



STEPHEN GIRARD

Early American Entrepreneur, Financier, Banker and Businessman

By Clyde A. Haulman

IN THE EARLY PHASES of the War of 1812, prospects for the new nation were not good. Despite several exceptional American naval victories, the British were striking at will in the Old Northwest and tightening their naval blockade on the East Coast. Napoleon's disastrous march into Russia meant that additional British military assets were likely to be available for the American war. After a decade of fiscal frugality with little expenditure on the military and defense, the US government succeeded in getting a \$10 million loan in March of 1812—just as war loomed with Britain. But it was clear that with no new domestic taxes and, in spite of increased duties, no significant revenue stream from customs as the blockade closed down trade, the war effort was in trouble.

In March 1813, Secretary of the Treasury Albert Gallatin, who had presented Congress with information about the state of the nation's finances earlier in December, requested an additional loan of \$16 million. Given the risks lenders perceived, when the books closed subscriptions fell well short of the total. With the federal government facing a fiscal crisis, Gallatin turned to a small group of leading businessmen—what economic historian Donald R. Adams, Jr. called “undoubtedly the first real underwriters' syndicate for the purpose of marketing government stock.”

Meeting in Philadelphia on April 5 in response to the request for proposals to cover any remaining portion of the loan, Stephen Girard, the Philadelphia merchant and banker; John Jacob Astor, a wealthy New Yorker; and David Parish, son of

a Hamburg banker who previously had acted as an agent for Girard, indicated they would divide the unsubscribed \$10 million among themselves. Girard and Parish together took \$8 million and Astor took \$2 million. The terms of their offer were slightly more advantageous to the government than those of the initial proposal, and once their offer became known, more than 100 investors agreed to take parts of the Girard-Parish commitment. When it all shook out, Girard had loaned the government some \$2.5 million, including his coverage of most of Parish's portion.

Three circumstances combined to enable Girard to play such a significant role in saving the Treasury loan of 1813 and, thereby, securing the war effort and federal government operations. First was his successful business enterprises that had placed him among the wealthiest of American entrepreneurs in the first decade of the 19th century. Second was the closing of the Bank of the United States. Third was a loophole in Pennsylvania banking legislation regarding private banks. Perceptively seeing opportunities and new directions for his business enterprises, Girard acted decisively to enhance his own position and wealth, as well as aid his adopted nation.

Arriving in Philadelphia in June 1776, Girard, having achieved success in coastal trading, quickly began the mercantile operations that would grow dramatically over the next 30 years. Capitalizing on the opportunities provided by the French entry into the Revolution and his own industry and frugality, Girard prospered and spread his networks more broadly. Aided by his expanding fleet of

vessels, particularly the famous philosopher ships—the *Helvetius*, *Montesquieu*, *Rousseau* and *Voltaire*—Girard extended his trading empire to China and India, South America and the Caribbean, Russia and, most profitably, Western Europe.

By the middle of the first decade of the 19th century, Girard grew increasingly concerned about the viability of the American neutrality that enabled him and other merchants to make enormous profits in the European carrying trade. With the imposition of the Embargo Act at the end of 1807, Girard began taking steps to secure his European assets then spread among a number of trading centers across the continent. Consolidating his wealth in London using his British correspondent Baring Brothers and taking advantage of favorable exchange rates, over the next four years Girard succeeded in securing his capital and returning it to the United States.

In 1807, Girard sent a trusted employee to begin consolidating his European assets. In 1810, he authorized David Parish as his agent and soon sent two other Philadelphians to assist. Moving assets to London, while at times difficult and not without risk, proceeded throughout the period 1808–1812. However, having substantial balances in London, even with a firm that Girard trusted as much as Baring Brothers, faced significant uncertainties as the continental war ebbed and flowed and economic and political relations between the United States and Great Britain continued to deteriorate. Thus, Girard sought to move his wealth to the United States by purchasing goods for import to the United States, as well as by financial transfers in the form of purchases of US government

stocks or shares of the Bank of the United States. Each of these faced significant uncertainty and risk.

Goods shipped from the European continent to the United States were subject to capture by the British Navy, while British goods shipped to the United States were in danger of violating bans on importation. In 1811, for example, Girard was able to send four of his ships to the Baltic and have them return to Philadelphia full of profitable cargos. That same year, Girard's agent in London had used consolidated funds to purchase a cargo of British goods to be shipped to Philadelphia in Girard's ship, the *Good Friends*.

Originally bound for Rio de Janeiro, Girard diverted the ship to Amelia Island, then under Spanish control, believing that the United States ban would soon be lifted and the goods could be brought to Philadelphia. While the *Good Friends* was anchored off Amelia Island, a coup occurred and the island came under United States control. With a letter from the commanding General, the ship sailed for Philadelphia believing all was well. Entering the Delaware River, the *Good Friends* was stopped by US customs and charged with violating the ban on importing British goods. While the ship and cargo were soon released following a favorable court decision, Girard faced continued claims by the government that were finally settled in 1819 following lengthy litigation. This clearly demonstrated the liability involved in moving assets from Britain in the form of goods.

Because of the risk and uncertainty of transferring his wealth as cargos, Girard as early as 1808 began considering alternatives and ultimately instructed Baring Brothers to purchase US government stocks and

shares of the Bank of the United States. Despite the dangers—a war with Britain would mean additional borrowing by the government with possible adverse effects on stock prices while the failure of the effort to re-charter the Bank could mean significant losses to shareholders—Girard proceeded with the purchases. In 1811, almost 60% of the assets returned to the United States were in the form of government stock and Bank shares.

A second element critical to placing Girard in a leading role regarding the War Loan of 1813 was the demise of the First Bank of the United States. Chartered in 1791 for a 20-year period, the Bank had grown into a true central bank controlling the notes issued by state banks, ensuring a stable market for government bonds, and lending to the government when needed. In addition, its multiple branches greatly facilitated the commercial functions of the emerging national economy. However, long standing opposition from Jeffersonian Republicans, ongoing questions of constitutionality, and opposition from state banking interests combined in 1811 to defeat efforts to re-charter the Bank. Despite his strong Jeffersonian leanings, Girard was a leading proponent of re-chartering. He saw the wide spread impact of the Bank on government fiscal operations, was keenly aware of its stabilizing impact on state banks, and, most importantly for him, saw how its system of branches enhanced his mercantile operations.

As the single largest holder of Bank stock, Girard would have profited from the re-charter. However, he knew that his Bank stock holdings were still quite valuable given that each share would recover \$400 at the Bank's closing and that with war and

future borrowing on the horizon, the alternatives of government stocks would likely fall in value, which they did. With time running out as efforts to obtain a charter for the Bank first in Pennsylvania and then in New York failed, Girard was poised to strike. Purchasing the Bank's neoclassical building and virtually all its furnishings on May 9, 1812, just two months after the Bank ceased operations, Girard opened his own banking operation nine days later.

A third factor that enabled Girard to aid the government in its 1813 loan was a loophole in the 1810 Pennsylvania banking law regarding private banks. Girard exploited the gap to its fullest in opening The Bank of Stephen Girard. Unable to conceive of any but a conglomeration of individuals putting together the capital needed to open a bank, the legislation specified only that "any unincorporated association of persons" was prohibited from creating a bank and undertaking banking functions. Girard, as an individual, did not meet the standard of the prohibition.

Operating on the advice of two prominent Philadelphia lawyers, Jared Ingersoll and Alexander J. Dallas, and with assets that placed him among the wealthiest if not the wealthiest American of the time, Girard's Bank commenced operations on May 18, 1812. In a letter to the Governor of Pennsylvania on May 23, Girard informed the state of his action.

Opening a private bank in the aftermath of the closing of the Bank of the United States was one thing, ensuring its success was another. In the face of strong opposition from existing banking interests in Philadelphia and beyond, Girard's skills as an entrepreneur, negotiator, financier and manager would be tested. But, as with virtually all of his business ventures, Girard succeeded magnificently.

Girard's first moves included hiring a staff headed by George Simpson, Cashier of the now closed Bank of the United States, to direct operations of the new bank and to supervise the other employees. Beginning with capital stock of over \$70,000, Girard quickly added additional assets to it portfolio and by year's end the total stood at over \$1.3 million. This placed The Bank of Stephen Girard at a level comparable to the largest chartered banks of the day.

Although the Philadelphia chartered banks quickly refused to accept Girard's Bank's notes for payment or deposit, this substantial capital position enabled his



Sight draft signed by Stephen Girard, January 19, 1810.



Main building, Girard College, 1901.

Stephen Girard was born in Bordeaux, France in 1750. He immigrated to Philadelphia in 1776 and died there in 1831. In addition to his mercantile and financial activities, Girard is remembered for his critical role during Philadelphia's yellow fever epidemic of 1793 that killed some 10% of the city's population. Girard managed the temporary hospital at Bush Hill and directly cared for many of the ill. His most lasting legacy was bequeathing the vast majority of his fortune to found Girard College, providing free education for Philadelphia's orphans. His gift continues to benefit Philadelphians to this day.

bank to meet challenges in the form of specie calls from several rival chartered banks. The calls were based on Treasury drafts drawn on Girard's Bank. He immediately countered with specie calls on those banks using their notes his institution had accumulated. Girard's action quickly brought this form of opposition to an end. The strong capital position also instilled confidence in the stability of Girard's Bank among the business community. Further, unlike British and European merchant banks, Girard maintained strict separation between his mercantile enterprises and his banking operations, thus ensuring transparency and enhancing the bank's reputation.

Girard further solidified his banking institution by quickly establishing a network of correspondent banks in major cities, in inland Pennsylvania, and with Baring Brothers in London. This was further enhanced by establishing an arrangement with the Trustees of the former Bank of the United States whereby in exchange for maintaining their account with his bank it would be the institution that received and deposited the Trustee's payments as they wound down the closed institution.

Establishing relations with the Treasury proved much more difficult. Despite Gallatin's promise in the 1812 negotiations that he would recommend that banks holding public deposits would accept Girard's Bank's notes and they would not make unnecessary specie draws from each other, this did not happen. It took until 1815 when in response to Treasury's difficulties in transferring funds from Southern banks to make payments in the Northeast that the issue was resolved. Girard offered to use his correspondent relationships to collect and credit Treasury notes to his account in the Bank of South Carolina and to credit an equal amount to the Treasury in his Philadelphia bank. This and Girard's

agreement to accept Treasury notes with interest accrued as if they were bank notes led Treasury to make Girard's Bank a depository for federal reserves and place it on par with chartered banks.

The process of getting Girard's Bank established and accepted faced one more obstacle—the battle over unchartered banks in the Pennsylvania legislature. Attempts to outlaw private banks in the 1813 session passed both houses of the legislature by one vote but failed when vetoed by the governor. Renewed efforts succeeded in 1814 despite the governor's veto, but when Girard's name appeared on the list of illegal institutions at the beginning of 1815, no enforcement actions were taken. Following a sharp exchange with the state's banking authorities, Girard was removed from the list. Here, the magnitude of Girard's wealth and the stability and reputation of Girard and his Bank likely were critical.

Girard's important contribution to the success of the 1813 Treasury loan enhanced his standing as a patriot and a financial anchor for the nation. With his banking institution established and accepted, Girard was poised to be an ongoing force in the financial world of the new nation. His role in the specie suspension of 1814, his forceful advocacy for the Second Bank of the United States, his large ongoing role in Treasury financing and his allowing The Bank of Stephen Girard to serve a central reserve role for inland Pennsylvania banks (thus enabling their notes to circulate at par in Philadelphia), put Girard at the forefront of financial sector developments in Philadelphia and the nation for two decades. Even more important was the critical part Girard played as market capitalism began its transformation from a primarily mercantile focus to the industrial capitalism that would dominate the country and the world. His financing of private ventures particularly in the area

of transportation—navigation and railroads—and coal provided a model for the investment bankers who would be so important for economic development later in the 19th century.

By the time Girard died in 1831, he and his bank had played a critical and unique role in transforming Philadelphia and the nation at a pivotal time for the emerging national economy and its financial system. \$

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