate revenue and it was still the primary export but gold, grain and commodities from the West were becoming increasingly important as well.

The mutual jealousies, recriminations and regional sentiments of ill will grew and the South became increasingly convinced of the rapacity of the North, seeing Northerners as taking an unfair amount of profit from the cotton trade and ignoring the many political advantages that had been conferred upon cotton planting interests over decades. Part of the problem, of course, was that many of these victories had sown the seeds of later discontent and sectional conflict around issues like slavery, the fate of western lands and, vitally, the location of a transcontinental railroad that would provide a national link and a valuable bit of infrastructure the South realized they desperately needed. In a part of the country bereft of much development the issue of the railroad took on increasing importance. In this way, one project that could have served as a basis for rapprochement between the two regions and their disparate interests became yet another divisive irritant. Southern slaveholders increasingly looked to a world beyond American borders for solutions. They aggressively sought ways to increase their trade in international markets and correspondingly stridently sought to benefit from any legislation passed on the federal level. They worked assiduously to ensure that their interests in the open and unsettled West were protected, seeing a chance to claim a greater stake in the American political and economic landscape as a way to ensure the legacy of slavery. This was not an issue of mere paternalism: slavery was big business and the price of slaves had shot up

in the 1850s, to the point that many planters, for complex reasons, also advocated the re-opening of the African trade.²⁵⁷

When the Kansas-Nebraska Act was ratified and the Missouri Compromise repealed, the former territories of the Louisiana Purchase were opened to slavery. The measure was widely perceived as another major victory for pro-slavery interests. Stephen Douglas, the chief author of the legislation, viewed it as necessary to encourage the settling of the plains and allow for the construction of a transcontinental railroad that would unite the Pacific, the Plains and the Northeast. Contrary to expectations, the issue of the railroad and of popular sovereignty resulted in the release of yet more rancor and fury as North and South locked into increasingly ossified and acrimonious positions. In the end Southern cotton planters saw themselves as being victimized time and again, estranged from Western farmers, the working class men of the North and Northern manufacturers as well. Their hopes for, and orientation towards, increased international trade resulted in passionate and intense opposition to tariffs of any kind that inevitably irritated Northern manufacturers. In the same way, Southern opposition to the Navigation Acts authored by their own John Forsyth drove a wedge between Northern merchants and Southern planters. In this way, two potential alliances were lost. Arguments around the Kansas-Nebraska Act and strategic disagreements around homesteading throughout the Midwest created more divisiveness. Although a regional identity based in alienation and resentment towards Northern interests was indeed forming, secession was not in any way inevitable at this juncture.

²⁵⁷ On the re-opening of the African trade and an increasingly extra-national orientation for Southern cotton planters see Johnson, *River of Dark Dreams*.

To understand the politics of Southern resistance to these two Acts it is vital to view the Kansas-Nebraska Act and the Homesteading Act within the context of one another. On the face of it, the Kansas-Nebraska Act seemed like an unalloyed victory for the South. Allowing slavery to be decided by individual states potentially permitted the expansion of slavery into the western territories, and made potential homesteaders into potential slaveholders and constituents of the cotton South as well. The problem, it seems, was that the lots were too small to be conducive to the development of plantation slavery.²⁵⁸ These were parcels for small yeoman farmers to make a stake. In a coldly calculating way Southern cotton planters saw that homesteading would not support their own strategic interests. In a vote on homesteading policy in 1854 all the representatives from South Carolina and Georgia, two states deeply involved in cotton production, opposed the homesteading policy. They did so in 1852 as well. By 1859, all but one Southern democrat opposed the measure, a bill that would ensure the settlement of Northern yeoman and immigrants. It is very clear that their opposition was based on the fact that these constituencies would not create pro-slavery institutions, or states. Their patterns of settlement could not possibly revolve around plantation agriculture, cotton or slavery given the way parcels of land had been allotted. With lots parceled out in 160-acre increments these areas would be settled by small-scale farmers. The Republican Party likely saw this, as well as how homesteading supported free labor ideology. In 1860, every Southern democrat opposed the measure, and every Republican supported it. Votes around this issue demonstrate clearly the nature of the schism, and the development of distinct regional identities that came into conflict over issues seemingly

²⁵⁸ See Schoen, *Fragile Fabric of Union*. On lot size and the importance of land sales to the expansion of slavery see Johnson, *River of Dark Dreams*.ch. 3.

unrelated to slavery, cotton or trade. In the process political parties were torn asunder along regional lines, subverting national party identification in favor of regional affiliation. What Southern cotton planters saw in the end was that because of the nature of the type of settlement being encouraged slavery would not spread by popular mandate – the vote wasn't truly open. On top of that because of the population imbalances in the South (lots of slaves, and few planters) the Northern states were growing much more quickly, and moving more people into unsettled areas. The South was at a stalemate.

Against this backdrop of national tensions and acrimonious national engagement, cotton prices began to increase once more after 1848, reaching levels last seen before the crash of 1837, and these prices held, even through the panic of 1857.²⁵⁹ Demand for cotton accelerated and with the exception of the 1855 and 1856 seasons, the South simply could not keep up through the remainder of the antebellum period. Additionally, the United States had maintained its market share and continued to supply 80-85 percent of the raw cotton used in Britain's textile manufacturing. At this juncture an increase in textile manufacturing in Germany and France put increased pressure on the available American supply.²⁶⁰ In turn, this motivated Southern planters to find more land to cultivate, and to buy more slaves in order to plant more cotton – the familiar refrain of the nineteenth-century South. The irony was that while embroiled in so much conflict within the Union, outside of the United States the cotton South had never been doing better, and planter optimism rose along with cotton prices. The British embrace of free trade

²⁵⁹ On cotton prices over time see Bruchey, *Cotton.*, table 3-P.

²⁶⁰ See Albion and Pope, *New York Port.*, Appendix viii. 80 shiploads of US cotton left Southern ports for France in by 1860.

combined with a boom in production, prices and demand encouraged planter hopes of opening direct trade with British and European merchant bankers and ports in the lower South. These planters hoped for a break in what John Forsyth labeled the ‘chain of commercial thralldom; that tied the South to New York.’²⁶¹ Southern planters tied the potential inherent in the development of these transatlantic relationships to regional growth and the development of infrastructure throughout the cotton belt. Direct, and truly free trade, it was believed, would provide enough capital to develop Southern industrial resources.²⁶²

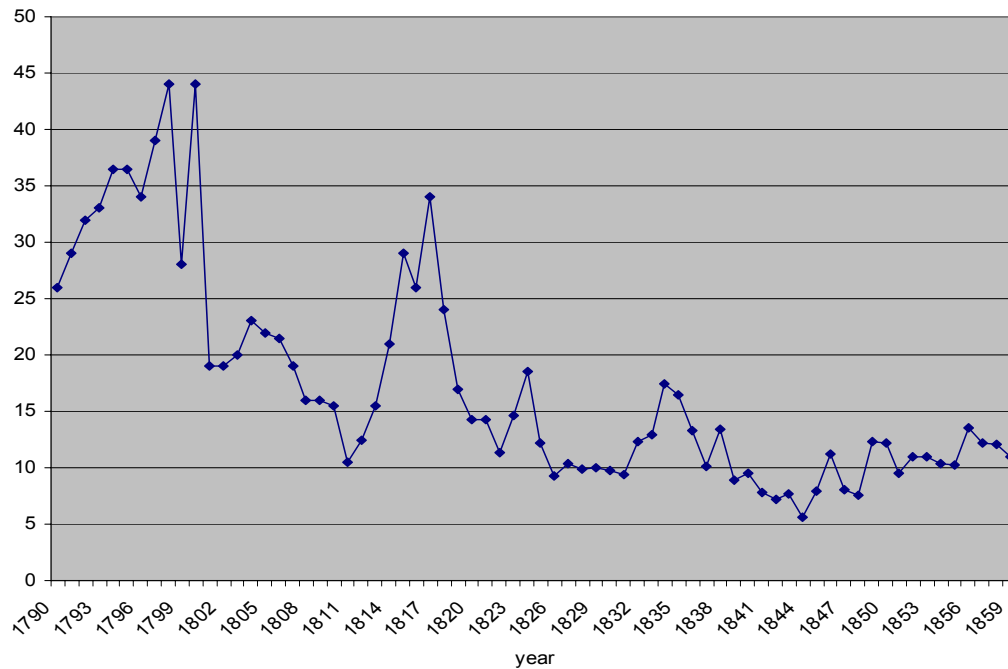


Figure 3: Cotton prices in New York (cents) per pound

Bruchey, *Cotton and American Economic Growth*, 15.

²⁶¹ *DeBow's Review* XVII 593-599. See also Schoen, "Fragile Fabric (Ph.D. thesis).", 311. This chain was also noted by later historians, like Albion, who tied it to economic necessity, highlighting New York's role as a nineteenth-century financial center. This is a point that is reinforced in Foner, *Business & Slavery*.as well.

²⁶² See W. W. Boyce "Direct Taxation and Free Trade" *DeBow's Review* 25:1 (July 1858), p 23.

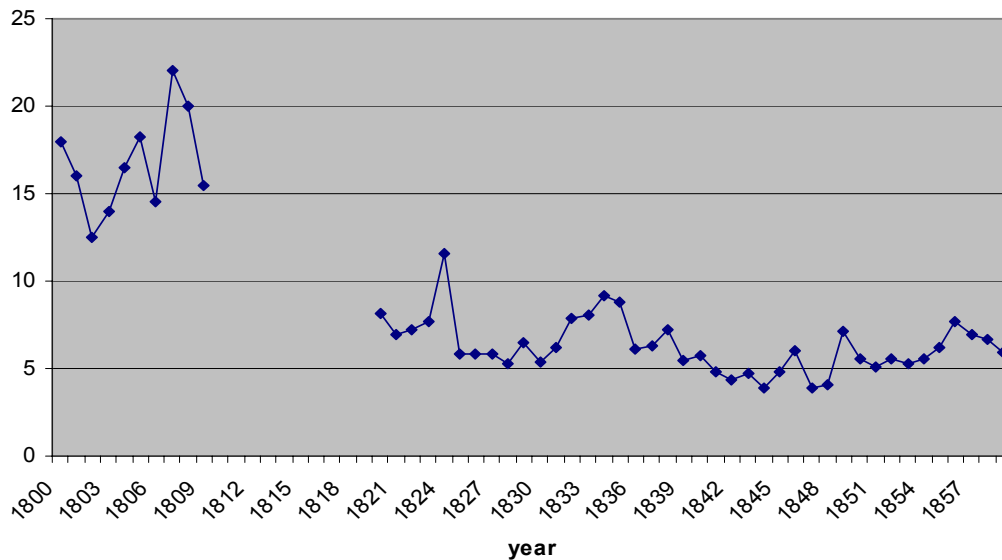


Figure 4: Cotton prices at Liverpool, 1800-1859, pence per pound

Bruchey, *Cotton and American Economic Growth*, 15.

Of course, international events likely played a role in this efflorescence as well. The revolutionary fervor of 1848 made the United States attractive once again to European merchants and bankers, many of whom invested in banks throughout the American South seeing American investment as a safe haven, protected from the social upheaval of Europe. The growth of cotton and the expansion of slavery and cotton planting in the United States is in fact an Atlantic and global story and part of that has to do with capital flows and the perceived stability of investment. Often when there was financial expansion in the South, foreign capital was present as well. For example, in 1853 foreign investors provided 2.5 percent of the capitalization of banks nationally across the United States. However, in Alabama, foreign investment accounted for 27.3 percent of capitalization, and in Louisiana 27.9 percent of bank capitalization came from

foreign sources, most notably the Barings investment in planter banks, and the Rothschild controlling interest in the New Orleans canal bank.²⁶³ These investments were a legacy of the political instability of 1848. As in the period from 1826 forward, European investors were happy to productively deploy their capital in the American South, but sought more guarantees of security than in the 1820s. These houses saw banks as a more solid form of investment than so many of the state municipal bonds that were forfeit in 1841. The fortunes of the lower South leaned heavily on foreign capital, a point that became painfully obvious with the outbreak of the Civil War but that was evident even much earlier.

At this point, many larger Anglo-American financiers were wrapping up their departure from the cotton trade. As mentioned previously, by this point the Browns had already moved decisively away from consignments, opting instead to focus on letters of credit, currency exchange and the operation of the Collins steamship lines. In 1845, the Liverpool branch's commission revenues on cotton consignments totaled \$53,000. By 1852 these revenues had dropped to around \$5,000, a reduction of over 90 percent. Other firms in the industry adopted the Browns' system of making consignments during the 1840s and took up a good deal of the consignment business they left behind. Through their operations in cotton, both purchasing and making consignments they developed an expertise in the handling of letters of credit and bills of exchange, a business they came to dominate after 1845 as they had the consignment business earlier. With the Browns, their

²⁶³ See table 3 "report of the Secretary of the Treasury in Answer to a Resolution of the Senate Calling for the Amount of American securities held in Europe and other Foreign Countries, on the 30 June 1853" reproduced in Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge: Harvard University Press, 1989). See also P. L. Cottrell, *British Overseas Investment in the Nineteenth Century* (London: Macmillan, 1975), 19-25.

involvement in a commodity produced for a commercial market with slave labor in the antebellum South enabled their transition into a business focused exclusively on banking and finance that ranged far away from slavery and the concerns of cotton planters by the close of the antebellum era.

By 1850, fifteen years after the Browns' decisive shift into financial services, they controlled nearly 50 percent of the letters of credit market, which in turn constituted more than a third of America's foreign exchange.²⁶⁴ In concrete terms, this meant that they were responsible for \$25,500,000 of a trade totaling \$344,586,000, or about eight percent (although some estimates place their influence even higher, at around ten percent).²⁶⁵ Their closest competitor, Barings, did less than half that business.²⁶⁶ The combined influence of the two firms was so powerful though that the Browns felt confident that, '[w]hatever we & the Barings think proper for the American trade, we can force the thing.'²⁶⁷ At the same time, the Browns' revenue from cotton commissions had dropped from sixty thousand dollars a year in 1835 to just under twenty thousand in 1850.²⁶⁸ But the fact is, they did not miss it.

All this being said, the Rothschild congeries of houses also profited from their involvement with cotton both in terms of lessons learned and profits earned. Although they never came close to controlling the trade in cotton or discount paper, Belmont and

²⁶⁴ Perkins, *Financing Anglo-American Trade.*, 114-6.

²⁶⁵ North, *Economic growth.* table C-VIII.

²⁶⁶ Hidy, *House of Baring.*, 469.

²⁶⁷ Brown Brothers & Company New York to T. Curtis, February 3, 1858, NYHS.

²⁶⁸ Brown Shipley & Company to Brown Bros. & Co. , Sept 25, 1851, NYHS.

both houses also engaged in lucrative arbitrage transactions.²⁶⁹ Most vitally, they made good use of the knowledge and skills they gained in the American South to decisively enter the trade in gold in California. From their experience in Southern markets and years spent chasing the Browns, Belmont and the Rothschilds realized there was a distinct advantage in establishing a strong and decisive presence in regional markets early, running both shipping and much of their bill discounting through New York and then on to London and Paris. The firm found that having trusted and exclusive agents in both locations conferred an additional advantage. Given the volatility of Southern markets and the shift in political winds, avoiding involvement with plantation slavery looked increasingly attractive as well. They also aggressively employed a policy of vertical integration, controlling as many factors in the gold business as was feasible. Another lesson learned from cotton, conferring much greater control over every element of the process.²⁷⁰ A brief examination of their operations in gold demonstrates how they applied their knowledge of American markets to better effect in California.

The Rothschilds established an agency in San Francisco in August 1849 under the direction of their cousin, Benjamin Davidson. Davidson had traveled to California from St. Petersburg to oversee the operation of this new agency and explore the emergent business possibilities in California. In one of his initial letters Davidson described the great profits to be made both in the purchase of gold and gold dust as well as in the

²⁶⁹ As John Killick has noted, no firm ever controlled more than 15 percent of this trade. See Killick, "The Cotton Operations of Alexander Brown and Sons."

²⁷⁰ On the idea of vertical integration see Chandler, *Visible Hand*.

discounting of bills.²⁷¹ Although much of this was new to Davidson, the Rothschild houses recognized a familiar tune. Against their wishes Davidson purchased a building and a lot of property in the city shortly after his arrival (the discordant notes had a familiar sting as well). Nevertheless he was given a line of credit by the London house and was also authorized to draw on Belmont when necessary. He worked with him to coordinate the shipping of gold and discounting of bills from San Francisco to New York and then on to London.

Davidson's agency was one of the few well-capitalized firms in California, leaving him well positioned to operate decisively. He developed a reputation for paying cash and always having enough money to hand to complete purchases of gold. Additionally, his coordination with Belmont gave him access to news and information from New York and Washington DC. This system worked well for both houses and allowed them to import more gold than any other European house in this period, as Belmont noted: 'ever since the Calif gold has been discovered I have myself alone from year to year shipped more than one half the gold exported to Europe, that is to say my shipments amounted to little more every year than those of all the other houses combined. ...as a mere matter of arbitrage there is not a house in England connected with the American trade who here for the last eight years received one fifth of the gold which I shipped to you, not including my shipments to your Paris house.'²⁷² The Rothschilds may not have been able to wrap up the trade in cotton, but they handily controlled the

²⁷¹ Benjamin Davidson, San Francisco, to N. M. Rothschild & Sons, London, September 12, 1849, XI/38/81, RAL.

²⁷² August Belmont, New York, to N. M. Rothschild & Sons, London, November 20, 1857, XI/62/7A, RAL.

flow of gold out of California. The strategic advantage they had from their monopoly over Spanish quicksilver made extensive involvement with gold that much more appealing.

For over three hundred years the mines of Almadén in Spain had played a vital if indirect role in the European economy. Mercury, or quicksilver, was used to extract metals from gold and silver ore and had been used in various mining processes. Traditionally the mines of Almadén had been leased to various banks, most famously, the Fuggers.²⁷³ In 1834 Lionel de Rothschild, Nathan's son, was sent to Madrid to receive payment on a loan, and bid for the lease while he was there. He outbid four rivals and secured the mines.²⁷⁴ This placed the Rothschilds in a very advantageous position both with the Spanish monarchy and within the business community. The importance of this lease increased in 1849, with the discovery of gold in California. Mercury had also been used to refine gold and proved to be especially useful in variations on hydraulic mining of gold and silver, which became increasingly common in the second half of the nineteenth century. The mercury helped the gold or silver flow through the water and gravel mixture which allowed the precious metal to be extracted more quickly, as well as efficiently since the gold or silver would also form an amalgam with the mercury thereby increasing recovery rates of smaller amounts of flakes.²⁷⁵ Incredibly, the Almadén mines

²⁷³ See Kindleberger, *Financial History*, 120.

²⁷⁴ This is discussed in the context of Rothschild international interests in Ferguson, "The Family Firm as Multinational."

²⁷⁵ The fact that an estimated 45,000 metric tonnes of mercury were used in California for placer mining have never been recovered is testament to the profitability of this trade as well as the environmental devastation that often followed in the wake of mining operations in the nineteenth

account for the largest quantity of liquid mercury produced in the world. Over the past 2,000 years over 250,000 tons of liquid mercury have been pulled from the earth at the site. Rothschild administration of these mines gave the family a virtual monopoly on mercury production and they sold flasks of quicksilver to a global market throughout the nineteenth century. When the New Almadén mercury deposit was discovered in California the Rothschilds gave serious consideration to buying the site and building the mine but in the end backed away from the opportunity. As it was, a mine that was established there in the late 1850s provided much of the mercury used in the placer mining processes that became prevalent at the same time. Had the family gained control of this mine in addition to the one in Spain they would have dominated the trade in mercury globally as well as gold production in California. Interest in this mine and gold production presented a decisive shift away from other American interests and resulted in a rebalancing of priorities and people working for the respective houses in the United States.

In 1849 Alphonse de Rothschild, the son of James, visited the United States, traveling to New York and Louisiana. It is abundantly clear from Betty de Rothschild's letters to her son during his sojourn that the establishment of an American house in New York was a topic of discussion between Alphonse, his parents and the London house. At various points she suggests the entire family might leave the strife of Europe behind for a new life in the New World. She mentions various schemes, claiming at one point, 'I would not want to abandon the plan to see one of you established in America for anything

century. See C. N. Alpers et al., "Mercury Contamination From Historical Gold Mining in California," U. S. Geological Survey, <http://pubs.usgs.gov/fs/2005/3014>

in the world, and deliver this great future from the stupidity and greed of an agent.²⁷⁶ Betty proved herself particularly aware of Belmont's status in American society and his value to the firm, even though she considered him untrustworthy and incorrigible.²⁷⁷ The younger Rothschild sacked J. N. Hanau, their New Orleans broker, during his sojourn in the South. Belmont narrowly averted a similar fate, although he himself feared he would lose all that he had built for himself in the United States.²⁷⁸ Belmont was fortunate - his social status and political capital made him difficult to remove, a point begrudgingly noted by Betty de Rothschild at the time: 'B. has created for himself a strong and independent position,' she noted, discussing his status in New York, and power in the Democratic party, concluding, 'all that makes him an important man these days.'²⁷⁹ At this juncture, the Rothschilds realized they had a unique opportunity in America, one certainly as precious as the one Belmont spied for himself in 1837. They also surmised that, at least for the time being, their fortunes were entwined with his. The gold rush in California offered the potential of immediate profit for those positioned to act. After years of running behind the Browns chasing bits of cotton and trying to wrest away a part of the trade in discount bills they opted instead to gain the upper hand in an emerging market in California forgoing the establishment of a Rothschild house in New York for the time being.

²⁷⁶ Betty de Rothschild, Paris, to Alphonse de Rothschild, New York May 16, 1849, 000/930 58/1/222, RAL

²⁷⁷ Betty de Rothschild, Paris, to Alphonse de Rothschild, New York, March 7, 1849, 000/930 58/1/222, RAL.

²⁷⁸ See Black, *The King of Fifth Avenue*.

²⁷⁹ Betty de Rothschild, Paris, to Alphonse de Rothschild, New York, March 7, 1849, 000/930 58/1/222, RAL.

Davidson's operations in San Francisco expanded and in 1850 Johannes May was dispatched from the Frankfurt house to assist him in running the firm and, perhaps, to keep him in line as well. In 1851 May was made a partner and shipments of gold increased. This proved to be of particular benefit to the London house, which acquired the lease on the Royal Mint Refinery in 1852, allowing them to refine gold independently and mint bars in London. This movement into refining and processing was one that the firm did not consider with either tobacco or cotton but that proved immensely profitable with gold. The lease on the refinery allowed them to ride the wave of heightened levels of gold production through the nineteenth century, capitalizing on discoveries in California, as well as Australia and, later, South Africa.²⁸⁰

In the 1850s England was receiving around 616 million pounds of cotton annually from the United States. The majority of this cotton was sent to Liverpool. In 1853, the New York correspondent of R. G. Dun remarked that Brown Brothers was, '... the richest house doing business in America and reported to be worth as a firm about twelve or fourteen million dollars.'²⁸¹ This fortune was amassed in large measure through the trade in cotton and bills of exchange generated from the triangular trade in agricultural commodities produced with slave labor. Additionally, the Brown Brothers, in a very competitive Southern cotton market, for many years dominated the trade from

²⁸⁰ This move towards vertical integration was also employed by Rothschild in their purchase of an ironworks in Vitkovice in 1843 to produce tracks for the Chemin de Fer du Nord, among others. On vertical integration see Chandler, *Visible Hand.*, 287 and 312.

²⁸¹ R. G. Dun records, 1853, Baker Library, Harvard University.

Charleston, Savannah, Mobile and New Orleans.²⁸² Obviously, this trade linked the Northern and by extension Southern United States to a larger Atlantic network of credit and manufacturing. When the Browns moved into exchange and discounting bills they exerted dominance in that field, but by the 1850s the Southern states accounted for less and less business. In the years preceding the Civil War the purchase of sterling bills was basically the only activity that occupied their Southern offices. The profits from what was in essence a seasonal business seemed insufficient to justify the amount of time required to maintain the different branches. When war broke out the Northern offices were compelled to limit their bill sales to the corresponding volume of Northern purchases, a move that had been suggested by the Liverpool partners Collet and Hamilton, in previous years.²⁸³ They had determined that less reliance on Southern purchase was one possible remedy for declining profits in the bill business, and it seems quite likely the Browns would have moved out of Southern markets entirely regardless of the Civil War. For them, all operations in the South had become nothing more than a liability.²⁸⁴

In the 1850s Barings alone of the larger financial houses remained involved in cotton and continued to evince a preference for purchases of cotton instead of offering advances on the article.²⁸⁵ It is not that Baring Brothers perceived any less risk in holding the article, or had necessarily gained greater confidence in the market. Barings and others

²⁸² See Beckert, "Emancipation and Empire."; *ibid.* For a description of the exchange activities of Southern offices see Perkins, *Financing Anglo-American Trade*; *ibid.* Also, Killick, "Cotton Operations."

²⁸³ See Perkins, *Financing Anglo-American Trade.*, ch. 8.

²⁸⁴ See *ibid.*, 160-7.

²⁸⁵ See *ibid.*, 100-2.

certainly realized that the actual risk of ownership was not that much greater but the profits in ownership were far higher than the 2.5 - 4 percent commission for handling the sale to a third party. The move towards outright purchases was therefore a smart one and their timing was good in this regard. On the cotton they purchased they enjoyed good returns. Nevertheless, this shift by most firms towards purchasing cotton on their own account has been suggested as one explanation for the Browns' abandonment of the trade, and it may have influenced Barings as well. In addition to their other activities they became increasingly involved in the offering of American securities on European markets, putting their knowledge of the United States financial system to very good use while also stepping away from the trade in cotton. The firm also worked to intentionally avoid the narrow specialization they saw other houses embracing. They thought the diversity of their activities was an asset, although they were moving, unconsciously it seems, towards a specialization in American securities, and the marketing of American loans in Europe.²⁸⁶

But as larger Anglo-American houses preferred less volatile ventures there were always more smaller traders, factors and agents happy to move into the vacuum. The Leverich brothers with their family network of traders spread through the South and New York picked up part of the trade. The Lizardi also briefly tried their hand at cotton. George Peabody entered the fray in cotton and bills of exchange in the 1850s but soon found the volatility too much of a challenge. What the majority of these traders discovered was what the larger houses had found in the 1840s – cotton might be booming but few in the finance business were making very large profits, in part because of the

²⁸⁶ On avoiding specialization see Hidy, *House of Baring*. chs 11, 13 and 14. See also Austin, *Baring Brothers*.

bloated advances still demanded by planters. The fact that there were simply too many players in the game from one year to the next only compounded the problem. In flush years more traders and many operators with little experience contributed to increased volatility. The heady profits to be made in cotton were made much earlier in the nineteenth century, yet green investors would enter markets again and again. Since no house was ever able to get a decisive handle on cotton for one year, let alone a string of trading seasons, the market was easily swayed by ignorant and impetuous trading that often resulted in ruin for the foolhardy agent or factor and contributed to instability in the larger market as well. For larger houses that could operate in different areas, more than occasional investment in the article was not worthwhile. Cotton remained important in the American economy generally right up to the Civil War, but in the steps of these larger houses away from the article it is clear that cotton interests no longer had the political sway they once did.²⁸⁷ In the end, it can be argued that this was an important factor in precipitating secession and eventual armed conflict: the South had lost a good deal of power because the dynamics of trade had little appeal to larger merchants and financial houses.

In 1855 David Christy, in his *Cotton is King*, made a point about slavery that shamed many of his contemporaries and has escaped many historians. He noted that ‘slavery is not an isolated system, but is so mingled with the business of the world, that it derives facilities from the most innocent transactions.’²⁸⁸ These transactions, varied as

²⁸⁷ See Foner, *Business & Slavery*.

²⁸⁸ David Christy, "Cotton is King," in *Cotton is King and Pro-Slavery Arguments* (Augusta: Pritchard, Abbot & Loomis, 1860); David Christy, *Cotton is King: Or, the Culture of Cotton, and*

they were, might involve bills of exchange, the discounting of bills by London commercial houses such as Overend and Gurney, Brown Brothers or the Bank of England. It has been said that ‘cotton catapulted the United States onto the center stage of the world economy’ and that was obviously the case.²⁸⁹ In the late 1850s America supplied about 70 million pounds of cotton to the German Zollverein, 90 millions pounds to Russia, 190 pounds to France. These quantities met more than 90 percent of demand in these countries.²⁹⁰ The majority of this cotton was sent to Liverpool. Obviously, this trade linked the Northern and, by extension, Southern United States to a larger Atlantic network of finance, production and manufacturing. Although all regions derived benefit from the arrangement, the South was dependent at this point on obtaining credit and selling their cotton in an international market. The South was also dependent on imports both from the North as well as Europe.

In the antebellum period it seemed almost everything in one way or another ended up linked to cotton, and by extension, to slavery, a point that did not escape Christy. ‘Capital and labor, in Europe and America, are largely employed in the manufacture of cotton. These goods, to a great extent, may be seen freighting every vessel...that traverses the seas of the globe, and filling the warehouses and shelves of the merchants over two-thirds of the world.’²⁹¹ Christy could only conclude that cotton was king, and that the labor regime and credit mechanisms that enabled and supported the

its Relation to Agriculture, Manufactures and Commerce (Cincinnati: Moore, Wilstach, Keys & Co., 1855), 36

²⁸⁹ See Beckert, "Emancipation and Empire."

²⁹⁰ See *ibid.*

²⁹¹ Christy, *Cotton is King.*, 36-8.

cotton empire would continue to do so, as did most involved in cotton planting and cultivation in the nineteenth-century United States, those involved in the manufacture of textiles in the English Midlands and mills across Europe. Yet, as we have seen, it was not only the Rothschilds that had different views of cotton. Trade in cotton was volatile and the entire operation was credit dependent to a degree that left most bankers squeamish. With no regulation of cotton markets they were wild, prone to extreme sways in pricing and the whims of the most ignorant of traders. So, although many planters and more than a few business leaders outside the cotton belt may have remained exuberant regarding cotton, the economic terrain of the United States had changed. Cotton had been unceremoniously dethroned and slaveholding states lost much of their political might in the process. Additionally, these slave holding states seemed unaware of their own vulnerabilities in terms of finance as well as a lack of development of regional manufacturing or industry.

Nevertheless, planter response to increasing marginalization within the United States was to look beyond the borders of the United States to expand slavery, cotton interests and their own influence. In the 1850s, many planters in the Deep South had begun to agitate for the reopening of the African slave trade, and some harbored imperial aspirations viewing both Cuba and Nicaragua as potential sites to facilitate the development of the re-opening of the trade as well as facilitating agricultural production and direct trade with European nations. James D. B. DeBow, in his *DeBow's Review*, came out in favor of this idea. The reopening, the logic ran, would not only provide needed slaves, but also strengthen the political power of the South. With the skyrocketing price of slaves in the market marching in lock step with rises in the price of cotton,

African importation would help to reduce costs, allowing more people to become slave owners, thus increasing the appeal of the peculiar institution. Additionally, slave sales would give the economy an added boost. Not surprisingly, Virginia was furiously opposed to the idea. In earlier decades Virginians had held a positive view of the westward diffusion of proslavery views but by the 1850s it became clear that reducing profits from the domestic slave trade, one of their most important revenue streams, and decreasing the value of the negroes still owned by planters, was economically damaging to the state. One report estimated that reopening the African trade and importing slaves would reduce the value of slaves by half, and postulated that the loss of people's interest in raising and keeping slaves as a valuable investment could lead to social unrest. In the end, the African trade did not resume, but the debate demonstrated how the South attempted to pursue every possible avenue to bolster and expand the system of slavery, even at the risk of weakening solidarity among Southern states, and possibly angering their European trading partners.²⁹²

The increasingly contentious struggles around slavery, free trade, tariffs and homesteading can be read as intimations of a nation divided. Southern planters seemed to believe that the institution of slavery and issues of trade were under less threat in an international arena than from fellow states in the Union, a far cry from the views of Southern planters at the tail end of the American Revolution. Compromises and conciliatory gestures looked very different amidst the modern glare of international

²⁹² Deyle, *Carry Me Back.*, 78-84. The domestic slave trade was so central to Virginia's economy that the state refused to join the Confederacy if the African slave trade was reopened. See Ronald T. Takaki, *A Pro-Slavery Crusade: The Agitation to Reopen the African Slave Trade* (New York: Free Press, 1971), 232-43.

finance for both North and South. With John Brown's attack on Harper's Ferry it seemed the threats to the Southern way of life would only increase. Granted, British sentiments toward abolition were worrisome to Southerners but they felt assured by the fact that Britain remained deeply reliant on Southern cotton, and respectful of the institution's existence on American soil, as was demonstrated by the Negro Seamen's Acts of the 1850s. Southern planters seemed to feel that the British respected slavery. In truth, shippers likely went along to simply load their cargoes and be on their way. It is true the cotton trade had reached dizzying heights, but with yet another set of players, and these were mainly smaller traders once again. Southerners were confident that Britain and France would come to their aid if need be based on their dependency on cotton. What Southerners seem not to have noticed is that Northern merchants and British financiers had moved on to other ventures. Granted, there was still a seemingly insatiable demand for the crop but not from major financial houses or larger merchants. New York traders were increasingly involved in commercial activities in the West and Anglo-American financiers had diversified into other areas of business. The Rothschilds had their gold, the Browns shipping and financial services and the Barings were back in securities.

The lack of appeal of cotton at this juncture is captured well by Belmont writing after the election of Lincoln: 'Cotton is dull at present prices which must pay a handsome profit in Liverpool during the coming spring + summer. I wish you would feel induced to buy 5-10000 bales at present rates ... Should political events become still more complicated ... then serious fears must necessarily be entertained for next year's crop

which would of course raise the price of the raw material in Europe.²⁹³ Of course, neither house acted on this offer, and Belmont chastised them for passing on the opportunity. At this point it was a familiar refrain to all the larger houses: you might make money but it was just as likely any house might end up storing large and unwieldy bales of highly flammable and remarkably delicate cotton, or selling at a loss. Other areas of investment were simply more attractive.

In sum, although economic tides had shifted, Southern planters, it seemed, still felt their own future was assured. With the admittance of Texas as a slave state in 1845 and the sustained rise in slave prices it looked for a brief moment as if cotton would remain king. In some ways Southern planters seemed justified in their optimistic pursuit of a free trade policy for cotton, and no federal measure or territorial development seemed a major setback for the expansion of the slave trade or the American empire of cotton. Nobody could disagree with David Christy's claim that 'mankind (was) better clothed; their comfort better promoted; general industry more highly stimulated; commerce more widely extended; and civilization more rapidly advanced than in any preceding age.'²⁹⁴ Cotton had proved to be a wonder material that improved lives, stimulated global commerce and interconnectivity, accelerated industrial and technological development, created employment and even made people look more fashionable. That being said, cotton planting and insatiable greed had also contributed to environmental destruction, forced migrations, the enslavement of Africans, Indian

²⁹³ August Belmont, New York, to N. M. Rothschild & Sons, London, December 10 1860, XI/62/10, RAL.

²⁹⁴ Christy, *Cotton is King.*, 36-38.

removal and the perpetuation of a regime of forced labor in the South that caused distortions on social arrangements in the United States. Further the industry contributed to the relocation of families to mill towns throughout Lancashire and Yorkshire, and fomented the development of class-based strife, social unrest and the disruption of family life in Lancashire, which continued to develop unchecked throughout the nineteenth century.²⁹⁵

Regardless of the advances, and in cruel indifference to the destruction of the cotton regime of the South, the tides of finance had shifted and Southerners had not noted the change in direction. The end result, with the election of Lincoln in 1860, was something unimaginable previously: the threat of secession, one that might have carried more weight had it come in 1848. Those twelve years made a very large difference. South Carolina's threats of secession did not elicit the response they expected, so Southern states began to leave the Union. The newly formed Confederacy found itself adrift in a world no longer so committed to cotton, toleration of slavery or willing to risk potential war with the Union in order to have access to the material. Larger Anglo-American firms and British commercial houses learned the ways of American markets. The merchants and bankers had decisively moved on to other, more profitable, as well as characteristically modern avenues of activity. The Rothschilds, like the Barings and Browns, moved away from cotton and into more lucrative exchange markets, selling specie, making arbitrage trades, operating in gold and behaving much more like modern investment bankers. This shift in activities was not a conscious choice. Nor was it immediately apparent. It was governed by the availability of opportunity and can be seen

²⁹⁵ Married Women in Factories," *Contemporary Review*, 1882.

in retrospect in changing patterns of investment and specialization. At its root lay changes in the American economy and the incorporation of the American West into larger American markets and institutions. In these shifts lie also some of the roots of the Civil War.

Chapter Five: The Great Unraveling

For many observers it was difficult to imagine that Abraham Lincoln, a candidate with no support in slave holding states, would carry the election of 1860. Yet a split in the Democratic Party made the unimaginable a distinct possibility as Election Day drew near. The results were especially surprising given the advantages the South had in the electoral college and the fact that political divisions had grown distinctively more regional in character in the 1850s. August Belmont wrote to N. M. Rothschild & Sons on the eve of the election that ‘the southern ultra proslavery men are threatening disunion in case of Lincoln’s election but I do not believe that they will be able to carry out their threats. The dispersions in the Democratic Party render it very probable that Lincoln will be our next president. The success of the sectional party whose candidate he is will undoubtedly create a good deal of trouble + excitement but I have no fears of serious disturbances.’²⁹⁶ When Lincoln carried the election in 1860 many perceived the Atlantic economy to be functioning at its highest level. The prices of slaves and cotton were high. Banks were well capitalized. Prosperity, it seemed, had returned and few, at least in financial markets, anticipated a quick and radical dissolution of the Union or of the cotton trade. When South Carolina seceded in December of 1860, most expected an expedient, and decidedly peaceful end to a small disagreement. There was wide acknowledgement that the South would be, and was in fact, troubled by the election. But contemplation of the social and economic consequences of disunion was not something most financiers on either side of the Atlantic saw as realistic: the economy was just running too well.

Lincoln himself made clear, at least initially, that he was not interested in disrupting

²⁹⁶ August Belmont, New York, to N. M. Rothschild & Sons, London, October 23, 1860. XI/62/9, RAL.

slavery, either. But the South had not supported his candidacy and planters in particular were not pleased with their new president or the pending Morrill Tariff legislation. Nevertheless, few people took the specter of separation of the Union seriously. When disunion, and eventually war, carried the day the issue of finance came to the fore once again and, with finance, the difficult question of alliances. It is with the Civil War that the alterations to the financial landscape from 1848 become readily apparent. The larger financial houses had moved away from reliance on cotton but planters still did not see they lacked the pull they previously had. The South no longer had the importance, or political cachet, it once did, either in the United States or internationally. Not for the first time, Southern planters overestimated the importance of cotton in a global market; this proved a costly error for the Confederate states.

Although financiers had been backing away from cotton for years, Southern planters and politicians did not see that cotton was losing ground in terms of the power it held over the American economy. Although there were intimations of conflict, including John Brown's raid on Harper's Ferry, few thought the disagreements would result in either secession, or eventually, Civil War. This is not surprising given that on the eve of the Civil War foreign investment in the United States amounted to \$444 million, an effective doubling of the total investment ten years previously.²⁹⁷ Additionally, the cotton crop of 1860 was the largest to date. To compound matters Great Britain had been buying prodigious amounts of grain to compensate for a series of poor harvests at home. There was no reason to suspect that the

²⁹⁷ Wilkins, *Foreign Investment.*, 152. Additionally, in 1861 *The Economist* estimated American foreign debts to total around \$100 million *The Economist*, January 19, 1861, 71.

companionable interdependence between the two countries would be disrupted by interregional strife. Salomon de Rothschild, the third son of James de Rothschild, traveling in New York in 1860, described the situation well: ‘... there is a great uproar and talk about disrupting the union, about resistance by force of arms, and much else. But when the “almighty dollar” is in jeopardy these great patriots will look twice, and I think all these great movements, these fine projects, will fizzle out.’²⁹⁸ In the end, most thought peace would prevail because it seemed in the best interests of all parties. It cannot be denied that many of those with greater financial interests, like Baring Brothers, and the Rothschilds, both hoped for and expected peace as well. The Browns alone realized their trade would suffer little disruption.

These banks, involved in every facet of American life, even if they were not as deeply involved in the cotton trade as they once were, stood to lose a good deal in the case of war: operations would be disrupted, debts very likely might not be paid, states on either side of the conflict might once again suspend payments. The situation was exacerbated by the passage of the Morrill Tariff under Buchanan’s administration and a Republican Congress in 1861. The majority of cotton planters opposed the tariff, intended to facilitate rapid industrial growth by limiting competition from industries in Europe. The measure passed easily since most of the representatives of the Southern states had left because their states had seceded from the Union before the vote. This tariff had the unequivocal support of Lincoln and he used his commitment to it to take Pennsylvania and New Jersey in the election, assuring a sweep of the Northern states. As Belmont

²⁹⁸ Salomon de Rothschild to family, letter xxii in Sigmund Diamond, *A Casual View of America: The Home Letters of Salomon de Rothschild, 1859-1861*, trans. Sigmund Diamond (Stanford: Stanford University Press, 1961), 73.

noted, ‘it is the first time that a president put forward entirely by a sectional party and who had not even an electoral ticket run at the South will occupy the white house.’ He went on to say that, ‘the excitement in the southern cotton states is intense – the governor + leading men of South Carolina are for immediate secession.... I think that the conservative men in the other southern states will prevent the accomplishment of these maneuvers but in the meanwhile a good deal of apprehension must exist which will paralyze business.’²⁹⁹

This tariff brought to an end an era of relatively free trade that had been in place since 1846 with the repeal of the Corn Laws and the passage of the Walker Tariff, which substantially reduced American duties. It seemed the boom years had, once again, been brought to a close. British financiers viewed these developments, along with panic in the stock markets that followed the election of Lincoln, as heralding the advent of a prolonged financial crisis. This crisis would receive additional steam from the financial and social upheaval created by sectional conflict. Lincoln’s announcement of a naval blockade of Southern ports in April of 1861 was a pronounced threat to the British textile trade, the nation’s largest industry and source of employment for thousands of people in the British Midlands. Additionally, many of these British financiers realized with no small amount of frustration, that all of their returns on American investments were now uncertain. Their response to the conflict was, first and foremost, concern with the material and financial consequences of the crisis, and potential war. Joshua Bates voiced fears of ‘... a long

²⁹⁹ August Belmont, New York, to N. M. Rothschild & Sons, London, November 10 1860, XI/62/9, RAL.

and bloody war that will be destructive to commerce and will naturally reduce the profits of Baring Brothers.’³⁰⁰ Lord Overstone, one of the largest holders of American securities was more direct: ‘I doubt whether we are not as deeply interested in the matter as the parties themselves.’³⁰¹

The hungry mills still had a taste for American cotton going into the Civil War, and cotton was still vitally important to the British economy as well as a valued import of other European nations. On the eve of the American Civil War 500,000 people were directly employed in the English cotton mills. More than four million of England’s 21 million people were dependent on the cotton industry for their daily bread. Britain’s need for raw cotton was stupendous: in 1859, it imported 2,610,898 bales, more than 50,000 bales per week.³⁰² Britain’s mills were dependent upon the Southern states of the United States for three-quarters of that cotton. Nor was Britain the only European nation whose industrial base was dependent on American cotton. From September 1, 1859 to August 31, 1860 the U.S. exported 589,587 bales to France, 295,072 bales to the countries of northern Europe, and 220,082 bales to other foreign ports.³⁰³

The cotton trade also supported a multitude of people not directly employed in the

³⁰⁰ Diary of Joshua Bates, April 28, 1861, Dep 74, Vol 7-10, The Baring Archive, London.

³⁰¹ Lord Overstone to Norman, January 15, 1861 in Samuel Jones Loyd Overstone and D. P. O'Brien, *The Correspondence of Lord Overstone*, 3 vols. (Cambridge: Cambridge University Press 1971). vol 2 . 937-8.

³⁰² Donnell, *History of Cotton*. At the time of the Civil War the average weight of a bale of American cotton was about 400 pounds.

³⁰³ *Ibid.*, 482-505; Arnold, *Cotton Famine*.124; *The Times* (London), February 4, 1860; *New York Times*, February 12, 1861; *London Review* 15 (October 1860 - January 1861), 495-519.

mills. Britain exported 2,776 million yards of cloth and 197 million pounds of yarn in 1860. Yarn and cloth accounted for one-half of the value of all British exports. Handling that staggering quantity of cotton provided employment to a vast number of seamen, railroad workers, stevedores, clerks, etc. Cotton dominated the United States' economy as well. In 1858, the total value of all U.S. exports was \$238 million; \$161 million, or a staggering 68 percent, was cotton. In the decade before the Civil War, more than 2,000 U.S. merchant ships, totaling 1,100,000 registered tons, and 55,000 seamen were employed in the coastal navigation that brought cotton from Southern ports to New York. Another 800,000 tons of American shipping and 40,000 seamen were employed in the transoceanic cotton trade. Even the fast New York to Liverpool passenger packets relied upon cotton to fill their cargo holds on the eastbound voyage across the Atlantic. Without cotton outbound ships would have had to cross the ocean empty, other American exports being insufficient to fill the cargo space that on westbound crossings was taken up by British manufactured goods. Banks, ship-owners, railroads, and merchant houses in Great Britain and the Union states were all heavily invested in or dependent in one way or another upon the cotton trade.³⁰⁴

Politically, British financial leaders responded to the American crisis by attempting to find ways to broker effective mediation and resolution of the disagreement. The majority of financiers agreed with Belmont that armed conflict would be disastrous. Belmont urged the Rothschilds to lobby for intervention, an idea which Lionel de Rothschild agreed with. He promoted the idea of British

³⁰⁴ Albion and Pope, *New York Port.*, 95-121; Robson, *Cotton Industry in Britain.*, 332.

arbitration during a meeting with foreign secretary Lord Russell and Prime Minister Palmerston in 1861. Likewise, Thomas Baring, a Tory MP and head of Baring Brothers bank had urged Lord Russell to act as a mediator in the dispute as early as 1860. The idea of mediation sounded good but it was unclear how it would have worked, and as some parties noted it might have precipitated armed conflict. At any rate, this intervention was not realized and on April 12, 1861 Confederate forces fired on Fort Sumpter.

The confederate government was operating from an outmoded notion of the power of cotton, both to the Union, and Great Britain. Many in the South assumed Great Britain would rally to their cause, and cotton, in this way opening up the route to free and direct trade with Europe. The Southern view of modernity was one rooted firmly in the production of commodities for international sale and the perpetuation of slavery. The outbreak of the war highlighted the dependency of the South on credit and manufactured goods from Europe and the Northern states. The war also made clear the declining importance of cotton to the American economy as a whole, and the stranglehold the factorage system had on American banking. A consideration of the political economy of the Civil War makes clear that the position of cotton, slavery and the South had shifted radically. Indeed, in some ways secession and the occupation of Fort Sumpter can be viewed as reactions to a nascent awareness of a profound shift in the balance of power in the United States in the 1850s. This shift, and the corresponding rupture created, becomes all the more clear when viewed within the same Atlantic context that had financed cotton cultivation throughout the antebellum period.

On 15 May 1861 the Palmerston government issued a Proclamation of Strict Neutrality. By assuming a neutral position Britain acknowledged the rights of the Confederacy to rebel and granted the Confederacy equal status with the Union, which amounted to quasi-recognition of Southern independence. However, the proclamation clarified that the United Kingdom was only recognizing the fact that the South was a belligerent in a fight that was undecided, and declared that Britain would support no side. It was less than the formal recognition of Southern independence that the Confederacy hoped for, but it was a small victory for the Confederacy nonetheless. Under international law as it then stood ‘rebels’ or ‘insurgents’ were not legitimate combatants and could not lawfully buy arms or secure loans in a foreign country. By declaring neutrality, the British government had recognized the South’s right to fight for its independence, but did not recognize that independence itself. More importantly, the proclamation allowed the Confederacy to contract loans and buy arms in Britain. This limited recognition of the Confederacy infuriated Union officials in Washington, where President Lincoln had referred to the war as an ‘insurrection’ in his declaration of a blockade of the South on April 19. The Union government understood all too well that if the South could secure arms and a loan, they could effectively fight a war.

As disunion progressed to Civil War both the Union and Confederate states looked to Europe for financial support of their battles. The Confederacy naturally felt they had an advantage here: they supplied the cotton, but provisioning the article to a global market came at a high cost in terms of infrastructure and development, leaving the South dependent on others to meet even the most basic of needs. In seeking a loan, the Confederacy sought funds, obviously, but legitimation as well, beyond the status of being

simple belligerents. The Union also sought loans, but did not need them as desperately as their Confederate adversaries, both for diplomatic as well as pecuniary reasons. This seeking of funds by both sides is not surprising given the heavy involvement of European, and more pointedly, British financiers in the American economy. What is noteworthy is that in spite of ties to both regions, some based on cotton, no British bank stepped forward to provide a loan or large-scale finance to either side. Part of this was undoubtedly diplomatic, partially pragmatic, but this also is testament to the decline in importance of cotton to larger Anglo-American houses.

As the conflict escalated into war, the hope of a peaceful return to business was lost. British financiers were put in the position of having to choose. The Union had the business ethic and financial infrastructure with which British financial houses felt a certain sympathy, and which they understood. The South held out alluring promises of free trade that were strongly rooted within the intellectual thought of many planters, and would be advantageous to British traders. It seemed on this issue there was no question of their commitment. It also seemed they had ended their own unofficial cotton embargo and the article was in high demand. The largest issue here though was that in the beginning at least, nobody had any idea who would win. The South in some ways seemed to have the advantage. The British government claimed neutrality but for many financial houses this was not an effective option, and even in nominally choosing a neutral stance, they abandoned the Southern states to their own resources. At Barings, Joshua Bates supported the Union, while Russell Sturgis, also an American from the North, supported the Confederacy. The firm was approached in 1861 by Governor Francis Pickens of South Carolina seeking a loan for the procurement of arms and munitions. The loan was

not forthcoming. Two other loans to the Union were proposed first by Samuel Ward, their American agent, in May of 1862. John Murray Forbes and William Aspinwall attempted to negotiate a \$50 million loan in April 1863.³⁰⁵

The Rothschilds were also seemingly divided regarding the war. August Belmont vociferously supported the Union; he began to advise Lincoln and became actively involved, along with other New York merchants, in finding ways to bolster Union defenses. In a series of letters to the London house he urged their outright support of the Union and discouraged them forcefully from any involvement with the South. In contrast, Salomon de Rothschild, who was traveling in the United States at the time, stated his empathy with the South before the states seceded. After war broke out, Salomon was caught behind Confederate lines and wrote from New Orleans that ‘I cannot urge you enough to use all the influence of our family and friends to recognize the republic of the Southern confederacy as quickly as possible... in this way one would stop both the shedding of blood and an immense destruction of property.’³⁰⁶ He saw leveling in the ambitions of the abolitionists, and missed the important international political context in which his support of the Confederacy would sit.³⁰⁷ His stance on abolition and his support of the Confederacy was in keeping with his social position and aspirations, yet the young Rothschild failed to perceive was that support of the Confederacy might entail

³⁰⁵ See Sexton, "Transatlantic Financiers.", note 19. See also Baring Brothers to Ward, May 23, 1862 and Baring Bros Papers, Public Archives, Canada.

³⁰⁶ Diamond, *Casual View of America.*, 117.

³⁰⁷ Ironically, Salomon perceived the threat to his own social position represented by these potential societal shifts, yet he also seemed not to recognize the role played by these same leveling sentiments in his family’s rise to power.

war with the Union, something none of the European powers cared to be involved in.

The ramifications of any intervention became clear during the Trent crisis in 1861, when James Mason, and John Slidell, confederate envoys to Britain and France, were found aboard the British mail packet, the RMS Trent, and removed, as contraband of war, by Union captain Charles Wilkes of the USS San Jacinto.³⁰⁸ Both former senators before the outbreak of hostilities, they were bound for Europe in hopes of securing support for the Confederate cause and to push for diplomatic recognition from European nations. This was a potential disaster in the making, which Britain and the Union government quickly realized. Both countries stepped back from the precipice of war. Lincoln released the diplomatic envoys to the British and disavowed Captain Wilkes' actions but did not apologize. Mason and Slidell resumed their mission but failed to achieve diplomatic recognition for the Confederacy. Aiding the Confederacy, on the part of Britain or France, would have led to certain war with the North, and generated more financial instability. Neither Britain nor the United States wanted a third war. The first two had been costly enough. War with the Confederate South was undesirable as well. The South did not have the maritime power of the Union and lacked resources yet they did have cotton, which the world still found desirable. Many surmised initially that the South would gain independence. In fact it was assumed that the United States would be split into two nations. In the end neutrality was the most expedient, but nevertheless very delicate, option.

³⁰⁸ This same John Slidell was the uncle of Caroline Perry Slidell, August Belmont's wife. The two had been very close friends until Buchanan passed Belmont over for a diplomatic appointment in Madrid. With the outbreak of fighting, they never spoke again and John Slidell spent the remainder of his days in Europe.

The threat of this potential war between England and the Union caused securities to plummet on both sides of the Atlantic in 1860. Belmont commented on the crisis in American markets shortly after South Carolina's secession stating, 'the financial and political crisis into which the election of Mr. Lincoln has thrown us continues unabated... With all this I cannot be made to believe in any actual dissolution of the union... You will see by the enclosed stock list the very great depreciation of our state R Road securities. I think the worst of the panic in the stock market is almost over... – Though politically and financially affairs look very gloomy.'³⁰⁹

Unfortunately, things did not improve, in spite of Belmont's hopes. Continued volatility in financial markets and the banking system contributed to a run on New York banks that resulted in the suspension of specie payments at the end of December, 1861. Additionally Anglo-American financial houses were forced to suspend most of their operations at this juncture while they hoped and encouraged politicians on both sides to peacefully resolve the dispute. Until this happened business was at a standstill. James Brown, the head of the Browns' Liverpool house, observed that 'it seems very important that the bankers and merchants make themselves heard in their desire to maintain peace.'³¹⁰ The threat of war was a nightmare for these Anglo-American financiers who had enjoyed a long and fruitful run of business since the treaty of Ghent in 1815. *The Economist* averred that 'a war with either of the belligerents would be a terrible calamity, but a war between England and the Northern states of America would be the most

³⁰⁹ August Belmont, New York, to N. M. Rothschild & Sons, London, November 20, 1860, XI/62/10, RAL.

³¹⁰ Quoted in Aytoun Ellis, *Heir of Adventure: The Story of Brown, Shipley & Co., Merchant Bankers, 1810-1960* (London: Brown, 1960).

affecting misfortune which could happen to civilization.³¹¹ British shipping and commerce would be endangered in such a war, though recognition of the Confederacy would end the South's cotton embargo and would likely benefit England, at least in the short term. Belmont pointed out to Lionel de Rothschild that it was preferable to endure the cotton famine than engage in another war with the North that would basically ruin business globally.

The problem then became a diplomatic one, leaving John Slidell at a loss when attempting to explain the dearth of cotton reaching European ports if the blockade was ineffective. As Owsley notes with some humorous effect he '...could have answered because the south will not permit cotton to leave the ports as long as Europe recognizes an ineffective blockade, and because, furthermore, the south believes that by holding back the cotton, a cotton famine will be produced and Europe will intervene to get cotton.'³¹² Obviously, this was a huge miscalculation on the part of the Confederacy economically, politically and diplomatically. Their cotton embargo had made the blockade look more effective than it was initially. They also had miscalculated the immediate need Europe might have for the article. This cotton could have been sold earlier, during the first year of hostilities, and funded the war effort but instead was left to sit, leaving the South no recourse but to eventually accept any terms on which they might secure a loan.

³¹¹ *The Economist*, June 1, 1861, 590.

³¹² Frank Lawrence Owsley and Harriet Fason Chappell Owsley, *King Cotton Diplomacy: Foreign Relations of the Confederate States of America* (Tuscaloosa: University of Alabama Press, 2008), 211.

After the outbreak of hostilities Belmont undertook a series of missions on behalf of the United States government, although his first task was to ensure safe passage for Salomon de Rothschild back to New York from New Orleans. Belmont headed south and then left, nominally, for a European vacation with his family. On this holiday he was in fact lobbying European heads of state to support the Union war effort. Lionel de Rothschild also arranged a meeting between Belmont and Palmerston in October of 1861. Belmont hoped to obtain a government loan to support the Union war effort. At this juncture Belmont framed the conflict in terms of slavery, thinking to appeal to abolitionist sentiment, but Palmerston saw the conflict very differently. In the end he told Belmont, ‘we do not like slavery, but we want cotton and we dislike very much your Morrill Tariff.’³¹³ He also informed Belmont squarely that the British government had no intention of interfering with slavery, or the hostilities: Britain would remain neutral.

Politically, Britain was wisely committed to neutrality and most banks did not need too much encouragement to avoid financial relations with the newly established Confederate government. Memories of the debt repudiations of Mississippi, Florida and Arkansas after the panic of 1837 remained. That being said, even previous to repudiation and the rise of King Cotton the South had an image problem. Alexander Baring observed in 1797 that ‘to the south of Baltimore, I understand there is nobody worth trusting.’³¹⁴ Further, every financial house had in their past at least a few bad deals with cotton, whether it was simply buying bales padded with a higher grade around the outside and stained cotton in the middle, or losing money on bad consignments. These memories

³¹³ Black, *King of Fifth Avenue.*, 211.

³¹⁴ Quoted in Ziegler, *Sixth Great Power.*, 65.

lingered, along with being left with slaves as collateral. Anti-slavery sentiment on the parts of many financiers played a role, although not as decisively as many might suggest was the case.³¹⁵ Between abolitionist sympathies, the conflicts inherent in viewing people as property and the repudiation issue, many investors were rapidly convinced to avoid the bonds of Southern states and reduced the temptation any Confederate loan might offer.

Thus the Civil War was fought in counting houses, in the press, as well as on the battlefield. Unionists realized early on that the Confederacy might be handily defeated solely through finance, or the lack thereof. Several supporters of the Union undertook a concerted campaign impugning Confederate creditworthiness, realizing presciently the truth that in this new world, where money was more vital than land, a different force decided what wars might be fought, and which would be abandoned early on. This was a truth acknowledged as early as 1828 by Prince Pückler-Muskau, when he referred to: ‘Rothschild... without whom no power in Europe today seems able to make war.’³¹⁶ The repudiation of state debts became a current topic of conversation once again. Union agent Robert J. Walker produced and distributed a series of pamphlets in Great Britain entitled *Jefferson Davis and Repudiation* reminding Britons of the repudiation imbroglio of the 1840s and more significantly, of two letters penned by Jefferson Davis, which were reproduced in *The Times* of London in 1849. In these letters Davis upheld the actions of

³¹⁵ Jay Sexton suggests that abolitionist sentiment played a crucial role in British financiers refusing to fund the confederacy. Although this likely played some role all of these firms had been happy to purchase southern state and municipal bonds, fund banks and purchase cotton. I would argue these financiers did not want to end up reluctant holders of slaves. Sexton, *Debtor Diplomacy*.

³¹⁶ Quoted in Ferguson, *House of Rothschild*., 18.

Mississippi and became known as ‘the champion of repudiation.’³¹⁷ August Belmont reminded the Rothschilds on close to a daily basis of just why they wanted no part of any loan to the Confederate states, asking in 1861, ‘who will take a dollar of a confederacy of states of which 4 have already repudiated their debt? ... unless it be that the name of Jefferson Davis... should have a sweeter sound to European capitalists than I think.’³¹⁸ When the firm finally confirmed, in no uncertain terms, that they would have no involvement with any loan, Belmont expressed great relief. Robert Walker obviously saw the value of repudiation in the financial fight stating in a letter to Salmon Chase, ‘Slavery takes the philanthropic, the sentimental and the religious classes and the people, but repudiation touches the pocket nerve and sweeps away the lenders of money.’³¹⁹

Although there were many reasons for British financiers to steer clear of the advance of loans to any side, particularly the South, all this begs the question of why they would bother entertaining the premise of a loan to the South when all of these houses had moved out of the cotton business at this juncture. Their initial reluctance to have any involvement is testament to the fact that, for these Anglo-American houses, trade in cotton and the disturbing associations with slave labor, was now an unnecessary evil. The South no longer had the political sway it once commanded. Like their fellow merchants

³¹⁷ See *The Times*, July 13 and August 29, 1849.

³¹⁸ August Belmont, New York, to N. M. Rothschild & Sons, London, May 21, 1861, XI/62/10, RAL. It is worth mentioning that in addition to the southern states several northern states repudiated their debts during the economically difficult years of the 1840s, including Pennsylvania, Illinois and Michigan. However, in distinction to their southern counterparts, these states resumed payment on their debts in the 1850s. The issue of state repudiation of debt has come to have a certain contemporary significance as some scholars are presently looking at nineteenth-century state debt repudiation in the present day context of the Eurozone, considering what we can learn from this earlier organization of a group of loosely affiliated states. See Harold James et al, forthcoming.

³¹⁹ Quoted in Sexton, "Transatlantic Financiers."

in New York, these financiers were no longer ensnared in cotton's web and felt no ties to the South, or a need to ameliorate planter bellicosity. In their outwardly stated neutrality these larger financial houses hindered the Southern cause. Baring Brothers remained the Banker of the United States in Europe and continued to pay drafts on the American account through the war. This was particularly helpful given that these drafts provided sorely needed funds to Union agents and representatives.

Fortunately for the Union, they possessed sufficient resources to manage without the loan. Given that the majority of the nation's infrastructure, wealth and resources were located in Northern states the Union cause had a distinct advantage over the Confederacy. The slaveholding states were largely agrarian and structured around the commercial sale of commodities produced with slave labor. This meant in practice that the region lacked infrastructure, towns, adequate transportation connections and production facilities.³²⁰ The South found itself bereft of food, fabric and even the most basic necessities. Although rich in cotton the Confederacy lacked the ability to even spin cotton into cloth. In fact, they did not even have combs to ready the cotton for spinning.³²¹ Thus British neutrality worked to the distinct disadvantage of the Confederacy, and by depriving the South of funds these financiers effectively decided the fate of the war. Thus, the decision came down to decisions of many individual financiers, and not just the Rothschilds in this case.

³²⁰ Gavin Wright discusses the logic of the development of the plantation South, noting how the region was developed to suit the needs of a plantation society, resulting in what many might consider 'underdevelopment.' Wright, *Political Economy of the Cotton South*.

³²¹ On shortages of necessities in the South see Drew Gilpin Faust, *Mothers of Invention: Women of the Slaveholding South in the American Civil War* (Chapel Hill: University of North Carolina Press, 1996).

The Rothschilds, like many of their compatriots, did not believe that restoration of the Union was possible without mediation and did not see the war ending in a decisive victory for either side. Like Palmerston, what they saw, and with a certain perspicacity, was a humanitarian disaster. It is difficult to argue against this viewpoint given the extreme loss of life: the Civil War is still the deadliest war in American history. Sheer numbers are suggestive of the scale of the carnage: 618,000 soldiers died, a total of two percent of the entire American population at the time. All other American wars combined, through the Korean War, claimed fewer lives than the Civil War alone. For the sake of rough comparison, during World War II, 30 out of every 10,000 men in uniform perished. The Civil War was over six times as deadly, killing 182 per 10,000. Based on 1860 census figures, eight percent of all white males aged 13 to 43 died in the war, including six percent in the North and an unfathomable 18 percent of the Southern male population.³²² That being said, Palmerston feared the escalation of the Civil War into a racial one that would draw other nations into a truly bloody conflagration. The firm explored the possibilities of mediation with Belmont, who was also corresponding with Abraham Lincoln during this period. After testing the waters Belmont determined that, in fact, mediation would be unwelcome. Belmont noted, in a reversal of his own earlier hopes, ‘...that any intervention on the part of England or France would only result in a protracted war with the United States.’³²³ A similar conclusion was eventually reached by both countries.

³²² See Drew Gilpin Faust, *This Republic of Suffering: Death and the American Civil War* (New York: Alfred A. Knopf, 2008).

³²³ August Belmont, New York, to N. M. Rothschild & Sons, London, July 5, 1862, XI/62/11, RAL.

Members of all of these firms did buy Union war bonds and individually demonstrated greater or lesser support for the Union cause. Yet they remained remarkably distant from American finance during the war. This is intriguing in that the provision of resources to either side by even one of these banks could, and likely would, have decisively shifted the conclusion of the war. The amount of funds one of these firms could have delivered victory to the receiving side. Probably the greatest stumbling block for the South was that they lacked any type of support amongst financial titans like the Rothschilds or Barings. Frasier, Trenholm and Company of Liverpool provided some support, but not enough. They issued letters of credit to Southern agents but were forced to limit them as they simply did not have the gold to back them. The Confederacy had nobody to blame here but themselves. Their notions of the extreme importance of cotton, had led them to this position.

The policy of King Cotton diplomacy is demonstrative of the misapprehension of Southerners of changes in global markets, politics and finance by 1860. James Henry Hammond notoriously exclaimed in a speech before the Senate in 1858 that, 'old England would topple headlong and carry the whole civilized world with her... No, you dare not make war on cotton. No power on earth dares to make war upon it. Cotton is king.'³²⁴ At the point of secession and the first year of the war Southerners believed this as well, implementing an embargo on cotton that they believed would force the hands of both England and France, drawing them into the conflict. As early as the 1860-1 season planters had begun holding cotton, a fact that created hardship in cotton markets and hurt

³²⁴ James Henry Hammond, "Cotton is King, Speech to Congress," <http://faculty.assumption.edu/aas/manuscripts/cottonisking.html>

Southerners just as much as New York merchants. As Belmont noted, ‘cotton has advanced to 10 cents in New Orleans in consequence of the larger falling off in the receipts. The planters refuse to send their crops at present prices and many factors have been obliged to suspend, among them some of the richest houses in New Orleans.’³²⁵ Southern planters withheld cotton intentionally, hoping to create a cotton famine that would force either intervention or the running of the Union blockade.³²⁶

In spite of the demonstrated dependence on American cotton, the anticipated responses from Britain and France, such as large-scale blockade running, pledges of support for the South or involvement in the war did not happen. As to the purported immediate devastation that a disruption in the supply of American cotton would wreak upon the British economy, an article in *The Times* stated, ‘it is easy to over-estimate the extent or gravity of the consequences to Great Britain of a cessation, or even of any large or sudden diminution, of the supply of cotton from the United States.’³²⁷ Even the most pessimistic parties did not expect the war to carry on five years. On one point, many agreed: European powers had no desire to become involved in the American war for any reason, let alone to secure the supply of cotton. The South, in spite of various ruses, would not be able to lure European powers in to a war in this way. August Belmont and others discussed the South’s strategy explicitly and were aware that the South believed

³²⁵ August Belmont, New York, to N. M. Rothschild & Sons, London, December 10 1860, XI/62/10, RAL

³²⁶ Although incredibly biased at some points, and disturbing in its support of the Confederacy in others, Frank Owsley’s *King Cotton diplomacy* is still the classic resource on the issue: Owsley and Owsley, *King Cotton Diplomacy*. See also Charles M. Hubbard, *The Burden of Confederate Diplomacy* (Knoxville: University of Tennessee Press, 1998).

³²⁷ *The Times* (London), January 21, 1861.

King Cotton diplomacy really would prove effective. A few weeks later, in May of 1861, he observed, ‘letters from all sections of the south confirm the fact that a good many planters have ploughed up their cotton fields in order to plant grain and corn.’³²⁸ The bales sat unpurchased. Manchester experienced a cotton famine and many Mancunian spinners and mill workers were thrown out of work, but Britain did not intervene. This did create hardship throughout the British Midlands, but it also created difficulties in the Confederate states. As the situation grew more desperate they steeped up measures to secure a loan on any terms.


Eventually, the cotton that had been left sitting was employed as security on the issuing of bonds from a loan arranged by Erlanger & Co. Bonds of the £3 million loan were convertible into cotton at six pence per pound, if the cotton could be retrieved from

³²⁸ August Belmont, New York, to N. M. Rothschild & Sons, London, May 20, 1861, XI/62/10, RAL.

7 PER CENT COTTON LOAN
OF THE
Confederate States of America,
FOR 3 MILLIONS STERLING OR 75 MILLIONS FRANCS.

Series B N^o 788

£500



Fr 12,500

20,000 lbs. COTTON.

THE CONFEDERATE STATES OF AMERICA are indebted to the Holder of this Bond in the Sum of FIVE HUNDRED POUNDS Sterling, with Interest at the rate of Seven per Cent. per Annum, payable on the First Day of March and the First Day of September in each Year, in Paris, London, Amsterdam, or Frankfort ^o/M against delivery of the corresponding Coupon, until redemption of the Principal.

THIS BOND forms part of an issue of Seventy-five Millions of Francs, equal to Three Million Pounds Sterling, with Coupons attached till first September, 1883, inclusive, and redeemable at par in the course of twenty years by means of half-yearly drawings, the first of which takes place first March, 1864, the last first September, 1883.

At each drawing, one-fortieth part of the amount unredeemed by Cotton as indicated below is to be drawn; and all Bonds then drawn will be repaid at the option of the holder, in Paris, London, Amsterdam, or Frankfort ^o/M.

The Holder of the Bond, however, will have the option of converting the same at its nominal amount into Cotton, at the rate of sixpence sterling per pound—say 20,000 lbs. of Cotton in exchange for a Bond of £500—at any time not later than six months after the ratification of a Treaty of Peace between the present belligerents. Notice of the intention of converting Bonds into Cotton to be given to the representatives of the Government in Paris or London, and sixty days after such notice the Cotton will be delivered, if peace, at the ports of Charleston, Savannah, Mobile, or New Orleans; if war, at a point in the interior within 10 miles of a railroad or stream navigable to the ocean. The delivery will be made free of all charges and duties, except the existing export duty of one-eighth of a cent per pound. The quality of the Cotton to be the standard of New Orleans middling. If any Cotton is of superior or inferior quality, the difference in value shall be settled by two Brokers, one to be appointed by the Government, the other by the Bondholder; whenever these two Brokers cannot agree on the value, an Umpire is to be chosen, whose decision shall be final.

The said issue and the above conditions are authorised by an Act of Congress, approved 29th January, 1863, a certified copy of which is deposited with Messrs. FRESHFIELDS & NEWMAN, in London, the Solicitors to the Contractors, and the faith of the Confederate States is pledged accordingly.

In Witness whereof, the Agent for the Loan of the Confederate States in Paris, duly authorised, has set his hand, and affixed the Seal of the Treasury Department, in Paris, the first day of June, in the year of Our Lord One Thousand Eight Hundred and Sixty-three.

LES ÉTATS CONFÉDÉRÉS D'AMÉRIQUE doivent au Porteur de cette Obligation la somme de CINQ CENTS LIVRES STERLING ou DOUZE MILLE CINQ CENTS FRANCS, portant intérêt à raison de Sept pour Cent l'an, payable le premier Mars et le premier Septembre de chaque année à Paris, Londres, Amsterdam et Frankfort ^o/M, contre le Coupon respectif jusqu'à remboursement du Capital.

CETTE OBLIGATION fait partie d'une émission de Soixante-et-Quinze Millions de Francs, égale à Trois Millions de Livres Sterling, avec Coupons jusqu'au premier Septembre 1883 inclus, et remboursable au pair dans l'espace de vingt années moyennant des tirages semestriels, dont le premier aura lieu le premier Mars 1864, et le dernier le premier Septembre 1883.

Chaque tirage comprendra la quarantième partie du capital non-remboursé selon le mode indiqué ci-après, et chaque Obligation sortie sera remboursée au choix du Porteur à Paris, Londres, Amsterdam et Frankfort ^o/M.

Le Porteur de l'Obligation aura le droit de réclamer le remboursement du montant nominal en Coton, au prix de sixpence sterling par livre de Coton, soit 20,000 livres par Obligation de £500 (Fr. 12,500), et ceci, en tout temps, jusqu'aux six mois qui suivront la ratification d'un Traité de Paix entre les belligérants. La déclaration de convertir l'Obligation en Coton devra être faite aux représentants du Gouvernement à Paris ou à Londres, et soixante jours après le Coton sera délivré, en cas de paix, dans les ports de Charleston, Savannah, Mobile ou de la Nouvelle-Orléans, et, en cas de guerre, dans l'intérieur du pays, à une distance de dix milles au plus d'un chemin de fer ou d'une rivière navigable jusqu'à la mer. La livraison sera faite libre de tous frais et impôts, à l'exception du droit d'exportation actuellement en vigueur de 1/8 cent américain par livre. La qualité du Coton devra être le type de "New Orleans middling." Si tout ou partie du Coton est de qualité supérieure ou inférieure, la différence en valeur sera réglée par deux Courtiers, l'un désigné par le Gouvernement et l'autre par le Porteur de l'Obligation. Dans le cas où ces deux Courtiers ne pourraient s'accorder, un Arbitre sera choisi et sa décision sera définitive.

Ladite émission et les conditions ci-dessus indiquées sont autorisées par un Acte du Congrès approuvé le 29 Janvier 1863, dont une copie légalisée est déposée chez Messrs. FRESHFIELDS & NEWMAN, à Londres, Solicitors des Contractants; en conséquence les États Confédérés sont engagés.

En Foi de quoi, l'Agent pour l'Emprunt des États Confédérés à Paris, dûment autorisé, a signé et apposé le Scellum du Trésor à Paris, le premier Juin l'an mil huit cent soixante-et-trois.

J. H. Schöder
CONTRACTORS

J. H. Schöder (Countersigned.)
AGENTS TO THE CONTRACTORS IN LONDON

G. M. Raw
AGENT FOR THE LOAN.

J. H. Middle
COMMISSIONER.

On 1st SEPTEMBER, 1883, a further Sum of £17 10s. will be paid by Messrs. J. HENRY SCHÖDER & Co., London; or Frs. 437.50 by Messrs. EMILE ERLANGER & Co., Paris; or the equivalents at the Exchange of the day by Mr. RAPHAEL ERLANGER, Frankfort ^o/M, and Messrs. B. H. SCHÖDER & Co., Amsterdam; together with the principal Sum of £500, or Frs. 12,500, on surrender of this BOND and WARRANT.

Figure 5: Erlanger bond.
000/106, RAL.

Southern ports. Since cotton was selling at 48 cents a pound at that juncture, the bonds made blockade running incredibly attractive. Of course, there was that small detail of actually getting through to pick up the cotton within ten miles of a navigable river or railroad terminus. In addition, the bonds paid a seven percent annual interest rate. Put another way, a buyer of a £1,000 bond could convert it into 80 500-pound bales of cotton worth almost £4,000. If the price of cotton continued to rise, the underlying bond's conversion value would climb in lockstep. When the bonds were offered on European markets in March 1863 most of the subscriptions were taken up in Britain, although it is not clear who exactly bought or held these bonds, which were offered by Fraser, Trenholm & Co. in Liverpool and J. H. Schroder & Co. in London.³²⁹ Neither firm had issued a loan on behalf of a government previously, but the loan was oversubscribed by a factor of five. This was a bit deceptive though, given that government issues were often oversubscribed. The bond also was bought not primarily by long-term holders wishing to support the Confederacy, but by speculators and opportunists eager to turn a profit.³³⁰

Worries compounded as the bond dropped below par in the first week of April 1863, and continued to fall. This meant the loan could collapse if investors who had bought in opted to forfeit their 15 percent down payment and not meet the next installment. Confederate agents saw the potential problem and bought back half the bonds to bolster the market, but this provided only a short-term fix. The bond issue

³²⁹ Schroder has at long last established an archive in London but there are very few records available for the nineteenth century and virtually nothing about the Erlanger loan.

³³⁰ See Sexton, *Debtor Diplomacy*, 42-3. and Judith Fenner Gentry, "A Confederate Success in Europe: The Erlanger Loan," *The Journal of Southern History* 36, no. 2 (1970).

plummeted as investor confidence waned in the face of Union victories at Gettysburg and Vicksburg. The bond issue was additionally troubled by the fact that most of these investors were opportunists, looking to make a quick profit. As Jay Sexton has noted, before 1864 private firms in Britain charged extortionate rates and wasted premium space in blockade-runners to include luxury items that would yield a high return in isolated Southern markets. One firm that dealt with the Confederacy during the war went so far as to keep two sets of books to legitimate their gouging of gullible Southern agents.³³¹

In the end the loan hardly qualified as a success, although one historian has proclaimed it to have been, based on the idea that it was the best the Confederacy could do. They were the only party in the war to successfully secure a loan and they were able to use the bonds to pay down debts in Europe.³³² This of course does not address the fact that the terms of the loan could be well described as draconian, although extortionist is another term that would have worked just as well. Erlanger was to earn a commission of five percent, in addition to being allowed to purchase the bonds at 77 percent of face value, while reselling the initial issue at 90 percent of face. In other words, the Erlanger syndicate would siphon off nearly a fifth of each investor's money as middlemen. Even these terms, it seems, were not enough to motivate Erlanger to make the loan independently. Additional motivation was provided by the fact that Frederic Emile d'Erlanger had fallen in love with Mathilde Slidell, a daughter of John Slidell, the former

³³¹ See Sexton, *Debtor Diplomacy*, 40. For more on blockade running during the Civil War see Stephen R. Wise, *Lifeline of the Confederacy: Blockade Running During the Civil War* (Columbia: University of South Carolina Press, 1988).

³³² See Sexton, *Debtor Diplomacy*, 42-3. For a view of the loan as a 'success' see Gentry, "Erlanger Loan."

senator of Louisiana and Confederate envoy to Britain and France. Secretary of State Judah Benjamin accepted the deal only because he figured it would make European financiers financially invested in Confederate success, stakeholders in the cause, as it were. In the end Confederate agents received around £1.7 million and Union sympathizers could only feel overjoyed as the markets testified to the extreme loss of faith in the Confederacy.³³³ This paltry sum came nowhere near meeting the dire need for funds experienced by the Confederate government and was in fact a very low return on such a large float.

On the one hand, it can be claimed that the Confederacy succeeded where the Union had failed: they did manage to secure a loan, but did not attain the support of any house large enough to turn the tide in their favor. The one firm that had supported a mediated settlement during the war, the Rothschilds, were far from supporters of the Confederacy, or of the Erlanger loan. Their support of mediation came from humanitarian concerns and a belief that the Union effort was a lost cause. Nevertheless, their activities with the Palmerston cabinet do demonstrate the overlap between diplomacy, policy and finance. The actions of these financiers and indeed of the British government are all the more striking given the facile expectations of the Confederate government that England would simply go after the cotton, jeopardizing economic connections with the North and possibly igniting a third Anglo-American war in the process.

³³³ Gentry, "Erlanger Loan." Gentry's exact estimate is proceeds realized amounted to £1,759,894.

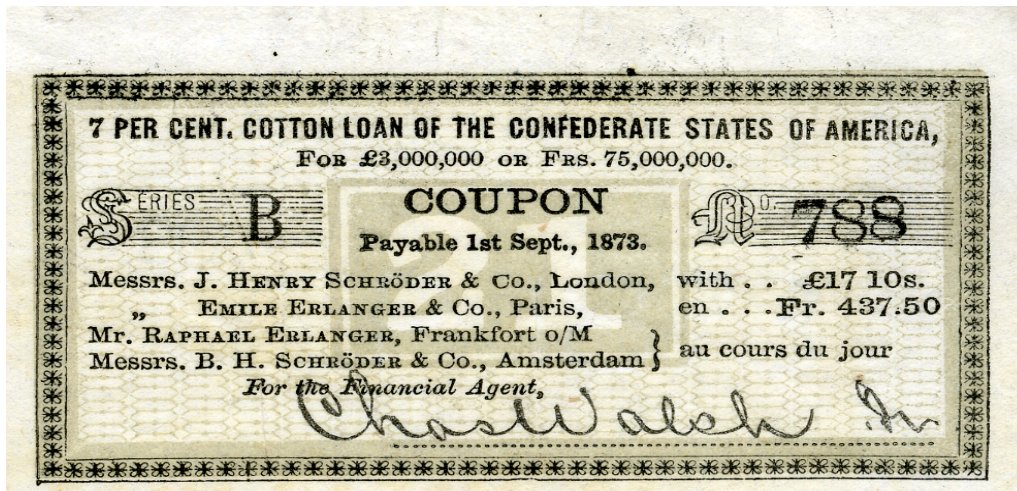


Figure 6: Coupon from the Erlanger bond.
000/106, RAL.

Although Atlantic finance was silenced during the war, in the United States the Civil War proved to be a blessing to banks in the North, as they were able to form strategic partnerships with the Federal government. The position of banks and industrialists strengthened while merchants lost standing. And with the absence of slaveholders from national politics the resulting power vacuum was filled by New York City elites.³³⁴ This obviously gave this group of industrialists and bankers an incredible amount of power within the federal government and allowed them to shape institutions to a remarkable extent during the Civil War era. Clearly, this was an unqualified good for industrialists and manufacturers who benefitted greatly from provisioning the war effort. Bankers were in a different position, extending money to the government and hoping for victory, and some return on their outlays of cash, while at the same time being forced to adapt to a shift in lending patterns, power and economic control. The banking and monetary system of the United States was in a state of flux, breaking down as the

³³⁴ On the increasingly powerful and centralized role of New York elites see Beckert, *The Monied Metropolis*; *ibid.* For more on the effects of the Civil War on elites see *ibid.*, ch 4.

difficulty of responding to the war effort made the need for new structures both obvious and necessary.

The initial revelation of a need for change came with the suspension of specie payments in New York City in 1861 (these would not resume until 1879). This suspension was enacted partially in response to the government's demand for gold. In 1862, in turn, Congress authorized the issue of \$150 million in paper notes, greenbacks. Needless to say, many bankers worried about the inflationary power of such a move and objected to the seizure of this type of power by the government. Further changes came with the decision to charter a series of national banks, which met with the further disdain of many bankers in New York. Their objection to this program resulted in changes to the government's plans. In the end, these bankers had made a profound investment in the future of the Union and bound their fortunes to that of the Federal government. Because of these acts they were brought into contact and conversation both with the Federal government and the large-scale plans for change that were developing during the war. Their unique position created the opportunity for them to influence the development of the new financial system which worked to their benefit once the war ended.

The institutionalization of national banking regulations, the issuing of a national currency and shifts in the commercial landscape resulted in a radically altered financial landscape in New York City and beyond. These bankers were no longer tied to the whims of planters or the political economy of the cotton South but they were deeply linked to the Federal government and a new financial structure. The new bankers that came of age during the war derived the greatest benefit. The Seligmans, Morgans and George Baker come to mind. Earlier names like Prime, Ward and King, or August Belmont belong to a

bygone era. These firms continued to be active in New York but they did not do business on the scale of the Morgans or Seligmans, and they did things differently. The changes in banking and finance made necessary by the war gave rise to a different financial system, one in which much larger operations were possible and bankers worked on a scale that was inconceivable in the 1850s. As Sven Beckert has highlighted, by 1865 the composition of New York's banking community, its ties to the nation state and its developmental vision were all irrevocably altered. The reality after the war was a very different one with a centralized banking system and a world of finance that had moved far beyond the reach of cotton, factors and the scale of the personal.³³⁵

The opening of the West and new markets in agricultural products produced there decreased the importance of the South and Southern markets long before the war. The effect was seen in a most pronounced way after the conflict, but what gave rise to the war, in large measure, was that cotton had been dethroned years previously. Cotton lost ground to gold, and the appeal of financial operations. For New York merchants the appeal had dimmed as well. They were able to deal in a wider variety of goods flowing into the city from across the country, which meant more opportunity to engage in a wider variety of transactions, diluting the former primacy, and much of the appeal, of cotton. Obviously, these New York merchants and bankers, like their colleagues in London, had moved into other ventures far beyond the sway of cotton, a fact lost on cotton planters

³³⁵ See *ibid.*, especially 122-4. These shifts can also be seen in the development of credit reporting agencies, like R.G. Dun. Transactions and the sphere of business had grown larger than what most financiers could reliably track. After the Civil War these firms also garnered much more business.

until they were in the midst of a war they could neither fund nor effectively fight.³³⁶

These new bankers who played a part in the creation of a Federal financial system during the Civil War made deals on a much larger scale and did not employ agents or work as merchants in any way. This new world was one that permitted industrial statesmen, or robber barons, (depending on your point of view) to grow and thrive, eventually giving way to gilded age excess.

Against a background of increasing sectionalist strife Anglo-American financiers moved away from cotton as slaveholding states experienced a deepening rift with their free labor contemporaries. Political parties in the United States seemed to increasingly split along the lines of slavery versus abolition. Some historians have suggested that this rift, or clash of disparate economic systems was what led to the Civil War.³³⁷ But this ignores the fact that slave holding and free labor states worked together to form a larger economic system which functioned incredibly well and allowed the United States to raise enough surplus capital to fund industrialization and give rise to self-sustaining economic growth. In sum, these histories isolated the South and as we have seen, the South was very much a part of a larger economic system.³³⁸ To suggest that capitalism and slavery were two antithetical forces tearing apart the Union ignores the economic and social realities of the era. In the end, Palmerston's remark to August Belmont that the war was

³³⁶ See Foner, *Business & Slavery*.

³³⁷ Beard and Beard, *Rise of American Civilization.*; Beard, *Constitution of the United States*. Genovese, *World the Slaveholders Made*. Genovese, *Political Economy of Slavery.*; Fox-Genovese and Genovese, *Fruits of Merchant Capital.*, Ashworth, *Slavery, Capitalism and Politics*. Interestingly, George Fitzhugh suggested a similar interpretation of the sectional conflict in the 1850s in Fitzhugh, *Sociology for the South*.

³³⁸ See Fogel and Engerman, *Time on the Cross*. Majewski, *House Dividing.* and Majewski, *Modernizing a Slave Economy*.

not about slavery but rather tariffs and free trade ideology seems much more insightful, because without these disagreements the larger integrated American economic system might have continued to function.

That being said, this earlier system would have had to face the challenge of finding different ways to provide credit, finance development and effectively control the money supply. Regardless of the Civil War, credit and the financial systems were due to change in the United States. The breakdown of the Union banking system shortly after the outbreak of hostilities is suggestive of some of the shifts that were likely inevitable. The increasing diversification of markets and movement of larger Anglo-American houses away from the volatility of cotton resulted in a loss of power and influence for the South around issues like tariffs, free trade and protection of the institution of slavery, but these were, at heart economic shifts that resulted in a denigration of Southern political capital. Different financial mechanisms, others sources of capital or increasing political harmony, and perhaps most pivotally, the earlier development of a futures market could, and quite likely would, have had far-reaching consequences. A pivotal argument of this dissertation is that economic changes resulted in a loss of political power and economic influence for the cotton South, which highlighted sectional disagreements over free trade and tariffs, giving rise, eventually, to armed conflict.

When viewed in this way the crucial question is not what type of economic system or labor regime was in place in whatever region but rather the way in which different systems, institutions and ways of organizing social and political life came together both harmoniously and in more acrimonious encounters. The end result was vitriolic political dialog, fierce debates and passionate interactions in Congress, between

planters and agents in New York and in local communities. These debates around foreign policy, tariffs, trade policies, private property and structural improvements were conversations where the South as a region seemed increasingly to lack power, or the political capital necessary to sway opinion. In spite of the fact that the South produced the most important export item for the country, the region generally was falling behind in terms of wealth, economic development and infrastructure.

Certainly the decision by individual states to secede was an economic one, but it was also ideological and shaped within the context of debates stretching all the way back to the ratification of the constitution. The cotton South shaped the beliefs, ideologies and political leanings of cotton planters just as surely as they cultivated crops for optimal harvest. These planters were shaped by their environment and interests, as were residents of the North and the financiers that profited from these transactions. All were keenly aware of their own immediate interests. Cotton planters handled political discussion adroitly and remained firmly in control of state and local government and policy. Yet cotton planters seemed increasingly unaware of their decreased advantage in national and international dialogs and markets, to their detriment.

In sum, by the Civil War, the larger Anglo-American houses had learned their lessons from cotton very well, and navigated American markets, and the political economy of the cotton South with great skill, in large measure by avoiding financial bets around cotton entirely. In the case of the Civil War this meant, in essence, a stance of neutrality because decisive support for the Union would have amounted to a bet against the Confederacy, and by extension against the cotton South. Their policy of a lack of direct support for either side shows their acknowledgement of both the importance of

cotton and its inherent risks. This approach also illustrates just as clearly a lack of confidence in the Union government, and its ability to effectively wage war against the confederate forces, as well as the ability of the government to shoulder the burden of repayments. The fact is, even though the role of cotton had changed it had widely been perceived as one of the treads that held the union together. When the ties of cotton and finance were broken, it was not clear which side would prevail. The only certainty seemed to me that the war would result in unprecedented bloodshed, which proved prescient.

Conclusion

In a letter to the London Rothschild house in 1863 August Belmont commented acerbically, 'It will always remain a mystery to the future historian to explain the sympathy which a large portion of civilized Europe gave in the nineteenth century to a rebellion the principal aspect of which was the extension & perpetuation of the odious system of slavery.'³³⁹ Belmont's disingenuous claim belies the fact that he, like most agents of Anglo-American financial houses, was well aware that the American Civil War, at least in part, was not simply about slavery alone. Tobacco, sugar, cotton and rice, all commodities produced in the Southern United States with slave labor, were vital exports for the United States. The issues that arose around the trade and finance of this business, including disagreements about limitations on trade, including tariffs, political representation, and the development of manufacturing and infrastructure all played a role. In the end, this was a war motivated not by humanitarian concern but out of the creation of a unique political economy in the United States that from the beginning was rent by disagreements fomented by cotton and the funds that financed its production, harvest and sale. The income from the sale of these goods became less important with the opening of the West and shifts in the American economic landscape, diminishing Southern political influence. Financial and economic historians seem intent on indulging a similar penchant for occlusion regarding the pivotal role of slavery in economic and financial development across the Atlantic world.³⁴⁰ The earlier trade in people and goods facilitated the

³³⁹ August Belmont, New York, to N. M. Rothschild & Sons, London, July 17, 1863, XI/62/11, RAL.

³⁴⁰ See Williams, *Capitalism & Slavery*. Scholars who have examined the profitability of slavery to Britain include Engerman, "Slave Trade." J. E. Inikori, *Slavery and the Rise of Capitalism* (Mona: Department of History, the University of the West Indies, 1993)., Inikori, *Africans and*

development of financial instruments that in turn eased the completion of these transactions; transactions that, not coincidentally, were also reliant on forms of credit.³⁴¹

The evolution of many of these Anglo-American firms from merchant banking into financial operations more characteristic of modern investment houses is attributable to involvement with this trade in commodities produced with slave labor and lessons learned from the trade in cotton.

The divergent economic and financial goals of manufacturers and planters created tensions in the Union that multiplied throughout the antebellum period, an irony given that together, the two regions had an integrated and balanced economy that functioned very well in terms of the laws of comparative advantage. The American South produced cotton at a competitive price and at a volume that allowed the United States to dominate production of the article throughout the antebellum period. The North supplied the goods and services requisite to allow the South to produce agricultural commodities for sale on a global market. Northern banks and Anglo-American merchant bankers provided capital and this system of trade worked well enough when the different interests in play were approached with a spirit of compromise.³⁴² Slaveholding and free states had

the Industrial Revolution., J. E. Inikori and Stanley L. Engerman, *The Atlantic slave trade : effects on economies, societies, and peoples in Africa, the Americas, and Europe* (Durham: Duke University Press, 1992)., Miller, *Way of Death*. Work that has examined, and contested, the decline in the profitability of slavery include Roger Anstey, *The Atlantic slave trade and British abolition, 1760-1810* (Atlantic Highlands, N.J.: Humanities Press, 1975)., Temperley, "Capitalism, Slavery and Ideology." and Fogel and Engerman, *Time on the Cross*. Inikori and Engerman, "Gainers and Losers." Inikori and Engerman, *Atlantic Slave Trade*.²⁴, and Davis, *Problem of Slavery.*, especially 150-64.

³⁴¹ Carl Wennerlind, "Casualties of Credit: The English Financial Revolution, 1620-1720," (2011), 348.

³⁴² This was behavior understood at the time and was noted by Daniel Lord; Daniel Lord, *The Effect of Secession Upon the Commercial Relations Between the North and South and Upon Each*

demonstrated an initial willingness and ability to work together, to form a larger Union. In the compromises negotiated around the Constitution and the War of 1812 this is abundantly clear. All of these areas, North, South and Great Britain, profited directly or indirectly from the labor exerted by slaves in the growth and harvesting of cotton in the Deep South. Somehow, in the history of these financial houses, and the historiography of plantation slavery, the pronounced role played by slaves in the development of this other Atlantic system has been overlooked.

In the nineteenth century aggregate debt generally declined during depressions and increased during periods of prosperity although the view of debt as a burden would suggest the opposite. The fact is the debt taken on by planters in the cotton South contributed to the expansion of the American economy. This was not accommodation debt and was markedly different from the consumer debt around which much of our economy revolves today.³⁴³ Any burden associated with the payment of interest on this debt must be paced within the context of profit. In other words, the cost of the money is second to profit.³⁴⁴ Many modern economic theories suggest that an economy will experience a rising debt/income ratio as growth proceeds. Rising debt also often indicates rising assets in another set of hands, since in the end credit and debt are Siamese twins;

Section (New York: Office of the New York Times, 1861)., especially 18, and Christy, *Cotton is King*. E. N. Elliott, *Cotton is King, and Pro-slavery Arguments; Comprising the Writings of Hammond, Harper, Christy, Stringfellow, Hodge, Bledsoe, and Cartwright, on this Important Subject* (New York: Negro Universities Press, 1969). See also James L. Huston, *Calculating the Value of the Union: Slavery, Property Rights, and the Economic Origins of the Civil War* (Chapel Hill: University of North Carolina Press, 2003).

³⁴³ See Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton: Princeton University Press, 2011). Louis Hyman, *Borrow: The American Way of Debt* (New York: Vintage Books, 2012).

³⁴⁴ See Green, *Louisiana Banking.*, ch. 3

they are born of the same transaction and can never be separated. The trick with the development of the antebellum American economy is that these Siamese twins were caught between two independent nations with deep economic links, partially the result of earlier colonial ties. Nevertheless, the money these planters borrowed was plowed into a peculiar type of development that necessitated slaves and land. This was how planters expanded operations, and coincidentally increased their own social prominence. In the antebellum period cotton planting and picking was not mechanized. This was labor-intensive work performed by people in the hot summer sun. The Southern version of industrial expansion was purchasing more slaves and increasing cultivation. As has been demonstrated the South consistently increased production of cotton throughout the antebellum period. Some of that increase is attributable to scientific obsession with the details of increasing plant yields, and the productivity of slaves. Some of that increase was also the result of increased investment in slaves and land. As George Green has noted, even what looked like accommodation paper, or what we today might call personal or consumer credit, was in fact standard commercial paper.³⁴⁵

Aside from the sale of cotton providing a huge boost to the American economy, the proliferation of credit effectively increased the money supply, which in turn stimulated trade and development, although it also contributed to the formation of bubbles resulting in a series of panics. Every time an advance was made on cotton, a bill was issued and discounted, or a merchant draft was accepted at a bank and became a bank credit, the monetary supply increased, giving all of these merchants and bankers much more control over the economy than was obvious to many. All this money moving

³⁴⁵ See *ibid.*, 75.

through the young country contributed to economic expansion. When too much credit eroded faith in paper and people began to call in debts, that is when panic spread; the whole system collapsed, gradually gaining momentum again. Anglo-American financiers made money from these transactions and learned from them as well, as did their American colleagues. Merchants in New York, planters in the South, factors, cotton brokers, agents, slave traders all became increasingly financially savvy over the course of the nineteenth century. Many of the transformational effects of the knowledge gained in the antebellum period resulted in large-scale shifts in banking and economic policy in the United States after the Civil War, but the key point here is that many of these changes were implemented by the Union during the Civil War, thus the South returned to a radically altered country from the one it had left five years previously. Given the terms of their loss the South ended up accepting many of these financial changes as well. It is not at all clear that they would have agreed to the establishment of a paper currency or any of the other shifts to which they were not party.

Involvement with cotton was just as beneficial in terms of the growth and development of an Anglo-American financial system as it was to American development. From involvement in this trade larger British houses developed adroit strategies for navigating within Atlantic as well as global markets. Many larger Anglo-American houses made a good deal of money in their dealings with cotton as well. The Browns made their fortune in dealings on consignments, advances and the outright purchase of the commodity. Eventually they transferred their knowledge of Southern markets into working in discount paper and bills of exchange. Baring Brothers in turn bolstered their fortune in later involvement with cotton through the 1850s. Rothschild made money in

the article as well, and like the Browns, deployed lessons learned into larger American ventures, in their case with gold. Interestingly, all of these firms began as textile trading ventures. Alexander Brown initially dealt in linen, N. M. Rothschild was a textile trader in Manchester, John and Francis Baring were cloth merchants, dealing predominantly in wool. Their respective shifts in and out of cotton mirror larger changes in the economies of both England and the United States. All three eventually moved exclusively into financial operations that are characteristically modern. That is to say, by the end of the Civil War all three firms resembled modern banks. There was a similar shift in banking and finance in the Union states as well, resulting in a dramatically altered Atlantic financial landscape after the Civil War.

Cotton played an integral role in the development of the political economy of the antebellum United States. A combination of necessity, money, technological advance and unintended consequences all created the conditions ripe for the development of a cotton South. Some might claim British demand drove the development of the plantation South and expansion of cotton, but it could just as easily be argued that demand for finance and credit, in essence a need for money, drove the creation of the industry. In the early nineteenth century many planters were simply following the money and would have likely engaged in a wide variety of projects in order to get it, utilizing whatever form of labor proved most profitable and expedient. Obviously this comes into direct conflict with the Jeffersonian vision of an agrarian republic. Instead of a nation of yeoman farmers this version of the antebellum Deep South is populated by money-hungry and motivated speculators and business savvy, cosmopolitan planters eager to embark upon large-scale production of goods for an international marketplace. These men had much

more common ground with Alexander Hamilton. The Louisiana Purchase simply furthered their ability to develop plantation agriculture. This is not to imply that this is what Jefferson had in mind. Nevertheless, it is what happened and it prompts a reconsideration of many conceptions of the early American Republic. The idea of an agrarian republic of yeoman farmers conflicted directly with economic and political realities of the time. The reality was that the young nation needed to produce goods for sale in an international marketplace and develop policies that facilitated access to credit. These early planters had a different vision, more aligned with the future that Hamilton hoped to see manifest financially, at any rate. These planters understood the importance of international trade, access to markets and the crucial role of credit in economic development. . The ability to deploy labor at will, the absence of the necessity to develop smaller towns to serve wage earners, and the lack of financial incentives to do so have left the South a different place. The logic of plantation society has shaped the region in ways that are visible in the built environment of the Deep South, and the British Midlands for that matter, to this day.

In the end, the Jeffersonian vision was more effective as a rhetorical device implemented effectively to sweep a presidential election than as any type of road map for the development of a nation, let alone an economy. Jefferson's vision was utopian, but economies evolve and develop in the give and take of trade, exchange and people pursuing and distributing resources in the real world in all of its mean messiness. Credit and finance have been a part of that since time immemorial, along with long-distance trade. By the nineteenth century there was a long history of long-distance trade, finance and accounting that linked China, Malabar and the Swahili coasts, the entire

Mediterranean world, and an Atlantic world of European traders, ports along the gold coast of Africa and South as well as Colonial North America. Many of the early planters in the Southern United States had arrived from Haiti, Barbados and other points in the Caribbean; like Alexander Hamilton, they were very familiar with these larger networks of exchange and the importance of credit.³⁴⁶

The employment of an Atlantic perspective, one that supersedes the limits of the nation state is vital to an understanding of the dynamics in the United States that led to the creation of the cotton South and that planted the seeds of eventual disunion. This approach also conflicts with the long reach of Jefferson's vision into the historiography of the early American Republic. The fact is that slavery was not set in some ideologically, politically and economically isolated region. In spite of our best attempts to elide it, the commodities produced with slave labor in the American South were vital to American and Atlantic economic development – development which occurred in a global context and which was driven by international trade. An Atlantic perspective demonstrates much more clearly what drove the expansion of slavery across the Deep South. So many arguments seem to suggest that the Louisiana Purchase opened new lands and these were quickly gobbled up by planters without any explanation of what might have driven such rapid expansion of slavery. Additionally, the investment of British and European houses in the Deep South is not placed squarely within the context of cotton and slave labor, although those connections were understood at the time as well. Some of these occlusions in historical writing and the way histories are viewed and

³⁴⁶ A related point, regarding the role of immigrants in shaping the early American financial system is made by Thomas McCraw in Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge: Belknap Press, 2012).

constructed may also very well be attributable to a variation of American exceptionalism, something the employment of a larger regional perspective, one that in this case involves an ocean, helps to avoid.

American exceptionalism can best be characterized by an isolation of incidents, and in light of arguments here, regions, in American history from international influences and the global arena. In this context the United States is viewed as somehow unique, different or superior: in sum, exceptional. The long tradition has distorted the writing and memory of American history in different ways, prompting exclusions and flawed argumentation either in favor of viewing the history of the United States in a vacuum, or alternately in trying to compensate for this impossibly isolated approach to historical writing through the application of a comparative corrective, in which history is placed in different contexts. Yet comparing countries only reaffirms the primacy of the nation state in the construction of historical narratives, reinforcing an already strong historical predilection towards exceptionalism. As Ian Tyrell has pointed out, ‘in this liberal world view the United States avoided the class conflicts, revolutionary upheaval, and authoritarian governments of “Europe” and presented to the world an example of liberty for others to emulate’³⁴⁷. From this perspective, the United States is distinct, and superior, with a different history from other societies. We have upright, stout yeoman farmers and mechanics making a new world on the frontier, and visions of an agrarian republic as opposed to large-scale plantations spreading across the Deep South producing cotton for a global market, feeding in turn the hungry mills of Manchester and contributing to the

³⁴⁷ Ian Tyrell, "American Exceptionalism in an Age of International History," *The American Historical Review* 96, no. 4 (1991.), 1031.

development of coercive labor regimes on both sides of the Atlantic. Joyce Chaplin reaffirms this, pointing out that, ‘exceptionalism emphasizes the United States’ – and earlier the colonies’ – separation from the rest of the world and development of unprecedented forms of society and politics. In its old form, it stressed the positive achievements of white residents of North America and shunned whatever might have been tragic and ambiguous about their handiwork³⁴⁸. A key point in Chaplin’s argument is that American exceptionalism is not an ideology or consciously constructed school but rather a mere tendency. Likewise, it is no longer so rosy: ‘newer forms of exceptionalism look beyond the white population; one new variant examines the multicultural bases of American society (told as a positive achievement) and another stresses the uniquely negative character of American culture, as in the paradoxical relationship between slavery and freedom. All variations of exceptionalism ignore how the colonies and United States shared history (including reprehensible histories) with other societies and peoples³⁴⁹. Placing the history of slavery and, more narrowly cotton, in the context of an Atlantic world of finance and economic development makes American slavery not quite such an exceptional anomaly.

When considered in this larger context, the world of planters and slaves in the antebellum American South is not far at all from the world of spinners in Manchester or operations on Lombard Street. And slavery runs through this financial world, harvesting the cotton and providing labor at will. The finance, and a fair deal of the initial impetus to

³⁴⁸ Joyce E. Chaplin, "Expansionism and Exceptionalism in Early American History," *The Journal of American History* 89, no. 4 (2003)., 6.

³⁴⁹ *Ibid*, 6.

the development of the cotton kingdom originated in Britain, and the provision of finance enabled this system to continue and hold the development of the larger American banking system still until the Civil War. An Atlantic view makes clear the links between political institutions, regions, actors, labor systems and financial practices. An Atlantic context also contributes, to a certain extent, to a deeper understanding of how and why American slavery flourished in the nineteenth century. I have attempted to demonstrate one aspect of this puzzle, the role of finance in the development and maintenance of slavery through a consideration of the trade in cotton.

The role cotton and slavery played in the growth and development of banks and financial houses as well as British and American economies is clear when looked at from a larger regional perspective. In this light, slavery does not seem quite as perversely unique to the American landscape either. In fact, it looks like an externalized labor practice that markedly boosted British development. In fact, this is more or less how nineteenth-century contemporaries understood the world they had created. In the end, this world of cotton and finance was one the slaves made, and although they do not have center stage here, they are at the heart of this story and the most fundamental argument of this dissertation: slave labor was vital to economic development and industrialization in both the United States and Great Britain. Further, the labor of these slaves contributed to the development and expansion of a larger Atlantic financial world, a point seemingly lost in the twenty-first century but one that was abundantly clear to many at the time. In the 1830s Bacon Tait stated in a letter to Rice Ballard that, ‘the truth is that [slave] labour is the actual and certain source of all wealth,’ and that it was the ‘basis of all calculations of profits from banks, railroads, or other internal improvement stock, for without the

product of labour, there would be no commerce, and without commerce, neither bank, railroad, nor any other kind of stock would be worth anything.’ He continued that if you ‘increase banks and internal improvements you at once enhance the value of labour.’ He further pointed out that the benefit of slave labor was not only limited in the South. ‘Without the produce of southern slaves,’ he stated, ‘the northern parts of the Union would be barely able to live without adding to their wealth’ and ‘our whole country ... nearly the whole world is blessed with peace and prosperity and with a fair prospect of its long continuance.’³⁵⁰ In the nineteenth century most citizens were aware of the incredible value of slave labor and that it formed the bedrock of American as well as Atlantic economic development. It seems that in much of our perpetuation of freedom and democracy across the globe we have lost sight of the crucial elements at play in the development of our political and economic system here in the United States, and in Great Britain as well.

It is important that we acknowledge the pivotal role played by slavery in the development of a larger Atlantic economy in the antebellum era. As one historian has recently highlighted, ‘freedom, capitalism, and democracy appear as synergistic forces flowing from the inherent logic of the American Revolution. Capitalism in the early Republic is so strongly associated with democracy and freedom that its relationship to unfree labor stands unexplored, unmentioned, and ultimately unfathomed.’³⁵¹ This is a question that has been raised in various forms by Eric Williams, Joseph Inikori and, more

³⁵⁰ Bacon Tait to Rice Ballard, undated letter [1830s], folder 30 Ballard Papers, Southern Historical Collection, University of North Carolina at Chapel Hill.

³⁵¹ Rockman, "Unfree Origins." 316.

recently, by Seth Rockman. We distort American history, Atlantic history and the history of capitalism by not looking directly at these relationships and their ramifications.

Whether ‘the economic history of the United States simply makes no sense without slavery and coerced labor as central components’ is likely still open to debate, but we have an obligation to grapple with the issue and endeavor to understand more fully all the elements and people that contributed to the growth of the American, as well as global economic system.³⁵²

³⁵² *Ibid.*, 319.

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