Contagion 1855: How the Crimean War Felled San Francisco's Largest Banks

By Jonathan Tiemann, president of Tiemann Investment Advisors LLC, July 2018

> ***Cannon to right of them,***
> ***Cannon to left of them,***
> ***Cannon in front of them***
> ***Volleyed and thundered***
>
> ***— Alfred, Lord Tennyson,***
> ***"The Charge of the Light Brigade", 1854***

Chaos and Confusion.

On October 25, 1854, in the opening days of the siege of Sevastopol during the Crimean War, Russian troops under the command of Prince Menshikov attacked the English base at Balaclava, hoping to cut off the forces besieging the city from that base. The only troops in position to intercept the Russian assault were two cavalry brigades, the Heavy Brigade and the Light Brigade; the 93rd Highlanders, "The Thin Red Line tipped with steel;" and a troop of marines. During the engagement the Light Brigade, under the command of Major General Lord Cardigan, received the order to attack a Russian position. Unfortunately, the order was unclear. Poor communication and a lack of confidence among officers worsened the confusion, and rather than attacking a weak Russian flank, the Light Brigade charged a well-defended artillery position. But charge they did, weakening the Russian position somewhat before falling back. Of an original mounted force of about 670, some 40% of the Light Brigade were killed or wounded, along with over 500 horses. The Russians achieved their objective that day, rendering the siege more difficult — it lasted another year.

During the same autumn of 1854, St. Louis banker Henry D. Bacon was in New York, attempting to raise capital to continue work on his most ambitious project, the Ohio & Mississippi Railroad (O&M), which was to run from Cincinnati (on the Ohio River) to Illinoistown (opposite St. Louis, on the Mississippi). Bacon, partner in the St. Louis banking house of Page & Bacon and the San Francisco house of Page, Bacon, & Co. had hoped to sell railroad bonds in London and Paris, as he and other railroad builders had done in the boom year of 1853. But the Crimean War had effectively closed the European capital markets to projects like American railroads, and Bacon had strained his banks' credit to continue the work. By the end of 1854, he was scrambling for financing for his banking operations too.

Bacon's efforts failed, and on January 12, 1855, Page & Bacon's principal New York correspondent, Duncan, Sherman & Co., began to refuse their drafts. Page & Bacon suspended business in St. Louis two days later. When this news reached San Francisco on Saturday, February 17, the city's initial reaction was measured concern, and by that Tuesday the excitement appeared to have subsided. But a general bank run began on Thursday, February 22, and on Friday the 23rd, Page, Bacon, & Co., along with several other banks, closed. The run on that "Black Friday" resulted in the demise of the two largest banks in San Francisco (Page, Bacon & Co. and Adams & Co.), along with several smaller, weaker houses. It ultimately led to large losses by small depositors, and to the realignment of the financial sector, and to some extent the general economy, in California.

When we examine recent financial crises, we sometimes imagine that they derive from our credit-based monetary system, our regulatory regime, financial innovation, and our facilities for instantaneous communication and money movements. When Page, Bacon & Co., failed, the environment was quite different. California in 1855 operated on a hard-currency system of gold coins, bullion, and gold dust. Banks operated under a highly restrictive legal regime. They dealt in traditional instruments like bills of exchange. And communication was far from instantaneous — sending a letter, a bill, or a payment from New York to San Francisco took a month. Yet Page, Bacon & Co.'s failure had a great deal in common with more recent ones.

In 1855, as in more recent crises, the bankers that failed had become dangerously overextended. That exposed them to risks from distant events in which they had no involvement and over which they had no control. By becoming overextended, a banker essentially lines up a row of dominoes, placing them in danger of falling. The external force that knocks over the first domino could come from almost anywhere. In hard-money 1850s California, the source of trouble was the Crimean War. A war on the Black Sea led to bank failures in San Francisco.

Page and Bacon.

Henry D. Bacon (1817-1893) was a true nineteenth-century entrepreneur. Born in East Granville, Massachusetts, he moved to St. Louis in 1835 to work in the dry goods and then the iron trade. In 1844 he married Julia Ann Page, daughter of Daniel D. Page (1795-1869), a prominent St. Louis merchant. Page had been Mayor of the City of St. Louis, and he owned significant tracts of land in and around the city. Primarily at Bacon's initiative, in 1848 the two formed the banking house of Page & Bacon (P&B) in St. Louis. Page provided capital and a strong reputation in the business community. Bacon provided energy and financial savvy.

As Page and Bacon were organizing their bank in St. Louis momentous events were unfolding on the Pacific coast. On February 2, 1848, the United States and Mexico signed the Treaty of Guadalupe Hidalgo, ending the Mexican-American War and bringing Upper California and much of the desert Southwest into the United States. A few days earlier, on January 24, James Marshall found gold in a millrace he was building for John Sutter near Coloma, California, on the American River. President James K. Polk, anxious to promote settlement in California and cement American control of the region, emphasized the discovery of gold there in his final message to Congress that December. What had been a modest stream of migration became a gold rush.

Geography made San Francisco California's main commercial and financial center during the Gold Rush. With its exceptional natural harbor, San Francisco Bay, it was the ocean port closest to the mines. The Bay also gave San Francisco a second natural advantage. About 75 miles inland, the Sacramento River, from the north, and the San Joaquin River, from the south, both empty into the upper reaches of San Francisco Bay and form an unusual, inland delta there. The Sacramento River is navigable to Sacramento, Marysville, and beyond, and the San Joaquin can carry river traffic to Stockton. San Francisco thus became, like New Orleans, an interchange point between ocean shipping and water traffic to the interior. Sacramento, about 100 miles from San Francisco, became the gateway to the northern mines, and Stockton (at a similar distance) the gateway to the southern.

The discovery of gold and the rush of emigrants transformed California's economy. Prior to 1848, ships bringing cargoes from the eastern United States, South America, Europe, or Asia would arrive at sparsely settled Mexican Alta California, delivering manufactured goods up and down the coast, mostly trading them for cattle hides.[1] As the Gold Rush gathered momentum, conditions changed rapidly. In mid-1848, before the

[1] This is the trade that Richard Henry Dana chronicled in his 1840 classic, *Two Years Before the Mast*. Dana reported, with some bemusement, that in 1835 a Californian might exchange three or four hides for a pair of Boston-made shoes—likely made from hides that had originated in California.

Rush, the wholesale price of flour in San Francisco was $8 or $10 per barrel. By the end of 1849, quotations of $30 were common. Lumber moved even more dramatically. That commodity commanded $40-50 per thousand board feet at San Francisco in mid-1848, but $300 or more by the end of 1849.[2]

The spiking commodity prices drew merchants and shippers to California, and particularly to the State's growing ***entrepôt***, San Francisco. As these merchants established themselves in San Francisco and built their connections to markets in the gold mining region in interior, they found themselves in need of trade financing. In addition, both they and the gold miners needed means for converting gold from the "diggings" into cash.

California Banking.

Well into the 1850s, California really only produced one thing — gold — and imported everything else. Merchants sent goods to California from distant ports, of course, with a view toward receiving the State's gold in payment. Indeed, for most of the decade of the 1850s, Californians exported about $50 million per year in gold, sending the great bulk of this sum to New York.[3]

In his December 1848 message, President Polk, in addition to emphasizing the discovery of gold in California, also reminded Congress that they had authorized the establishment of regular U.S. Mail service between California and the Atlantic States. The firm of Howland & Aspinwall won the contract to provide this service, and they set up the Pacific Mail Steam Ship Company. The P.M.S.S. Co. commissioned and brought around Cape Horn a pair of ocean steamships for the purpose. These steamers initially departed San Francisco twice each month, sailing down the Pacific Coast with mail, passengers, and treasure for Panama. From Panama, the passengers, mail and treasure made the transit across the isthmus for Chagres (later Aspinwall, now Colón), where another steamer would pick them up for the voyage to New York. Meanwhile, passengers and mail that had come down from New York crossed the isthmus the other direction, and the steamer now at Panama would take them on and bring them back to San Francisco. In 1850, the whole journey took about five weeks one way, including the isthmus crossing of two days in canoes and one on muleback.

With California's population growing, the diggings producing gold, and the steamer service in operation, something resembling a regular trade pattern between San Francisco and the Atlantic States began to emerge. Even so, cash was scarce in Gold Rush California, and when merchants and others in California remitted gold to the east, they

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[2] A standard flour barrel in the nineteenth century held 196 pounds. Prices are my approximations from "Prices Current," published in 1848 and 1849 editions of the *California Star,* the *Californian*, and the San Francisco *Alta California*. These are available through UC Riverside's California Digital Newspaper Collection, cdnc.ucr.edu. Unless stated otherwise, California newspaper references are from the CDNC.

[3] For most of the nineteenth century, Congress defined the dollar in terms of mint-fineness gold, at a ratio that works out to approximately $20.67 per troy ounce. Accordingly, at 2018 prices, the amount of gold California shipped east during the 1850s would be worth around $30 billion.

still mostly sent gold dust — the small flakes of gold the miners produced, often naturally alloyed with other metals and always mixed with sand, earth, and other impurities — rather than bullion or coin. By April 1850, Wm. Cornell Jewett's "San Francisco Prices Current" advertisement in the San Francisco ***Alta California*** newspaper (the "***Alta***") carried indicative quotations in the San Francisco money market:[4]

Exchange, drawn at 5 to 30 ds, par; sight 1.
Gold Dust, for coin, per ounce..............15.75@16.00
Gold Dust, taken in trade........................16.00
Money taken at from..................16 to 12½ per cent.
Gold Dust Shipments insured for..................6@7½

Jewett's advertisements appeared in "Steamer" editions of the ***Alta,*** intended primarily for readers in the Atlantic States, who would see the papers when they arrived on the other side. These quotations suggested to eastern financiers that buying gold dust and selling "Exchange," especially if they could negotiate better rates on insurance, could be an attractive business.[5] And the "Money taken" quotation, showing interest rates as high as 12-1/2% ***per month*** in San Francisco, suggested that California could be a congenial home for their capital.

In 1849 and 1850, a number of eastern bankers, including Page and Bacon, took advantage of the opportunity they saw in San Francisco. The established eastern bankers typically identified younger partners, who moved to California to set up a new banking firm. The eastern banker provided capital, name recognition, and a reliable correspondent banking relationship. By the beginning of 1851, eleven firms advertised in the ***Alta*** as banking houses. Most of them had followed this pattern.

In 1850, Page and Bacon sent two young St. Louis associates, Henry Haight and David Chambers, to San Francisco, along with Page's son, Francis W. Page, to start the

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[4] "San Francisco Prices Current," San Francisco *Alta California*, April 20, 1850.

[5] *Exchange* refers to bills of exchange. If you wanted to send money back east, and were reluctant to ship gold yourself, you might use your gold to buy a bill of exchange from a San Francisco banker. The banker would make the bill payable to the order of the payee of your choice, at a correspondent bank in an eastern city. You, or your bank, would forward this document to your payee, who would present it for payment at the eastern bank. The eastern bank would pay the bill and make a corresponding deduction from your San Francisco banker's account. Your banker would also remit sufficient gold (paying negotiated, commercial rates for freight and insurance) to cover these bills, or at least to maintain their credit. Bankers commonly referred to these bills as "drafts." Technically, they were initially merely drafts, and only became bills of exchange when the paying bank "accepted" them, agreeing to pay them according to their terms. According to the quotations above, bankers were willing to sell bills of exchange at from 5 to 30 days' sight (that is, payable on dates from five to 30 days after their initial presentation at the paying bank) at par, or face value, and bills payable at sight (that is, upon presentation at the paying bank) were available at a premium of 1% to face value. Selling exchange for gold dust was profitable if the mint returns from sending the dust for coinage (in Philadelphia, until the Branch Mint opened in San Francisco in 1854) plus the banker's commission, exceeded the value at which the banker had credited the dust to the buyer of the bill.

San Francisco house of Page, Bacon & Co. Daniel Page and Bacon remained in St. Louis, managing Page & Bacon, their banking house there.

The Articles of Co-Partnership of Page, Bacon & Co. provided:

> The object of this association is for the purpose of conducting an Exchange & Banking business at San Francisco in California, under the name & style of Page, Bacon & Co – and for this purpose Page & Bacon have contributed to the Capital stock of said association ten Thousand Dollars, David Chambers Five Thousand Dollars & Francis W. Page & Henry Haight each Twenty Five Hundred Dollars – The said David Chambers Francis W Page & Henry Haight are to proceed with all possible dispatch to San Francisco to then open & conduct the business, to give their entire attention and energies to promote its success and in all things to use their best endeavors to carry it on successfully & profitably.[6]

Francis Page, Haight,[7] and Chambers left New York in May 1850. The names of Henry Haight and Francis Page appear on the list of passengers arriving in San Francisco on the steamer ***Tennessee*** in the ***Alta*** of June 21, 1850. During that voyage the younger Page wrote a letter to his sister, describing the Atlantic portion of the route and what he expected of the transit of the Isthmus,[8] and mentioning Chambers as a traveling companion. By the end of that month Page, Bacon & Co. were offering banking services from an office on Clay Street, between Kearny and Montgomery Streets in San Francisco. By October, they had moved to new premises on Montgomery Street itself.[9]

Early bankers in California performed many functions that were typical of nineteenth-century bankers anywhere. They held customer assets for safekeeping, made and negotiated loans, discounted bills of exchange, and earned commissions by selling drafts on distant correspondents. But the combination of the Gold Rush and the banking-related provisions of California's first state Constitution also made their business quite different in some ways from that of their counterparts back east or in Europe.

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[6] Articles of Co-Partnership, February 18, 1850, in Renewal of Co-Partnership, March 14, 1855, Page, Bacon & Co. Records 1851-63, BANC MSS C-G 297, Bancroft Library, UC Berkeley.

[7] Some confusion exists between Henry Haight, the member of PB&Co., and Henry Huntley Haight, who later became Governor of California. They were not the same person. Documents always refer to the Governor as "Henry Huntley Haight" or "Henry H. Haight," and the banker as simply "Henry Haight." Autograph documents of the two show obviously different handwriting. And in the litigation following the collapse of PB&Co., in one action Henry H. Haight is among the plaintiffs, and Henry Haight is one of the defendants. Some sources state that the banker was the uncle of the Governor.

[8] Letter from Francis W. Page with salutation "Dear Sister," dated "At Sea, May 22d, 1850," Francis W. Page diary and correspondence, 1851-1857, California Historical Society, San Francisco.

[9] "Page and Bacon" refers to Daniel D. Page and Henry D. Bacon, the individuals; "Page & Bacon" refers to the St. Louis banking house; and "Page, Bacon & Co." to the San Francisco house.

California's first Constitution, in force when it became a state in 1850, included unusual, and important, provisions concerning banks and banking. It prohibited "banks of issue," meaning that unlike many of their eastern counterparts, California banks could not issue private bank notes to circulate as currency. They could issue or discount bills of exchange, but not their own bank notes. Holders of bills of exchange could endorse them in favor of other parties, but in the event that the original payer failed to make payment when the bill came due, the holder of the bill could seek recourse from a prior endorser. That meant that bills of exchange, unlike bank notes, could not really circulate as money. California's Constitution also provided that owners of businesses, however organized, bore unlimited personal liability for business debts. And on April 22, 1850, at the end of its first session, California's legislature enacted a law prohibiting corporations from performing banking functions.[10] Bankers in California were either private individuals or general partnerships like Page, Bacon & Co. — without limited liability.[11]

The Gold Rush itself added an unusual feature to early California banking. San Francisco bankers were large buyers of gold dust, acting as a conduit through which gold miners could turn their finds into cash. The bankers bought some dust directly, and they also accepted dust as payment for bills of exchange, which they sent east on behalf of their customers.

The prohibition on corporate banks meant that image, personal relationship, and reputation were the only information by which customers and correspondents could judge the safety and soundness of bankers. It also meant that since bankers were personally responsible for the liabilities of their banking houses, they often also commingled their personal and house assets along with their liabilities. This commingling of both assets and liabilities could make resolving failed businesses a nightmarish mess.

By the end of 1851, Page, Bacon & Co. had emerged as the largest bank in San Francisco. In the first half of 1852, California interests shipped over $16 million in gold to the east, according to the manifests of the semi-monthly steamers. Page, Bacon & Co. shipped about $4.5 million, or 27% of that amount. The only firm to account for a comparable amount was the banking and express house of Adams & Co., who engaged in an exchange business like Page, Bacon & Co.'s, but also shipped as express agents,

[10] "AN ACT Concerning Corporations," Chap. 128, Statutes of California, passed at the First Session of the Legislature, p. 347, April 22, 1850. Statutes and Amendments to the Codes, 1850, California State Assembly, Office of the Chief Clerk, https://clerk.assembly.ca.gov/content/statutes-and-amendments-codes-1850

[11] Curiously, when Wells, Fargo & Co. appeared in San Francisco in July 1852, they did not conform to this rule. Incorporated in New York, their ads in the *Alta,* beginning on July 1, described the firm as "A joint Stock Company, with a capital of $300,000." Despite the rule against corporate banking, Wells Fargo advertised banking functions, including "the purchase and sale of Gold Dust, Bullion and Bills of Exchange: the payment and collection of Notes, Bills and Accounts; …" They also, of course, advertised a general express business. The eponymous Henry Wells and William G. Fargo did not come to California to run the business, though Wells had visited to assess the market and later came to examine operations.

handling consignments for customers. The next two shippers were the banking houses of Burgoyne & Co. and B. Davidson, who each sent around $1.25 million.[12]

Page, Bacon & Co. undoubtedly conducted a large exchange business, and they were well known in California as large purchasers of gold dust. But while the newspapers cheerfully published figures of their gold shipments, we have no way of knowing how much gold they sent in support of their exchange business (for the benefit of their customers) and how much on their own account, either as a remittance for the benefit the St. Louis house or in an effort to produce a profit for the San Francisco house from the mint returns on sending gold dust for coinage.

The Shinplaster Bankers.

Page & Bacon, the St. Louis house, was the product of the Free Banking period, the interval between the closing of the Second Bank of the United States in 1836 and the Civil War, during which banks were subject only to state regulation. Missouri had not enacted "free banking" laws like those of Michigan and New York. Instead, in 1837 it chartered a single bank, the Bank of the State of Missouri (the "Old State Bank.") Like California, Missouri did permit individuals and partnerships to conduct banking business. Accordingly, Daniel Page and Henry Bacon formed a general partnership to operate a private banking business under the "name and style" of Page & Bacon.

Aside from the Old State Bank, Missouri bankers, including Page & Bacon, operated under constraints similar to those affecting California banks. Prior to 1857, only the Old State Bank could issue notes in Missouri, and it would only recognize out-of-state notes from banks that committed to redeem them on demand in specie (gold and silver coin). Such notes, particularly from Tennessee and Wisconsin, did circulate in Missouri, but Page & Bacon in St. Louis — like Page, Bacon & Co. in San Francisco — couldn't issue their own. Instead, they developed a workaround. The New Orleans ***California True Delta*** described how it worked:

> Messrs. Page & Bacon have issued certificates of deposit for sums of one to twenty dollars, payable at Quincy, Illinois; which certificates they also pay in specie at their banking-house in St. Louis. The currency that had been circulating in that section was principally Wisconsin and Tennessee notes, which rated at one to three per cent. discount. Messrs. Page & Bacon undertook to elevate this currency to something like a specie basis, by taking it at 1/4 per cent. discount, which has interfered seriously with the profits of some other parties, who were benefitted by the previous heavy discount.[13]

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[12] These figures are my compilations from newspaper reports of treasure shipments in the *Alta* and the Sacramento *Daily Union*.

[13] *Sacramento Daily Union*, "[From the [New Orleans] *California True Delta,* Feb. 22d, 1853] Monetary — Messrs. Page & Bacon," March 22, 1853. The delay of a month between the original appearance of the

A typical certificate looked like paper money, complete with neoclassical vignettes and a portrait of the late war hero and President, Zachary Taylor. A one-dollar certificate read:

> This certifies that Thos. Brown has deposited in this office ONE DOLLAR, payable to bearer at the Banking House of Flagg & Savage, Quincy, Illinois.[14]

By issuing a specie-redeemable certificate payable in Illinois, Page & Bacon finessed Missouri's restrictions. Quincy, Illinois, the town where their notes were nominally payable, is about 140 miles upriver from St. Louis on the Illinois side of the Mississippi. Quincy is the next considerable town above Mark Twain's hometown of Hannibal, Missouri. Some customers of Page & Bacon might conceivably present the certificates for payment at Quincy, but local St. Louis patrons would be unlikely to do so.

To run their certificate operation, Page & Bacon joined with Quincy bankers Flagg & Savage, to form the Quincy City Bank in that city.[15] The Quincy ***Whig*** reported that the Quincy City Bank was organized January 1, 1852, and its banking certificate was dated April 12. The ***Whig*** reported on September 27 that the Quincy State Bank had deposited securities with the Illinois State Auditor, which would permit it to issue notes.

While the ***True Delta*** spoke in admiring terms of Page & Bacon's certificates, opinion was far from unanimous. Some felt Page & Bacon were engaging in a perilous financial operation. Francis Page evidently wrote to Bacon that he feared that they would become overextended as a result. In a letter of October 22, 1852, Bacon wrote him back:

> I appreciate your suggestions in relation to undue expansion of the issue of our circulation [bank paper issued to circulate as money] – I am aware of the danger of overissue, & shall try & guard against a result which would be to us disastrous in the extreme. Our circulation has been received with marked favor in this State, Illinois, Iowa, Wisconsin & is circulating some in Indiana & Ohio.[16]

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item in the New Orleans paper and its reproduction in the Sacramento paper was typical. Newspapers, like other correspondence, traveled to California by steamer.

[14] Unnumbered Certificate of Deposit on Page & Bacon, Dated St. Louis, _______ 185_, Page & Bacon Records, 1851-1863, BANC MSS C-G 297, Bancroft Library, University of California, Berkeley. Thomas Brown was Page & Bacon's cashier in St. Louis.

[15] My thanks to Jean Kay of the Historical Society of Quincy and Adams County (Illinois) for identifying the Quincy City Bank and directing me to the Illinois resources I cite.

[16] Letter from H. D. Bacon to Francis W. Page, October 22, 1852, Bacon Papers, Box 2, Item BC107, Huntington Library, San Marino, California

The critics of Page & Bacon's certificates included the ***New-York Daily Times,*** who derogated them with the mid-century slang term "shinplasters," which referred to small-denomination paper currency:

> We gave, a few days since, a list of the more prominent operators of the Shinplaster order, out West, selecting names reputed "too rich" to be damaged by the press, as the parties who, in disregard of all law and all prudence, and reckless of all future consequences, flood the country with their millions and half-millions of unauthorized and unsecured small notes. It was because George Smith and Page & Bacon have the reputation of strength and wealth, that they ***were*** named in this connection.[17]

By January of 1853, tables in Illinois newspapers were showing that Page & Bacon's Quincy certificates were changing hands at a discount of about ½%. Lucas & Simonds, (the St. Louis banking house of Page's chief rival, James Lucas) had set up a bank for a similar purpose in Springfield, Illinois.[18] Their notes traded at par. The issue may have been volume. Page & Bacon issued on a rather large scale — they reportedly capitalized the Quincy City Bank with $1 million, compared to the $100,000 or so that was more typical.

Volume may have caused Page & Bacon another problem. An item in the (Springfield) Illinois ***Daily Journal*** of January 19, 1853 reported:

> The Chicago ***Democrat*** of the 15th says: —
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> "the money of Page & Bacon, and also of the Clark's at Burlington and St. Louis, is being bought up by the agents of the Chicago bankers, for the purpose of returning it for redemption."[19]

The Chicago bankers, who bought up Page & Bacon's certificates and presented them for redemption, were effectively buying gold at a discount at Page & Bacon's expense. That alone might have induced Page & Bacon to abandon the practice, but pressure also came from other quarters. Page & Bacon's aggressive shinplaster operation made other St. Louis bankers nervous. The St Louis Board of Bankers and Exchange Dealers met on February 2, 1853 to pass a resolution "that a committee be appointed to wait on Messrs. Page & Bacon & demand from them that they redeem all their issues now in circulation

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[17] *New-York Daily Times,* "The Bogus Bankers," January 28, 1853. The *Times* maintains a digitized archive of back issues to 1851.

[18] Lucas and Page carried their business rivalry to San Francisco. On December 25, 1852, Lucas and a number of partners established the banking house of Lucas, Turner & Co. in San Francisco. The managing partner of that house was Capt. (later General) William Tecumseh Sherman.

[19] News digest in the (Springfield) Illinois *Daily Journal*, January 19, 1853. The University of Illinois operates a digital archive of Illinois newspapers very much like CDNC. idnc.library.illinois.edu

at par in this city."[20] In addition, a St. Louis Grand Jury returned indictments against both Page & Bacon and Lucas & Simonds for illegal banking. In the end, a jury convicted Page & Bacon, and the Court fined them $1000 each.[21] Page and Bacon appealed, but by the time the case reached the Missouri Supreme Court, the matter was moot. In 1853 the Illinois legislature passed a "small bill law," prohibiting the issue of paper currency in denominations smaller than five dollars. The ***Whig*** noted on October 17 that both the Bank of Lucas & Simonds, in Springfield, and the Quincy City Bank were to close, calling in any outstanding notes. On December 5, 1853, the Circuit Attorney dropped the illegal banking cases.

The redemption of Page & Bacon's small-denomination certificates, whether due to the action of Chicago bankers, the Illinois small bill law, or the Circuit Court; or to the disapproval of the St. Louis banking community, or the encouragement of the ***New York Times***, strained Page & Bacon's resources.

The partners may have anticipated some of the pressure they would feel from an extensive currency operation, and they regarded their San Francisco house as a source of relief. Daniel Page traveled to San Francisco in the summer of 1852, arriving on August 20. Page, Bacon & Co. were already the heaviest remitters of gold from San Francisco to the east, shipping around $500,000 per steamer, twice a month. By the end of 1852, their twice-monthly shipments were approaching $1 million, and several in early 1853 exceeded that figure. The jump in shipments while Page was in San Francisco suggests that Page and Bacon leaned on the San Francisco house to relieve pressure in St. Louis — taking advantage of cross-ownership to commingle assets.

Meanwhile, Page and Bacon were involved in a number of other enterprises. In August 1852, they were reported to have taken the capital stock of $100,000 for a rail line from Illinois Town (East St. Louis) to Belleville, Illinois. At the beginning of 1853, they entered into an arrangement with the State of Iowa to finance improvements to waterways on the Des Moines River, which involved a financial commitment of $1.3 million over five years. They were interested in the development of a new type of steam engine. And one letter from Bacon to Daniel Page makes passing reference to what appears to have been an enterprise to drain swampland in southeast Missouri. In all of these enterprises Page and Bacon took on substantial risk in non-banking activities.

The Ohio & Mississippi Railroad.

Page & Bacon's largest project, and the one that stretched their resources to breaking, was the Ohio and Mississippi Railroad. This enterprise built a rail line connecting Cincinnati, on the Ohio River, and St. Louis, on the Mississippi (actually Illinois Town,

[20] Record of organization constitution and bylaws of the Bankers & Exchange Dealers of the City of St. Louis 1852-1853, Bound minute book, St. Louis Mercantile Library Association Special Collections, M-4, University of Missouri at St. Louis. Thanks to Charles Brown at that Library for directing me to this source.
[21] State of Missouri *vs.* Daniel D. Page and Henry D. Bacon, St. Louis Circuit Court, October term 1852. I am grateful to Pat Barge and Michael Everman of the Missouri State Achives' St. Louis office for providing me with the docket entries for these cases.

just across the river, with a ferry connection to St. Louis). The line would shorten the travel time between the two cities from eight days (down the Ohio River from Cincinnati to Cairo, Illinois, where the Ohio flows into the Mississippi, and then up the Mississippi to St. Louis) to twelve hours.

Because the railroad was to operate in three states, Ohio, Indiana, and Illinois, and had its home office in St. Louis, its incorporation required four corporate charters. As a result, its financing was difficult to follow, and its ownership and debt obligations were not always clear. In 1851 the City of St. Louis subscribed for $500,000 in the capital stock of the Western (Illinois) division of the railroad, and in 1853 St. Louis County subscribed for $200,000. The City and County bought their shares by issuing bonds, which then became assets of the railroad.[22] The railroad also issued around $2 million in first and second mortgage bonds. Page & Bacon was the repository for most of the funds. In its early years the railroad raised capital faster than it burned through it, and years later, the (St. Louis) ***Daily Missouri Republican*** suggested that Page & Bacon had used the balances they held for the railroad to ease the pressure from their collapsing shinplaster operation.[23] The ***Republican*** disliked Page & Bacon, and insinuated that they had arranged for an aggressive financing timetable to raise cash to benefit themselves, rather than the railroad — again using funding from one part of their business to support others.

Whatever the merit of the ***Republican***'s insinuations, Bacon's opaque management of the railroad's finances left ample room for speculation. Bacon was not forthcoming about his actions for the railroad, and he regarded its finances as part of Page & Bacon's. He had two sources of cash for the railroad: the City and County bonds, which he could sell, borrow against, or offer in lieu of payment; and the Railroad Company bonds, which he could sell to raise cash or offer as payment to creditors. On March 31, 1853, he wrote Page from New York, saying, "I have purchased 10,000 tons rails for the Ohio & Miss. RR. It will have a very excellent effect on the securities of the Road & I am in hopes I shall find no difficulty in making my negotiations [efforts to raise cash on the bonds] on the other side of the Atlantic."[24]

Early 1853 was a period of booming railroad construction in the US, and railroad bonds found a ready market in London. Bacon evidently succeeded in selling a quantity "on the other side of the Atlantic." On April 21, 1853, the ***New-York Daily Times*** reported:

> Much public interest has been felt, of late, in the extension of our Railway system from Cincinnati through the States of Indiana and Illinois, in a direct line to St. Louis. The ***Arabia***, yesterday, brought authentic advices that at least one important negotiation

[22] The City of St. Louis and the County of St. Louis, *et. al.*, *vs.* Alexander, Page, Bacon, *et. al.*, St. Louis Court of Common Pleas, October Term 1855, Case No. 266. Missouri State Archives, St. Louis.
[23] "The First Deed of Trust," (St. Louis) *Daily Missouri Republican*, June 26, 1855. State Historical Society of Missouri, digital.shsmo.org
[24] Letter from H D Bacon to D D Page, March 31, 1853, Bacon Papers, Box 2, Item BC64, Huntington Library. A marginal note on this letter, as for filing, reads "H.D.B. Mch 31/53 – Before going to London."

> for the prosecution of the enterprise has been effected in London, by the Ohio and Mississippi Railroad Company, through their agent, Professor O. M. Mitchel, and the services, very promptly rendered, of Mr. George Peabody, of London.
>
> The terms of the sale of two millions dollars of the Mortgage Convertible Bonds of the Company, as reported, are at once an evidence of the importance in which the line is held abroad, and the increased interest taken by such Bankers as Mr. Peabody, in all that is regarded as essential in connecting the Atlantic with the great West.[25]

The ***Times's*** report corresponds to the plans Bacon discussed in his letters, but it is nevertheless unverified. Bacon and Mitchel did sell a sizeable quantity of bonds through Peabody. It is not clear, though, how accurate the figure of $2 million was, or (assuming that figure represented the face value of the bonds they sold) what price they realized.

The London bond sale was the financial high-water mark for the O&M Railroad. By the summer of 1853 preparations for war were gaining momentum in Europe, and financial conditions were beginning to tighten. Bacon evidently tried to raise cash for the Railroad in New York by selling some of its St. Louis City bonds. One of his New York correspondents, Duncan, Sherman & Co. discouraged him, writing on July 23:

> The demand for all securities of any quality is inanimate and almost suspended – and until the question of European War is solved not much will be done – after that depending upon circumstances.
>
> We find the American Exch[ange] B[an]k [Page & Bacon's other major New York correspondent] in the market with St. Louis city Bonds & offering quite considerable am[oun]ts in different quarters which of course tends materially to depress them. This is unfortunate and if the supply they have from time to time is furnished by your House you may assume then the effect is injurious to their own interests.[26]

By the fall of 1853, the railroad was running short of cash, and Bacon and Mitchel were running into trouble with H. C. Seymour & Co., the principal contractor. Seymour may have underestimated the cost of construction, especially through southern Indiana, where the soil is much rockier than he may have realized.[27] By October, Seymour had pronounced himself unable to continue the work. Bacon and Mitchel negotiated to buy

[25] "Important Negotiations," New-York Daily *Times*, April 21, 1853.
[26] Letter, Duncan, Sherman & Co. to H. D. Bacon, July 23, 1853. Bacon Papers, Box 2, Item BC 554, Huntington Library
[27] I thank Nick Fry, Curator of the John W. Barriger III National Railroad Library at University of Missouri – St Louis, for this insight.

him out of his contract, but on October 2, Mitchel wrote Bacon, "I am afraid there is no possibility of ever making a fair amicable settlement with Seymour & Co."[28]

Bacon did eventually succeed in buying out Seymour. On December 5, the Sacramento Daily ***Union*** reported that the price was $500,000. Mitchel's letters to Bacon suggest that the payment to Seymour actually consisted of $100,000 in cash, plus delivery of 200 second mortgage bonds ($200,000 face value), with an addition 62 held in escrow, but valued at a price of 85 (85% of face.)[29] The ***Union*** did report correctly, however, that Bacon paid Seymour in bonds because those bonds were otherwise unsalable. In an October 25 letter, Mitchel wrote Bacon:

> [London banker George] Peabody discourages the idea of obtaining any means [***i.e.*** cash] from the other side [of the Atlantic] – After the road is quite complete something, he thinks might be done with the 2nd Mortgage Bonds, say about the year 1855.[30]

Bacon was now effectively the general contractor for the Ohio & Mississippi. For the remainder of 1853, Mitchel's frequent letters to him expressed worry, bordering on panic, regarding the difficulty of the work and the shortage of funds. Even so, Mitchel strongly advocated pushing the work, which was proceeding westward from Cincinnati, forward at least far enough to meet the road to Jeffersonville, Indiana, across the Ohio River from Louisville, Kentucky. That would generate traffic and revenue by connecting with lines to Chicago:

> I am fully aware of the exceeding difficulty in raising money, and yet I am equally certain that it is our interest to pay up until the road can be set in action from this point to the Jeff[ersonville]. R[ail] Road – I can not be mistaken in my views on this subject – Without it all is lost that has been done and any stop or delay would be almost fatal.[31]

As 1854 progressed, Page and Bacon found the pressure on their bank in St. Louis increasing. Page & Bacon nevertheless continued to advance heavily to the railroad, despite ongoing delays and cost overruns. Bacon tried to market additional mortgage bonds for the railroad, but was unable to sell them. He at least considered offering these third mortgage bonds in the Paris market, and drafted notes on the "***Compagnie du Chemin de fer de Ohio et Mississippi***" for that purpose. These notes were to mature in 1880 (the older notes matured in 1872), and they specified that they were to be

[28] Letter from O. M. Mitchel to H. D. Bacon, October 3, 1853, Bacon Papers, Box 2, Item BC 1214, Huntington Library.

[29] Letters from O. M. Mitchel to H. D. Bacon, October 28, 1853 (BC 1216) and November 8, 1853 (BC 1114), Bacon Papers, *loc. cit.*

[30] Letter from O. M. Mitchel to H. D. Bacon, October 25, 1853 (BC 1215), Bacon Papers, *loc. cit.*

[31] Letter from O. M. Mitchel to H. D. Bacon, December 3, 1853 (BC 1157), Bacon Papers, *loc. cit.*

subordinate to bonds "***donnée en garantie d'une Somme de Deux million, Cinquante mille Dollars***."[32] As the bonds remained unsold and Page & Bacon's advances accumulated, their risk from the railroad — a concentrated risk from a non-banking activity — became increasingly dangerous.

The money market, which had tightened during the latter part of 1853, tightened further during 1854, especially after England and France declared war on Russia in March of that year. Bacon had limited, if any, success selling his bonds in Paris. That summer, he sent bonds to his London agent, Frederick Huth & Co., for sale there. On July 24, 1854, Huth reported back from London:

> We are in receipt of your favors of 6th & 13th inst. and do not lose sight of your Ohio & Mississippi Bonds, but ever since they have been delivered to us the market for all American securities except first rate State bonds has been so dull, that there has been no possibility of selling any amount. … [W]hilst the minimum rate of discount of the Bank of England continues at 5-1/2%, money is so much sought after in this country that foreign investments are little thought of. It is not so much a question of price, but the difficulty is to find any Capitalists willing to send their money abroad.[33]

The Crimean War constrained trade and monetary conditions, leading to a general downturn in business, which reinforced a stringency in money extending from London to New York to California. The Bank of England had raised its discount rate in response to the exigencies of war financing, and European financiers had enough to do — and enough opportunity for profit — financing the war. They had little appetite for long-term, speculative capital projects in the United States.

By the end of 1854, Bacon knew that he was in trouble. Making his problem particularly acute was a classic maturity mismatch: By falling back on Page & Bacon's own resources to fund the railroad, Bacon was, in effect, financing a long-term project — the railroad — with the bank's short-term funding sources. He sent Prof. Mitchel to Europe to try once again to raise money for the railroad; he sent his father-in-law, Daniel D. Page, to San Francisco to push the house there to increase their remittances of gold; and he traveled to New York to try to secure more credit. But he knew that he was running out of time. He wrote several urgent letters to his brother-in-law, Francis W. Page, in Sacramento, pressing him to increase Page, Bacon & Co.'s remittances:

> In my last, as also in the one previous, I informed you of the great importance to us, as well as to the future standing of Page, Bacon

[32] "Given as security for a sum of two million, fifty thousand dollars," evidently the total face value of the outstanding first and second mortgage bonds. Copy for Bond No. 761 for $1000, *Compagnie du Chemin de fer de Ohio et Mississippi*, Bacon Papers, Box 2, Item BC 1232, Huntington Library.

[33] Letter, Fred[eric]k Huth & Co. to H. D. Bacon, July 24, 1854, Bacon Papers, Box 3, Item BC 1013, Huntington Library

> & Co., of increased remittances to this country by Page, Bacon & Co., & requested you to move in the matter soon before the arrival of Father [Daniel D. Page] whom I had written you would go out to attend to the business. Since that time nothing has transpired to lessen the necessity then existing for prompt action on your part…. If you increase your credit balance with Duncan, Sherman & Co. during the next two or three months so as to make it equal to about a million of dollars it would answer about the same thing to us. It may look better for you to assist us in that way. Page & Bacon a/c [account] would appear over drawn with Duncan, Sherman & Co. but your a/c would be in credit & would offset our over drafts.[34]

Page & Bacon's Embarrassment.

In its first issue of 1855, the New York ***Times*** lamented that due to poor economic and financial conditions, the city had enjoyed neither a Merry Christmas nor a happy New Year. Compounding the misery for Page & Bacon, at the end of 1854 the newspapers reported that they had suffered a loss of $350,000 in connection with financial distress at Belcher & Brother, a major sugar refiner in St. Louis. Accurate or not, these reports would have been damaging to Page & Bacon's credit, but they were not far from the mark — Bacon wrote the elder Page on January 11, 1855, "Belcher's liability to us will settle down to about $300,000."[35]

The Belcher loss made a bad situation worse. By the beginning of 1855, the financial straits of Page & Bacon, the Ohio & Mississippi Railroad, and the partners as individuals had become so burdensome and so hopelessly intertwined that Bacon would write to his brother-in-law during the first week of 1855:

> The payments to be made by my firm on the 1st instant [January 1, 1855], in the shape of interest on the Bonds of the State of Missouri, County & City of St. Louis, Ohio & Miss. R.R.Co & the Anticipation Bonds issued by the Pacific R.R.Co., amounting in the aggregate to something like $500,000, the accomplishment of which seemed impossible, but I finally saw my way clear & provision was made for the whole & has been duly paid. … But we are to be besieged from a very unexpected quarter: Mess. Belcher & Bro., whom ourselves, & every body else I believe thought rich beyond the contingency of danger, & who directly & indirectly owed us a vast sum, informed me last week that they are embarrassed.[36]

[34] Letter from H.D. Bacon to F.W. Page, November 18, 1854 (BC 113). Bacon Papers, Box 3, Huntington Library.
[35] Letter from H. D. Bacon to Danl D Page, January 11, 1855, (BC 65), Bacon Papers, *loc. cit.*
[36] Letter from H. D. Bacon to F.W. Page, January 4, 1855 (BC 117). Bacon Papers, *loc. cit.*

Despite the compounding difficulties, Bacon's efforts to raise more credit seemed to bear fruit when, with the assistance of William Aspinwall, the steamship line operator and friend of the firm, he persuaded Duncan, Sherman & Co. to increase Page & Bacon's credit line by $100,000. Aspinwall, of course, profited from Page, Bacon & Co.'s large shipments of gold, and he was willing to take a modest risk in the hope that those shipments would continue. For their part, Duncan, Sherman & Co. stipulated that they accorded the increase on the condition that it would enable Page & Bacon to resolve their difficulties in the ordinary course of business.

In the end, Page's and Bacon's efforts were unavailing. Page, Bacon & Co. did step up their remittances of gold, but neither so rapidly nor so largely as Bacon had hoped. Bacon blamed Haight for dragging his feet. On January 12, 1855, Duncan, Sherman & Co. concluded that the $100,000 line would not suffice to bring Page & Bacon's normal operations back to a sound footing, and that Bacon intended to continue pursuing his railroad project. Page & Bacon had simply become too badly over-extended. Duncan, Sherman & Co. pulled back the credit line increase and began protesting Page & Bacon's drafts for non-payment. This step immediately undermined Page & Bacon's credit, and they suspended business in St. Louis on January 14.

The delay in communication and physical transfer of gold between San Francisco and New York created complexity and confusion, which Bacon tried to exploit. One of Page & Bacon's important friends was William Tell Coleman, a merchant active in both San Francisco in New York, and also another son-in-law of Page's. Writing Bacon from Cleveland on his way west from New York on January 14, 1855, Coleman said, in part:

> Mr Leavett says he saw Telegraph in Chicago Saturday night announcing course D[uncan]. S[herman]. & Co. had pursued [protesting Page & Bacon's drafts] & he regretted it much, very much indeed. …What are you going to do to prevent attachments on the dust &c. arriving from San Francisco? I fear it will be attached on all sides & would suggest, as the best thing I can think of, that you <u>assign</u> immediately all of Page & Bacon's interest to someone whom you can trust & let them <u>secure</u> the shipments & as soon as can be <u>pay</u> the drafts of PB&Co <u>from protest</u> or at least hold it from seizure. … The assignee ought to be one of <u>your Creditors</u> & I think Wm. H. A[spinwall]. or B[an]k of America (or myself & WHA) would be safe and good parties. <u>This step is very</u> important & if not already taken should not be delayed a moment.[37]

Aspinwall made a similar suggestion. Coleman and Aspinwall, as creditors and friends of Bacon, wanted to stem the St. Louis bank's distress, and if possible, keep it from taking

[37] Letter from William T. Coleman to Henry D. Bacon, January 14, 1855. William Tell Coleman Papers, 1854-1884, BANC MSS 77/167c, Bancroft Library, University of California, Berkeley.

down the San Francisco house as well. Coleman's letter shows that he was aware of the strategy of shipping gold from San Francisco to shore up the St. Louis house. In the end, as Coleman advised, Bacon assigned the shipments of gold when they arrived from California to David Hoadley at the Bank of America in New York, and Hoadley advertised that holders of drafts from Page, Bacon & Co. should present them to him, rather than to Duncan, Sherman & Co., for payment. In a more controversial move, Bacon also intercepted the San Francisco drafts arriving in New York on the steamer ***Northern Light*** to prevent them from reaching Duncan & Sherman.

Even after the suspension, Bacon continued to push for the completion of the railroad. On February 5, he wrote his father-in-law from New York:

> Coleman has returned [to New York] from St Louis. He had a terrible time in getting here. The snows of the West have been terrible for the past 3 weeks. Since the 19th no train on the Chicago & Miss. RR has reached Chicago. If the Ohio & Miss RR was opened it would be reaping a rich harvest. No snow to interrupt business on the line of that road, & that will always be the case. My faith in the value & importance of that work is strengthened every day. But the question comes up with it. "Can it be completed so as to inure to our benefit?" I hope & trust it, & shall not cease striving for the accomplishment of an end so desirable.[38]

The Excitement in San Francisco.

On February 5, 1855, Bacon sent an extraordinary letter to the partners of Page, Bacon & Co. in San Francisco. In it, he informed the San Francisco firm that he planned to use their resources to re-open the St. Louis house:

> Since the last steamer for your port I have been busily engaged in making preparations for the resumption of the payment & business of Page & Bacon. I have raised out of my securities $500,000 P&B's indebtedness to Duncan Sherman & Co. I have settled on 6, 9, 12, 15 & 18 months time. You now have a balance here of about $500~~m~~ [$500,000] & by the steamer due to-morrow or next day it will be in all probability per the tenor of your last letters largely increased. I find on examination that the assignments made by P&B to Mr. Hoadly of their interest of P&B in PB&Co. were never delivered or executed hence I shall destroy them & in accordance with my right I shall [write a] check to-morrow or before I return to St Louis to open the doors of P&B, [for] $500~~m~~ in the name of Page Bacon & Co. on Mr. Hoadly & place same to credit of Page & Bacon. This with what I have

[38] Letter from H. D. Bacon to D. D. Page, February 5, 1855 (BC 67). Bacon Papers, Box 4, *loc. cit.*

> raised on securities & what we have in hand at home will enable us (P&B) to pay in full all demands that can be made against us….
>
> I shall be greatly disappointed if you are not able to sustain yourselves & to come out of the trial stronger in public confidence than before. If the reverse has been the result & you have been compelled to suspend, then the taking of the $500,000 can do you little harm.[39]

The timing of Bacon's letter was important. He knew that a steamer was on its way to New York with gold from California, but he could not know how much Page, Bacon & Co. had sent. When the ***North Star*** arrived on February 9, it brought $565,000 in gold from Page, Bacon & Co., which they had sent from San Francisco on January 16. Bacon also knew that word of Page & Bacon's failure would not reach San Francisco until mid-February, and that Daniel Page, unaware of the suspension (although he was well aware of the pressure on the St. Louis house), was still in San Francisco urging the house there to remit gold. Between the time of the dishonor of Page & Bacon on January 12 and the arrival of the news in San Francisco on February 17, Page, Bacon & Co. shipped a total of $1,968,000 on five weekly steamers from their port. Bacon also knew that his February 5 letter would reach San Francisco about two weeks after the news of the suspension of Page & Bacon. He actually re-opened Page & Bacon in St. Louis before the news of the original suspension reached San Francisco.

On Saturday, February 17, the steamer ***Oregon*** arrived in San Francisco, carrying its usual manifest of news, correspondence and passengers from Panama, most of which had originated at New York or New Orleans about a month earlier. San Franciscans hoped the steamer would be bringing news of easing monetary conditions in New York. Instead, it brought the shocking news of the suspension of Page & Bacon. The news sparked an initial run on Page, Bacon & Co., but that excitement seemed to run its course by the end of the day. San Francisco's banks opened normally on Monday, the 19th. On Tuesday, February 20, the ***Alta*** rationalized that since Page, Bacon & Co. had its own resources in California, the suspension of their affiliated St. Louis house would prove only a minor inconvenience in San Francisco:

> The excitement about the house of Page, Bacon & Co. has effectually subsided, and matters to-day have moved along in their usual order. The card [a message inserted as a paid advertisement] published by them in yesterday morning's ***Alta***, announcing their determination to continue their business regularly, as if nothing had happened to their correspondents in the East, has afforded universal satisfaction….
>
> The run of Saturday was the second we have had in San Francisco, and it must be extremely gratifying to every Californian to see how well our principal institutions have

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[39] Letter from H. D. Bacon to Page, Bacon & Co., February 5, 1855. Bacon Papers, Box 4, Item BC 166, Huntington Library

> withstood the excitement. The point is now established fully, as was well expressed in the resolutions passed at the meeting of the merchants on Saturday, that the Banks here are in a better condition than in any of the older members of the confederacy. The hard money basis on which we work here gives us a security which is not to be found anywhere outside of San Francisco.

The ***Alta***'s optimism was misplaced. On Thursday, the 22nd, Page, Bacon & Co. shocked San Francisco by circulating this card throughout the city:

> Banking House of Page, Bacon & Co., }
> San Francisco, Feb. 22d, 1855. }
>
> We must suspend. The suspension of Page & Bacon has impaired our credit. We have large funds in New York, and ***in transitu*** to us, unavailable. We cannot raise coin on our bills. Coin is not in the country. We believe and know we are solvent, and will be able to pay, and that soon, and have a large surplus.
>
> PAGE, BACON & CO.[40]

Page, Bacon & Co.'s suspension, and particularly the panicky tone of its declaration that "coin is not in the country," sent a chill throughout the city, and really throughout the state. The shortage of liquidity was the more severe because the day before the arrival of the ***Oregon,*** Page, Bacon & Co. had sent off $502,000 in gold on the steamer ***Golden Age*** for Panama. Depositors resumed the run on Page, Bacon & Co., and began withdrawing their deposits from other banks too. Adams & Co., which had built another of San Francisco's largest banks on its express business, saw $200,000 in withdrawals that day.

Friday, February 23, 1855 was even worse. Adams & Co. had suspended overnight, never to reopen. Wells, Fargo & Co., whose nascent banking business was smaller and less complex, suspended as well, but they reopened within a week or so after calling in funds from agents in the interior of the State, where they had been buying gold dust.[41] A few banks weathered the crisis without closing, and others closed temporarily, but several others closed altogether. For years San Franciscans remembered the day as Black Friday.

One of the banks that weathered the crisis best was Lucas, Turner & Co. the San Francisco house of Page's old St. Louis rival James Lucas. William Tecumseh Sherman, managing partner of Lucas, Turner & Co., described the run this way in a long letter to his St. Louis partners:

> Friday I was thunderstruck to see the crowd and tumult. Adams & Co. closed, Wells, Fargo & Co. afraid to open, Robinson & Wright's Savings Banks closed before a dollar could be called for

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[40] Reported, among other places, in "Markets," *Alta*, February 23, 1855.
[41] I am indebted to Robert Chandler, retired Wells Fargo historian, for this observation.

> and the assertion in every man's mouth that all must break, because Page, Bacon & Co.'s circular said so. "There is no coin in the country" a base deliberate falsehood, conceived in folly, knavery or downright malice…
>
> Our bank is a large roomy one on a corner with four large doors easy of access.[42] A crowd inside and outside but our tellers were as cool as possible…
>
> In the past eight days $3,000,000 in coin has been paid out [to creditors by the principal San Francisco bankers].[43]

The ***Alta*** had tried to re-establish calm on February 23, saying that the run on Page, Bacon & Co. reflected unjustified fears that eastern correspondents might protest their drafts. The ***Alta*** lamented the tardy arrival, on the 22nd, of the steamer ***Sierra Nevada***, which brought news that the Bank of America in New York was continuing to pay the drafts of Page, Bacon & Co. of San Francisco. The ***Alta*** suggested that if the news had arrived a day earlier, it might have arrested the run. If so, it would only have delayed the bank's final collapse.

Page & Bacon re-opened in February, and Page, Bacon & Co. re-opened in March. The apparent recovery of both houses was short-lived, however. The essential problem was that Bacon attempted to use the large cash balance from the San Francisco house's remittances to support the credit and operations of the St. Louis house, while Daniel Page, who remained in San Francisco to mollify creditors, attempted to use the same cash balance to justify the solvency of the San Francisco house. By early May, both Page & Bacon and Page, Bacon & Co. had closed for good. Page, Bacon & Co. appointed Francis W. Page to settle up the San Francisco house's affairs.

Daniel Page remained in San Francisco for several months trying to mollify his San Francisco creditors, until they lost patience and threatened him with harsh legal action and arrest. He booked passage on the Panama steamer ***Golden Gate,*** which was to sail the afternoon of June 16. When his creditors went to intercept him there, they learned that Page had left that morning on the ***Sierra Nevada***, for Nicaragua.

Although Daniel Page evaded his creditors in San Francisco in June 1855, he did not evade his responsibilities. His banking debts bedeviled him until his death in 1869, and compelled him to sell much of his St. Louis real estate. One undated tally, headed "Property Sold by Daniel D. Page since 1855," gives a total of $669,071.[44] His correspondence reflects worries that the volume of his sales depressed prices. His son, Francis Page, and his sons-in-law, Henry D. Bacon and William Tell Coleman, also spent years working on the resolution of claims against the two banks. Relevant documents bear

[42] The building Sherman describes is one of the few Gold Rush buildings still standing in San Francisco today. It occupies the northeast corner of Jackson and Montgomery Streets.
[43] Letter from W. T. Sherman to Henry S. Turner, February 25, 1855, as quoted in Dwight L. Clarke, *William Tecumseh Sherman: Gold Rush Banker* (San Francisco: California Historical Society) 1969.
[44] Bacon Papers, "Deeds and other Land Papers," BC 1420, Huntington Library.

dates as late as 1879. In spite of it all, Bacon continued to drive the completion of the Ohio and Mississippi Railroad, engaging in some controversial legal and financial operations to do so. The O&M made its first complete run between Cincinnati and St. Louis in June of 1857. The B&O Railroad acquired the O&M in 1893.

The losses from the San Francisco bank failures of February 1855 are difficult to estimate, but there are some clues. After the crisis Page, Bacon & Co. and Adams & Co. both published what purported to be balance sheets showing approximately $2 million in assets.[45] Even adjusted for the change in, say, the price of gold since 1855, they would be small banks today. But in a State with a population of perhaps 300,000, their failures carried significant weight. Within a week or two, the price of gold dust in the mining districts had fallen from around $17 per ounce to $16 or $16.25, and miners, who had grown accustomed to selling their dust in the mining towns, reverted to their earlier practice of "clubbing together," sending one of their number to San Francisco to sell gold for a whole group. The ***Alta*** of March 6, 1855 described this change as "A sad exemplification of the loss which has accrued to the State by the stopping of her heaviest bankers." On March 9, the ***Alta*** printed a "Letter from Sonora," which reported that miners were choosing to leave their gold in the ground, and that the wage for day labor, which had been $8 per day in 1851, had fallen to $3.

The banking crisis slowed remittances of gold to the east. Where the shipments had exceeded $5 million per month toward the end of 1854, in March 1855, they only totaled $1.7 million. Gold shipments did gradually recover toward about $4 million per month, but total shipments for 1855 were around ten percent less than in 1854.

Many of the important San Francisco merchants, who had relied heavily on the bankers to handle their remittances of gold, began instead to arrange their shipments directly with the steamer companies. The published manifests began to include names like Levi Strauss, who had previously arranged for remittances through the banks, but now handled their shipments themselves.

The creditors of the failed banks, especially their small depositors, lost heavily. The bankers bore unlimited personal liability for the banks' debts, but the bankers operated under the State's general statutes, and California law made no provision for any kind of orderly bankruptcy, reorganization or liquidation of the failed firms. Instead, individual creditors had to obtain attachments or judgments against the failed banks, and then do their best to collect. Meanwhile, the partners of the failed banks did what they could to protect their own assets and to manage the mad scramble for payment that resulted from the various attachments and judgments.

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[45] Adams & Co.'s appeared in the *Alta* on February 28 and showed $1.61 million in assets for Adams & Co. and another $200,000 for I. C. Woods individually. Page, Bacon & Co.'s appeared on March 1, and showed $2.2 million in assets. A separate article on February 26 listed Daniel D. Page's St. Louis area property to a value of $1.85 million. Wells, Fargo & Co. reopened after a statement by their Receiver, also published February 28, to the effect that their assets of $400,000 exceeded, and were available to cover, their liabilities of $300,000. Adams & Co.'s failure opened the way for Wells Fargo's dominance of the express business in California.

The small creditors of Adams & Co. may have suffered the worst. The night of their failure, Adams & Co.'s resident partner, I. C. Woods, arranged through a legal artifice to have a Court appoint as Receiver of the firm's assets Alfred A. Cohen, a long-time crony. In the succeeding weeks, Woods attempted, unsuccessfully, to obtain relief by claiming insolvency, and to raise cash by selling his own property. Both of those attempts fell short, and in August 1855, he slipped away from San Francisco on a ship for Australia. Cohen's handling of the firm's assets, meanwhile, became the subject of long-running litigation, which finally ended in 1862 when the Court declared further proceedings pointless because, like ***Jarndyce and Jarndyce*** in Charles Dickens's contemporary novel, ***Bleak House***, the case had nearly exhausted the available assets in legal fees.[46]

The winding up of Page, Bacon & Co. and Page & Bacon took even longer. They avoided ruinous litigation, but nevertheless spent years working through the multitude of claims and judgments against them. Thomas Brown, Page & Bacon's cashier in St. Louis, conducted an active correspondence concerning claims and judgments with the bank's attorney, Samuel L. M. Barlow, into the mid-1860s.[47] Some creditors received full, or nearly full, value reasonably quickly, while others received little or nothing. Page's son-in-law, William T. Coleman, settled a large number of claims against the two banks by buying them — years later — for ten cents on the dollar, most likely using funds from the sale of Page's St. Louis properties. Coleman was still buying up claims against Page & Bacon and Page, Bacon, & Co. as late as 1865 — one ledger shows that during the second half of 1864, he purchased dozens of claims, totaling $135,000, for $14,656.64.[48]

The banking crisis of February 1855 punctuated the end of the era in which California's economy consisted only of gold mining and importing. As the most accessible gold deposits played out, gold mining became more capital-intensive, and those working the mines lost the autonomy they had enjoyed in the early days. Californians branched out into other occupations, most notably agriculture. By 1856, Californians were producing enough wheat to begin exporting the grain, and California mills were producing enough flour to induce merchants to re-export imported flour in an effort to keep the price from collapsing. These exports enabled California to grow economically even while reducing its remittances of gold.

Coleman, although perhaps better known for his leadership of the San Francisco Committee of Vigilance in 1856, was one of the merchants to begin exporting commodities, especially wheat. He maintained offices in both San Francisco and New York, and he was a developer of clipper ships. Coleman realized that the clippers could profitably carry grain from California to Europe, because if they did not carry valuable

[46] Alvin Adams *et. al.* By H. M. Naglee, Receiver vs. Alfred A. Cohen, Order to Dismiss, June 30, 1862. Adams &. Co. Records, AM 27(58), Huntington Library.
[47] For example, letters from Thomas Brown to Samuel L. M. Barlow, April-Dec 1864, Barlow Collection, BW Box 50 (17), Huntington Library.
[48] "Settlements of Claims against Page Bacon & Co & Page & Bacon by Wm. T. Coleman, 1864" Bacon Papers, BC 1315-1341, Huntington Library. Coleman appears to have been acting as a sort of cutout between Page and the creditors, presumably because Page would have had more difficulty inducing the creditors to settle for such a small fraction of their claims.

bulk cargo back to the Atlantic, they would simply go back in ballast. Where the Crimean War contributed to Bacon's failure as a banker, it contributed to Coleman's success as a merchant by opening European markets to American grain.

Henry D. Bacon eventually recovered financially, succeeding in mining ventures in Mexico. He was a significant benefactor of both the St. Louis Mercantile Library and the University of California. Page was still trying to work his way out from under his debts at his death in 1869.

The Seeds of Bank Failures.

Analyses of bank failures can enhance our understanding of the risks bankers face and the risks they impose on the broader economy. When we look at bank failures, we often look for problems in the underlying monetary and regulatory regime in which those bankers operate. Yet that is often the wrong place to direct our attention. By examining failures that took place in a monetary and regulatory regime different from our own, we gain insight into the perils of which bankers and policymakers should be wary, regardless of the particulars of time and place.

California in the 1850s was unusual in the degree to which gold was central not just to its monetary system, but to its overall economy. Even in California's hard-money economy, banks proved subject to the same risks and perils that beset banks in other places and times. Leverage, interlocking ownership, commingling of customers' and owners' assets, and risky investments outside the ordinary business of banking all contributed to banking problems in the 1850s. Public confidence in gold contributed to an illusion that California bankers would be immune to troubles that afflicted bankers elsewhere. Ironically, to the extent that the gold was a factor, it may have made matters worse because of the delay and cost involved in moving gold from one place to another.

The cascade of failures following the suspension of Page & Bacon showed that hard money is no guarantee against banking crises. Regardless of the monetary regime, all but the most primitive economic life requires finance, and bankers will emerge to supply that need. Those bankers will take risks, some may engage in dubious or illegal practices, and many will make mistakes. Sooner or later, banks will fail. In Gold Rush California, the first major round of failures in 1855 led not to an orderly resolution of losses, but to a mad scramble for assets in which many small creditors lost heavily, some received more than the value of their claims, and some of the principals, far from suffering the consequences of unlimited personal liability, escaped with significant sums that did not belong to them.

The essential tension of banking, as observers at least as far back as Walter Bagehot have known, is the tradeoff between the opportunity for profitable deployment of capital and customer funds, and the risk of insolvency. This tension exists regardless of the monetary and regulatory regime in which the bankers operate. The 1855 failure of the largest banks in San Francisco demonstrates this point. Page, Bacon & Co. became vulnerable because of excessive leverage; excessive concentration of capital in a single, risky enterprise (the Ohio & Mississippi Railroad); interlocking ownership of the St. Louis bank, the San Francisco bank and the railroad; and inadequate segregation of funds belonging to the two banks, their principals, their customers and the railroad; and ultimately an unstable maturity mismatch between the railroad's capital needs and the bank's sources of funding. By creating that vulnerability, they exposed themselves to trouble stemming from events entirely external to their business and entirely beyond their control.

As preparations for what we now call the Crimean War advanced in Europe in 1853, and especially after England and France declared war on Russia in 1854, the London capital market contracted radically. Henry Bacon had relied heavily on that market to support his effort to build the Ohio & Mississippi Railroad, but when that source of financing closed, he persisted in the work, straining his banks' resources and credit. In January 1855, that effort collapsed, causing the suspension of Page & Bacon in St. Louis. Anticipating trouble, Page and Bacon had strained the resources and credit of their San Francisco house in an effort to relieve their distress in St. Louis and New York. That effort also collapsed, resulting in the failure of both banks, along with Adams & Co. and others in San Francisco. Excessive leverage and imprudent risks created the conditions under which a war on the Black Sea would lead to major banking failures in California.

Acknowledgements and References.

This work relies principally on primary sources and contemporary newspaper accounts, as identified in the footnotes. This list is therefore largely duplicative, for which reason I also add acknowledgements.

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