

The Rise and Fall of America's First Bank

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Abstract

In 1686 the leadership of Massachusetts was involved in the first operational bank scheme in America. In 1688 this note-issuing bank was mysteriously aborted at an advanced stage. It was a unique opportunity for financial development that did not arise again for decades. I suggest a new, simple explanation of the bank's demise: The bank's notes were supposed to be backed mostly by private land in Massachusetts, but the new royal governor invalidated *all* the land titles. As in contemporary England, absolutism's disrespect of property rights prevented financial development.

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“After showing him an Indian deed for land, he said that their hand was no more worth than a scratch with a bear’s paw, undervaluing all my titles, though every way legal under our former charter government.”

Joseph Lynde (1690)¹

1. Introduction

The relation between the form of government and economic development is one of the most important topics in economics. Consider the specific issue of how an absolutist government might affect investment. On the one hand it is argued that absolutism discourages investment because of its disrespect for property rights (North and Weingast [1989]). On the other hand it is argued that some investments might take place only by an absolutist leader who can expropriate all the profits (e.g., Greif [1994]).

Perhaps the last place on Earth where one would expect to find either of these two effects of absolutism is Massachusetts. I show that both effects did exist there in the 1680s under the royal Dominion of New England. Moreover, both effects operated – back to back – on the *same* financial institution, known as John Blackwell’s bank. This “private” bank scheme rose dramatically thanks to a new absolutist government whose leaders also led the bank. The appointment of a new head to that government completely reversed the bank’s fortunes. It was doomed not for passive lack of support from the new governor, but for the exact same reason that bank schemes repeatedly failed to materialize in Stuart England. The Stuart-appointed governor showed the same infamous

¹ All quotes have modernized spelling. From Massachusetts Archives (henceforth MA) 35:169, reprinted in Whitmore (1868), vol. I, p. 90.

Stuart disrespect for property rights by invalidating all the land titles in Massachusetts – the same land titles that were supposed to back the bank’s notes.

While the bank’s rise has been accurately linked to the personal involvement of the government leaders in the bank (Lewis, 1967), the possibility that the invalidation of land titles killed that land bank has not been mentioned by scholars. The timeline supports this hypothesis. The governor had informed the colonists for more than a year that their titles were defective. He was formally passive, acted behind the scenes, and patiently tried to educate the colonists. During that time the bank scheme continued in its progress. The bank was aborted four days after the governor suddenly switched to active criminal prosecution of land owners who did not fix their titles to his liking.

The historiographical contribution of this paper is a solution to one of the oldest puzzles of American banking, one that has intrigued most scholars of the early American economy. I also contribute to the debate regarding absolutism and economic activity. The adverse effect of Stuart absolutism on financial development, famously shown in North and Weingast (1989), has been challenged by claims that things were not that bad before the Glorious Revolution, or not that good after it². I show that a bank which grew under different circumstances from those of Stuart England collapsed as soon as the circumstances became too similar to those of Stuart England.

I start with background on the problems of English banking under the Stuarts (Section 2) and on the Massachusetts economy in the 1680s (Section 3). I then discuss the rise of the bank (Section 4), the new land policy (Section 5), and the bank’s fall (Section 6). Using the facts presented in Sections 3-6, I show in Section 7 why existing explanations of the bank’s demise are incomplete at best. Section 8 concludes.

² E.g., Clark (1996), Epstein (2000), Sussman and Yafeh (2006).

2. Absolutism and Banking in England

In the seventeenth century, as continental Europeans deposited their specie in public banks, the English people were busy *hiding* their money from their government. The Stuarts raised revenue without Parliament's approval and thus undermined property rights. They used forced loans whose terms were not honored, taxes according to ancient prerogative rights, and sale of monopoly rights which ruined competitors' investment. Charles I confiscated £100,000 of merchants' deposits from the Tower of London. The merchants started keeping their specie at home and later deposited it with goldsmiths³.

In the following decades, bank promoters, political theorists, leading merchants, and top political advisors, told Cromwell and later Charles II that rich men would not join a bank because it would be unsafe under a monarch: The traumatic Tower confiscation "sticks in the memory of most merchants ... the thing will never be forgot."⁴ Deposits with goldsmiths did not protect the merchants either. The goldsmiths loaned huge sums to the king and repayments were suspended in the infamous Stop of the Exchequer (1672). It was seen as the "greatest invasion of property." Leading goldsmiths and many customers went bankrupt. Much of the million pound debt was not returned for decades⁵.

Only after installing a Dutch prince and Parliamentary rule in the 1688 Revolution, large joint-stock banks finally had a chance to replace the simple goldsmith-banker. The Bank of England was made private partly in order to disassociate it with the king. The

³ North and Weingast, pp. 810-2, 819-20, Macleod (1896), vol. II, p. 1.

⁴ Horsefield (1960), pp. 99-100, Dickson (1967), p. 56, Pepys (1666), 17 August, Beresford (1925), p. 211.

⁵ Macleod (1896), vol. II, p. 4, Feavearyear (1963), p. 111, Jones (1994), p. 73.

Bank's existence was also a guarantee against a Stuart comeback: Which depositor would support another tyrant who would inevitably confiscate the Bank's money one day⁶?

3. The Massachusetts Economy

In 1675 the Massachusetts economy began to crumble⁷. King Philip's War with neighboring Natives caused large losses in capital and labor force, put the colony in debt, and eliminated fur trade. The king challenged the colony's charter and the expensive countering lobbying effort drained the treasury. In order to please the king the colony started enforcing English law (e.g., the mercantile Navigation Acts) and honoring the royal prerogative (closure of the Boston mint). Peace with Holland ended the use of privateers as a source of specie. Thus, the chronic lack of specie became worse than ever⁸. There were only two financial institutions: The Corporation for the Propagation of the Gospel in New England was a missionary company whose spare (English) funds were loaned to New England individuals⁹. A private clearinghouse operated 1681-1683.¹⁰

The only promising sector was real estate, since land was the only asset that increased as a result of the war¹¹. Native Americans' last enclaves in New England were gone, leading to land speculation: Obtaining cheap titles to large tracts of unimproved land, in the hope of selling it or renting it when colonial expansion would raise the land's value.

⁶ Beresford, pp. 211-2, Dickson, pp. 55-6, Horsefield, p. 96, North and Weingast, pp. 826-7, Feavearyear, p. 111.

⁷ For details see Lewis, pp. 91, 186-9, Barnes (1923), p. 63.

⁸ One town even paid its taxes in milk (MA 126:214a).

⁹ Winship (1920), New England Company Manuscripts #7946 (London City Guildhall), April 1685.

¹⁰ Davis (1901, 1904, 1910). He also compares it with Blackwell's bank.

¹¹ The following four paragraphs are based on Lewis (1967), ch. VII, Lewis (1974), and Barnes, ch. VIII.

While the colony's founders objected to speculative gains, the third generation ignored the religious objection and devoted its time to accumulating real estate and showing off¹². Recent non-Puritan immigrants who started as merchants, like Richard Wharton, also got increasingly involved in real estate. The speculators had a legal problem, due to conflicting titles given by the Council of New England decades earlier, the Crown, colonial governments and towns, and Natives. The speculators needed to control the governments and courts in order to win their cases, but the non-Puritans could not even legally hold office. Inter-colonial border disputes necessitated control of the entire area.

The royal attack on the Massachusetts charter was a golden opportunity. Wharton orchestrated the dismantling of the charter regime and the creation of a consolidated New England Dominion. Land speculation became a gold rush: Almost all the selected members of the Dominion's Council were involved in it. According to Lewis (1967, 1974), these people, including descendents of legendary governors, joined the absolutist Council in order to influence their titles. They hoped that a royal governor would confirm their titles, recommend England to do so, or let them control local courts. Earlier constitutional changes in England did result in massive changes in land ownership¹³.

Land was mentioned in the battle of the charter. The colony's nemesis, Englishman Edward Randolph, claimed that by violating the charter the colonists had lost their right to both land and government. This was just a tactical move, as he immediately and repeatedly recommended the king to promise to protect property rights under the new

¹² Dunn (1960).

¹³ Henry VIII seized all monastery lands after defeating Catholicism. A fifth of English land changing hands from Royalists to Parliamentarians and back after the Civil War and Restoration, respectively (Clark [1996], pp. 565-6).

regime¹⁴. The king did make a general promise in 1683, but the colonists were still agitated about it even as late as 1686.¹⁵ The colonists observed the abuses to land titles committed by Governor Cranfield in proprietary New Hampshire¹⁶. Just in case, the Massachusetts General Court confirmed the titles that it and the towns had given. Since many titles did not bear the legally required seal of the Massachusetts Bay Company, the Court sealed these titles' exemplifications. Towns and individuals put their trust in Natives, rushing to get deeds as back-up or signing old Natives on testimonies about old deeds. The Court's very last act before expiring in 1686 was to physically secure papers "such as refer to our title of our land, by purchase of Indians or otherwise."¹⁷

Shortly thereafter it was known that Sir Edmund Andros would be Governor. There was an old quarrel with him on his role as New York Governor in King Philip's War, regarding land in Connecticut and ammunition sales to Natives¹⁸. But that was long ago.

¹⁴ PRO CO 1/44 #61, Sainsbury and Fortescue (1896) #357, CO 1/46 #123, 130, CO 391/4 pp. 174-5.

¹⁵ PRO CO 1/54 #92, CO 5/904 p. 185, Hutchinson, (1865 [1769]), vol. II, p. 284, CO 5/904 pp. 332-5. They may have been anxious because earlier he had seized land to which he had an old title (Sainsbury [1880], #717, Palfrey [1859], vol. II, p. 603), and threatened to seize an entire county if the colony did not send agents to him (Lewis, pp. 94-5).

¹⁶ Lewis, ch. V, discusses the New Hampshire case in detail and how it affected Massachusetts.

¹⁷ Shurtleff (1854), vol. V, pp. 470-3, 516, Fortescue (1901), #181, MA 116:62-7. For similar moves in Connecticut, see Trumbull and Hoadly (1859), vol. III, pp. 176-7, 228.

¹⁸ PRO CO 391/2, pp. 233-4, Dunn, pp. 182-4, 207, Lewis, p. 197.

For all they knew¹⁹, the people of Massachusetts had no reason to fear him. Dudley, Stoughton, and Blackwell moved forward with their speculative land ventures²⁰.

4. The Rise of the Bank

In 1684/85, an old distinguished Puritan, Captain John Blackwell, arrived from Ireland to Boston²¹. Most of his career he specialized in land (trade, management, and appraisal). As Cromwell's Treasurer of Army and son-in-law of a Cromwellian colonel, he was popular in Puritan Massachusetts. He was granted land and was almost elected to the General Court in 1686. He brought with him a bank scheme that he and others tried in vain in England²². He did not implement it immediately, perhaps because of political uncertainty: The colony's charter had just been revoked, and until May 1686 there were conflicting rumors about the nature of the new regime and its leader²³. He used the time to befriend the local elite, joining two important speculative land ventures which were led by Dudley and William Stoughton²⁴. These former magistrates were expected to lead the new regime due to their active or passive contribution to the end of charter rule²⁵.

¹⁹ In 1678 he sabotaged sale by the speculative Atherton company of land claimed by the king, but his role was kept secret. See Massachusetts Historical Society Collections, henceforth MHSC (1889), p. 469, PRO CO 5/903, pp. 308-9, Lewis, p. 174 (n. 20).

²⁰ MA 126:30-1, 138-54.

²¹ Hutchinson (1936 [1765]), vol. I, p. 293n. See Dorfman (1946), pp. 96-7, for some biographical details.

²² The relation between the Boston bank and that fishing company's bank is proved in Horsefield (1966).

²³ Sewall, pp. 87-136.

²⁴ Suffolk Deeds XIV, pp. 195-202, PRO CO 5/856, #158XXIX, MHS Jeffries Papers, vol. IV, #111.

²⁵ Sewall, 93, 107, 123-4, Massachusetts Historical Society Proceedings (1880), pp. 254-5, Barnes, pp. 24-5, Lewis, p. 131.

In May 1686 a council was appointed for the new Dominion of New England²⁶. It had all the legislative, executive, and judicial authority. Dudley was to serve as President until the arrival of a Governor. Stoughton was Deputy-President and Chief Judge²⁷. A Council headed by a late governor's son, and manned by some of the local elite, was supposed to ease on the anxious Puritans the transition from autonomy to royal submission²⁸.

In June the Council established a grand and standing committee of merchants to find ways out of the economic depression. Blackwell led the committee, and two of three other senior committee members would be officers in his bank²⁹. In July Blackwell proposed his bank to the Council, which referred it to Blackwell's committee. In September, aware of Andros' appointment, the Council approved the committee's positive report on the bank, and decided that its private banknotes would be legal tender for all payments³⁰. Later, in 1687, the bank's directors were revealed as Blackwell, Dudley, Stoughton, and Councilor Wait Winthrop (all of which were major land speculators). All the other bank officers were also large landowners. Perhaps the bank was approved in 1686 because the government leaders had already had a stake in it, or the approval was implicitly conditional on the appointment of government leaders to key

²⁶ See Table 1 for a timeline of events during the Dominion period.

²⁷ The commission is in PRO CO 5/904, pp. 252-8. Land title cases could be appealed to the Privy Council (p. 255). On Stoughton see Toppan (1899a), p. 231, Kimball (1911), p. 31.

²⁸ This had been done in New Hampshire earlier. PRO CO 1/46, #123, 130, CO 5/904, p. 250, Hutchinson (1865 [1769]), vol. II, p. 284, Goodrick (1909), vol. VI, p. 206.

²⁹ Toppan (1899a), pp. 248-9.

³⁰ Toppan [1899a], p. 272, MA 126:103-7, Sewall (1878), vol. I, pp. 148, 150, 152.

bank positions. Either way, there were symbiotic relations between the absolutist government, the advising committee, and the “private” bank³¹.

It was to be a note-issuing bank, aiming to mitigate the lack of specie³². People would get a loan of banknotes in return for mortgages or deposits of goods. The bank’s partners and others were supposed to agree voluntarily to accept the notes in trade. Turning land into a medium of exchange was supposed to stimulate trade. Convertibility of notes into land was only implicit: Defaulting borrowers would have lost their land. The proceeds of the sale of such land would be deposited in the bank’s warehouse, available to any note-holder seeking convertibility. The bank was first and foremost based on land, with goods being secondary. The prospectuses mention “lands of good title mortgaged; and staple un-perishable goods & merchandizes deposited.” They give three examples of how banknotes may start circulating: First, a land-owner mortgaging his land. Second, a mine-owner mortgaging his mine and later also depositing the mine’s produce. Third, a producer of manufactures mortgaging his workshop or his produce³³. The attractiveness of land over goods was obvious. Land is durable and hard to steal and titles are easy to store. In America in particular land was more abundant than anything else³⁴. It was recognized that only after landowners got currency they could hire labor and buy tools and start production on their land. Only later they could deposit goods in the bank instead of land. Cronyism aside, then, the depression justified the Council’s support of the bank.

³¹ Lewis, pp. 191-2, seems to be the only scholar to notice these relations.

³² The bank prospectuses are in Davis (1910), vol. I, pp. 121-46, 153-87.

³³ Davis (1910), vol. I, pp. 126-9.

³⁴ Sumner (1896), pp. 2-3.

If it were truly private, the bank could earn money only from interest on loans, limited by usury laws and possible competition. However, with its leaders holding the highest positions in the absolutist government, the expected profit was much higher. The government could increase the amount of land eligible for use in the bank by resolving land disputes and by granting public land to its leaders, as was then common. It could prevent the establishment of competing banks and the reopening of the mint³⁵. Through land, the combination of a government and a bank, both led by Dudley and Stoughton, allowed printing money and putting it all in the pockets of a few people. The legal tender status guaranteed that these notes would circulate as currency. It was probably the first time in world history that *private* paper money was granted a legal tender status. With no accountability to the local population by this absolutist council, and with its members fixed for years to come, almost nothing could prevent this plan from succeeding. As in Grief (1994), a particular project was more likely to succeed if performed by an absolutist government, and it was actually good for the economy.

5. The Andros Land Policy

In December 1686 Andros arrived. His commission left the Council intact. Dudley became Andros's deputy. He and Stoughton were to lead the local superior court. Only cases of more than £300 could be appealed to England. Andros was ordered to demand quitrents for all grants of land "yet undisposed of." While marriages performed according to local, rather than English, law, got a blanket confirmation in the commission, land contracts did not enjoy such protection. Quite the contrary, the unpublished instructions which accompanied the commission mentioned that some land titles needed to be

³⁵ Toppan [1899a], p. 244.

confirmed by him³⁶. To the colonists' surprise he decided that *all* the land titles in the colony needed to be confirmed by him, and were completely invalid otherwise.

5.1. Unimproved Land

The speculators hoped that Andros would confirm their inter-colonial titles. In February 1687 he frustrated the Atherton company's claims by referring the matter to England and prohibiting the speculators from using their judicial positions in local courts to rule for themselves. Later he recommended England not to recognize the speculators' claims. Councilor Wharton, an Atherton leader, also claimed another territory. Andros recommended against this one as well³⁷. Wharton sailed to England to lobby for Andros' removal to avoid bankruptcy³⁸. He was related by both marriage and business to both Dudley and the Winthrop brothers Wait and Fitz-John, who were also councilors and Atherton shareholders. Fitz-John was Andros's old friend and appointee as military commander³⁹. They were surprised by Andros' policy. Andros was also instructed to make a recommendation on another large speculative venture, involving Wharton, Dudley, Stoughton, several other councilors, and Blackwell as a senior partner. They chose not to pursue it as long as Andros was in power⁴⁰. In 1687 Dudley and Stoughton did get a confirmation of another title they held with Blackwell, while apparently hiding his involvement from Andros⁴¹.

³⁶ The commission and instructions are in PRO CO 5/904, pp. 270-96. On the court see CO 5/904, p. 352.

³⁷ Toppan (1899b), p. 253, PRO CO 1/63 #21iv-v, CO 5/904, p. 292, Lewis (1974), pp. 264-7.

³⁸ He died there bankrupt two years later. Lewis (1967), p. 267, Sewall, pp. 182, 255.

³⁹ Barnes (1925). On the Winthrops, see Dunn, pp. 203, 209, 241-3.

⁴⁰ PRO CO 5/904, p. 292, CO 5/855 #90 (p. 403).

⁴¹ PRO CO 1/66 #159, Lewis (1967), p. 266, Toppan (1900), p. 487, Suffolk Deeds XIV, pp. 195-202.

5.2. Improved Land

In early 1687 Andros started telling people that even titles to local, improved land were defective according to English law. Every landowner was required to ask for a warrant to survey the land he claimed as his, and later apply for a confirmation that the land belonged to him. Why were titles defective? First, Native American deeds were always worthless. As the racist quote at the beginning of this paper shows, perhaps he did not consider them humans capable of owning or selling land. Second, the land originally belonged to the king because it was claimed for him in the 1490s by explorer Sebastian Cabot. Third, “wherever an Englishman sets his foot all that he has is the king’s.” Fourth, all the General Court’s grants were revoked once the charter was revoked: “The calf died in the cow’s belly.” Thus, all the land reverted to the king. Fifth, the General Court did not use its seal on most land grants so they were invalid. Sixth, many lands were granted by the Court to “towns,” which in turn granted most of them to individuals. But these were not legal towns because they were not incorporated, and thus had no legal right to grant lands. The Massachusetts Bay Company’s authorization or implicit recognition of these “towns” could not amount to a charter because no corporation can charter another⁴².

Andros did not put his comprehensive anti-land policy into law and made no public announcement⁴³. He spread rumors about it and encouraged loyal supporters to lead the colonists by example and apply for confirmation of their improved lands. In June 1687 he

⁴² Whitmore I, pp. 38-9, 49, 87-93, 99, Whitmore (1874), vol. III, p. 21, Hutchinson (1936 [1765]), vol. I, p. 305, Kimball, p. 49.

⁴³ His commission ordered him to send Council decisions to England and maybe he wanted to avoid that. The closest thing is an act forbidding *future* deals with Natives and *future* settling of unsettled land that had been purchased from Natives (Trumbull and Hoadly [1859], vol. III, pp. 422-3).

signed his first survey warrant, to the benefit of Simon Lynde. Lynde was an Atherton partner, a bank officer, and Andros' nominee to fill a Council vacancy⁴⁴. This was followed by Dudley's applications for surveys of lands he held alone or with Stoughton⁴⁵. More than a hundred surveys were ordered by July 1688, some of which were for other councilors and their relatives. Most were followed by applications to confirm titles⁴⁶.

5.3. Common Land

The towns kept some of their land in common, i.e., they could be used by all residents for pasture. Andros did not recognize common lands: Since they did not belong to any individual or corporation, they were up for grabs by anyone fast enough to apply for them. He even incited his cronies to apply for such lands, resulting in a beggar-thy-neighbors gold rush on common lands. Since town meetings were crucial for putting up a legal defense against this, Andros outlawed them. This increased the run on the common lands. Towns that tried to organize defense anyway were hit with high legal fees⁴⁷.

5.4. Holy Land

Andros asked a Puritan church to share its meeting-house with the Anglican minority. After getting a negative answer he invaded the church and forced the Puritans to share, while threatening to seize all other churches⁴⁸. He later pressured colonists to sell land to

⁴⁴ Tuttle (1919), p. 294, MA 2:137, 126:357, 360, 127:69, PRO CO 5/904, p. 347.

⁴⁵ Tuttle, pp. 298, 313-4, Toppan (1900), pp. 487-8, PRO CO 5/904, p. 347.

⁴⁶ Tuttle, *passim*.

⁴⁷ Tuttle, pp. 296-9, 335-7, Toppan (1900), pp. 491-2, Whitmore I, pp. 50, 99-101, 143, Sewall, pp. 199, 206, Hall, Leder, and Kammen (1964), pp. 56-7, MA 127:172-8, 128:11, 56, 68, 85-6, 111-6, 142a, 143, 240-1, 261, 265, 281, 297-300, Barnes, pp. 195-8, Lewis, pp. 258-9.

⁴⁸ Sewall, pp. 162, 171, Whitmore (1869), vol. II, p. 45, Toppan (1899b), p. 264, Lewis, pp. 216-7.

the government for building an Anglican church⁴⁹. He ordered the Anglican minister to participate in Harvard's commencement, thus lending credibility to a factually-based rumor that this Puritan college would be turned into an Anglican one⁵⁰.

5.5. Robert Mason's Claims

Andros enforced an old ruling on a New Hampshire land case for Councilor Robert Mason. This proprietor of New Hampshire also claimed Massachusetts' Essex County. Andros also commissioned Mason's men as militia officers in Essex. A tax revolt erupted there shortly thereafter, perhaps reflecting fear for Essex titles. The emboldened Mason then sued more New Hampshire landowners, some of whom lived in Massachusetts⁵¹.

5.6. The Colonists' General Response

Andros's total attack left the colonists in disbelief. They did consider Native Americans to be humans capable of selling land, and had English precedents to rely on⁵². Their possession and improvement of the land for half a century were sufficient to overcome technical defects, but Andros – following a clear Stuart precedent – disagreed⁵³. Their ex-post sealing of grants was ignored by Andros since this was done after the charter was revoked and the General Court no longer existed legally. They wanted the technical

⁴⁹ Sewall, pp. 207, 210.

⁵⁰ Governor Cranfield of New Hampshire proposed it. Sewall, p. 181, PRO CO 1/65 #52i, 1/52 #19.

⁵¹ Toppan (1900), p. 473, Lewis, pp. 228-9, Sewall, p. 187.

⁵² Whitmore I, pp. 90, 123. For colonial and English views of the general rights of Native Americans, see Sewall, p. 21, Hutchinson (1936 [1765]), vol. I, p. 216. The colonists may have known that Andros was instructed to buy land for the king from Natives (PRO CO 5/904, p. 292). He didn't (CO 5/855, #90).

⁵³ Hutchinson (1936 [1765]), vol. I, p. 305, Whitmore I, pp. 95-6. This is how Charles I treated invaders to the royal forests (Gregg [1984], pp. 224-6).

defects fixed in a blanket royal confirmation (as would be done in the charter of 1691), but in vain⁵⁴. The king's recent Declaration of Indulgence also promised safety of property, but Andros seemed to have interpreted it as saying that valid titles would not be confiscated, whereas in Massachusetts all titles were not valid to begin with.

The land policy reduced land value in three ways. First, as long as a title to a plot was not confirmed, someone else could have grabbed it. Second, the legal fees were very high (e.g., £50 for an estate worth less than £200). Landowners had to pay a separate fee per county. Finally, the colonists may have known that Andros was instructed to protect – in any way he wanted – the king's interest in all the land that needed to be confirmed. Normally, this would have implied a future infinite stream of quitrents⁵⁵.

Fearing for the common lands, the churches, and Harvard, the Puritan ministers decided to ask the king for freedom of religion and safety of property. The messenger was Harvard Rector Increase Mather. Just before leaving for England, Andros arrested him on bogus charges, following both the Stuart tradition of using the legal system to persecute the opposition, and Cranfield's tactics (in New Hampshire) of blocking the opposition's access to England. Andros even tried then to enact restrictions on people's freedom to leave for England. Right after Mather was exonerated he made a dramatic escape to England under the noses of officials who tried to rearrest him⁵⁶.

5.7. The Bank Continues

⁵⁴ Whitmore I, pp. 143-4.

⁵⁵ Whitmore I, pp. 92, 98-100, 143, 205, PRO CO 5/904, p. 288, Barnes, pp. 174-7, Bond (1912), p. 499.

⁵⁶ Sewall, pp. 197-8, 209, Whitmore I, pp. 141-2, Mather (1723), pp. 102-8, MHSC (1861), pp. 167-8. On the Stuarts see North and Weingast, p. 816. On Cranfield see Lewis, pp. 116-7, 128.

All these new rules were revealed, one by one, between February and July 1687. From then until the middle of 1688 they resulted in many petitions, warrants, and lawsuits. Andros's formal activity was ruling on cases brought before him. Behind the scenes he spread rumors, and induced applications and a run on the common lands. He even dropped by people's homes to teach them about his policy. Perhaps this tactic was meant to prevent a revolution⁵⁷. Indeed, the colonists did not understand the crisis quickly. In May 1687 they first learned about the Declaration of Indulgence and in August it was formally published. On both dates diarist Samuel Sewall refers to it but does not mention the Declaration's guarantee of safety of property. While he did not find it important at the time, the Declaration's relevance to property would later be Mather's main argument in England⁵⁸. As late as April 1688 Sewall reports casually taking possession of land he had bought, with no special concerns or precautions⁵⁹. The colonists perhaps relied on their presumed control of the local legal system and London decision-making. At home, Dudley was Chief Judge and heard appeals. In October 1687 the colonists learned that the local Sir William Phips was made the Dominion's Provost Marshal, meaning that he would head law enforcement⁶⁰. The colonists eagerly awaited his arrival from England. The colonists thought that Wharton, who constructed the Dominion, was powerful

⁵⁷ Barnes (p. 188). Recall that Dudley's short reign also had a pacifying role. On tactics see Whitmore I, pp. 87-91, MA 35:186. On colonial anxiety before and after Andros's arrival see Goodrick (1909), vol. VI, p. 206, and MHSC (1861), p. 177, respectively. Andros would indeed be deposed in a revolution in 1689.

⁵⁸ Sewall, pp. 177, 186, MHSC (1868), pp. 697-8, PRO CO 1/65 #52.

⁵⁹ Sewall, p. 208.

⁶⁰ Sewall, p. 192.

enough to reverse the land policy. In 1688 he petitioned his case and got the Lords of Trade to recommend the king to rule in his favor. He sent optimistic letters home⁶¹.

Andros's gradual tactic and the colonists' illusions explain why the bank was kept alive. The ruling on speculative lands was disappointing but not new (the Atherton scheme had been on hold since 1659). The bankrupt Wharton was one of the few speculators who were *not* bank officers. The attacked Harvard and the church were not mortgageable anyway. The attack on the common lands could actually turn public, non-mortgageable land into private, mortgageable one, and that was good for the bank. Even in late 1687, mostly cronies applied to confirm titles to improved land, with little or no fees. No steps were taken against those who did not apply⁶².

The bank scheme moved forward⁶³. In April 1687 the bank's constitution was adopted. In June the bank's rules were set and in September former magistrate Elisha Cooke became an officer. On December 2nd there was a meeting. Davis, the leading scholar of Massachusetts banking, thinks that the record indicates an attempt to make Andros a partner⁶⁴. On that day, a bank officer named Elisha Hutchinson sailed to London to join Wharton. He was also a senior Atherton partner and Andros had ignored his two requests to confirm his land⁶⁵. The last exactly dated sign of life from the bank is a document clarifying the constitution, dated January 5th, 1688. Prospectuses were published sometime in 1687 and 1688, in Boston and London, respectively.

⁶¹ PRO CO 5/905, pp. 1-2, 8-9. MHSC (1892), pp. 9-16.

⁶² Tuttle, pp. 292, 294-313.

⁶³ The documents mentioned below are in MA 127:66-69, 129:55-62, Davis (1910), vol. I, pp. 123-183.

⁶⁴ Davis (1901), vol. II, p. 81, Davis (1907).

⁶⁵ MA 126:342a, 127:18a, 69, 100:389, Sewall, p. 196.

6. The Showdown and the Bank's End

In early April 1688 a new commission for Andros was issued in London. It gave him New York and the Jerseys, changed nothing in the commission and instructions articles concerning land, and did not overrule his land policy. Dudley lost his positions as Andros's deputy and Chief Judge to outsiders⁶⁶. By mid-June 1688 the content of the new commission was known to Andros⁶⁷. At that time, 55 year old James II had a new baby son. Although the news would not reach Boston for two months, there was at that time a chance for a future Catholic son and heir. This would be seen as such a fundamental increase in James's grip on power, that its realization triggered the Glorious Revolution. It indirectly strengthened the James-appointed Andros as well. Andros ordered a Thanksgiving for the pregnancy in April 1688; the Puritans barely obeyed⁶⁸.

Emboldened by these developments, Andros took his land war to a new level. On June 20th Stoughton suddenly applied for the first time to survey lands he held without Dudley⁶⁹. Perhaps he was warned of what was about to come. Two days later Andros decided that henceforth Anglicans would always use the forcibly-shared church before the Puritans. That day and the next one, a heated debate erupted between him and the church leaders. Andros cursed and lost his temper like never before⁷⁰. On June 25th Dudley ruled on a land case based on an old Native deed⁷¹. Andros was probably angry

⁶⁶ The commission is in PRO CO 5/904, pp. 381-404. Land is in pp. 389, 396 (cf. pp. 279, 288).

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⁶⁸ Sewall, p. 211.

⁶⁹ MA 128:272.

⁷⁰ Sewall, pp. 217-9.

⁷¹ MA 128:291-2.

that such deeds were still taken seriously. Sometime between July 1st and 4th, bank director Wait Winthrop testifies on the general anxiety over land, but also tells his brother that he is “very desirous” to see certain ships coming from England because Wharton’s letters “give me great hope of a general confirmation from his Majesty of all lands according to former usage.”⁷² On July 5th the ship he mostly expected did arrive, but with the new commission, whose main points were quickly revealed. The next day warrants were issued to survey ten pieces of property of Councilor Shrimpton. It was his first ever move to get his titles confirmed⁷³.

6.1. Sewall’s Troubles

The colonists had procrastinated for a year on petitions to title confirmations. The high fees were a good excuse, but the colonists also hoped that Mather, Wharton, and Hutchinson – all still in London – would succeed in removing Andros or his land policy. Mason thought the colonists intended to win him by attrition⁷⁴ (which they did), and Andros wanted to avoid the same fate. He lost his patience and on July 12th, 1688, he issued a few writs of intrusion⁷⁵. These rarely used writs stated that their recipients had illegally possessed the king’s land, and they had to respond to the accusation in court⁷⁶.

Writs were issued to Sewall, Joseph Lynde, Shrimpton, and James Russell⁷⁷. They were among the richest landholders and had also run into disagreement with Andros on

⁷² MHSC (1882), p. 484.

⁷³ Tuttle, pp. 352-3.

⁷⁴ PRO CO 1/58 #37.

⁷⁵ Whitmore I, p. 92, Sewall, pp. 219-20, MHSC (1892), pp. 9-16, Barnes, pp. 199, 203, Lewis, pp. 261-2.

⁷⁶ On writs of intrusion in general see Burrill (1850), Part I, p. 332, Baker (1990), pp. 63-9, 268-70, 312-3.

⁷⁷ Whitmore I, p. 92. Another was issued to an unknown Rhode Island man (PRO CO 5/855, #90).

land. Sewall had recently represented the invaded Puritan church and refused to sell his land for an Anglican church⁷⁸. Joseph Lynde (unrelated to Simon Lynde) had earlier applied for all his lands together but withdrew some of it when asked to pay a separate fee for each county he had land in⁷⁹. Shrimpton and Russell were both senior members of Blackwell's inactive trade committee and officers in his bank. Whereas Russell had been treasurer of the late charter government, Shrimpton was a bitter enemy of that government, and the best Puritan friend that Anglicans had in Boston. Russell had fought Andros over his own land, which had been part of the Charleston commons until 1685. Shrimpton, the richest man in Boston, did apply to confirm many of his *other* titles shortly beforehand⁸⁰. Sewall, Russell, and Shrimpton had been nominated by Dudley in 1686 as substitute councilors. Andros renominated the latter two, and Shrimpton's nomination was approved and materialized in early 1688.⁸¹

As Dunn (1960, p. 250) argues, they were chosen as a representative sample of the elite. While Andros did not forgive troublemakers, he did not play favors either. His attorney-general said that all the rich would be targeted for all their lands⁸². Focusing on those who could afford to pay confirmation fees was another Stuart tradition⁸³.

This development shocked the colonists. One of them wrote "Some in power have said that it is not for the King's Interest that this People should enjoy it [the land], & if another

⁷⁸ Sewall, pp. 207, 217-8.

⁷⁹ Whitmore I, vol. I, p. 92, MA 126:282.

⁸⁰ MA 127:37-8, 66-9, Toppan (1899a), pp. 248-9, Whitmore I, pp. 97-8, Lewis, pp. 432-3..

⁸¹ Fortescue (1899) #735, PRO CO 5/904, pp. 347, 364, Toppan (1900), p. 491.

⁸² Whitmore I, p. 93.

⁸³ Charles I fined only the rich invaders to the royal forests (Gregg, pp. 225-6).

People had it would be more for the King's Interest than now.”⁸⁴ Sewall, being labeled one of “violent intruders into the King's Possession,” panicked like never before. The next day he rushed to the land mentioned in his writ. The following day he sent letters “under covert” to the lobbyists in London – Wharton, Mather, and Hutchinson – in that order. Wharton was the least of his friends among the three, but the more experienced lobbyist. Sewall ordered an English relative to give them £50 for trying to save his lands. While Sewall was receiving conflicting advices from friends regarding the writ, Andros's new commission was formally published on July 19th, clarifying to the colonists how much stronger he had become. With much reluctance, Sewall eventually petitioned to have his land surveyed on July 24th, as the first step in the confirmation process. Lynde and Russell did the same, while Shrimpton preferred a trial. Sewall then reported it in another letter to Mather, indicating that he would have joined them in England if not for his wife's pregnancy. A week later he wrote another letter to Wharton and Mather, raising his monetary aid to £100. He offered Mather even more money in October, and eventually sailed to England in November.⁸⁵ There he wrote to a Member of Parliament:

Since the vacating of the Charter, and erecting a Government by Commission, the Title we have to our Lands has been greatly defamed and undervalued: which has been greatly prejudicial to the Inhabitants, because their Lands, which were formerly the best part of their Estate, became of very little value, and *consequently the Owners of very little Credit*.⁸⁶

Some colonists did not wait so long before petitioning for a confirmation of their titles, even if they were not served a writ of intrusion. Figure 1 shows the number of original

⁸⁴ PRO CO 1/65 #43.

⁸⁵ Sewall, pp. 219-221, 237, MHSC (1868), pp. 517-20, MA 129:83, 110, 228-34).

⁸⁶ Italics are mine. Sewall, p. 251.

survey petitions per day throughout the Dominion, from January 1st, 1687, to August 31st, 1688. I did not include the cronies' predatory petitions and petitions that merely responded to challenges by others. The overall number is small because petitioners faced adverse social reaction, especially in Massachusetts. The tallest bar in Figure 1 is July 16th, 1688, four days after the writs were served. This is another piece of evidence, independent of Sewall's affairs, as to how the writs of intrusion shocked the colonists.

6.2. The Bank's End

Blackwell's bank mostly relied on "good ... unquestionable" titles to lands⁸⁷. Andros could have helped the bank by clarifying the legal status of titles, but he wiped out everything and wanted to start over. Sewall, who lived mostly off his land, was not a bank officer, but he was a potential partner and customer. Some of his best friends were bank officers. His testimony that land value decreased and could not be used as a source of *credit* is significant evidence in the search for the reason of that land bank's fall.

The writs of intrusion – Andros's first direct and formal attack on land titles – were issued on July 12th, 1688. *Four days later*, on July 16th, Blackwell aborted the bank. In a letter to the partners he writes that he understands they no longer wish to be associated with the bank. He asks to have back the plates they used for printing banknotes, and also for reimbursements of his costs in publishing the prospectuses. Blackwell's liquidation letter implies that actual operations have never begun. Formal cancelling of all "Covenants and Articles" occurred at Blackwell's house on August 10th, 1688.⁸⁸

⁸⁷ Davis (1910), vol. I, pp. 126, 139, 141.

⁸⁸ MA 129:63 (reprinted in Whitmore III, pp. 84-5), 129:55 (back of page).

The writs finally made it loud and clear: *All titles in Massachusetts were worthless*, unless confirmed by Andros at exorbitant fees. Perhaps the bank officers stormed into Blackwell's house on July 12th and told him they were done with the bank. More likely, during the first half of 1688 land litigation increased and hopes for the lobbyists' success diminished; in response the bank had slowly decayed, and perhaps some partners had given up; Blackwell kept his hopes up but on July 12th he understood the game was over.

In addition to Dudley losing his senior judicial position, the colonists realized in July 1688 that law enforcement was also not under their control. Sir William Phips arrived in June 1688, but although he was sworn in as Provost Marshal on July 6th, he mysteriously departed to England on July 16th, perhaps fearing assassination⁸⁹. As for the lobbyists in London, they still had not sent any notice of an achievement⁹⁰.

It is true that the prospectuses allowed depositing goods at the bank as an alternative to land, but the bank could not stand on goods alone. First, there were not enough goods that recession. Second, the bank's prospectuses relied on land first and goods later, both in terms of importance and chronologically. Perhaps goods could be used by some people some of the time, but the bank could not be based exclusively on goods, especially at the beginning. Third, the prospectuses mentioned the high risk of confiscation in a bank based on specie rather than land⁹¹. This warning applied to goods as well. Under the

⁸⁹ On June 30th he specifically demanded to be in charge of all writs. See Sewall, p. 215, MA 129:14, 30, Mather (1697), pp. 18-9, Baker and Reid (1988), pp. 65-7.

⁹⁰ Mather and Hutchinson would get access to the king only a few days later (MA 242:349, CO 1/65 #39-39I, CO 391/6, 181). It would take them three more years to get a blanket confirmation of titles. Wharton died bankrupt in London in 1689 (Sewall, 255).

⁹¹ Davis (1910), vol. I, p. 175.

Andros regime, it was unsafe to put so many goods in one place. Andros coveted not only every type of land the colonists had, but even half of the treasure from all shipwrecks⁹² and their precious dead whales. Regularly cast on Plymouth shores, the whales' oil was extremely valuable. Andros confiscated those cast on public land⁹³. Randolph also suggested taking over the specie held by the abovementioned missionary company⁹⁴. The colonists believed that as long as they had any moveables – including “money, ships, goods, merchandizes” – Andros would keep using any “tricks, juggles, and designs” to seize them⁹⁵. Thus, goods could not support the bank. Without land, the bank was dead.

Of all the bank officers, nobody knew better than Blackwell the consequences of a constitutional change on property. He had gained a lot of land during the Civil War and lost it with the Restoration⁹⁶. Another bank officer was Adam Winthrop. This cousin of the Winthrop councilors was a merchant in London in the 1670s, and has seen the Stuart attitude to property rights. In particular, the Stop of the Exchequer was a collapse of a system built by his father's cousin (Downing). Upon returning to Massachusetts in 1680 he was considered an expert on money and credit, the *only* man who participated in all

⁹² MA 128:53-5, 57-8. He said he did it under order from the king.

⁹³ MHS, Prince Papers, #33, MA 128:80, 134-5.

⁹⁴ Hutchinson (1865 [1769]), vol. II, pp. 271-2, 294-6, Toppan (1899c), vol. III, pp. 288-91, vol. IV, p. 106, PRO CO 1/46 #42.

⁹⁵ Whitmore II, pp. 234-5.

⁹⁶ Dorfman, p. 97.

the money and credit ventures of the following decade⁹⁷. He may have convinced fellow bank officers that the Stuart-appointed Andros was not different from a Stuart tyrant.

7. The Existing Explanations

The mystery of the bank's fall has intrigued scholars for generations. Some blame Andros for shutting down the bank because of Blackwell's Cromwellian past, Blackwell's opinion on foreign coin valuation, or the joining of the anti-England Cooke⁹⁸. However, Blackwell's final letter indicates voluntary withdrawal of the bank partners⁹⁹. There is no evidence that Andros forced anyone to withdraw or that he *directly* did anything to Blackwell or the bank. Also, all these problems were known at least a year before July 1688: Blackwell's past was known already in 1686; as trade committee head, so was his view on foreign coin valuation (which is stated in the 1688 prospectus). Cooke joined in June 1687. The bank actually progressed during that last year.

Bailyn (1955) claims that the bank failed for lack of support from the merchants, who preferred manipulation of the value of foreign coin. This is unlikely. First, the valuation of coin was decided against the merchants in March 1687.¹⁰⁰ Since then the depression became much worse, partly because of Andros's other policies: Strict enforcement of the Navigation Acts, suppression of piracy, high fees for confirming land titles, and changes

⁹⁷ He was a trustee in the clearinghouse, an officer in Blackwell's bank, and a member in the government's paper money committee of 1690. See Davis (1903), pp. 274-5, Davis (1901), vol. I, p. 10.

⁹⁸ Davis (1907), pp. 358-9, Dorfman, p. 102.

⁹⁹ "I perceive you have declined the concerning yourselves any further in the bank affairs" (Whitmore III, p. 84).

¹⁰⁰ No issue was more thoroughly debated in the Council before the decision was made (Toppan [1899b], pp. 247-63). Bailyn states that it remained an open issue, but there is no evidence for that.

in tax assessment and collection which vacuumed all currency out of the economy¹⁰¹. Also, Bailyn falsely distinguishes merchants from landowners. He names merchants Wharton and Simon Lynde as leading the campaign on coin valuation, whereas both were Atherton partners and either they or their relatives had led the bank¹⁰².

Others argue that Andros's arrival invalidated the bank's charter or that Dudley had no authority to charter the bank¹⁰³. As the prospectuses indicate, a charter was not necessary because it was a partnership, not a corporation. Anyway, the council probably did have the power of chartering¹⁰⁴. The prospectuses do not mention the legal tender status that had been given in 1686, so perhaps Andros cancelled it. Nevertheless, this would not have been a fatal flaw, but merely a step back to the original bank plan that Blackwell brought from England. In general, Council decisions under Dudley were still valid unless explicitly overruled by Andros or contradicted his commission¹⁰⁵.

8. Conclusion

America's first bank was one of the last victims of the Stuart tyranny. The cover of the book collecting Andros's land warrants at the Massachusetts Archives describes him "a governor, and rascally petty tyrant, under the king and grand tyrant of Britain." The colonists repeatedly referred to Andros's government as a French one, the contemporary Louis XIV being the epitome of tyranny. His councilors testified that he "resolved and

¹⁰¹ Felt (1839), p. 48, Barnes, pp. 165-9, Hall, p. 111, Lewis, pp. 227-8, 249-50.

¹⁰² For Wharton's biography see Barnes (1925). On Lynde see Lewis, p. 191. Lewis does identify Wharton and Lynde as leading landowners, so his support for Bailyn's explanation is puzzling.

¹⁰³ Newell (1998), pp. 124-6, Davis (1910), vol. I, p. 180, Dorfman, pp. 101-2.

¹⁰⁴ Whitmore I, p. 49, MA 126:105.

¹⁰⁵ PRO CO 5/904, p. 285.

practiced to make all men's titles quite null and void." It happened gradually, as noted by famed historian Thomas Hutchinson: "In the latter part of the administration, petitions multiplied greatly, and property became every day more and more precarious."¹⁰⁶ The land policy eventually led to the successful 1689 revolution against Andros.

The analogy with the Stuarts is justified. Bank directors and councilors Dudley, Stoughton, and Wait Winthrop were powerless under Andros. The Council usually did not vote, and Andros ruled alone¹⁰⁷. The *rise* of Blackwell's bank during Dudley's reign is an example of how absolutism can support growth by expropriating the returns on investments that might not have arisen otherwise. The *fall* of Blackwell's bank is an example of how absolutism hampers financial development in the private sector. It did not take a revolution to change the bank's fortunes, but just a new man at the top of the same absolutist government¹⁰⁸.

My hypothesis is consistent with expectations the colonists could have had while waiting for the Dominion, during Dudley's reign, and during Andros's first year and a half in office. It explains the timing of launching the bank scheme, why it continued when things got tough, and why it crashed in July 1688. My explanation of the crash is backed by both qualitative data (Sewall's diary) and quantitative data (Figure 1).

While the removal of the Stuarts led to a banking boom in England, Blackwell's bank was not revived after the Stuarts and Andros were deposed. This requires an explanation.

¹⁰⁶ Tuttle, p. 292, Whitmore I-III, passim, Mather (1691), p. 17, Hutchinson (1936 [1765]) vol. I, p. 306. Modern scholars agree (Dunn, p. 229, Lewis, p. 183, Johnson [1981] p. 139). The French analogy was not harmed by Andros's name (French for "Andrews") and his origin in Guernsey (Whitmore II, pp. 5, 161).

¹⁰⁷ Whitmore (1868), vol. I, pp. 138-142, Dunn, p. 244, Hall, p. 110, Lewis, p. 251.

¹⁰⁸ Whitmore II, pp. 121, 144, 252, PRO CO 5/856, #150.

Before Andros was deposed, Blackwell had gone to Pennsylvania as Governor. When he returned in 1690, Massachusetts was facing extreme political uncertainty and a war with Canada. Moreover, the Andros land policy was not overruled by the new king until late 1691. Before conditions were ripe for another attempt at a bank, the colony issued its own paper money during an emergency in late 1690. From that point, all bank schemes – including a 1714 attempt to resurrect Blackwell’s bank – were suppressed by the government, which cherished its monopoly on paper money. The government was also too democratic to allow its leaders to personally expropriate profits as in Dudley’s reign. Instead of banks, with their quantity of money limited and soundly backed by land and goods, Massachusetts thus ended up with public paper money, spent or lent by politicians, and not always properly backed¹⁰⁹. Eighteenth century Massachusetts might have enjoyed higher growth and lower inflation had Blackwell’s bank succeeded.

Scholarship in development economics recognizes the difficulties of financial progress in countries where the rule of law is weak. A final lesson here is that the real story may be in a seemingly unrelated area. The (unintentional?) culprit in Massachusetts was the land policy – the biggest story of the Andros era – rather than any personal, monetary, or corporate issue, as claimed in the literature.

¹⁰⁹ Davis (1901), vol. II.

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Table 1: Timeline of Events

1684: Massachusetts charter revoked.

May 1686: Dominion of New England established. Dudley is temporary President.

June – September 1686: Bank promoted by government.

December 1686: Governor Andros arrives.

February – July 1687: New land policy revealed.

March 1687: Andros decides on foreign coin valuation.

April 1687: First sign of life from the bank under Andros.

January 1688: Last sign of life from the bank.

5 July 1688: Andros's new commission arrives.

12 July 1688: Writs of intrusion issued.

16 July 1688: Bank aborted.

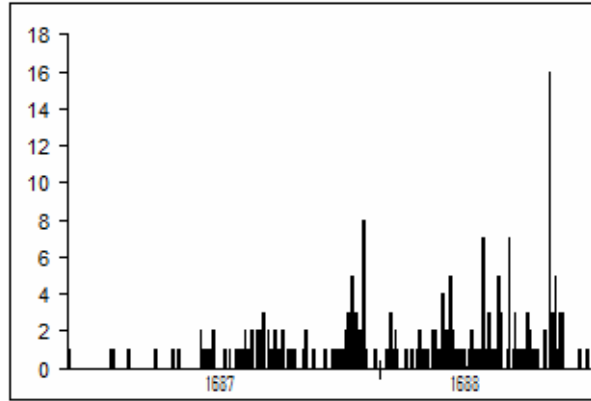
December 1688: Blackwell leaves for Pennsylvania.

1689: Andros deposed, provisional government joins war with France.

March 1690: Blackwell returns, war intensifies.

December 1690: Provisional government starts issuing paper money.

Figure 1: Land Petitions for Confirmations per Day, 01/01/1687 – 08/31/1688



Source: Massachusetts Archives vol. 126-129.