

# Creative Destruction in the Antebellum Marketplace:

*St. Louis Merchants and the  
Railroad Boom of the 1850s*



BY MIKE SNODGRASS

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The riverfront was the center of a thriving economy in antebellum St. Louis. Investors saw it as an exchange point for goods, financing, and transportation. St. Louis businessmen were interested in building rail connections as early as the railroad convention in 1849—a vision finally realized with the completion of the Eads Bridge in 1874. (Image: Library of Congress)



In early January 1855, rumors circulated among the St. Louis business community that the banking house of Page, Bacon and Company was in financial trouble, caused when a local sugar refinery defaulted on bonds issued to finance its expansion. Page and Bacon had guaranteed the bonds, but because they were overextended the bank was unable to meet its obligations to its clients. On Saturday, January 13, the bank did not open for business as it should have, and the public response was near panic as people with deposits in one of the city's banks raced to save their

money. To restore calm in the marketplace, eight of the city's leading merchant-bankers publicly pledged their fortunes to guarantee deposits. Henry Bacon, the managing partner, closed the doors, and began working to save the bank. He secured loans in New York, called in outstanding loans to local businessmen, and began liquidating holdings in commercial real estate. Bacon also made it known that he would honor the bank's other financial commitments, but despite his work over the next two months, the bank, closed its doors for good by the end of April 1855.<sup>1</sup>

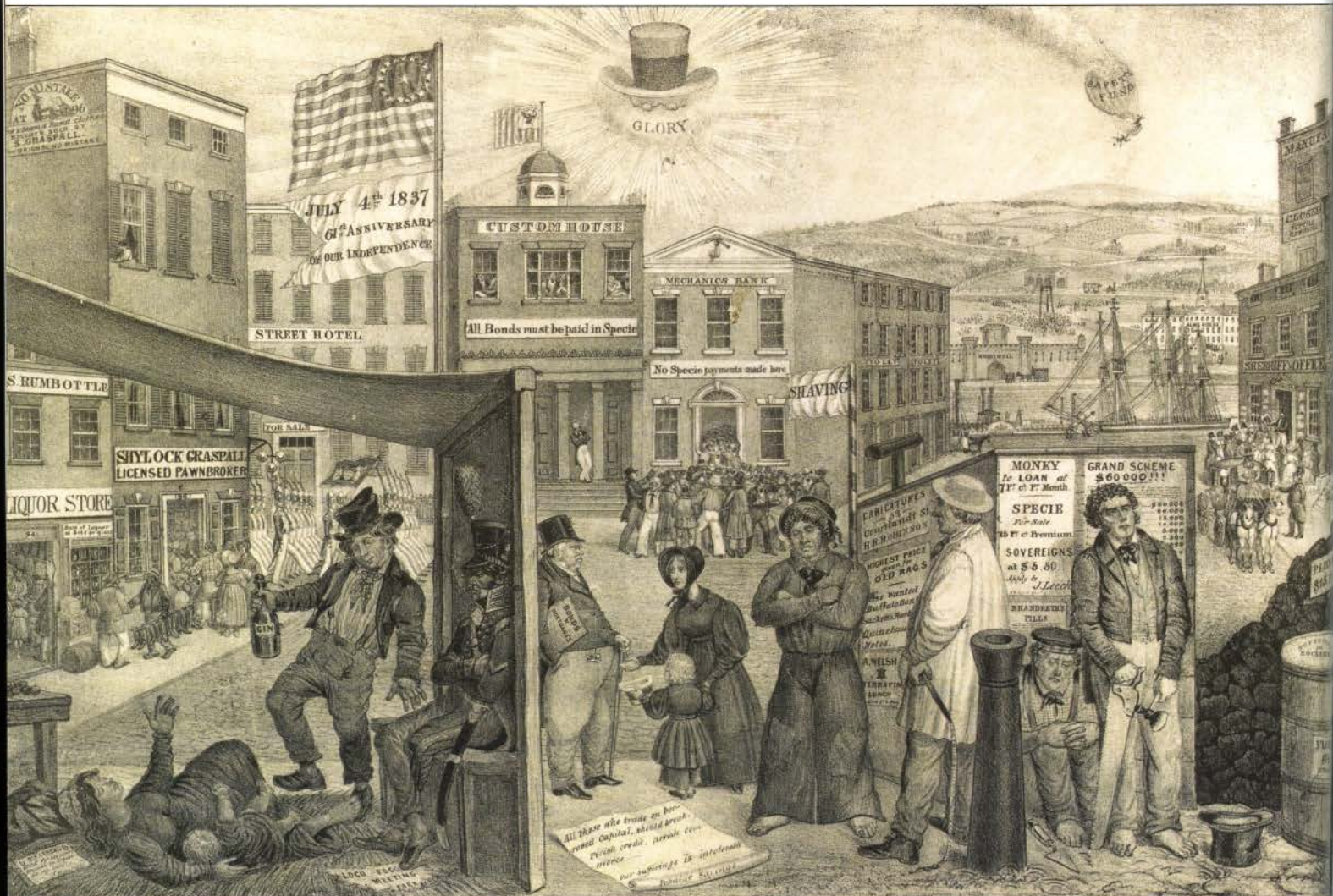
The failure of Page and Bacon illustrates the challenges confronting St. Louis merchants in the 1850s. The end of the Mexican War brought renewed migration and prosperity, while the telegraph and railroads promised to connect the distant markets faster than ever before. However, technology also brought increased competition. New men and money arrived from the East, and the city of Chicago rose to challenge St. Louis for the commerce of the Great West. Prosperity could still be interrupted by bank failures, and events in distant cities effected everyone in the marketplace faster than ever before. St. Louis merchants and bankers used commercial organizations to rationalize and lend stability to the marketplace, but despite modernization and greater organization, merchants were reminded that, like their hard-money opponents in the legislature, they were also unable to control the marketplace.<sup>2</sup>

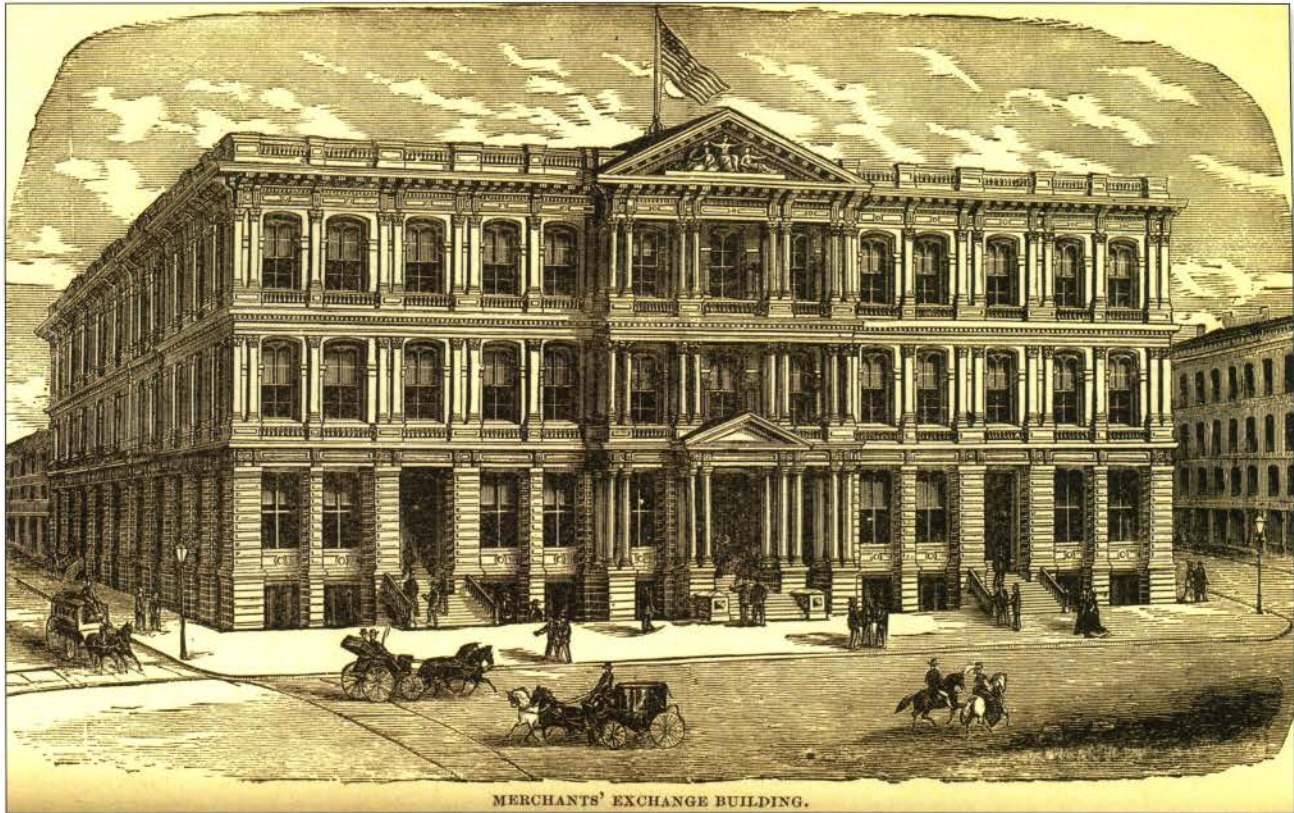
Following the Panic of 1819, two competing ideas about how to maintain order in the marketplace emerged and became more sharply divided during Missouri's

struggle to charter a state bank. Debates over relief laws, banking, currency, and government intervention were the beginning of a national debate in which different views of the market economy emerged. Neither camp had a clear vision of what lay ahead, but instead responded to events and changes based upon their experience and an imperfect knowledge of the events which they confronted.

Bank failures following the panics of 1819 and 1837 hardened anti-banking sentiment in Missouri, codified in constitution and law, leaving merchants in St. Louis to rely on private banking as they faced challenges to their trade routes after the Erie Canal opened in 1825. A branch of the Bank of the United States opened in 1829 but closed in 1836. The creation of a state bank in 1837 provided little in the way of needed credit or currency because of restrictions set by the state legislature, which was controlled by the hard-money faction of the Democratic Party. Those who tried to restrict banking and paper money were working to take control of the marketplace as a means of restraint. Others, whom I am calling merchants,

A shortage of specie—gold and silver—and money shortages marked the Panic of 1837, as the signs on the banks in this cartoon suggest. Differing views on the Panic are seen here—drunken “Locofoco” members, laborers out of work, wealthy investors giving alms to a woman with a child. In St. Louis, larger specie deposits from the Santa Fe trade initially reduced the impact of the Panic. (Image: Library of Congress)





The aftermath of the *White Cloud* steamboat fire in May 1849 and its destruction of some nine city blocks and 400 buildings provided St. Louis an opportunity to create a new physical environment to reflect its changing business priorities at mid-century. Among those was construction of the new Merchants Exchange on Third Street at Chestnut. Having such an Exchange was part of a broader effort by St. Louis businessmen to transform St. Louis into a major metropolitan area. (Image: Frank Leslie's Illustrated Newspaper)

had a better, though imperfect, understanding that the market could not be restrained and worked to continue its operation, to maintain order within the marketplace. Each side in this contest was working to impose its ill-defined vision of order in the marketplace.

Merchants were pressed as hard by the market economy as any small farmer or laborer might have been. Even local business was competitive, but, it was hampered by political opponents who worked to restrict banking and by transportation developments which made it easier to participate in the market economy, but also brought a new inter-city competition with rival merchants in Chicago. The organizations they created contributed to a more orderly marketplace, but as they responded to the approach of railroads from the east, merchants built a new order that displaced the old.<sup>3</sup>

The return of prosperity in the late 1840s and rebuilding after a massive fire in 1849 helped to consolidate existing commercial organizations. The Chamber of Commerce, the St. Louis Exchange, and the Miller's Exchange merged into one, calling itself the St. Louis Merchants Exchange. Unlike the city-owned marketplaces or small shops where vendors sold their wares directly to consumers, the new

Exchange was instead a place for larger scale merchants engaged in the wholesale business.<sup>4</sup>

From the 1850s on, the Exchange took on a greater utility, and city merchants showed a greater interest in its operation. The permanent advent of the Merchants Exchange, with its constitution adopted in January 1850, was a structural separation in the local marketplace that created a two-tiered organization where one level was political and the other solely for conducting business. Membership in the Exchange conveyed the privilege of doing business on the trading floor, but governance and leadership were restricted to members of the Chamber of Commerce, who served on committees and voted for officers and on the admission of new members. By 1860 there were over 600 members in the Exchange and 200 members in the Chamber who were able to participate in its government.<sup>5</sup>

The Constitution with Rules and By-Laws established an arbitration process that was faster and more efficient than the state court system, and fellow businessmen ruled on the case rather than a randomly selected jury drawn from the community at large. Merchants could still take their chances in court; however, surviving records show that

merchants used the Arbitration and Appeals committees repeatedly to resolve disputes arising in business.<sup>6</sup>

Merchants were unable to control entry to the marketplace but instead used the organization to collectively judge behavior and expel those whose business practices were considered inappropriate. One surviving account of the politics within the Chamber and the Exchange indicates that it was a place of relative amity, and the elections for committees and officers suggest that control of the organization rotated every few years among factions within the merchant community, which assured that anyone could be assured of a fair hearing, and that no one person or group could take control of the organization.<sup>7</sup>

Information helped to rationalize the marketplace, which was made easier to obtain by the telegraph, improved transportation, and steam-driven press. By the mid 1850s city merchants were apprised daily of local, national, and international market conditions. National publications kept merchants apprised of conditions in other cities, but merchants also needed information on local and regional developments. The Exchange collected information on local developments such as the arrival of steamboats and their cargoes. They also published a *Price Current* and allowed representatives from city newspapers access, thus ensuring wider publication on events in the market.<sup>8</sup>

Although merchants created an alternate governing structure for the marketplace, they did not see the market economy as separate from society. What was good for business, an 1852 annual report claimed, was good for the city. Personal profit was their goal but also the “growth, wealth, and permanent prosperity of our city.” Trade, commerce, and manufacturing were so “intricately interwoven” into the life of the city, the writer claimed, that it was impossible to separate them.<sup>9</sup>

A third level appeared in the local marketplace in 1856 when a group of merchants and bankers chartered a private corporation and erected a modern building which they leased to the Exchange and Chamber of Commerce. All of the stockholders and directors of the company were at the top of the city’s business community and could be classified as financiers and capitalists. Although they were of different political beliefs, they set politics aside in order to do business and were united in defense of their city against northern and eastern rivals. These same men took the lead in bringing railroads to St. Louis as they worked to stay ahead of their rising northern rival, Chicago.<sup>10</sup>

Organization helped to rationalize the marketplace and to make the market economy function more smoothly, but business still needed the credit and money issued by banks over which the hard-money Democrats exercised control, or thought they did. As state banking and currency laws became more restrictive, merchant-bankers in St. Louis adapted first by relying on local insurance companies to issue paper money, until the legislature threatened to revoke their charters. Private banks then issued checks drawn on their specie reserves, known as “promises to pay,” and later invested in note-issuing banks located in neighboring Illinois. As long as their notes

remained convertible to specie, they were legal tender, and Missouri’s legislature had no power to prohibit their circulation. That fact left private bankers relatively free to conduct business and kept the marketplace operating, but this freedom to trade and issue currency brought its own problems.<sup>11</sup>

The capital business was ruthlessly competitive as local bankers raided each other’s specie reserves by collecting outstanding banknotes and presenting them for payment. The combination of domestic legislative hostility, out-of-state banking, and fierce competition created a financial system that was both inadequate and unstable. Although the hard-money Democrats prided themselves on a state bank that issued little paper money and maintained high specie reserves, by the 1850s the economy was too far advanced to depend on hard-money alone. Railroads required greater pools of capital than steamboats or canals ever had, and for St. Louis to protect its place in the West it would have to become the railroad hub of the Mississippi Valley. In order for that to happen the city required more than an ad hoc financial system.<sup>12</sup>

In June 1852, a group of private bankers formed the St. Louis Board of Bankers and Exchange Dealers, which attempted to bring order to the local financial market. The Board was first suggested by Daniel D. Page who, with his son-in-law Henry D. Bacon, opened a St. Louis bank in 1848, then in 1850 opened a branch in San Francisco. By 1852 Page, Bacon and Company was the “most powerful and conspicuous” private bank in each of the two cities. Although stopping specie raids was not listed in the articles, it was likely that goal may have been the primary reason for the group’s creation.<sup>13</sup>

The Board established interest and exchange rates and rather than use the power of the state to prohibit unreliable paper money, the bankers relied on the logic of the market to determine safe currency. Available information made it possible for local bankers to reject those notes which were unreliable, and merchants, shopkeepers, and employers would be forced to follow suit, eventually driving them from circulation. In protecting themselves from the worthless banknotes, the Board protected everyone engaged in the marketplace, and all who were subject to the market economy.<sup>14</sup>

In a rapidly growing city, bankers and merchants both faced a problem of reliability in selecting those with whom they did business or extended credit. By 1850, over half of St. Louis residents had been there less than two years, and long-time merchants, according to one newspaper, were “surrounded by thousands of strangers whose character was unfamiliar.”<sup>15</sup> Kinship and personal acquaintance were not always the best means of judging sound decision making or success in business.<sup>16</sup> William Tecumseh Sherman was induced to leave the army and manage the San Francisco branch for a St. Louis banking partnership entirely on the word of a mutual acquaintance. Sherman proved to be worth his salt, but when Daniel Page sent his son to San Francisco to manage a branch bank there, the young man proved to be weak and indecisive. Two local partners conspired against the younger man, and Sherman



Streets in the business district of cities like St. Louis looked much like this, with a mix of wagons and horses, small wooden business structures, and newer three-story buildings. (Image: State Historical Society)

described one as “too fond of lager beer to be trusted with so large a business.”<sup>17</sup>

The Bankers Association established a rating system to determine who among the merchant community was worthy, but despite this and other advantages, the Board of Bankers and Exchange Dealers was short lived, lasting less than a year. In August 1852, only two months after its inception, Henry Bacon withdrew his bank, citing disagreements over commission rates on financial instruments. The Board continued meeting sporadically but finally disbanded in February 1853 and had been no more successful at controlling banking than its hard-money opponents in the state legislature.<sup>18</sup> The 11 members of the Board controlled entry into the group; however, there is no record that anyone applied for membership after its founding, and there was no rule of exclusivity between members. St. Louis bankers and exchange dealers were trying to control the city’s financial market at a time when capital was becoming concentrated in New York and beyond the control of a regional commercial city.<sup>19</sup>

Henry Bacon and Daniel Page were, however, not forthcoming about their reasons for leaving the organization. The timing coincides with their announcement of taking a contract to build a section of the Ohio and Mississippi Railroad, extending from St. Louis to Cincinnati. Bacon was also the leader in a group of St. Louis investors building a short railroad connecting the city to coal mines in Illinois some 20 miles away. In September 1852, he took on the additional burden of extending the railroad across the state to meet the O & M, which would give St. Louis a rail connection to the east coast via Cincinnati and challenge the links existing to Chicago. In taking the contract, Bacon over-extended

his bank; minutes from the Bankers Association indicate that he was beginning to experience financial problems two and a half years before his bank finally went under. The evidence indicates that Henry Bacon was doing all he could to maintain high cash flows, which went into the railroad.<sup>20</sup>

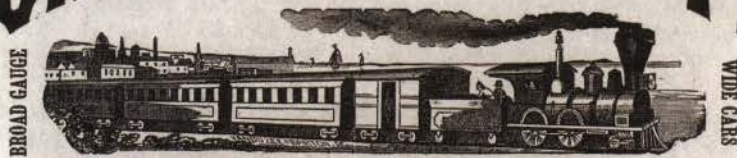
Bacon’s problems were made worse by events in San Francisco. He constantly pressed his branch there to send gold to his bank in New York which allowed him to maintain credit and “gave him a good name,” but it was a circular system of money transfer from the California gold fields to New York, then to St. Louis. From there Bacon paid the contractors on the railroad until they went bankrupt, and he had to buy materials and pay the workers directly to continue progress. A collapse in the San Francisco speculative bubble caused by large-scale fraud committed by a city businessman weakened his western branch. By late 1854, Bacon’s desperate need for capital was a barely kept secret, and when the collapse came in January 1855, William Sherman claimed that they had all finally reached “the Niagara [Falls]” that no one had foreseen when he entered the banking business two years prior.<sup>21</sup>

The failure of Page and Bacon in 1855 showed that more information, improved transportation, and organization made the market operate more efficiently, but they also bound everyone in the marketplace more tightly together. Bacon’s position as the leading banker in two cities made many others dependent on him to continue their own businesses. Mechanics and tradesmen lost whatever wages they were owed. As Sherman observed in San Francisco, “the most noisy and clamorous were men and women who held small certificates [of deposit]” in his bank.

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St. Louis businessmen were no different than those in other cities with strong manufacturing and merchant economies in that they actively promoted railroads to connect them to markets more efficiently. The Ohio and Mississippi Railroad spanned eastward from St. Louis to reach the Ohio River faster and cheaper than steamboats. (Images: Library of Congress and <http://www.spellerweb.net/rhindex/USRH/BOmap1876.jpg>)

Organizations helped to establish order for those who were engaged in the marketplace, but they could not calm a restless crowd of people who feared losing everything they had because of events over which they had no control.<sup>22</sup>

Routine, day-to-day transactions in the marketplace were increasingly impersonal, and familiarity with others in the marketplace was less common, but reputation was at times still important. The public pledge of financial safety worked once in St. Louis, but as Sherman observed, the same thing failed in San Francisco. People who came to his bank after the news of Page and Bacon's failure wanted to touch their money to be sure it was safe. Perhaps comparing the experiences of the two cities reflects on the volatility of the marketplace. The gold rush environment of San Francisco might have made any assurances impossible, while St. Louis was more settled in terms of its market relations; therefore, people were willing to be reassured.<sup>23</sup>

Why did some business organizations succeed and others fail when they had similar methods—membership in the group, rate structures, and penalties for violations? Surviving records of the Chamber of Commerce indicate that members were willing to follow the findings of the Arbitration and Appeals Committees, while the Bankers' Association minutes show that from the beginning, member bankers violated the rules setting exchange rates. There was no incentive to go along with the organization's rules when non-members could undercut their competitors.

It may come down to the size of the organization. By 1860 the Merchants Exchange had over 600 separate businesses. The Bankers' Association never had more than 11, and it operated in a regional commercial center. Such a small group could not successfully bring order to

its level of the marketplace when there were many more in the banking business who were willing to undercut its attempts at control.

The Merchants Exchange provided familiarity and a means of ascertaining character in the impersonal marketplace as it came to be the place to conduct business for merchants operating on the middle level. It was an imperfect system, but the St. Louis Chamber of Commerce and Merchants Exchange helped to establish order in the marketplace of one city. When connected to similar organizations in other cities, they began to establish order in the wider marketplace.

Success or failure also depended on the separation into different levels in the marketplace. If a merchant in the Exchange failed, the repercussions were relatively mild. An individual merchant or partnership was part of a network involving others, but if one failed, the entire marketplace did not cease to function. However, the upper-tier capital became concentrated in New York throughout the 1850s, making it impossible for a local organization to exercise control. As the local panics that beset St. Louis and San Francisco in 1855 showed, both involving Page and Bacon, bank failures had a far greater impact and the public responded accordingly. Disruptions in the upper level of the marketplace had ramifications in distant cities. The emerging capitalists were at the top, but their product, capital, was at the bottom, supporting everything else. Merchants created organizations that made the marketplace more orderly, but it could always be overturned. The logic of the marketplace forced them to respond to competitors in other cities, and in doing so, they created a new order in the marketplace.<sup>24</sup>



## ENDNOTES

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- <sup>7</sup> *List of Arbitration Fees, 1857–1858*, Merchants Exchange Papers, MHS; Chamber of Commerce, *Rules and By-Laws, 1851*, 4–13; *The St. Louis Directory for the Years 1836–37*; *St. Louis Directory for the Years 1838–39*; Chamber of Commerce election results, Jan. 4, 1860, Jan. 2, 1861, Jan. 15, 1862, Merchants Exchange Papers, Box 1, MHS; Hyde and Conard, *Encyclopedia of St. Louis*, Vol. III, p 1453–54.
- <sup>8</sup> *St. Louis Price Current*, April 26, 1845, June 17, 1854, Oct. 27, 1859, Chamber of Commerce to St. Louis Post Office, Feb. 6, 1862, Box 1, Merchants Exchange Papers, MHS; John A. Brownlee to Chamber of Commerce President William M. Morrison, January 1852, in *Report of the Committee Appointed by the St. Louis Chamber of Commerce upon the Trade, Commerce and Manufactures of St. Louis* (St. Louis: Missouri Republican Office, 1852); Chamber of Commerce, *Rules and By-Laws, 1851*, 29–30; Scharf, *History of St. Louis*, Vol. II, 1425; Hyde and Conard, *Encyclopedia of St. Louis*, Vol. III, 1447–48; Adler, *Yankee Merchants and the Making of the Urban West*, 65.
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- <sup>12</sup> Hogan, *Thoughts About the City of St. Louis*; Minute Book, St. Louis Bankers and Exchange Dealers Association, June 23, 1852; Sherman, *Recollections of California*, 88; Cable, *Bank of Missouri* (chapters 14 and 15 also cover private banking in St. Louis and the need for capital for economic development in the 1850s).
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- <sup>15</sup> *Missouri Republican*, Sept. 24, 1848; "The Trade and Commerce of St. Louis in 1850," *Hunt's Merchants' Magazine and Commercial Review*, 24, no. 3 (March 1851): 298–316.
- <sup>16</sup> Peter G. Camden, St. Louis, to Marbel Camden, Manchester, Miss., Jan. 24, 1839, Case Family Papers, MHS; William Carr Lane to Mary E. Lane, June 24, July 4, 1842, William Carr Lane Collection, MHS; George Collier to James T. Sweringen, Aug. 3, 1846; Sweringen to Collier, Aug. 4, 1846, Sweringen Papers, MHS.
- <sup>17</sup> Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections and Economic Development in Industrial New England* (New York: Cambridge University Press, 1994). Lamoreaux argues that the absence of reliable credit reporting and lack of wide experience in industrial development made it difficult to determine the creditworthiness of a prospective debtor and the feasibility of a given project. Rather than corruption, favoring family and kin in lending was a means of protecting the bank's investment. James D. Norris, *R.G. Dun & Co., 1841–1900* (Westport, Conn.: Greenwood Press, 1978). Norris covers the rise of an organized credit rating system from Arthur Tappan's first successful mercantile agency in 1841. It took Tappan and others years to gain acceptance, and the agencies were often denounced for being secretive and able to unfairly influence business. Mary B. Rose, *Firms, Networks and Business Values: The British and American Cotton Industries Since 1750* (New York: Cambridge University Press, 2000). Rose compares the British and American cotton industries, including their use of kinship networks to minimize risk. Rose also looks at kinship networks in early private banking which traded in bills of exchange, which were subject to abuse and fraud; Clarke, *William Tecumseh Sherman: Gold Rush Banker*, 420–22; Sherman, *Recollections of California*, 78–79, 93–94.
- <sup>18</sup> Minute Book, St. Louis Bankers and Exchange Dealers Association, Aug. 21–26, 1852, Feb. 5, 1853, St. Louis Mercantile Library, University of Missouri-St. Louis.
- <sup>19</sup> Minute Book, St. Louis Bankers and Exchange Dealers Association, July 21, Aug. 5, 10, 11, 14, 20, 1852, St. Louis Mercantile Library, University of Missouri-St. Louis; Adler, *Yankee Merchants*, 88–90; Cronon, *Nature's Metropolis*, 299–305.
- <sup>20</sup> "Railroads," *Jefferson City Inquirer*, September 4, 1852; Henry Papin, St. Louis to Sen. John F. Darby, Washington, D.C., Jan. 12, 1853; Nathan Paschall, St. Louis, to Darby, Jan. 12, 1855; Darby Papers, MHS; *State of Missouri v. Daniel D. Page and Henry D. Bacon*, Box 326, folder 3, Supreme Court Records, MSA; *Missouri Republican*, "Pacific Railroad," Jan. 29, Feb. 5, 1850; Sherman, *Recollections of California*, 93–94; Scharf, *History of St. Louis*, Vol. I, 1149–50; Stevens, *St. Louis: The Fourth City*, 302–6, 476–77; John W. Million, *State Aid to Railways in Missouri* (Chicago: University of Chicago Press, 1896), 88–89; George R. Taylor, *The Transportation Revolution, 1815–1860* (New York: Rinehart and Company, 1958), 85, 346–47.
- <sup>21</sup> Sherman, *Recollections of California*, 88–98; Clarke, *William Tecumseh Sherman*, 107, 380, n. 2.
- <sup>22</sup> Sherman, *Recollections of California*, 98.
- <sup>23</sup> *Ibid.*, 93–100.
- <sup>24</sup> Chandler, *The Visible Hand*, 89–94.