THE CITIZENS BANK OF LOUISIANA: PROPERTY BANKING IN TROUBLED TIMES, 1833-1842

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In his survey of the history of American commercial banking, Paul Trescott has sharply delineated the basic dilemma of public policy toward banking:

> ... how to reconcile their responsibilities toward credit with their responsibilities toward money. The former dictated liberality; the latter, conservatism. The clash between the two made itself felt most painfully with respect to the liquidity of the individual bank --its ability to pay depositors (and in times past, banknote holders) in cash on demand..... Throughout American banking history, emphasis has shifted from one to the other and back again. Efforts to improve the monetary functions of the banks stressed the need to keep bank money convertible into cash and to adapt the quantity of bank money to the state of the economic system as a whole. These efforts frequently involved restrictions on bank credit, either in amount or in kind. This restrictive process was likely in turn, to cause a steady increase in unsatisfied credit needs, which might produce a new banking policy oriented more toward credit expansion--but with greater risk of monetary disturbance. Implicitly, this oscillation reflected the fact that each responsibility was too important to be subordinated to the other.[1]

This tension between the objectives of "easy credit" and "sound money" is sharply illuminated in the experience of ante-bellum Louisiana's giant "property bank," the Citizens Bank of Louisiana, in the decade between its chartering on April 1, 1833, and its forced liquidation by court order on October 25, 1842. The five years of financial and economic upheaval following the panic of 1837 raised this tension to the level of conscious debate and innovation in banking policy.

The Citizens Bank received its charter during an era of banking policy devoted to "easy credit." It was the third, last, and largest of Louisiana's property banks, institutions actively promoted by the state for the purpose of providing long-term mortgage credit for agricultural and commercial development. The Consolidated Association of the Planters of Louisiana had been chartered in 1827 with a capital of $2.5 million, and the Union Bank in 1832 with a capital of $7 million. With its authorized capital of $12 million, the Citizens Bank led the entire nation in its time, except for the second Bank of the United States, capitalized at $35 million.[2]

A contemporary report aptly described the property banks as a combination of a "state loan office and an ordinary banking institution." The subscribing stockholders first exchanged $14.4 million of mortgages on land, buildings, or slaves for $12 million of the bank's stock. Against the collateral of this pool of mortgages the bank then sought to sell the $12 million of the bonds in Europe. The specie imports arising from these foreign bond sales would provide the basis for the banking operations. Stockholders were entitled to long term loans up to 50 percent of the value of their stock. The charter also required an additional $2 million of mortgage loans. These were the "loan office" operations. The rest of the bank's leading capacity would take the form of conventional commercial loans, financing the flow of cotton, sugar, and other trade through New Orleans.[3]

Agents of the bank tried unsuccessfully for over a year to negotiate the sale of its bonds in Europe. A contract with the banking firm of W. Willinck of Amsterdam for $9 million of bonds failed because of lack of buyers for the bonds. Finally in September, 1835, a conditional contract was signed with Hope & Co. of Amsterdam for $3 million of bonds. But the condition was a crucial one--the bonds must be guaranteed by the State of Louisiana. The bank's supporters went to the next session of the state legislature for the necessary charter amendment. In order to win a majority for the issues of state-guaranteed bonds, several concessions had to be made. The state was to receive a share of the bank's profits, and the right to name six of its twelve directors. Although several proposals for the establishment of rural branches of the bank were defeated, the Bank also had to reallocate its stock subscriptions to give a larger share to rural Louisiana. Even after this compromise there remained bitter opposition to granting the State's credit for the benefit of a minority of its residents and to leaving control of the bank "in the hands of the New Orleans merchants, whose interest it is, as it is their policy, to use it to their best advantage, however injurious to the planting community." The conflict between the agricultural and commercial interests for the control of bank credit (one of the recurring themes in the history of Louisiana banking) yielded to their common desire for the larger volume of credit which the amended charter might provide.[4]

The financial support of the state opened the doors to Europe's capital. But the nature of the state's subsidy to the bank should not be misunderstood. In issuing $12 million of government-endorsed bonds, the state considered itself to be assuming only a <u>contingent</u> liability. If all went according to plan, no taxes would ever be raised, no state funds directly expended in behalf of the bank. The bonds were to be repaid out of the banking profits, and the mortgage payments of the stockholders. The state was merely "lending" its superior credit rating to assist the bank in borrowing abroad. Since the Bank itself would be repaying the loan, the true net benefit of the state subsidy would not be measured by the full amount of the bond issue, but by the differential in sales price and other contract terms attributable to the state's guarantee. A comparison of the two bond contracts with W. Willinck and Hope & Co. of Amsterdam permits a rough estimate of this differential in borrowing costs. The savings to the bank in higher bond prices and lower commission charges were equivalent to about $1.06 million on a total loan of $9 million. Since the bank finally sold only $7,188,888 out of its authorized $12 million of bonds, the state's backing probably saved the bank about $850,000 in borrowing costs, and at no actual cost to the state. Even when the bank eventually did default on its bond payments, beginning in 1843, the state managed to avoid meeting its contingent liability; a series of delays and renegotiations of the debt shifted the burden back upon the stockholders or imposed losses upon the European bondholders.[5]

Building upon the initial negotiation of $3 million with Hope & Co. in March 1836, bond sales proceeded nicely for the bank. In February, 1837, just a month before the panic, the Amsterdam bankers agreed to purchase an additional $1.5 million, raising the bank's paid-in capital to $4.5 million. Even during the next two years of financial difficulties and suspended specie payments by American banks, European investors continued their bond purchases, raising the bank's capital to $6.78 million by January, 1839. At this point bond sales virtually stagnated (even though the banks resumed specie payments for the first nine months of 1839). From January, 1839, to July, 1842, the bank's capital rose by only about $400,000. The final capitalization of $7.19 million was far short of the $12 million authorized by the charter, but still the largest of any state chartered bank of that period.[6]

The chronology of bond sales roughly coincided with and reinforced the evolution of the bank's basic monetary and credit policies. In the early years (1836-38) the large bond sales provided the bank with a virtual "fountain of youth," a source for continuous specie imports. Sitting astride this river of gold and silver, the bank could vigorously pursue its own "sound money" policies, and urge similar policies upon the other New Orleans banks. But even during this first period, the panic, suspension and ensuing financial difficulties of planters, merchants and other New Orleans banks began to undermine the Citizens Bank's liquidity and its conservative policy. The decline of the European market for the bank's bonds shut off the flow of specie in 1839 and strengthened the drift toward "easy credit" and illiquidity which marked the second phase of the bank's policy.

During the first, "sound money" phase of its operations the bank was dominated by its president, Edmund J. Forstall. Forstall has acquired quite a reputation among banking historians for his contributions to the theory and practice of "sound" banking, particularly as he embodied them in the "fundamental rules" of the famous Louisiana Bank Act of 1842. Bray Hammond considered it "the wisest adaptation of practice to environment in any banking law I know." Fritz Redlich devoted an entire chapter of his monumental study of American banking to Forstall and the Banking Act of 1842; he considered Forstall's major contribution to be the combined emphasis upon fixed specie reserves and "liquidity and elasticity, the prerequisites of what came to be considered sound banking in modern times."[7]

Forstall believed strongly in the specie standard as the "natural regulator" of the supply of money and credit, which "would act as the governor of a well constructed engine--possessing within itself the power of expansion and contraction." Each bank should maintain a specie reserve equal to one third of its "cash responsibilities," both bank notes and deposits. By adjusting their notes and deposits in response to specie imports or exports the banks would automatically provide an "elastic" of "flexible" money supply immune to inflationary abuses or to the deflationary shock of a financial panic. In order to make the specie regulator fully effective each bank would have to keep the remaining two-thirds of its note and deposit reserves in the from of "real business paper," non-renewable commercial loans maturing within ninety days and representing commodities in storage or shipment. As Forstall pointed out, "long paper, although perfectly secured, can be of no use to a Bank to meet notes or debts, payable on demand."[8]

You might wonder how Forstall could apply his doctrine of an "elastic" money supply, backed by specie and commercial paper reserves, to the property banks, which were especially designed to provide long term mortgage credit. He had a ready answer to this question. The bank's balance sheet and its business would simply be divided into two distinct parts, a "commercial bank" and a "loan office." The former would include cash liabilities /notes and deposits/, and the cash assets /specie and "real business paper"/. On the "loan office" side long term mortgage credits and other "accommodation" loans would be issued to the extent of the bank's paid-in capital and accumulated surplus. In Forstall's version of the marriage of commercial and investment banking the bride and groom slept in separate bedrooms.[9]

Forstall's "sound money" policy apparently worked reasonably well for the bank in the year between its opening for business in March, 1836, and the beginning of financial crisis in March, 1837. The ratio of specie to notes and deposits remained close to 30 percent and against roughly $1 million of notes and deposits the bank held a portfolio of $2.5-$3 million of short term commercial paper. But of course this remarkable liquidity was only accomplished by virtually ignoring the "loan office" operations. In January, 1837, the bank had less than $400,000 of stock loans, the long term credits to which the mortgaged stockholders were entitled by the charter. For all practical purposes Forstall was operating the institution like a conservative commercial banker. There is no evidence of dissatisfaction with this policy, probably because the bank was just getting underway and the general conditions of money and credit in Louisiana were still "elastic" in the expansionary direction.[10]

Forstall did not confine his attention to the affairs of the Citizens Bank, but sought to persuade or pressure the other banks to adopt his policies. His attempt to lead the New Orleans banking community began before the crisis of 1837 and continued during the years of crisis. On most occasions he was in the monority. In fact the appearance of his "fundamental rules" in the Bank Act of 1842 gave Forstall a belated "moral victory" over a majority of bankers who still rejected his theories; by that time even his own Citizens Bank had abandoned his policies.

In 1836, when the Bank of England raised its discount rate and began to withdraw specie from American banks, the New Orleans bankers found their specie reserves diminished and their debts to banks in other states growing. Forstall argued for the conservative "sound money" response: contraction of credit, elimination of inter-bank debts, regular specie settlements among the New Orleans banks, and importation of specie from Mexico and Cuba to augment bank reserves. He won adoption only of the last point, specie imports, and that by a remarkable sort of persuasion. The Citizens Bank simply agreed to obtain the specie for all the banks, by drawing against its "fountain of youth," the European bond sales. Ironically, however, the operation came to a sad end. The panic and suspension of specie payments struck before the operation was completed, leading several of the banks to repudiate the bargain and leaving Forstall's bank to absorb the transaction costs.[11]

Financial crisis fell upon New Orleans with full force in March, 1837, with the failure of several of the largest merchant firms, all of them heavily in debt to the New Orleans banks. Forstall's "sound money" rules did not guarantee the bank's liquidity after all: "real business paper" was not automatically "self-liquidating" in a time of general crisis and depressed cotton markets. If the bank insisted on prompt payment of its commercial paper, it might well force even more merchants into bankruptcy and reduce or destroy the value of the very assets it was trying to liquidate. Recognizing his dilemma, Forstall compromised his rules and permitted renewals of the bank's commercial paper, subject to a 10 percent reduction in principal every sixty days and provision of additional security as necessary.[12]

During the panic the "elastic" money supply engine began to run in reverse, toward contraction. The simultaneous efforts by bankers, merchants and the general public to increase their liquidity, led to a fruitless scramble for specie, which only served to accelerate the contraction of bank money and credit. "Sound money" could only be achieved by the sacrifice of "easy credit." A simple solution to this dilemma was available: suspension of specie payments by the banks. This would leave the bankers free to protect their solvency without immediate concern for their liquidity (specie reserves). Giving the banks time to rebuild their portfolios and to replenish their specie reserves (or to reduce gradually their note and deposit liabilities), it would prepare the way for eventual resumption of "sound," specie based money. Accepting this argument for suspension, nearly all the banks of New Orleans joined the nation-wide suspension of specie payments in May, 1837.[13]

Deeply committed to the specie standard as the only guarantee of "sound money," Forstall accepted the suspension of specie payments only with great reluctance. The Citizens Bank initially suspended payments on its deposits but continued to redeem its notes. The result was predictable: between January, 1837, and January, 1838, the bank's notes in circulation virtually disappeared, declining from $376,430 to $28,400 (while on the other hand, its deposits rose from $574,159 to $1,154,715). Forstall guided the bank by his specie-reserve rule throughout his tenure in office.[14]

Forstall also continued to press for coordinated resumption of specie payments by all the banks of New Orleans. When suspension removed the "natural regulator," the bankers organized a Board of Bank Presidents to negotiate for the assignment of banknote quotas to the individual banks and for rules governing the settlement of balances between banks. In effect the Board of Presidents became the "central bank" for Louisiana, controlling its money supply and handling interbank settlements. Forstall's contribution was to insert in each negotiation a provision requiring the banks to accumulate large specie reserves in anticipation of resumption. Again he offered the services of the Citizens Bank in the importations of specie. Forstall favored unilateral resumption at the earliest possible date.[15]

In retrospect Forstall maintained his belief in the specie standard even to the extent of believing that suspension had been a mistake, that forced contraction and liquidation was the proper cure. In 1847 he offered this advice to the English at the time of their suspension:

> The only effectual remedy to your awful revulsion was that proposed by Mr. Calhoun in speaking of the Oregon question,--"masterly inactivity." Had the crisis been left to itself, it would have worked itself through ere this; failures, low prices for the raw materials and large exports of manufactures would have soon done the work, leaving the nation with its working power as great as ever and abundance of gold for all legitimate purposes. For with the restoration of confidence, gold driven out of circulation by the panic will be found issuing out of all its hiding places.[16]

Calvin Coolidge or Andrew Mellon could not have put it better!

Few men shared Forstall's single-minded committment to the specie standard or his faith in ruthless liquidation and contraction as a cure for financial and economic problems. The financial crisis brought strong pressure upon the bank to provide relief in the form of extended or expanded credits to its debtors, to its stockholders and to the agricultural and commercial community at large. When necessary, Forstall compromised. Extensions on commercial debts (noted above) could be justified as protecting the bank's solvency. Next in line stood the stockholders. Under the charter they were entitled to loans up to 50 percent of the value of their stock. During the first half of 1837 stock loans rose by $1 million, and in the following year by another $2 million, reaching a total of $3.6 million by July, 1838. In addition the bank discriminated in favor of stockholders in granting discounts, mortgages or accommodation loans. During May and June of 1838 the bank also liberalized the terms of its loan extensions (10 percent reduction every six months instead of every sixty days) and began making three year building loans.[17]

Forstall's concern for the bank's liquidity led him to attempt to restrain total credits of all types to the stockholders in proportion to the bank's paid-in capital (then $6 million, roughly 50 percent), rather than in proportion to its total authorized capital stock of $14.4 million. This would keep intact the split of the balance sheet between commercial, and investment (or rather "accommodation") banking. But here again Forstall had to compromise. In April, 1838, the Board of Directors voted to issue post-notes in behalf of the stockholders in an amount sufficient to grant them their full loan quotas of $50 per share, even though the bank's capital was not fully received (from bond sales). Within the next nine months the bank issued $1.5 million of post-notes (payable in three, four, and five years, bearing 5½ percent interest): nearly $800,000 of these were repurchased from the stockholders by the bank and sent to European agents for resale. The original hopeful expectation had been that earnings from future bond sales would be used to retire the post-notes, but the stagnations of bond sales largely frustrated this strategy. At the time of its entry into liquidation in August, 1842, the bank had $550,000 in post-notes outstanding and maturing within the next four years. The goal of "easy credit" had been served, but at high cost to the bank's liquidity.[18]

The opposition among the bank's stockholders to Forstall's conservative, "sound money" policies apparently increased during 1838, finally causing his resignation on August 31. In the annual election of the Board of Directors by the stockholders in February, Forstall slipped from first to third place in the voting. Enough of his supporters were elected (or appointed by the legislature among the state's six directors) to assure his reelection as president, but the Board members opposed to Forstall's policies undoubtedly found strength and encouragement in the election results. During the spring they brought forward a series of proposals culminating in the post-note issues (discussed above).[19]

The immediate issue which led to Forstall's resignation had little apparent relation to the bank's credit policy. It involved the rejection of F. deLizardi & Co. as the bank's London agents. The issue took on overtones of a personal attack on Forstall, since his own mercentile firm, M. deLizardi & Co. of New Orleans, was in partnership with the London firm. During the crisis months of 1837, F. deLizardi had suffered extreme illiquidity and near insolvency because of the defaulted debts of many of its New Orleans mercantile customers. In desperation the firm had employed some of the bank's bond revenues in its own behalf, had rediscounted some of the bank's bills with the Bank of England, and had even caused the temporary protest of the bank's drafts. Yet all these "sins were over a year in the past and had been acknowledged fully by the Board at the time. Forstall's firm had assumed or guaranteed all the unpaid obligations of the London partnership, extending the last $90,000 of the debt until

July, 1838.[20]

Forstall's last-minute request for a further extension of the loan in July apparently triggered the embarrassing investigation which led to his resignation. Forstall's firm and its London partner had tied up a significant share of the bank's liquid assets (still $300,000 as of early 1839). In combination with his own contractionary policies, these debts limited the credit available to other stockholders or borrowers. Forstall's most vehement critic on the Board clearly expressed this complaint and his contempt for "FINANCIERS, ... Humbugs who reveal a modest, patriotic desire to monopolize the funds of the bank, at the expense of the mass of our fellow citizens, for whose special benefit, the Bank was avowedly established." Perhaps Forstall's policies had something to do with his loss of power after all.[21]

Within a few months of his resignation Forstall was re-elected to the Board of Directors. For the future, however, he was in the minority. As he watched the bank's policy gradually drift away from his principles of "sound money" toward the pursuit of "easy credit," he trumpeted his dissenting opinions in a series of "sermons" recorded in the minutes of the Board or circulated to the bank's stockholders.[22]

The evolution of the Citizens Bank in its "post-Forstall" era seems to have been influenced less by any well-articulated alternative theory of proper banking than by a sort of ad hoc response to very pressing circumstances.[23] The one apparent response to "principle" was the continued liberality in granting credits to the bank's stockholders. In April, 1839, after considerable debate, the Directors voted an additional $15 per share of stock loans. Forstall led the opposition to this measure, arguing that it would further encroach upon the bank's liquid assets. As an alternative he suggested limiting the new credits to a simple renewal of any maturing debts of the stockholders to the bank. Failing that, he sought to reduce the loan to $10 per share; the vote was 6-5 for the larger amount. Two years later in May, 1841, another $10 per share was added, bringing the stock loans up to the $50 limit specified in the charter. The total of stock loans reached a peak of $5.6 million by the time of the bank's liquidation. It is worth noting that although this was by then the bank's largest asset category (70 percent of total assets), it was still less than the bank's paid-in capital. By themselves, the stock loans did not cross Forstall's dividing line between commercial and investment banking.[24]

Although the bank showed considerable concern and generosity toward its debt-burdened stockholders, it did not pursue a policy of uninhibited "easy credit." In March, 1839, the state legislature passed an amendment to the bank's charter permitting, indeed encouraging, the establishment of seven rural branch offices with total capital of $3 million. At least one director favored the new branches, but after examining the limited financial resources the Board deferred any action until such time as the bank had sold the remainder of its bonds. That time never arrived.[25]

Stock loans were not the only illiquid assets to expand in the bank's portfolio in the "post-Forstall" era. The prolonged period of crisis, contraction and liquidation had created financial difficulties for other Louisiana institutions, some of which were indebted to the Citizens Bank. In the refinancing or settlement of these debts, the bank often had to accept long-term, illiquid securities. The state government settled its running debt with the bank by a payment of $250,000 in state bonds. Similarly the bank accumulated $114,500 of mortgages of the Pontchartrain Railroad Company as a result of its grants of credit to that company early in the crisis. In April, 1840, the bank obtained $200,000 of bonds of the Improvement and Banking Company at a bargain price of $150,000. The $50,000 profit earned some years later presumably justified the temporary reduction of liquidity. The former London agency, F. deLizardi & Co., owed the bank $148,000, payable in the bank's own post-notes. Finally there was one further large category of illiquid assets which required no special explanation: $650,000 of protested commercial paper, much of it subsequenyly secured by mortgage collateral. These unpaid commercial debts were more a comment on the fallacy of Forstall's "real bills" doctrine than on any failures of policy after his departure from the bank's presidency.[26]

The increasing illiquidity of the bank's portfolio, and the disruption of the international and interregional exchanges during these years sometimes led the bank into unorthodox and risky transactions. Most notable and controversial among these were the cotton "speculations" of 1839. Historians, commenting on such transactions by Nicholas Biddle and several state banks, have sharply criticized them as "speculative" or inflationary. But the actual motives and circumstances were less sensational than those comments suggest. The Citizens Bank in May, 1839, faced imminent obligations to make payments in the North and Europe totalling about $470,000 while it had only about $150,000 available at those points. How was the remaining $320,000 to be paid? The Board decided that a purchase of cotton on its own account offered the most expeditious and least risky method available.[27]

Forstall strongly opposed this "speculative" venture as a departure from "sound" banking practice; in particular he feared that it would lead to a mixture and confusion of the "loan office" and "banking" functions if notes and deposits were backed by such commodity assets as cotton in transit. Yet the alternatives which Forstall proposed were hardly more attractive. He first suggested shipping $320,000 of specie to meet the obligation. His fellow directors quickly reminded him of the disasterous consequences which such a drain of specie would have on an already illiquid and debt-ridden community. Retreating from his "purist" specie-standard position, Forstall then proposed a very different alternative; drawing on the bank's European agents, either by rotation drafts between them in a sort of revolving credit operation or by drawing against anticipated future sales of the bank's bonds. Again, his colleagues pointed out that the first strategy was simply "kiting" of bills, a tactic even more "speculative" than dealing in cotton; and in any case there was considerable danger that the European agents would simply refuse any drafts not covered by funds on hand. So cotton was the only remaining means of payment. As it turned out the bank's purchases were badly timed--a declining cotton market brought a loss of $50,000 on the $300,000 of cotton purchased. In retrospect this loss made the charge of "unsound speculation" all the more appealing to contemporaries (or historians) seeking a scapegoat.[28]

The final, devastating blow came to the Citizens Bank in May, 1842. The New Orleans banks had been placed under strong pressure by the Bank Act of 1842 to prepare themselves for resumption of specie payments. Unable to work out an acceptable plan for interbank settlements during the transitional period, several of the stronger banks unilaterally resumed specie payments before the scheduled date. The Citizens Bank went along, reluctantly because it was by then in pretty illiquid condition. Within two weeks the bank suffered a "run" by its noteholders which drained it of nearly $500,000 of its specie (and local banknote) reserves. From then on it was merely a matter of time (two months) until court action under the recent legislation forced the bank into liquidation.[29]

As far as ante-bellum Louisianans were concerned, the property bank idea was buried by the financial crisis of 1837-42. Forstall's "fundamental rules" in the Bank Act of 1842 wrote into law what he had earlier sought to impose as policy from within the property banks--a complete separation of the mortgage and commercial banking liabilities, with corresponding division between capital and cash assets. There rules were a somewhat rigid means for imposing a "balanced portfolio" of assets upon the property bank, a balance hopefully compatible with the mixed investment and commercial banking business involved. But Forstall's bisected version of the property bank received little trail; all three banks entered liquidation after the crisis and the Citizens Bank, when it was revived in 1852, became essentially a commercial bank.

Why did the Citizens Bank and the property banking experiment come to such an unhappy end in ante-bellum Louisiana? There are at least three explanations. First, the property banking edifice was inherently unsound in design and construction, or inherently unable to reconcile the objectives of "sound money" and "easy credit" (in this case, long term mortgage credit). Second, although well constructed the Citizens Bank was poorly managed and maintained, its assets allowed to deteriorate in value and quality until the structure finally collapsed. Third, although well constructed and reasonably well managed the property banking edifice in ante-bellum Louisiana faced an extremely harsh environment, a virtual hurricane of stresses and shocks which finally overcame it. Most historians have leaned toward the first view; contemporary Louisianans wavered between the first and second; I am inclined to emphasize the third explanation most heavily.

Most historians have agreed with Fritz Redlich that the property bank was structurally unsound because it involved an "unfortunate combination of incompatible functions" in its blending of mortgage and commercial banking. Some have accepted the "commercial loan" theory and flatly asserted that a bank which issues note or deposit liabilities is not "sound" if it carries mortgage or other long-maturity assets in its portfolio.[30]

The counter examples of other successful mixed banking ventures in Germany, Belgium, Japan, or in the modern United States with its "full-service" banks, indicate however that the condemnation cannot be made on a priori grounds.[31] Rather, the particular economic environment of ante-bellum Louisiana made mixed banking more difficult. The mortgage borrowers were concentrated in export-oriented agriculture, giving the banks little opportunity to diversify against the risk of unfavorable market conditions. The capital markets for such mortgages, or even for the more liquid commercial paper, were poorly developed, giving the banks little opportunity to sell off their assets in time of pressure. The specie standard, unstable public preferences for bank money vs. specie, and an unregulated money supply increased the risks of a general liquidity crisis or panic against which such a mixed bank had imperfect defenses.

Some contemporary Lousianans blamed the failure of the Citizens Bank simply on mismanagement. Forstall's opponents criticized the "favoritism" in lending so heavily to a few large merchants, especially to the Lizardi firms. Forstall and his supporters, on the other hand, criticized the cotton "speculations," the extensions of mortgage credit and stock loans to distressed stockholders, and the accumulation of illiquid corporate stocks and bonds in the bank's portfolio. To some extent both of these charges were valid, but both tended again to ignore the pressure created by an unstable economic environment. Large loans to merchants apparently represented the best commercial paper, until the financial crisis and the temporary collapse of the cotton market forced even the most respectable merchants into suspension or bankruptcy. It was also the prolonged financial crisis which forced the bank to grant relief to stockholders; the alternative was to force stockholders into bankruptcy and to sell foreclosed property at depressed prices, which would have threatened the bank's solvency anyway.

The property banks were clearly handicapped by having to operate in an undiversified economy with weak capital markets and an unstable specie standard. Despite these handicaps, well-capitalized property banks did provide Louisiana with a much needed mechanism for importing foreign capital and providing long term credit. If they had been guided by Forstall's rules, or by some less rigid assurance of portfolio balance and reasonable liquidity, they might have continued to provide such development credit for many years. Their greatest misfortune, and this was particularly true of the Citizens Bank, was to have begun operations on the eve of a prolonged financial upheaval. Lacking time to build a normal, profit-oriented (rather than relief-oriented) mortgage portfolio, the Citizens Bank never really put the property bank idea to the test.

NOTES

[1]Paul B. Trescott, Financing American Enterprise (New York, 1963), pp. 10-11.

[2]J. Van Fenstermaker, The Development of American Commercial Banking: 1782-1837 (Kent, Ohio, 1965), Appendix A.

[3]"Report on the Citizens Bank of New Orleans" sent to Secretary of the Treasury, presumably in support of the banks's application to become a government depository; Letters from Banks Del., ...La., Miss., 1837-1840, 216, National Archives. The bank's charter appears in Acts of Louisiana, 11 Leg., 1 sess. (April 1, 1833), pp. 172-194.

[4]Reginald C. McGrane, Foreign Bankholders and American State Debts (New York, 1935), pp. 174-175. Acts of Louisiana, 12 Leg., 2 sess. (January 30, 1836), pp. 16-24. Journal of the Louisiana House of Representatives, 12 Leg., 2 sess. (1836), pp. 15-28, 33-35, 103-105.

[5]McGrane, Chapter IX. The estimate is composed of $720,000 in higher bond prices, $270,000 in lower loan commissions and roughly $71,000 in lower commissions on annual interest payments (my computation). McGrane's original source may have introduced some upward bias into the estimate, since it was attempting to justify the Hope and Co. contract. But this is compensated by the fact that the Willinck contract was also too high--the bonds were unsalable under its terms.

[6]Report of the committee of investigation, names by the Stockholders of the Citizens Bank, August 1, 1842 /hereafter "Stockholders' Report, 1842"/, I. P. Thompson Collection, University of Alabama, pp. 2-9 and Table 3.

[7]Bray Hammond, Banks and Policits in America From the Revolution to the Civil War (Princeton, New Jersey, 1957), p. 682. Fritz Redlish, The Molding of American Banking: Men and Ideas (New York, 1947), II, Chapter XII.

[8]Edmund J. Forstall, Report of the Majority of the Joint Committee of Finance of the Senate and House of Representatives on the Banking Situation of the Monied Institutions of New Orleans February, 1837, Tulane University, pp. 4-10. This report is reprinted in House Documents, 25 Cong., 2 sess., No. 79, pp. 609-635. Report of the Joint Committee on the affairs of the Citizens Bank of Louisiana, for the year 1836; also reprinted in the same Document 79, p. 656. Those familiar with modern banking theory will recognize Forstall as an exponent of the fallacious "real bills" or "commercial loan" theory of proper banking. The fallacy of this theory is confirmed by the experience of the bank discussed below.

[9]Forstall was probably the author of the Report cited in note 3 above, which expresses this view. It also appeared much earlier, in a letter from Forstall to Baring Brothers & Co., March 1, 1830, Baring microfilms (frame 57196), Library of Congress. The ideas are developed most fully in his letter of resignation from the presidency of the bank August 31, 1838, printed in the Report of the Committee of Investigation (selected from the Stockholders)

appointed by the Directors of the Citizens Bank of Louisiana, (New Orleans, 1839), pp. 4-7. / hereafter, Citizens Bank, Invesitgation of 1838./

[10] House Documents, 25 Cong., 2 sess., 79, pp. 645-647, 654-655.

[11] The debates of the bankers and the actions taken may be traced most fully from correspondence and resolutions contained in the Consolidated Association of Planters Collection, folder, 25, Louisiana Department of Archives and Manuscripts, LSU, Citizens Bank, Minute Book #1, pp. 265, 270-272, 322-368, Canal Bank Collection, Tulane University. Citizens Bank, Investigation of 1838, p. 49. Robert E. Roeder, "New Orleans Merchants, 1790-1837" (unpublished Ph.D. thesis, Harvard, 1959), pp. 338-339.

[12] Citizens Bank, Minute Book, #1, pp. 468-469.

[13] Louisiana Courier, May 13, 1837.

[14] Citizens Bank, Minute Book, #2, p. 25. Stockholders' Report, 1842, Table 3.

[15] Citizens Bank, Minute Book, #1, pp. 460-466; Minute Book, #2, pp. 4-10, 197-203, 258, 302-304. Resolutions of May 21, 22, 1837, in Consolidated Association of Planters Collection, folder 27.

[16] Forstall to Baring Brothers, December 4, 1847, Barings microfilms (frame 57927).

[17] Citizens Bank Minute Book, #1, pp. 451, 453, 479; Minute Book, #2, pp. 31-33, 176-193.

[18] Citizens Bank Minute Book, #1, p. 453, Minute Book #2, pp. 142-146, 165-166. Stockholders' Report, 1842, pp. 5-6, Tables 3 and B.

[19] Citizens Bank, Minute Book, #2, p. 123.

[20] The agency affair is fully exposed in Citizens Bank, Investigation of 1838.

[21] Citizens Bank, Minute Book, #2, p. 355. House Documents 26 Cong., 2 sess., 111, p. 783.

[22] Citizens Bank, Minute Book, #2, p. 343. Roeder, pp. 342-343.

[23] Admittedly our perception of the bank's policy is severely handicapped by the loss of the Director's Minute Book #3 which covered the period from May, 1839, to May, 1841.

[24] Stockholders' Report, 1842, pp. 9-10, 15, Tables 3 and B. House Documents, 26 Cong., 2 sess., 111, pp. 775-777. Citizens Bank, Minute Book, #2, pp. 402-408.

[25] Acts of Louisiana, 14 Leg., 1 sess., (March 13, 1839), pp. 30-34. Citizens Bank Minute Book, #2, p. 375.

[26] Stockholders' Investigation, 1842, pp. 14, 15, Table B.

[27] Hammond, p. 471. Leland Jenks, The Migration of British Capital to 1875 (New York, 1927), p. 93. House Documents, 26 Cong., 2 sess., 111, pp. 819-848.

[28] House Documents, 26 Cong., 2 sess., 111, pp. 819-848, also pp. 771, 854.

[29] Citizens Bank Minute Book, #4, pp. 214-219, 248-249. New Orleans Price Current, May 14-June 4, 1842. Stockholders Investigation, 1842, Table 3.

[30]Redlich, I. pp. 205-209 Robert E. Roeder,"Merchants of Ante-bellum New Orleans," Explorations in Entrepreneurial History (First Series), X (1958), p. 120.

[31]Rondo Cameron, et al, Banking in the Early Stages of Industrialization (New York, 1967), pp. 133, 143, Chapters VI, VIII.