

Spies, Abolitionists and the Origins of Credit Rating Agencies

By Brian Grinder and Dan Cooper

LEWIS TAPPAN closed the door of Arthur Tappan & Co., his brother's silk-importing business, for the last time. As he walked away from the failed firm that had been such an important part of his life for the past 14 years, he must have felt a sense of foreboding. What was a 53-year-old man doing starting out in a new, untested line of business? Would it not be better to play it safe and find a more stable source of income or, better yet, retire?

Retirement was out of the question. The Panic of 1837 left Arthur Tappan & Co. reeling. The Tappan brothers' abolitionist activities hurt business in the South and forced Arthur, who preferred to sell on a cash-only basis, to begin extending generous long-term credit to new customers in an effort to recoup lost Southern business. By May 1837, the company owed creditors over \$1 million and was forced to suspend payments. It was one of the most notable business failures during the Panic. Only Arthur's solid reputation prevented foreclosure, and Arthur, true to his word, eventually paid back every penny to his creditors. But the business stumbled along barely able to make ends meet until Lewis finally decided it was time to move on to something else.

On top of all his business troubles, Lewis's teenaged daughter had recently died after a long struggle with tuberculosis. Lewis had every right to be discouraged and downcast, but his deeply-held Christian faith had seen him through many trials, and he was not about to give up. The Tappan brothers' abolitionism was only the latest in a series of Christian endeavors that brought scorn and derision from much of the New York business community.

Abolition, especially the immediate emancipation espoused by the Tappan brothers, was about as unpopular in 1830s New York as it was in the South. Arthur served as the first president and chief financier of the American Anti-Slavery Society, while Lewis served on the Society's

Tell father that Mr. Tappan whose son I know — and whose clerks young Tappan and Waldo are — has invented and established a new and very important business — which Waldo thinks could allow them to burn 99 out of 100 of the stores in NY which now only offset and cancel out one another. It is a kind of intelligence office for the whole country — with branches in principal cities, giving information with regard to the credit and affairs of every man of business in the country. Of course it is not popular in the South and West. It is an extensive business, and will employ a great many clerks.

— Henry David Thoreau to Sarah Thoreau, May 22, 1843

executive committee. Their abolitionist activities led to dire consequences for both brothers. Lewis's home was ransacked during an anti-abolitionist riot, and newspapers in the South called for the heads of both brothers.

In Louisiana, protesters pledged \$30,000 to the person who delivered the brothers to New Orleans, and a minister in South Carolina offered \$100,000 if abolitionists La Roy Sunderland and "old Arthur Tappan" were brought to the South. On hearing the latter offer, Arthur purportedly replied, "If

that sum is placed in a New York bank, I may possibly think of giving myself up."

Lewis's involvement in the abolition movement also hindered him when he tried to expand his new venture, the Mercantile Agency, into the South. However, his dogged persistence coupled with his superb management skills more than compensated for the troubles caused by his adherence to the abolitionist movement. The Mercantile Agency, according to historian James H. Madison, "...offered a new kind of service to American businessmen. ...The Mercantile Agency was the first organized effort to provide all who wished to subscribe to its service with detailed credit information about businessmen across a broad expanse of territory. In both purpose and scope, the commercial credit reporting agency was a novel business institution."

After the Panic of 1837, Lewis began to realize that the current methods of determining creditworthiness were deeply flawed. These methods relied heavily on personal relationships between New York wholesalers, such as Arthur Tappan & Co., and their many customers scattered throughout the country. Historian Lewis Atherton noted that, "As late as the Civil War, merchandise was sold to country stores on a credit of six months without



Lewis Tappan, founder of the Mercantile Agency.

THE MERCANTILE AGENCY DAILY NOTIFICATION SHEET.

R. G. DUN & CO.

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THE ATTENTION OF SUBSCRIBERS is requested to the following conditions: This Sheet is a strictly confidential communication, and is prepared and furnished at a price agreed upon to our yearly subscribers only, at their own request, and for their guidance and protection in business.

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When inquiring for any of the undermentioned, please note on the Inquiry Ticket that the name was on the sheet.

Table listing business notifications by state/territory: CONNECTICUT, DAKOTA TERRITORY, ILLINOIS, IOWA, MASSACHUSETTS, MICHIGAN, MINNESOTA, MISSOURI, NEW HAMPSHIRE, NEW YORK.

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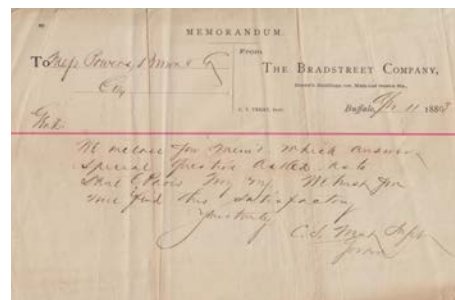
These items do not necessarily affect the credit of the parties mentioned. They are given just as we find them on the Public Records, and suggest further investigation or explanation.

Table with columns for County (Albany, Rensselaer), Date, and Description of legal records such as Real Estate Mortgages, Conveyances, and Judgments.

THE BUSINESS FAILURES OF THE LAST SEVEN DAYS

number for the United States 162, and for Canada 18, or a total of 180, as compared with a total of 201 last week, and 215 the week previous to the last. The returns show a diminution in business casualties in every section of the country.

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Memorandum from the Bradstreet Company, dated April 11, 1883.

effects through the entire credit system. Moreover, as the country continued to grow, it eventually became impossible for the New York wholesalers to develop the kind of personal relationship with their customers that the credit system required.

Large, well-established European firms, such as Baring Brothers, solved the problem by hiring full-time employees to travel around the United States and gather information on potential credit customers. Such a system was too expensive for most US businesses to emulate. In New York, some wholesalers organized the Merchants Vigilance Association and hired an individual to travel about and produce credit reports for the Association. The effort, however, was short-lived.

Lewis Tappan adroitly stepped into the gap and worked incessantly to get the new agency up and running. This involved going from door to door soliciting subscriptions from various New York businesses. He also worked hard to develop a national network of correspondents who would deliver timely and accurate credit reports to the company's New York headquarters. He took advantage of both his business network and his abolitionist network to find correspondents. When those avenues were exhausted, he worked to identify local lawyers to complete the task. One notable abolitionist who agreed to work for him was Salmon P. Chase, future Secretary of the Treasury, and one of the lawyers he recruited in Illinois was none other than Abraham Lincoln.

In the early years, Tappan's correspondents worked in secret to uncover information on local businesses. This unnerved many businesses » continued on page 38

The Mercantile Agency Daily Notification Sheet, issued by R.G. Dun & Co. on August 10, 1885.

interest, and an additional six months was allowed if storekeepers were willing to pay a moderate interest rate for the extension."

To obtain such credit, a storekeeper was simply required to obtain a letter of

reference from a respected storekeeper, a local lawyer or a minister vouching for the character and creditworthiness of the applicant. This system worked fairly well until economic downturns sent ripple

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who felt that the Mercantile Agency was spying on them in what they described as a "system of espionage."

The Mercantile Agency grew slowly because of poor economic conditions, and it never really caught on in the South until after Lewis Tappan retired from the firm in 1849. His two successors, Benjamin Douglas and Robert Graham Dun (who renamed the company after himself in 1859), were able to expand the business into the South because of their ambivalence towards abolition. This allowed the company to offer a truly nationwide service and to dominate the field of credit ratings for years as the company continued to improve and expand its credit reporting abilities.

In 1933, R.G. Dun & Co. merged with its biggest competitor, The Bradstreet Companies, to form Dun & Bradstreet: a company which today claims to have "compiled the most comprehensive and accurate repository of business data on the planet."

The task Lewis Tappan set out to achieve in 1841 eventually succeeded beyond his wildest dreams, providing much-needed credit ratings and more for businesses worldwide. \$

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