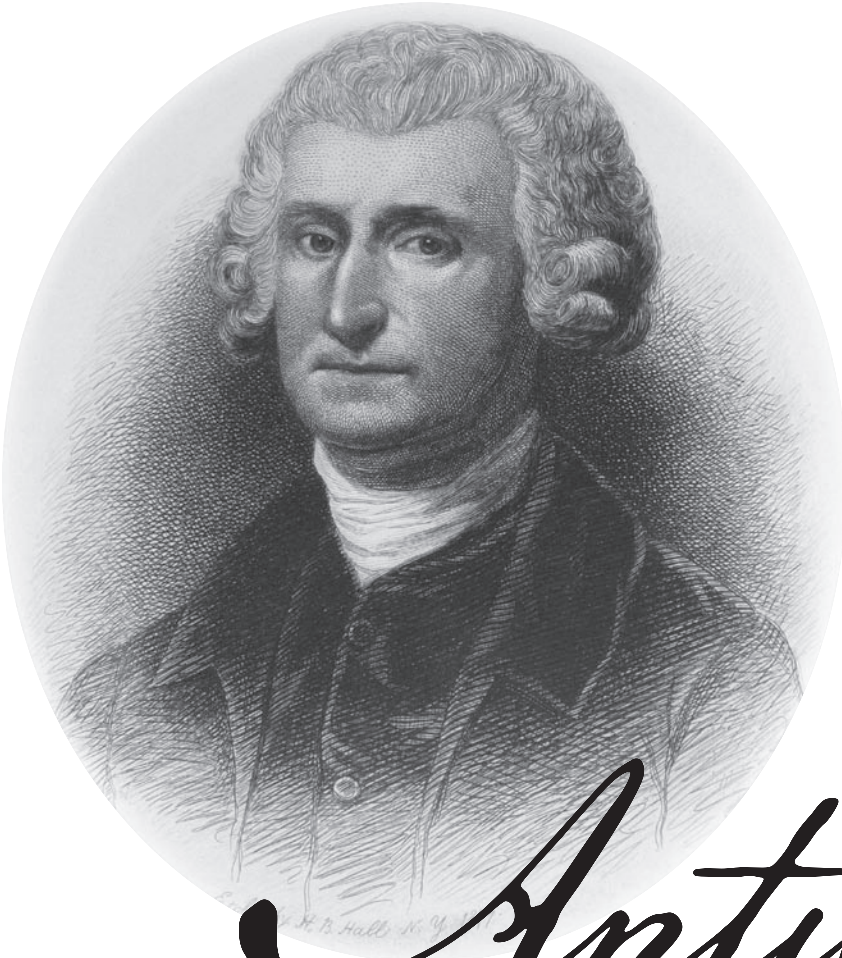


The Antibubble

Thomas Willing and Early American Financial Stability

By Robert E. Wright

Thomas Willing (December 19, 1731–January 19, 1821) was perhaps the most important of America's lesser-known financial founding fathers, the dozen or so men who helped the new nation to win its independence and forge a remarkably innovative yet relatively stable financial system. During his 60-plus year career, Willing furthered the development of marine insurance, the mortgage market, commercial banking and life insurance without stimulating the frothy excesses that have so often led to spectacular bubbles followed by gut wrenching and economy wrecking busts. His business practices were so staid, in fact, that some dubbed him "Old Square Toes."

Any genetic predisposition to caution that Willing may have possessed was magnified by some early formative events. The first born son of Charles Willing, an aspiring merchant of British birth who married into Pennsylvania's elite Shippen clan, young Thomas attended school in England from 1740 until 1749. He then clerked in his father's Philadelphia counting house for several years before rising to partner in 1751 thanks to the business acumen he displayed during his father's extended absence in the Mother Country and a timely and sizeable inheritance from a great aunt. Like other so-called "dry goods" firms, Charles Willing and Son wholesaled imported manufactured goods but, atypically for the period, preferred to sell its wares for "ready money, or short-credit" rather than on long-term credit. Already showing signs of square toeism, Thomas was particularly wary of sending the company's property "out amongst the country retailers." A family tragedy soon cemented the young man's conservative financial instincts.

Charles became mayor of Philadelphia in May 1754, but in late November perished from a contagious disease contracted while fulfilling the duties of the office. Three weeks shy of his 23rd birthday, Thomas suddenly found himself financially responsible for his mother, his nine surviving younger siblings and the heirs of Thomas Lloyd, whose estate his father had been in the middle of settling when he died. Charles's estate was quite large, so Willing's role was as faithful steward of other people's wealth rather than as an adventurous risk taker. (Willing later reprised that role as a vestryman in Christ Church, an Anglican church in Philadelphia in which he was active.)

With his own share of the inheritance, some £6,000 sterling, Willing took on somewhat greater risks but always weighed them carefully against likely returns. He continued selling dry goods only for cash or short credit but over time began to deal much more heavily in riskier "wet goods" (including beer, liquor and wine), military stores, servants and slaves. Likewise, he sent ships to sea when war threatened but warned his captains to "Be carefull [sic] at Sea & Speak with no Vessell [sic]." Perhaps most tellingly of all, in 1757 Willing admitted his flamboyantly reckless clerk Robert Morris into partnership, but monitored him closely and eventually parted ways when Morris embarked on high-risk speculations, the very gambles that eventually led to Morris's bankruptcy and imprisonment for debt.

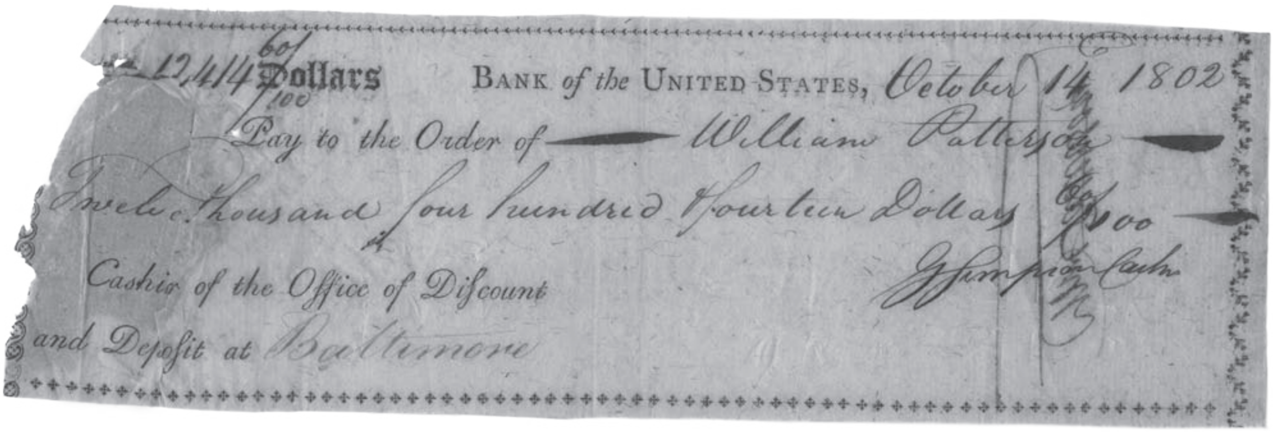
Willing was also cautiously innovative in his real estate dealings, selling numerous city lots to artisans by means of a perpetual interest-only mortgage called a ground rent. Unlike recent interest-only mortgages, Willing's ground rents were more gilt than subprime. Loan-to-value was closer to 50 percent than the 95 percent plus typical of the 21st century variety. Recourse, the ability of Willing (and other ground lords) to seize the borrower's real and personal property to pay the interest or principal of the loan, was substantial. As an added protection, Willing denominated many of the mortgages in specific full-bodied coins, like gold pistoles or silver dollars, rather than in Pennsylvania pounds. Denominating the contracts in that local unit of account would have been more convenient but would have exposed Willing and his heirs to potential depreciation of bills of credit and to devaluation of the Pennsylvania pound. All in all, Willing's technique was one of the safest methods of financing urban development yet devised.

Given his disdain for excessive risk, Willing was naturally attracted to the marine insurance business and did not like what he saw — a slow, expensive system where shippers procured insurance, sometimes with the help of brokers, from *ad hoc* groups of local or London-based individuals called underwriters. In the early stages of the French and Indian War, Willing declared that he would rather be his "own Insurer Rather than pay such Exorbitant Premiums" and joined with five other "Gentlemen of Fortune" to form "Thomas Willing and Company," the purpose of which was to insure "Ships Vessells [sic] Goods and Merchandize on reasonable Terms." That company, and ones like it he formed in subsequent years, reduced the risks associated with obtaining insurance in distant London and in dealing with individual underwriters who might die, go bankrupt or simply refuse to pay a claim.

Willing also entered public life in order to reduce the risks his businesses faced by gaining some influence over public policies. He served as a Philadelphia County justice of the peace from 1761 until 1767 and was a Philadelphia common councilman (1755–59), alderman (1759–68) and mayor (1763–64). He also served two terms in Pennsylvania's unicameral legislature (1764, 1765) and was a Pennsylvania Supreme Court justice from 1767 until 1776.

Most of his assignments in city government and the colonial legislature, where he was astonishingly active, dealt with business and economic matters such as ferry regulation, market stall repairs, extension of the public wharf and the General Loan Office, Pennsylvania's hoary government-owned mortgage bank. Along with Benjamin Franklin and others, Willing was part of a delegation that convinced the Paxton Boys to "return peaceably to their Homes" rather than to continue their murderous riots on Amerindians living under the colony's protection. As a justice of the peace and judge, Willing also helped to uphold the rule of law so important to commercial dealings and overall economic prosperity.

Likely because of the economic and policy fiasco that he witnessed unfold in the aftermath of the French and Indian War [See "Boom, Bust and Crisis" in *Financial History*, Issue 98, Fall 2010], Willing became an active member of the Revolutionary movement. He opposed the Currency and Stamp Acts and other restrictive trade regulations by joining, and sometimes chairing, public meetings and non-importation agreements. As the imperial crisis deepened, he served as a member of the Committee of Correspondence and a delegate to the Provincial Convention in 1774, a member of the Committee of Safety in 1775 and as a delegate to the second Continental Congress (1775–76). Although he ardently supported the Patriot cause, Willing's vote against independence — prompted undoubtedly by his close ties to the Mother Country and the cautiousness by then seemingly ingrained in his very soul as well as his toes — effectively ended his political career. Closure of



Museum of American Finance

that avenue, however, channeled Willing into the greatest role of his life as America's first commercial and first central banker.

The newly independent nation found financing its rebellion against Britain, then the world's leading superpower, extremely challenging. With two of every three Americans still actively loyal to the Mother Country or sitting astride the proverbial fence paralyzed by fear, large-scale taxation was out of the question. Borrowing large sums of money domestically or abroad was also impossible for a runaway republic with a weak central government, no track record and anemic tax receipts.

So the new governments printed their own money to pay salaries and buy munitions and provisions. And then more money. And then some more. And then the British poured a large number of counterfeits into circulation as well. As inflation mounted, the rebel governments found themselves locked in a vicious cycle. Printing money raised prices, so governments had to print yet more money, which raised prices even higher until the entire system collapsed in the early 1780s and "not worth a Continental" joined the American lexicon.

To continue the fight, the rebel governments tapped three unreliable sources of support: foreign loans of money and munitions, the willingness of soldiers to fight on without pay and the seizure of provisions from local farmers. What American governments needed at this dire junction was a source of domestic cash loans, and what the US economy needed was a form of money more copious than the paltry sum of precious metals in circulation but still linked to gold and silver and, most importantly of all, bereft of direct political control.

To meet those pressing needs, Morris, young upstart Alexander Hamilton, and others suggested the formation of a commercial bank. A desperate Congress and several state governments concurred and authorized the nation's first commercial bank, the Philadelphia-based Bank of North America, which made loans to governments and businesses funded by the issuance of bank notes and deposits convertible into gold and silver coins at predetermined rates.

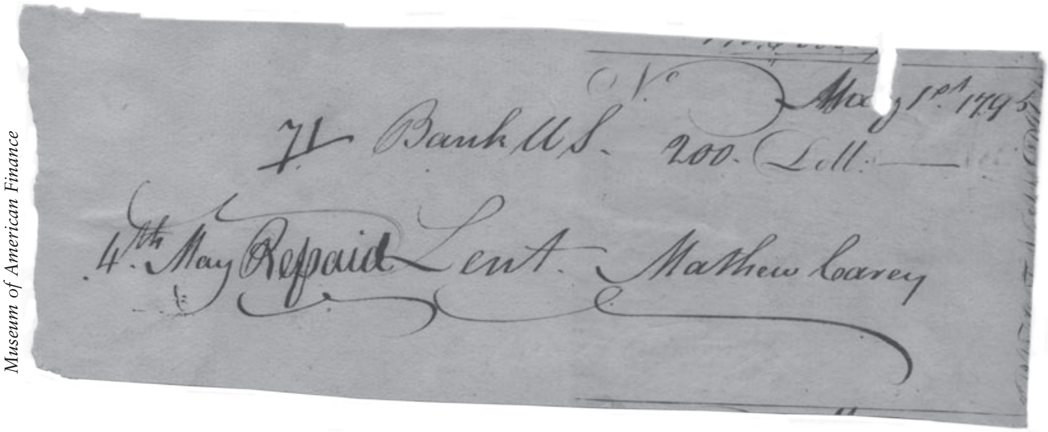
Less concerned than the average voter about Willing's stand on independence and his continued residence in Philadelphia during the British occupation (1777–78), stockholders elected Willing to head the novel operation. They could not have made a better choice because Willing was the consummate cautious innovator and prudent risk-taker. Under his leadership, the Bank of North America helped to finance the end of the Revolution and spawned several similarly cautious imitators in New York and Boston. Those financial pioneers showed that banks could safely stimulate economic growth while rewarding investors handsomely for the use of their capital. Their success undoubtedly helped to induce the framers of the Constitution explicitly to ban state-issued bills of credit.

Despite the successful establishment of a small but effective banking system, America's governments remained essentially bankrupt and its economy moribund. That changed, however, after ratification of the US Constitution and implementation of Hamilton's financial program, a set of policies that established the credit of the national and state governments and encouraged an efflorescence of entrepreneurship. A key component of the new system was the Bank of the United States (1791–1811), a central and commercial bank headquartered in Philadelphia and owned by the national government and private investors. The obvious choice to run the crucial new institution, which among other things provided the federal government with a safe place to stash its cash and, when its deposits fell short of its obligations, with loans, was America's most experienced banker, Old Square Toes himself.

Americans clamored for shares in the new institution, which was larger than the other banks then in operation combined, and then eagerly sought loans. Unsure how far he could safely extend the new bank's business, Willing uncharacteristically went a little too far in early 1792 but curtailed lending as soon as Hamilton indicated that he ought to. The reduction in lending by the Bank of the United States (BUS) and the other banks, which followed the new giant's lead, deflated an asset bubble before it swelled to dangerous proportions.

The failure of speculator William Duer in March caused a short-lived

Museum of American Finance



This bank check dated 1802 (left) and promissary note dated 1795 (right) were both issued by the first Bank of the United States under the management of Thomas Willing.

panic that Hamilton, with the aid of Willing and the other bankers, soon squelched. Far from ushering in the end of the Republic as some hot-headed Jeffersonians claimed, the episode initiated over two decades of financial stability ended only by the sacking of Washington, DC by British troops in August 1814. Shocks, including numerous episodes of commercial distress, several tax rebellions, a quasi-war with France, the purchase of Louisiana, various embargoes and other trade restrictions, and the failure of several small banks controlled by the dexterous Andrew Dexter, came and went without disrupting the BUS or the system that it effectively regulated.

Willing stayed at the helm of the BUS long after Hamilton retired as Treasury Secretary and well into the long tenure of Albert Gallatin. He finally retired in November 1807 at age 75 after presumably suffering a mild stroke. Enough of Willing's mental faculties remained, however, for him to support a final conservative innovation, the nation's first commercial life insurance company, the Pennsylvania Company for Insurance on Lives and Granting Annuities. Willing realized that the institution, in which he purchased 100 shares, could help fathers to protect their families from devastation should they perish young, as his own father had. He also saw that the annuities the company sold would help executors, guardians, trustees and others to invest safely on behalf of widows, orphans, charitable organizations and superannuated individuals, a problem he had often wrestled with during his long life. The other great financial innovation of the 1810s, the American savings bank movement, began just a little too late for Willing's active participation.

After his stroke, Willing had trouble writing, but as late as December 1816 was reported to walk "four or five miles a day, eat[s] with a relish, and sleep[s] soundly." About that time he was mentioned as a possible candidate to head up the second Bank of the United States (1816–1836), but his advanced age precluded serious consideration. That was unfortunate because the second Bank, under the drunken and inexperienced leadership of William Jones, caused and then exacerbated the Panic of 1819.

That experience soured future President Andrew Jackson on banking. Old Hickory exacted revenge on the Bank by vetoing its re-charter and then removing the federal government's deposits from it. Those and other policies, combined with an international shock, caused the financial panics of 1837 and 1839, which ushered in decades of boom and bust and bubble and burst that finally culminated in the Great Depression. That economic conflagration, in turn, spawned policies partly (some would say largely) responsible for the Great Recession of 2008–9, runaway healthcare costs and a looming debt crisis.

Willing once called the success of the Bank of North America his "greatest glory," but perhaps his greatest legacy is that he died one of the richest men in the nation despite having lived through one of its most economically and politically tumultuous periods. Like the tortoise in the Aesop fable, Willing's life shows that slow and steady can lead to more wealth and happiness than fast and risky. When will today's financiers *willingly* concede that humdrum ultimately trumps hubris? FH

Robert E. Wright is the Nef Family Chair of Political Economy at Augustana College and the director of the Thomas Willing Institute for the Study of Financial Markets, Institutions, and Regulations. He is also the author of numerous books, including most recently Fubarnomics *(2010).*

Sources

Sylla, Richard, Robert E. Wright, and David J. Cowen, "Alexander Hamilton, Central Banker: Crisis Management During the U.S. Financial Panic of 1792," *Business History Review* 83 (Spring 2009): 61–86.

Wright, Robert E. and David J. Cowen, *Financial Founding Fathers: The Men Who Made America Rich* (Chicago: University of Chicago Press, 2006).

Wright, Robert E. and Laurie M. Wolfe, "Thomas Willing," in Craig Horle et al eds., *Lawmaking and Legislators in Pennsylvania: A Biographical Dictionary Vol. 3: 1757–1775* (Harrisburg, Pa.: Commonwealth of Pennsylvania House of Representatives, 2005), 1,427–1,457.