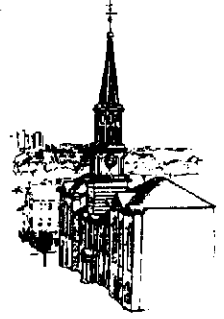


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Commercial Credit in Eighteenth Century Alexandria and the Founding of the Bank of Alexandria

by H. Talmage Day and Barbara K. Morgan

This article is fourth in a series of papers presented by leading academicians at the history symposium "The Foundations of Future Prosperity, Alexandria 1749-1819." The symposium, held at The Lyceum on October 15-16, 1999, was sponsored by the City of Alexandria 250th Anniversary Commission and featured presentations by eight scholars, including Alexandria residents H. Talmage Day and Barbara K. Morgan. The following article is based on the paper they presented at the symposium.

I. INTRODUCTION

Between the founding of Alexandria in 1749 and 1801, when the town was ceded to the District of Columbia, Alexandria grew to become the second busiest port in Virginia, with a harbor tonnage exceeded only by Norfolk and commercial activity rivaling Philadelphia in its variety.¹ The scope of commercial activities of the town reached from the Western frontier to Europe and the Caribbean.

During most of this period, the town's international commerce was conducted without the assistance of banks, and both the international and more local business activities of the town took place in substantial part without currency or coinage but rather through credit transactions.

The commercial credit practices through which this extensive merchant commerce was conducted had developed over centuries, with some of the practices having roots dating from the twelfth century and earlier. The practices were further modulated in colonial Alexandria by cultural and status expectations that prescribed relations between merchants and their clientele.

Yet for all its durability, the dependence of this commercial system upon the capitalization of merchants - with banks playing no significant role - created inherent instabilities, leading to credit crises and panics.² The consequences during the period included global credit crises with

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repercussions that raised much of the clamor leading to the Revolution.³

Even when the economy was not in crisis, credit extensions were risky. The economy was based on agriculture, tobacco eventually yielding to wheat. Throughout the period, the success of and demand for crops was heavily dependent on unpredictable factors including weather, crop failures abroad, and the market effects of European wars, as well as the troubling and progressive depletion of the soil through tobacco cultivation.

This article reviews the contexts and institutions through which commercial credit was made available in eighteenth-century Alexandria, the instruments used in credit transactions, the cultural considerations affecting their use, and the adjustments in prevailing values reflected in the founding of the Bank of Alexandria in 1792.

II POLITICAL AND CULTURAL CONTEXT OF COMMERCIAL CREDIT IN ALEXANDRIA

The petition to the Virginia Assembly to establish Alexandria was one of a number of new town petitions submitted during the colonial period. Its timing reflected the then-recent resolution of the disputed western land claims of Lord Fairfax. As a result of a decision of the Privy Council in 1745, the western boundary of Lord Fairfax's proprietary grant was at last established as reaching to the headwaters of the Potomac, incorporating much of the Shenandoah Valley and lands now in West Virginia.

The sponsors of the petition included both a number of members of the speculative Ohio Company, including relatives and in-laws of Lord Fairfax, and merchants who had further expectations of gain through development of

Alexandria as a center of commerce. It was therefore not surprising that the petitioners requested not only authority for a market place in the form of a town, but also that the market serve as an outlet to the people of the frontier.

The venturers in the Ohio Company had a substantial stake in the rapid development of Alexandria as a commercial center and used their influence to encourage legislative measures that would promote its growth. In 1752, the General Assembly designated fairs to be held two times per year in Alexandria to promote trade. Obtaining statutory authorization for fairs in Alexandria was of fundamental importance for the establishment of Alexandria as a market for the frontier because it was easier to transfer goods under the supervision of a fair. The Act expressly provided that for a two year period persons coming to the fairs and their goods would be protected from all arrests, executions, and attachments, except for capital offenses and breaches or controversies arising during the fairs.

That same year, the Fairfax County Courthouse was moved from Springfield (near Tyson's Corner) to Alexandria, a move which further reflected Alexandria's influence as the commercial spot in the county.⁴ Alexandria's commercial development during the balance of the eighteenth century confirmed the petitioners' expectation that Alexandria could become a port with good connections to the Shenandoah Valley and beyond. But nearly every other expectation of the petitioners for the new town did not turn out as anticipated.

Within five years of Alexandria's establishment, expansion into the western lands was frustrated first by the outbreak of the French and Indian War and, in the war's

aftermath, by restrictions on expansion imposed by Parliament. Not until after the Revolution did expansion beyond the Shenandoah Valley begin in earnest.

The founders' expectations regarding their status within the British colonial system were likewise frustrated – with profound political results. Many British colonists who moved to Virginia aspired to become gentry. They regarded themselves as English citizens and beneficiaries of the same laws with the same rights as their countrymen in England.⁵ As a result, the trade policies of the British mercantilist system were not viewed with initial suspicion or distrust. As a producer of tobacco, a valuable staple which in the mercantilist scheme was exportable only to Britain, Virginia was a favored colony with access to credit and capital. Similarly, the mercantilist policy of encouraging exports of British goods to the colony was not oppressive to Virginians, but rather coincided with their taste for British goods as opposed to goods from the European continent. Mercantilist policy also did not prejudice development of shipping within the colonies or the development of an export trade for other crops. As early as 1760, a shipyard was established at Point Lumley, and a number of ships were built and sailed out of Alexandria during the period to the West Indies and other ports.⁶

With the reorganization of the Board of Trade in 1748 and the acts passed in the period prior to the Revolution, however, Parliament was responding more to influential interests in Britain – particularly those of English merchants and manufacturers. Among other things, the merchants and manufacturers wanted their bond financing for the war debt from the French and Indian War serviced without new taxes in England, preferring instead to shift the tax burden to the colonies.

Throughout the period from Alexandria's establishment until the Revolution, the scope of the British Navigation Acts, which defined and implemented the colonial mercantilist policy, was increasingly manipulated in response to pressures from interest groups in Britain.⁷

Further, the lands near Alexandria proved less than optimal for tobacco cultivation. The significance of the region's poor soils for tobacco was further aggravated by the decline in the European market for tobacco that began within a year of the town's founding. While the decline in productivity and market value of tobacco tended to be offset in other parts of Virginia by increased cultivation, planters near Alexandria were some of the first to shift to wheat. Among them was George Washington who, after accumulating substantial debts from unsuccessful attempts at tobacco cultivation, began cultivating wheat and abandoned tobacco cultivation altogether by 1767.⁸ Other planters, including George Mason, continued to raise and market tobacco throughout the period.⁹

As a general matter, cultivation of wheat offered a number of advantages over tobacco. Wheat was a luxury good that had found markets in the West Indies and New England. Since wheat was not a product subject to regulation under the Navigation Acts, it could be exported freely – not only to British ports. Also, wheat cultivation was less labor intensive and, as a result, proved to be a good alternative to tobacco cultivation in Northern Virginia.

Beginning in 1750, a series of bad crop years in Europe, in addition to an increase in consumption, created a new European market for wheat from America. By the 1770s, wheat

had become a crop second in importance to tobacco in Virginia, and wheat prices in Europe finally rose to permanent levels that made shipment across the Atlantic profitable.¹⁰

The development of a European wheat market, the greater ease in transporting wheat overland, and the beneficial transportation links between Alexandria and the Shenandoah Valley enabled Alexandria to develop as a seaport that withstood the failure of tobacco as a viable regional crop. Hence, although the Alexandria economy was based on agricultural exports throughout the eighteenth century, the shift away from tobacco cultivation occurred earlier in its vicinity than elsewhere in Virginia.

This shift was not accompanied by any change in consumer tastes. Throughout the eighteenth century, the major planters and merchants in Northern Virginia continued aspiring to the consumption standards of the English country gentry by tracking gentry tastes and ordering the goods described in *Country Magazine* and other British periodicals on fashion and taste.¹¹ The desire for such goods continued beyond the Revolution, and once hostilities had ceased and trade resumed, Virginians again took advantage of liberal British credit to purchase British consumer goods.¹²

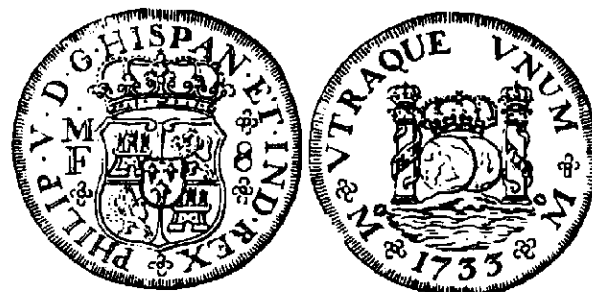
Indulging American consumer tastes was instrumental to mercantilist policy as Britain maintained a consistently favorable balance of trade by exporting goods to the colonies which were more valuable than the products imported to the mother country. But the debts that the colonial purchasers accumulated were borne by British merchants rather than by the British policymakers, and had to be dealt with on a practical level.

III PAYMENT MECHANISMS RESPONSIVE TO THE CHRONIC SHORTAGE OF SPECIE

British law prohibited the export of English specie, gold or silver, out of the realm. This prohibition reflected the mercantilists' belief that accumulating gold and silver in the Royal treasury was a means to build economic wealth in peacetime and maintain financial resources for waging war.¹³ The payment mechanisms in commercial transactions therefore usually relied on alternatives to specie.

Payments in Specie (Gold or Silver): Specie was required in certain transactions, including payments of quit rents to the Crown and the Lord Proprietor. Since mercantilist legislation did not bar the import of foreign coins and bullion, specie payments in the colonies signified gold or silver in some form.

Colonial trade with southern Europe and the Caribbean provided the main source for specie coinage and bullion, hence payments in coin often were tendered by using the Spanish, French, Portuguese, and Dutch coins commonly in circulation. In fact, the Spanish milled dollar of 1728 was so accepted and useful that it became the standard when the American Dollar was adopted in 1792.¹⁴



Spanish Milled Dollar from MONEY AND EXCHANGE IN EUROPE AND AMERICA, 1600-1775, A HANDBOOK by John J. McCusker. Copyright (c) 1978 by John J. McCusker. Used by permission of the publisher.

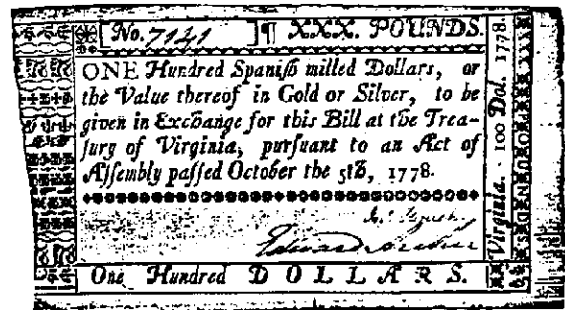
Virginia laws and commercial practices furnished additional means by which debt obligations denominated in British pounds sterling could be satisfied with colonial money. Three different standards of monetary value could be specified in transactions: “sterling money,” the money of Great Britain; “proclamation money,” the value at which paper money issued by the colonies was to be maintained in exchange, pursuant to a proclamation issued by Queen Anne and confirmed by Parliament; and “current money,” e.g., “current money of Virginia” - the actual exchange value of the money of the colony.¹⁵

Tobacco: Because of the shortage of specie, the use of tobacco as payment in transactions became common during the seventeenth century and continued to some extent until late in the eighteenth century. The patents for the lands on which Alexandria was later sited were purchased by Phillip Alexander for 6,000 of pounds of crop tobacco in 1669.¹⁶ Until quite late in the period, Virginia statutes continued to provide that certain obligations could be paid in tobacco. The continued prevalence of this practice is reflected in the minute books of the Fairfax County Court, where tobacco was also used to pay witness fees.¹⁷

Tobacco Notes: With the enactment of the Tobacco Act of 1730, the use of tobacco as a payment medium became significantly more standardized and efficient. The Act provided for the establishment of government-managed warehouses to inspect, grade and warehouse tobacco for export. Tobacco producers received in exchange “tobacco notes” issued by the inspector which had the character of negotiable warehouse receipts and represented title to the tobacco. Although the primary purpose of the Act was to establish controls upon the quality of Virginia tobacco, the Act also provided that

the tobacco notes could serve as legal tender as an incentive to enlist the support of smaller planters.¹⁸ Through endorsement, the receipts could be transferred between parties to a transaction. In all transactions payable in tobacco, the notes were declared to be “current and payable in all tobacco payments whatsoever” and that nothing “[should] be accounted a lawful tender, to discharge any debt, contract, or duty, payable in tobacco, unless payment of the same be tendered in inspectors notes.”¹⁹

Paper Bills of Credit: With the outbreak of the French and Indian War, the Virginia colony issued paper “bills of credit” that were backed only by a promise of future payment. The legislation allowing issuance of such bills provided that the emissions of notes could be used within the colony “as a lawful tender in any payment, for any debt demand, or duty whatsoever, except for payment of his majesty’s quit rents.”²⁰



Virginia Bill of Credit, October 5, 1778, Emission

Although the legislation authorizing these emissions provided for the retirement of the notes, through a lack of diligence in redemptions during the war the difference between Virginia currency value and sterling value had dropped from a 25 percent discount

in 1748 to 65 percent by the end of 1762. The effect of this decline on the value of paper money was to drive specie effectively out of circulation.

Bills of Exchange: The most important payment mechanism in major commercial transactions was the bill of exchange. The bill of exchange had evolved since the twelfth century as a means for using credits on the accounts of merchants in order to conduct business transactions in different countries (“foreign” bills of exchange) and in different parts of a single country (“inland” bills of exchange).

Although based on credits on merchant accounts, the bill of exchange was a precursor of the modern bank check. The parties to a bill of exchange were the *drawee*, usually a London merchant house holding value in an account for the *drawer*, who was the person wishing to make a payment to a third party, the *payee*, by means of the bill of exchange.²¹

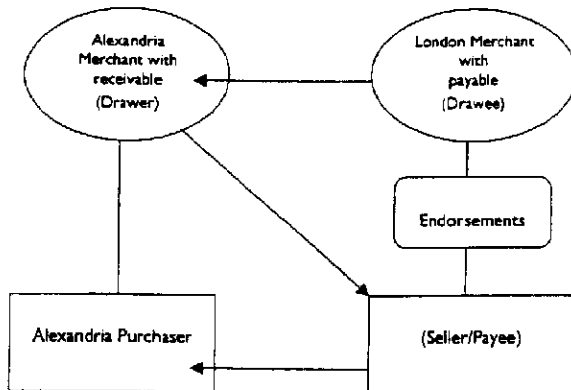


Diagram of Bill of Exchange Transaction

Because of the geographic distance and inescapable delay between when a bill of

exchange was drawn and when it was presented to a drawee, a number of conventions evolved. Thus, a bill of exchange would be made payable at some future date, e.g., at 30 days sight, but could be presented and *accepted* by the drawee, even though it was not paid until later. If the drawee was not holding value on behalf of the drawer at the time the bill was presented, the drawee might *protest*, refuse to accept the bill in advance of the payment date, or later *dishonor* the bill by refusing to pay when the bill was presented for payment.

Also, bills of exchange were made payable “to order” or “to bearer” so that the third party receiving a bill as payment could, by endorsing the bill, use it to obtain value in a transaction with another party. Because of the limited specie available and the need for a payment mechanism, bills of exchange could be endorsed many times before presented for payment, e.g., with additional paper riders tacked on to a bill of exchange reflecting additional endorsements.²²

While there were numerous complex procedural requirements that made collecting on a bill of exchange difficult, collecting in the event of protest or dishonor involved intricate procedural requirements rather than proof of consideration in the original transaction. An example of how the process could go wrong is illustrated in an early Supreme Court case, *Wilson v. Lenox and Maitland*, 5 U.S. 194 (1803)(Marshall, C.J.), which involved a bill of exchange drawn by Alexandria merchants, Andrew and William Ramsay.

As explained in the case, on January 2, 1799, the Ramsays drew a bill of exchange for £ 300 sterling on London merchants Findlay,

Bannatyne and Co., at 90 days sight, payable to William Wilson, also of Alexandria. Wilson endorsed the bill to the firm of Lenox and Maitland, which ultimately presented it to Findlay, Bannatyne for acceptance in London. Findlay, Bannatyne did not accept the bill, noting on a small piece of paper glued to the bill that it "can't be accepted at present" - likely because the company was not holding sufficient funds for the Ramsays' account at that time. Lenox and Maitland therefore sued Wilson - the endorser and the only party from whom collection could be made since the Ramsays were bankrupt.

A jury found in favor of Lenox and Maitland, but the Supreme Court reversed the judgment on a technicality. The Court ruled that Lenox and Maitland could not maintain an action in debt against Wilson because it had failed to specify in its pleadings the costs incurred in protesting the bill of exchange. At common law, an action for debt could lie only when the sum of money due was "certain," and unfortunately, Lenox and Maitland had joined the uncertain costs of their protest as part of the debt declared in their pleading. Chief Justice John Marshall's decision held that since the elements required in a pleading were specified by statute, the rules of common law that could cure such a deficiency in a pleading did not apply.

It is noteworthy that William Wilson, the successful defendant, was a friend of the Ramsays and a director of the Bank of Alexandria. He was represented during the proceedings by three of the leading lawyers of the day, Charles Lee, an Alexandria lawyer who had served as Attorney General under Presidents George Washington and John Adams, and later as Secretary of State *pro tem*, Edward Jennings Lee, and Thomas Swann,

who had been appointed prosecutor of the Alexandria Court of Hustings in 1795.

Even though the procedures for collecting on a protested or dishonored bill clearly could be treacherous, the central problem with the bill of exchange system was that the capital demands to honor bills of exchange were borne by merchants, rather than by financial institutions. Most of a merchant's operating capital was reflected in book accounts rather than cash, which meant that as long as a merchant was not confronted with a large demand for payment, the system could function. There was, however, little margin for error. An otherwise solid merchant firm suddenly could become bankrupt simply because it did not have sufficient funds on hand to make good on a particular bill of exchange. Further, since the system for clearing foreign bills of exchange operated internationally, with London and Amsterdam as hubs, a credit crisis in Amsterdam could propagate to London and to the colonies, setting off a panic and creating merchant failures along the way.²³

IV ALTERNATIVE CREDIT RELATIONSHIPS BETWEEN MERCHANTS AND PRODUCERS

Eighteenth century merchants in Britain and America were not specialized, but rather operated as "general merchants" who handled a variety of goods and bills of exchange. This mode of operation reflected the manner in which business needed to be conducted without specie or reliable currency. Merchants accordingly needed to conduct their business on credit and by receiving payment in produce.²⁴

Within this framework three general groups of merchants operated in Alexandria: merchants based in Britain operating through

consignment agents; merchants based primarily in Scotland operating through factors in Alexandria and in the Piedmont; and independent merchant enterprises established in Alexandria. The type of mercantile relationships that producers in Northern Virginia and elsewhere established with these merchants reflected the status aspirations of the producers as well as other, purely mercantile considerations. Credit was a feature of each type of relationship.

Consignment or "Plantation System": Described as "a kind of friendship," consignment relationships of Virginia planters and English merchants were patterned after the relationship of the British gentry to merchants, and conferred many advantages upon the Virginians involved.²⁵

This system tended to operate in the dealings of major tobacco producers, such as George Washington, with merchants based in England.²⁶ As tobacco crops were readied for shipment over their 15-month production cycles, the crops were shipped on consignment to English correspondents. At the time of shipment, the producer placed orders for finished goods to be shipped to the plantation from London.

When the proceeds from the merchant's sale of a crop were less than the cost of the goods ordered, as was often the case, the producer was charged the difference on an open account. The debit balance was an extension of credit which customarily was granted for 12 months without interest and thereafter at five percent on the unpaid balance.²⁷ Absent some deterioration in the relationship, the indebtedness of a producer in a consignment relationship would be reflected only on the

books kept by the merchant in England and not in other writings.

The book credit extended by London merchants was a capital resource that planters could draw on to expand their operations. Perceptive contemporaries clearly understood the role of merchants in financing Virginia plantation agriculture. Part of the difficulty, in tobacco agriculture particularly, was that the production cycle was longer than a single year. William Knox, later Undersecretary of State, from America observed: "[T]he planter becomes indebted to the merchant for two years' supply before he makes him any payment; and as it seldom happens that at the end of the second year he pays the expense of one, he goes on increasing his estate in a much greater proportion; and all this time the English merchant, who supports the whole is without any returns."²⁸

In addition, the English merchants were well located to purchase the most fashionable consumer goods for their Virginia clients as well as to assist in making arrangements for education of their children in England. Dealing with an English merchant on consignment was not simply a sign of status in the Virginia colony - it also was a line of credit for productive investments and a means of access to the latest English fashions in consumer goods.

Factoring System: As the Virginia economy developed and smaller producers entered the tobacco trade, the consignment system was displaced by the direct purchase, or factoring, system. The factoring system was operated mainly by Scottish merchants who purchased the tobacco crops of smaller producers outright. Factors operated out of stores in Alexandria and throughout the Piedmont

which stocked goods purchased in Britain and sold at retail to producers on a credit of 12 months. At the end of this period, if payment was not received in commodities or local currency, interest was charged at five percent, and the debtor generally was obliged to give the merchant a bond on the security of real estate.²⁹

The Scottish factors generally purchased poorer quality tobacco for resale to the French tobacco monopoly. On a day-to-day basis the operations of these factors were riskier ventures since the transactions involved trade in both local currency and sterling. To offset this risk, the Scots looked for transactional efficiencies in getting tobacco to their European markets, which made them willing to pay higher prices simply to get their ships loaded quickly and back under sail.³⁰

The role of factors in the tobacco economy had been expanding during the 20 years prior to the establishment of Alexandria. In 1730, half of the annual Virginia tobacco crop was sold on consignment. The figure steadily decreased thereafter with expansion of business by Scottish factors. A single Glasgow merchant could have numerous factors. For example, John Glassford, a merchant of Glasgow who controlled a major part of the Chesapeake tobacco trade, was represented by agents and factors through branch stores established all along the Potomac. Glassford's agent and, as of 1765, his business partner in Alexandria was Alexander Henderson, a prominent figure in the town who served as a justice of the peace.³¹

Not all factors, however, were Scottish. The English firm Dixon & Littledale of Whitehaven established both consignment and factor relationships with Northern Virginia producers, using different personnel. The firm's resident

factor in Alexandria, Harry Piper, was likewise active in local affairs, frequently serving as a juror and examiner in matters before the Fairfax County Court.³²

Alexandria Merchant Enterprises: The development of wheat production in Northern Virginia and the Shenandoah Valley created opportunities for the development of an independent group of Alexandria merchants engaged in the wheat trade. This trade had become predominant in Alexandria by the time of the Revolution. Of the 20 wholesale merchant firms in Alexandria mentioned in one 1775 court proceeding, 12 were engaged solely in purchasing wheat.³³

At the highest level, the trade of wholesale wheat merchants was conducted on a commission basis, operating somewhat similarly to the consignment system of the English tobacco merchants. One difference, however, was that an Alexandria wheat merchant like Robert T. Hooe would arrange for lines of credit through standing credits at London and Amsterdam merchant houses with which to make purchases in the Alexandria market for foreign merchants, whom he would then charge a commission. Hooe also relied on these credit lines to make purchases for his firm and paid interest on such advances because even a merchant as prominent as Hooe did not have the capital to handle such transactions entirely out of his own capital.³⁴

Because of the difficulties that Alexandria merchants experienced in exporting flour to other states due to state-imposed tariffs and other obstacles to interstate commerce, Alexandria merchants were early advocates of a strong national government; it was expected that federal courts would at last provide an

effective means to collect debts owed by parties in other states.³⁵

Luminary Credit: Prior to the expansion of the factoring system, larger planters fulfilled the needs of smaller tobacco producers for supplies and credit by marketing the tobacco of smaller producers and selling supplies out of their own stores, too.³⁶ Also, since there were no banks, planters and merchants alike were involved in money lending.

With the increased role of factors, however, the loans made by merchants and planters with their near-equals were relatively more significant than loans or credits extended in plantation store transactions with lesser planters. For example, merchant Robert T. Hooe, Alexandria's first mayor, stood as a lender, guarantor and endorser for Col. John Fitzgerald when Fitzgerald became customs collector for Alexandria in 1794.³⁷

For gentlemen, it was a point of honor to be able to respond to loan requests, even at some prejudice to their own financial condition. The loans made were reflected in account entries - if tracked at all - and were not secured. Such loans commonly would lay unpaid over a period of years. The credit furnished through these relationships had social significance, as measures of friendship or kin loyalty.³⁸ George Mason, for example, made a loan to his brother Thomson to cover a protested bill of exchange that was unpaid and forgiven at George Mason's death.³⁹ Similarly, when Alexandria merchant and trustee William Ramsay incurred large debts at the time of dissolution of his business partnership with John Dixon in 1757, he ultimately was able to borrow from George Washington, a relative of his mother-in-law.⁴⁰

Within this culture the roles of merchants and planters as both borrowers and lenders was a continual source of stress that interfered with their abilities to make payments on demand. George Washington experienced such stress in 1785 when, under pressure from British merchants, he complained to George William Fairfax of the "ungenerous not to say dishonest practices of most of my debtors who pay me with a shilling or six pence to the pound" that had rendered him unable to pay his own debts.⁴¹

V. Instruments of Commercial Credit

Commercial credit was, in most respects, a complement to the payment systems operating in the absence of specie and due to the limited and varying status of payment instruments as legal tender.

Account Debt: Extensions of business credit usually were not secured or even well documented. The agreement of the parties commonly was reflected only in a handshake, and the credits were recorded only in store books kept either in England or the colony. A substantial portion of the credit extended by merchants, therefore, was reflected only by entries in those merchants' accounts.

In the dealings of the larger planters with their consignees, this feature of the relationship was partly an accommodation to cultural preference and a point of honor - an emulation of the business practices prevailing in merchants' dealings with British gentry. The reliance on verbal agreements was an acknowledgment of the honor and dignity due to planters as gentry.⁴² For the factors dealing with smaller planters, credit on accounts was necessary since there was little circulating money.

The importance of account debt for the functioning of the retail economy was expressly recognized by the Virginia Assembly in a 1748 Act which specifically permitted a merchant to submit his store books, proved by his oath, as good evidence of money owed to him if he brought his action within five years of delivering the articles charged.⁴³

This statutory departure from common law rules of evidence greatly facilitated the retail trade by promoting easy credit. The merchant, confident of proving his debts, liberally extended credit from year to year, demanding a bond (regarded as a 'mark of distrust') only in 'perilous cases.' The courts in turn equitably interpreted the law, customarily ignoring the statute of limitations for bringing suit as long as the merchant proved his books before a magistrate within that time.⁴⁴

Discounting of Bills of Exchange: As a general matter, bills of exchange were commercially significant both as means for financing based on accounts and as means for making use of balances that one person held on account of another.⁴⁵ As a financing mechanism, discounting bills of exchange was a way to raise working capital. Because of delays in transoceanic transactions, the ability to make immediate local use of credits on an overseas account also was important to commerce.

A key feature of using bills of exchange as a credit instrument was the fact that a bill of exchange could be "accepted" long before payment was due. This step in the process of ultimate payment on the bill was so important

commercially that a party holding a bill that had not been accepted had an immediate right to commence an action in debt for principal, interest at a rate of ten percent per annum, and costs of protest against the drawers and endorsers either jointly or separately. It was not necessary to await dishonor of the bill.⁴⁶

Virginians, however, generally distrusted discounting bills of exchange, and Virginia law placed a substantial obstacle in the way of using local or inland bills of exchange for acceptance financing. A series of statutes, passed both before and after independence, required that the amount paid in current money for debts settled by bills of exchange should be clearly indicated in any action on a bill of exchange. The firm of Lenox and Maitland needed to contend with the applicability of this provision in trying to collect from William Wilson on Andrew and William Ramsays' 1799 bill of exchange.⁴⁷

In addition, the drawer of a protested bill could compel discovery of "the true difference of exchange given or allowed for such bill" and could only be liable for the amount paid for the bill and damages and costs of the action, which was less than the face amount of the bill.⁴⁸ The effect of this restriction made local or inland bills of exchange an infeasible financing mechanism for Alexandria merchants.⁴⁹ Prior to formation of the Bank of Alexandria, which was expressly authorized to discount bills of exchange, acceptance financing was only practical using foreign bills of exchange that were intended to settle accounts denominated in foreign currency.

Promissory Notes: Promissory notes were used in credit transactions to confirm the amounts of overdue account debt. Reducing the sums due to a certain amount ensured that

an action in debt would lie if the note was not paid when due. Overdue debt reflected in a promissory note also could begin to accrue interest. As long as the debt was shown only in merchants' accounts, no interest accrued, and a shorter statute of limitations applied to the claim.

As business credit instruments, promissory notes were primarily used by merchants in their dealings with retail purchasers. When endorsed and transferred to a third party for value, a promissory note acquired the character of a bill of exchange and could be endorsed by a payee in the same manner.⁵⁰

VI. The Bank of Alexandria

In response to a petition by 126 merchants and citizens of Alexandria filed on October 9, 1792, the Virginia General Assembly authorized the formation of a Bank at Alexandria on November 23, 1792.⁵¹ The Act stated that incorporation of the Bank would be effective until January 1, 2003, and designated trustees to take subscriptions for 750 shares of \$200 each for a total capitalization of \$150,000.⁵²

Since a number of Virginians distrusted banks, fearing they would encourage irresponsible investments,⁵³ the benefits from establishment of the Bank mentioned in its preamble are therefore particularly noteworthy:

[T]he experience of commercial nations for several ages past, has fully evinced, that well regulated banks are highly useful to society, by promoting punctuality in the performance of contracts, encreasing (sic) the medium of trade, facilitating the payment of taxes, preventing the exportation

of specie, furnish for it a safe deposit, and by discount rendering easy and expeditious the anticipation of funds.⁵⁴

Having thus justified discounting, the Act expressly authorized the Bank to discount items at a rate not to exceed six percent interest and to issue bank notes in denominations no smaller than \$5.00. To ensure the integrity of notes issued by the Bank, it was further provided that any person convicted of counterfeiting or passing counterfeits of the Bank's notes would suffer "death without benefit of clergy,"⁵⁵ i.e., could be sentenced to death even if able to read and write.

Although the new Federal constitution prohibited the States from issuing paper money, state-chartered banks, such as the Bank of Alexandria, issued banknotes which were paid out and redeemable for specie when loans were made by the Bank.⁵⁶ Since the bank notes issued by the Bank of Alexandria were not legal tender, it is likely that the notes were most significant as a payment mechanism in local commerce. For any transaction involving a party at some remove from the Bank, its bank notes would have been subject to significant discounting.



Bank Note: Bank of Alexandria [1800s] (Payable to John Jack or Bearer)

On January 21, 1793, the stockholders elected nine directors: Richard Conway, William Hartshorne, Robert T. Hooe, William Wilson, William Herbert, Philip R. Fendall, Jonah Thompson, William Hodgson, and Josiah Watson. Col. John Fitzgerald was elected to fill the vacancy on the board created by the election of Philip Fendall as President of the Bank. The Bank opened on April 9, 1793, to accept deposits and discount notes.⁵⁷

Between 1794 and 1800, the volume of the Bank's activity more than doubled, with assets on its balance sheet increasing from \$357,636.74 to \$851,356.08. In January 1794, the assets and liabilities of the bank included \$277,435.98 in discounted bills and notes accepted by the Bank, \$133,760.10 in bank notes issued by the Bank, and \$24,758.70 in post notes issued by the Bank.⁵⁸ Six years later, the assets of the Bank included \$634,024.46 in discounted bills and notes accepted by the Bank, and the liabilities included \$282,627.50 in bank notes issued by the Bank and \$110,569.20 in post notes issued by the Bank.

An effort to increase the capitalization of the Bank was only partially successful. Though the Bank obtained authorization to augment its capital by an additional \$350,000 through subscriptions for an additional 1,750 shares, the issue was not fully subscribed. In light of the limited response, the directors, with William Herbert as president, decided on April 7, 1797 to close the books leaving 809 shares unsubscribed. As of 1801, there were still 809 shares of unsubscribed stock.⁵⁹

From the growth in Bank assets and liabilities, it appears that the institutional goals for the establishment of the Bank of Alexandria reflected in the authorizing legislation were substantially realized. The Bank provided a

means to clear bills of exchange more efficiently and introduced a more reliable and conveniently denominated circulating medium - its bank notes - into local commerce while also furnishing loan funds and acceptance financing for its merchant backers.⁶⁰



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- 1.. See John Stoessel, *The Port of Alexandria in the Eighteenth Century*, Ph.D. Dissertation, Catholic Univ. 36-37 (1969). See also Thomas M. Preisser, *Eighteenth-Century Alexandria, Virginia, Before the Revolution, 1749-1776*, Ph.D. Dissertation, College of William and Mary (1977).
- 2.. See J. Sperling, *The International Payments Mechanism in the Seventeenth and Eighteenth Centuries*, 14 ECON. HIST. REV., 2D SER. 446, 460 (1961); T.H. Breen, TOBACCO CULTURE: THE MENTALITY OF THE GREAT TIDEWATER PLANTERS ON THE EVE OF REVOLUTION 126-27(1985); James Steven Rogers, THE EARLY HISTORY OF THE LAW OF BILLS AND NOTES (1995).
- 3.. Richard B. Sheridan, *The British Credit Crisis of 1772 and the American Colonies*, 20 J. ECON. HIST. 161-86 (1960). See also Breen, TOBACCO CULTURE 5-30.
- 4.. See Nan Netherton, FAIRFAX COUNTY, VIRGINIA: A HISTORY 6, 37 (1978).37; James D. Munson, *A New Look at the Founding of Alexandria*, 7 ALEXANDRIA HIST. 7, 8 (1987).
- 5.. See James D. Munson, JOHN CARLYLE, GENT.: A TRUE AND JUST ACCOUNT OF THE MAN AND HIS HOUSE 84-87 (1986); Breen, TOBACCO CULTURE 36.
- 6.. Mercantilist policy required that all European products be imported through Britain to the colonies and that all staples be exported to Britain, but did not preclude colonists from developing trade in other products along other trade routes. By 1759, the leading merchant firm in the earliest period, Carlyle & Dalton, had built a landing between its partners' lots at the base of Cameron Street that supported, among other things, development of a West Indies provisions trade. Stoessel, *Port of Alexandria* at 36-37 (1969).
- 7 See John McCusker, *British Mercantilist Policies in the American Colonies*, in Stanley L. Engerman & Robert E. Gallman, 1 CAMBRIDGE ECON. HIST. OF U.S. 343 (1996).
- 8 See Breen, TOBACCO CULTURE 181.
- 9 See Letter from George Mason to his son, John Mason (May 20, 1790)(discussing sale of tobacco to French)(available on microfilm in Manuscript Division, Library of Congress).
- 10.. See Harold B. Gill, *Wheat Culture in Colonial Virginia*, 52 AGRIC. HIST. 380, 382 (1978).
- 11.. See Breen, TOBACCO CULTURE 129.
- 12.. See Sheridan, *British Credit Crisis of 1772*, at 170 (glut of imports between 1771 and 1772); See Myra L. Rich, *Speculations on the Significance of Debt: Virginia, 1781 - 1789*, 76 VA. MAG. 301, 307 (1968).
- 13.. See McCusker, *British Mercantilist Policies* at 338.
- 14.. See Jonathan Hughes & Louis P. Cain, AMERICAN ECONOMIC HISTORY 53 (5TH ed. 1998). For a contemporaneous discussion of exchange rates for foreign coins, see George Webb, THE OFFICE AND AUTHORITY OF A JUSTICE OF PEACE 83-84 (1736).
- 15.. See Lawrence H. Gipson, *Virginia Planter Debts before the Revolution*, 69 VA. MAG. HIST. & BIOGRAPHY n.7 at 261 (1961). See also B. L. Anderson, *Money and the Structure of Credit in the Eighteenth Century*, 12 BUS. HIST. 85, 89 (1970).
- 16.. See William Francis Smith & T. Michael Miller, A SEAPORT SAGA: PORTRAIT OF OLD ALEXANDRIA, VIRGINIA 27-30 (1989).
- 17.. See The Fairfax County Court, *Minute Book - 1771*, transcribed in 12 Y.B. FAIRFAX COUNTY, VA., HIST. SOC'Y (1973).
- 18.. See A.G. Roeber, FAITHFUL MAGISTRATES AND REPUBLICAN LAWYERS, 96-97 (1981); Breen, TOBACCO CULTURE 62-63 (reproducing a tobacco note).
- 19.. See 4 W. Hening, THE STATUTES AT LARGE; BEING A COLLECTION OF ALL THE LAWS OF VIRGINIA FROM THE FIRST SESSION OF THE LEGISLATURE IN THE YEAR 1619 §§ 11 at 252, 21 at 255-56, 24 at 256. See also Beth Mitchell, *John Turley, Tobacco Inspector, Fairfax County*, 15 Y.B. FAIRFAX COUNTY, VA., HIST. SOC'Y 60, 62 (1978-79); Rich, *Significance of Debt* 310.
- 20.. See Gipson, *Virginia Planter Debts* 264. See Robert E. Brown & B. Katherine Brown, VIRGINIA 1705 - 1786: DEMOCRACY OR ARISTOCRACY 117 (1964). See Eric P. Newman, THE EARLY PAPER MONEY OF AMERICA, at 442 449 (4TH ed. 1997)(reproducing bills of credit).
- 21.. See Rogers, *Bills and Notes*, at 33-35; John J. McCusker, *Money and Exchange in Europe and America, 1600 - 1775*, at 20-21 (1978).
- 22.. See Rogers, *Bills and Notes* 172.
- 23.. See Breen, TOBACCO CULTURE 120-21, citing T. S. Ashton, ECONOMIC FLUCTUATIONS IN ENGLAND, 1700-1800, at 108-10; Sheridan, *British Credit Crisis of 1772*, at 171-73, 176-78. Compare Letter from Robert T. Hooe to

Joseph Gardoqui & Sons, Bilbao, Spain (May 14, 1790) (bill taken on Spanish merchants' account, payable in London), with Letter from Robert T. Hooe to John Vaughn, Philadelphia (July 7, 1790) (transmitting a "draft" drawn on another Philadelphia merchant to settle Hooe & Harrison account with Vaughn), both in T. Michael Miller, *A Partial Transcript of the Correspondence of the Business Firm Hooe and Harrison – 1789 – 1796* (n.d.).

24.. See Sperling, *International Payments Mechanism* 460; Rich, *Significance of Debt* 303-04.

25.. See Rogers, *BILLS AND NOTES* n.51 at 184; Breen, *TOBACCO CULTURE* 36, 105-122.

26.. See Preisser, *Eighteenth-Century Alexandria* 26.

27.. See Sheridan, *British Credit Crisis of 1772*, at 168.

28.. Adam Smith made similar observations regarding the significance of merchant credit on their consignment accounts, noting that the colonists seldom borrowed upon bond of the rich people of the mother country, "but by running as much in arrears to their correspondents, who supply them with goods from Europe, as their correspondents will allow them." Adam Smith, *AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS*, (Cannan ed. 1937), quoted in Sheridan, *British Credit Crisis of 1772*, at 162. Smith estimated that the annual return from the colonies was frequently as little as a third or less of the amount owed. Merchants' debt in Virginia accounted for approximately half of the claims of merchant correspondents in the 13 colonies as of 1776, sterling £ 1,383,245. *Id.* at 161, 167.

29.. See Preisser, *Eighteenth-Century Alexandria* 25; Sheridan, *British Credit Crisis of 1772*, at 169.

30.. See Breen, *TOBACCO CULTURE* 38; Thomas M. Preisser, *The "Precarious Trade" of a Virginia Tobacco Merchant: Harry Piper of Alexandria, 1749 – 1776*, 1 *ALEXANDRIA HIST.* 9, 11-12 (1978).

31.. See Breen, *TOBACCO CULTURE* 84; *VIRGINIA MERCHANTS, ALEXANDER HENDERSON: FACTOR FOR JOHN GLASSFORD AT HIS COLCHESTER STORE, FAIRFAX COUNTY, VIRGINIA, LETTER BOOK OF 1758 – 1765* (Charles Hamrick & Virginia Hamrick, eds. 1999).

32.. See Preisser, *Precarious Trade* 11; *Fairfax County Court, Minute Book - 1771*.

33.

. Fairfax Harrison, *LANDMARKS OF OLD PRINCE WILLIAM COUNTY* n.46 at 416-17 (1924, reprinted 1964).

34.. See Letter from Robert T. Hooe to Joseph Gardoqui & Son, Bilbao, Spain (Apr. 24, 1790); see also Letter from Robert T. Hooe to Joshua Johnson, Esq. (Jan. 31, 1795); both in Hooe, *Letterbook*.

35.. See Harrison, *LANDMARKS OF OLD PRINCE WILLIAM N* n.48; Smith & Miller, *SEAPORT SAGA* 27-30; Letter from Robert T. Hooe to Rey & Breandenbury, Cadiz, Spain (Feb. 19, 1790) in Hooe, *Letterbook*.

36.. See Breen, *TOBACCO CULTURE* 38 ("The small planters were notoriously independent, and when it served their purposes they distanced themselves from their wealthy neighbors. This was most evident in the marketing of tobacco. After the 1730s the little producers began selling their tobacco to resident Scottish factors, agents of the large Glasgow firms who provided cash and credit to Virginians who might otherwise have been dependent on the generosity of the great planters.").

37.. *United States v. Hooe*, 7 U.S. 73 (1805)(legal contest between Hooe and federal government over which party should be permitted to foreclose on Fitzgerald's property which secured Fitzgerald's obligations to Hooe).

38.. See Breen, *TOBACCO CULTURE* 95 ("[credits] were usually oral agreements, expressions of trust probably sealed with a handshake. The great planter entered the sum into an account book – sometimes he did not even bother to do that – in expectation that the debtor would eventually repay his obligation. The overwhelming majority of these debts were small, no more than a few pounds. When such sums were involved, a gentleman rarely demanded interest. In fact, a spirit of friendship – albeit between unequal parties – appears to have governed these transactions. On this local level, credit represented a personal favor, a kind of patronage that great planters were expected to provide to worthy neighbors whom they encountered at church, the county courthouse, or militia training.").

39.. See *Last Will and Testament of George Mason of Gunston Hall*, 6 Y.B. *FAIRFAX COUNTY, VA., HIST. SOC'Y* 12 (1958-59).

40.. See Gay Montague Moore, *Seaport in Virginia* 53 (1949).

41.. See Letter to George William Fairfax (June 30, 1786) in 28 *THE WRITINGS OF GEORGE WASHINGTON* 471-78 (J.C. Fitzpatrick, ed. 1938).

42.. See Rogers, *BILLS AND NOTES* n.51 at 184; Breen, *TOBACCO CULTURE* 106.

- 43.. 6 Hening 53-55 (1748). The five year limitation did not apply to proof of book debts incurred by merchants residing in Great Britain, "or other parts beyond the seas." *Id.* § 5 at 55. See also Charles F. Hobson, *The Recovery of British Debts in the Federal Circuit Court of Virginia, 1790 to 1797*, 92 VA. MAG. HIST. & BIOGRAPHY 176, 197 (1984).
- 44.. Hobson, *Recovery of British Debts* 197.
- 45.. See Rogers, *BILLS AND NOTES* 171.
- 46.. See 6 Hening 478-79 (1748); 12 Hening 358-59 (1786).
47. *Wilson v. Lenox and Maitland*, 5 U.S. 194 (1803).
- 48.. See 6 Hening 478-83; 11 Hening 176, 177 (1782); 12 Hening 358-59; Gipson, *Virginia Planter Debts* n.21 at 263.
- 49.. Compare Letter from Robert T. Hooe to John Vaughn, Philadelphia (Feb. 19, 1790) (offering to settle Hooe & Harrison account through discounted purchase of bills drawn on London), with Letter from Robert T. Hooe to William Foster, Boston (Aug. 26, 1791) (advising that an accepted bill drawn on another Alexandria merchant could not be used to purchase tobacco since "there is no discounting paper here"), both in Hooe, *Letterbook*.
- 50.. See Rich, *Significance of Debt* 303 (relying on correspondence of Thomas Rutherford); Rogers, *BILLS AND NOTES* 177-93. See also *Wilson v. Codman's Executor*, 7 U.S. 193 (1805) (Marshall, C.J.).
- 51.. An Act for establishing a Bank in the Town of Alexandria, 13 Hening 592 (1792). See T. Michael Miller, *Philip Richard Fendall, 1734 -- 1805: Banker, Lawyer and Entrepreneur*, 8 ALEXANDRIA HIST. 16, 23 (1990). See *Petition of Merchants of Alexandria, 1792*, 3 WILLIAM & MARY QUARTERLY, 2D SER. 206 (July 1923).
- 52.. See 13 Hening §§ 3 & 7 at 592, 594. The persons designated by the Act to take subscriptions were Philip R. Fendall, Robert T. Hooe, William Hartshorne, Josiah Watson, Thomas Porter, Richard Conway, William Herbert, Stephen Cook, William Wilson, Charles Lee, Ludwell Lee, Roger West, and Charles Simms. *Id.* § 2 at 592. When subscriptions were opened to the public at the courthouse in Alexandria on December 7, 1792, almost all of the bank stock was sold within 12 hours. See J. Everette Fauber, Jr., *The Bank of Alexandria: An Architectural and Documentary Study* 8 (1974).
- 53.. See Miller, *Philip Richard Fendall* 22. Because of suspicion of the Bank of the United States, which had a branch in Norfolk, establishment of the Bank of Alexandria enjoyed the support of Jefferson, who looked to the establishment of banks in the state as "counterbank[s] . . . set up to befriend the agricultural man." See Roeber, *FAITHFUL MAGISTRATES* n.4. at 233.
- 54.. 13 Hening § 1, at 592.
- 55.. See 13 Hening §§ 9, 14 and 22, at 595-96, 598.
- 56.. Hughes & Cain, *AMERICAN ECONOMIC HISTORY* 226. See Document Appendix, at A-6 (copy of Bank of Alexandria banknote).
- 57.. Fauber, *Bank of Alexandria* 8-9.
- 58.. Fauber, *Bank of Alexandria* 14. Unlike bank notes, which were payable on demand, post notes were payable at some definite time in the future which was stated on the note. See James A. Haxby, *UNITED STATES OBSOLETE BANK NOTES: 1782-1866*, at viii (1988) [hereinafter, Haxby, *OBSOLETE BANK NOTES*] See Fauber, *Bank of Alexandria* 13).
- 59.. Fauber, *Bank of Alexandria* 10.
- 60.. The Bank of Alexandria failed in 1834. See Haxby, *OBSOLETE BANK NOTES* 175. In the meantime, a number of other State chartered banks, including the Bank of the Potomac, the Merchants' Bank, and the Mechanics' Bank were established in Alexandria, each of which issued its own banknotes. State chartered banks continued to exist and issue banknotes until the Federal government began issuing banknotes in 1862 and the National Banking Act was passed in 1863. See Hughes & Cain, *AMERICAN ECONOMIC HISTORY* 227.