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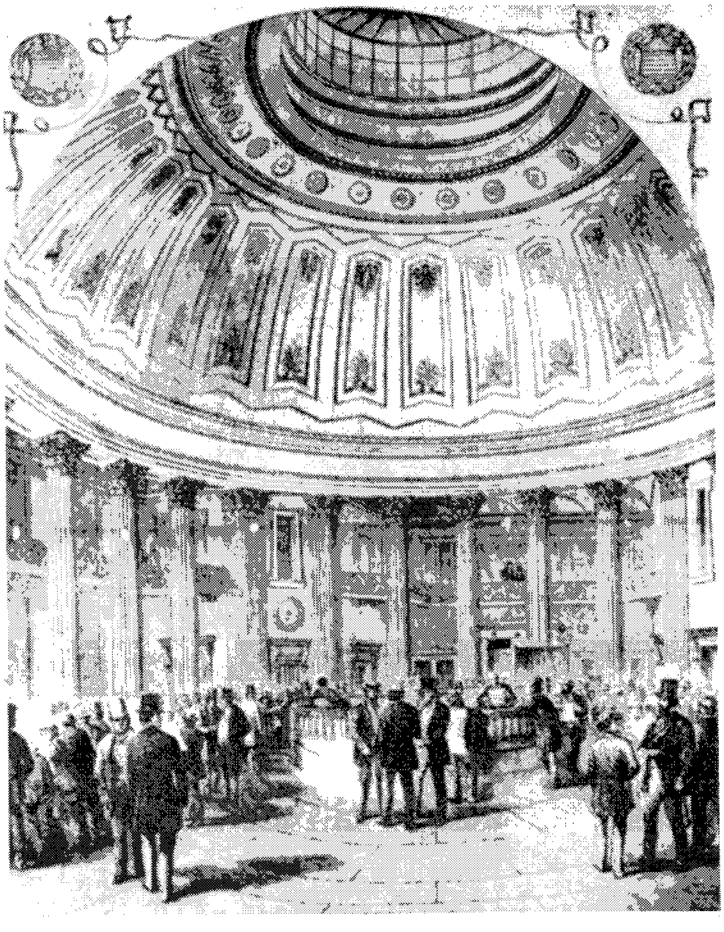
THE UNITED STATES INDEPENDENT TREASURY SYSTEM

FEDERAL HALL, N.Y.



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The United States Independent Treasury System

Federal Hall, N.H.S. - New York

by
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DIVISION OF HISTORY
Office Of Archeology And Historic Preservation

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THE UNITED STATES INDEPENDENT TREASURY SYSTEM: ITS SIGNIFICANCE AND APPLICATION TO FEDERAL HALL-- WITH A NOTE ON THE CUSTOMS HOUSE PERIOD

by

Historian John D. R. Platt

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Background and Evaluation Study

Preface

This study, prepared under RSP FEHA-H-2, brings together in narrative form, from an extensive range of secondary and printed source materials, data needed for the development of museum exhibits on the New York Sub-Treasury and Customs in the building at the corner of Wall and Broad Streets in New York City. It has been made as complete as time had permitted. A complex subject, the Independent Treasury System gauged America's economic development during its years of operation. The Customs is a subject on quite another level, lacking an extensive literature, although tariff policy has been the subject of much economics and historical writing. The data offered here touches on the essential topics to be considered among those concerning the 1842-1862 period of occupancy.

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CHAPTER 1. HOW THE INDEPENDENT TREASURY SYSTEM CAME INTO BEING AND WHAT IT WAS

The Bank "is trying to kill me, but I will kill it." President Andrew Jackson, "a spectre in physical appearance but as always a hero in spirit," addressed these words to admiring follower Martin Van Buren from his sick bed on the eve of the great political war over rechartering of the Second Bank of the United States. Following fifty years of off-again, on-again national bank experience, central banking had become the greatest political issue of the times. Two days after confiding his intentions to Van Buren, Jackson vetoed the recently-passed bank bill. He phrased the veto as a campaign document, for the Bank had become the plank across which presidential hopeful Henry Clay expected to advance into office. Nicholas Biddle, president of the Bank, upon receiving the news of the veto, wrote to his champion in Congress that the message had "all the fury of a chained panther, biting the bars of his cage . . . It is really a manifesto of anarchy, . . . my hope is, that it will contribute to relieve the country from the dominion of these miserable people [the Jacksonian Democrats]." As he assured Clay, "You are destined to be the instrument of that deliverance."[1]

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1. From Van Buren Autobiography quoted in Charles Grier Sellers, Jr., James K. Polk Jacksonian 1795-1843 (Princeton, N.J.), 1957, p. 168. (Hereafter cited as Sellers, Polk Jacksonian.)

Clay lost the election, and though later to enjoy ephemeral moments of apparent triumph failed also in a long crusade to present to the country a central banking system. Jackson won on both counts. He served a second term as president. And he bulwarked opposition to Clay's repeated later efforts at recharter. Never again was a central bank to be chartered by Congress.

The background of the Independent Treasury System extended from the earliest years of the Republic and encompassed basic political issues that divided the two major parties through periods of national expansion and growth into the twentieth century. Almost the first order of business taken up by Washington's administration, after organizing the government and judiciary, had been the chartering of a privately capitalized and directed bank, having quasi-public functions and intimate relations with the Treasury of the United States as place of deposit for the government, itself the largest stockholder. Through its note issues and operation of a network of branches in all the nation's principal trading centers, the Bank of the United States regulated the country's financial system. Through a policy more often of restraint than stimulation, the Bank also controlled the nation's rate of economic expansion.

The constitutionality of all this had from the start been questioned. When first taken up in Washington's cabinet, Secretary of State, Thomas Jefferson, who felt "banking establishments are more dangerous than standing armies" vehemently opposed the measure. But the best of his reasoning, supported by Attorney General Edmund Randolph's opinion that the Bank was indeed

unconstitutional, proved less convincing to Washington than Secretary of the Treasury Hamilton's exposition in the Bank's favor. So, in 1791 were fired the first volleys of a perennial contest between Federalists and Jeffersonian Republicans, Whigs and Jacksonians, and Democrats and Republicans that lasted into this century. In this era of the Federal Reserve System, the party battles of the Jacksonian age over monetary systems assume an anachronistic flavor. In an age 140 years ago not only of Jacksonian democracy but of nascent capitalism, the issue had virulence. Not only was the question of the suffrage before the people, but also who and how many would benefit from the enormous opportunities opening up in the land of vast resources.

The first Bank of the United States went out of existence at the expiration of its charter in 1811, a victim of its very successes and the charge of being a nest of privilege, informed and moderate opinion in its favor notwithstanding. The second Bank of the United States was chartered in an hour of desperate financial need after the War of 1812 and following a period of rigorous trial succeeded only after ridding itself of expansionist tendencies. Before long it became the special target of rising new societal elements of what has been referred to as an "acquisitive democracy," who wanted to be freer of restraints on credit,

to use it to come into their own.[2]

Andrew Jackson in undertaking his crusade against the "Monster of Chestnut Street" was actuated by long-held suspicions of banks in general. As a hard money advocate he doubted their utility. He feared their influence on the Republic. The activities of bankers in general and Biddle specifically, beyond the immediate range of banking, certainly reinforced these attitudes. He wanted to disqualify them from connection in any way, shape, or form with the government. The Bank of the United States he feared most of all. When warming up to his assault on the Bank he wrote "Both the constitutionality and expediency of the law creating this bank are well questioned by a large portion of our fellow-citizens; and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency."[3]

Yet until Jackson declared war on the Bank of the Unites States,

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2. Louis Hartz notes that "The clash between Capitalist hunger and anticapitalist principle reached its climax, of course, on the banking question . . . The hard money dreams of Tayor and Jackson were shattered by rising entrepreneurs, Western farmers, and private bankers who favored the assault on Biddle not in order to limit credit but rather to expand it at the hands of local banks. This type of pressure had been exerted even against the First Bank of the United States under Jefferson. By the time of Jackson, America's 'acquisitive democracy'--its 'millions of go-getting Americans,' as Hammond puts it--overwhelmed the concept of credit control." <u>The Liberal Tradition in America, An Interpretation of American Political Thought since the Revolution</u> (New York), 1955, pp. 137-8.

3. Sellers, <u>Polk Jacksonian</u>, p. 176. "To Jackson, as to other hard-moneymen, 'a uniform and sound currency' was gold and silver coin, or at least notes readily convertible, anytime or anywhere, into the precious metals."

it withstood all shocks. The policy of severe contraction through resort to which it survived the Panic of 1819, following three years of reckless overexpansion, had cost holders of the bank's notes dearly and made sworn enemies by the thousands. Attacked in the aftermath by vindictive state legislatures, the bank had been shielded by Chief Justice John Marshall's landmark decisions in McCulloch v. Maryland and Osborn v. Bank of the United States.

Recognizing that certain functions performed by the Bank had to be carried on after that institution's planned demise, Jackson had been lured by bullionist Senator Thomas Benton to endorsement of John Randolph and Stephen Simpson's national exchequer bank. This strangely, for Jackson, royalist-sounding agency of finance would be the repository of the nation's funds and would sell bills of exchange to enable the transfer of funds by traders, but would not operate in other ways as a bank; not making loans, issuing notes, and in other ways lending its resources to expanding and contracting commercial activity. It would thus provide a redeemable form of currency and maintain the public funds, but would remain aloof from the market place. This plan Jackson proposed to the Congress in his second annual message of December 1830.[4] But the Congress would have none of it. Much as their constituents disliked the great Bank's restraining influence, they were not prepared to trade restraint in one form for that of another.

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4. Ibid., p. 176.

Now in 1832 as Jackson joined battle with Clay and Biddle, the situation had changed perceptibly from that of 1819. To the rising entrepreneurial democracy the administration appealed by striking out at the Bank's exclusive privileges. Attacking Marshall's opinion, Attorney General Taney declared the Bank unconstitutional and, to stimulate the prejudices of those not swayed by constitutional argument, under influence of its foreign shareholders as well. The veto message, reflecting Jackson's unswerving rectitude, put his case in such a way as to bring but cold comfort to anyone better able to read the public mind than Biddle:

> . . . the humble members of society-the farmers, mechanics, and laborers-who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their government. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing.[5]

In the years that preceded expiration of the Bank's charter in 1836, the government's deposits were drawn out to meet expenses-and not replaced.[6] Current revenues were deposited in state-chartered banks, known as "pet banks," where their use as basis for huge note issues lent weight to the uninhibited expansion that

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5. Quoted in ibid., p. 183.

6. The process of withdrawal began in 1833. In the absence of specific congressional provision for the Government's incoming funds, they were deposited in state-chartered banks, generally in a balanced distribution section by section.

terminated abruptly in the crisis of 1837.[7]

By that time, with Van Buren in the presidency, the eastern free traders and New York banking interests had found a man of their own. In fact he had based his political power in large part on a policy of opposition of banking monopoly and had opposed as his predecessor before him chartering of a national bank. Now with the country in depression, he faced the necessity of finding an institution to succeed it. In September Van Buren called the Congress into special session and urged passage of a "Divorce Bill," making the Government independent of all banks. It was to

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7. The Treasury Department under Jackson's hatchet man in the operation, Roger Taney, on September 26, 1833 issued a circular to deposit banks, stating "The deposits of public money will enable you to afford increased facilities [loans] to commerce, and to extend your accommodations to individuals." It also singled out "merchants engaged in foreign trade" as favored recipients of extended credit. As this was a time of enormous capital expansion and huge expansion of government revenues from customs receipts and sale of public land, the public debt was virtually extinguished and additional surpluses were paid over to the states by congressional action. The stimulation thus provided increased business rates while increased importation raised prices. With this inflationary process forces had been set in motion for a crash. Between 1830 and 1838 state bank loans and discounts rose from $200,451,214 to $525,115,702. Imports rose from $101,030,000 in 1832 to $189,980,000 in 1836; customs receipts in the corresponding period rose more than 44 per cent. In 1836 sales of public lands exceeded customs receipts. By 1837 the state banks had $32,000,000 in government deposits. Several orders by the Secretary of the Treasury to create a specie circulation by replacing bank notes of small denomination with coins preceded the notorious specie circular of July 11, 1836, requiring payments for public lands in gold and silver (intended to slow down land speculators and head off a flood of paper) finally "pricked the bubble of inflation." Nearly all the banks failed, costing the government $2,500,000 in depreciation of the notes with which it was repaid. David Kinley, The History, Organization, and Influence of the Independent Treasury of the United States (New York, 1893) pp. 17-22. (Hereafter cited as Kinley, Independent Treasury.)

provide that all revenues be retained in the Treasury, that the Treasury issue money, coins under fifty dollars, notes for units above that sum.[8]

Panic or no panic, Congress took its own good time in acting upon Van Buren's request. Not until the following year did the "Divorce Bill" pass in the Senate. During the summer it failed in the House. Revived during the next session of Congress, that of 1839-40, it finally had passed both houses by June 30, 1840, following a brilliant round of debates, mostly political rather than economic, involving Calhoun, Clay, and Webster.[9]

Thus was the hard money system for which Van Buren had put the presidency on the line completed, eleven years after Jackson had initiated reform in 1829. The old warrior's attachment to the cause had remained firm throughout. James' biography tells us that

> On a raw day in 1837 Amos Kendall [formerly of the kitchen cabinet], visiting at the Hermitage, found his host a quarter of a mile from the house without a coat awaiting the mail coach with news of the Independent Treasury Bill. Jackson followed the progress of that measure . . . as keenly as he had followed

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8. "This was a recommendation of the Independent Treasury, as it was called by its friends, or Sub-Treasury as its opponents named it. The system was, in fact, virtually in operation already. Secretary Woodbury informed Congress in his report, that although on the suspension of specie payments six banks had been retained as depositories, part of the public money was kept as a special deposit in Washington, part at the mint, and the rest with the officers collecting it. The Secretary urged on Congress either an enlargement and adaptation of this method, which he was employing on his own responsibility, or a new organization of commissioners and receivers-general, . . ." Ibid., p. 23.

9. Ibid., p. 28.

> any legislation in his days of power . . . At the next session of Congress . . the Bill became a law . . . The mail coach waited beside the Hermitage gate while Old Hickory scribbled a note of congratulations to Mr. Van Buren.[10]

During the period of debate over the proposal, William M. Gouge, endorsed the scheme as simple and efficient:

> So plain would be the accounts that we might choose for the chief book-keepers of these sub-Treasuries the disciples of the ingenious cordwainer [shoemaker] who daily threw into the leg of one boot a slip containing a statement of his receipts for the day, and into the leg of the other a slip containing a statement of his expenditures.[11]

Unhappily for Jackson and Van Buren's state of mind, the 1840 legislation remained in effect for barely a year. As re-establishment of a national bank was a principal Whig platform plank in the election of 1840, the new Congress on August 13, 1841, led by Clay, as a first step repealed the Independent Treasury law. When Clay failed to get the bank charter past state rights Democrat John Tyler, presidential successor to the deceased William Henry Harrison, a return to the state banks as places of deposit became the <u>modus operandi</u> until the administration of James K. Polk.

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10. Marquis James, <u>Andrew Jackson, Portrait of a President</u> (New York), 1937, pp. 442, 446.

11. Gouge is listed as a financial writer in the <u>Dictionary of American Biography</u> (Vol. VII, pp. 444-5). He has been referred to elsewhere as a government clerk. After a short stint in journalism, Gouge moved into the Treasury Department and enjoyed a career of many years duration in that department. A strong critic of banks, he found the Independent Treasury System much to his liking and served the principle well in a series of tracts. This quotation from his "An Inquiry into the Expediency of Dispensing with Bank Agency and Bank Paper in the Fiscal Concerns of the U. S." published in Philadelphia during 1837 is from Kinley's <u>Independent Treasury</u>, pp. 27-8.

Polk during the great bank war had been the Democrats' man-of-the-hour in the House of Representatives, conducting an investigation of the Bank's affairs that provided fuel for agitation against that institution and paved the way for removal of the deposits.[12] By 1846 he had crossed the line of cleavage that separated the Van Burenites from the entrepreneurial Democrats, going so far while governor of Tennessee in 1843 as to admit that reality required employment of banks to a "reasonable extent" in the conduct of trade, and endorsing a mixed currency of paper money and specie.[13] Faced now with the financing of the Mexican War, he advised the congressional committees preparing the "constitutional treasury bill," to include note issue authority for the Secretary of the Treasury. The bill re-establishing an independent treasury system passed both houses by straight party vote, the last house voting on July 29, 1846.[14]

The system established in 1846 was to remain in operation with modifications until establishment of the Federal Reserve System in 1913. Thereafter, it functioned in a different context until abandoned in 1921 by virtue of an act of the preceding year. Writing not long after passage of the 1846 act, with the ring of battle still in his ears, Thomas Hart Benton, Senator from Missouri, and the

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12. Sellers, Polk Jacksonian, pp. 189-192.

13. Charles Sellers, James K. Polk Continentalist 1843-1846 (Princeton, 1966), pp. 16-17.

14. Ibid., pp. 468-70.

best-known hard money advocate of his time, pronounced the Independent Treasury System an unqualified success. The measures had "triumphed--have maintained their supremacy ever since--and vindicated their excellency on trial . . . opposition has died away, and given place to support . . . No attempt has been made to disturb these great measures since their final adoption, and it would seem none need now be apprehended; . . ." Turning to their operation, he found them "clear in principle--simple in detail: the government to receive nothing but gold and silver for its revenues, and its own offices to keep it--the Treasury being at the seat of government, with branches, or sub-treasuries at the principal points of collection and disbursement . . . The capacious, strong-walled and well-guarded custom houses and mints, furnished in the great cities the rooms that were wanted: . . ."[15]

Until the Panic of 1857 the system was continued as Benton had noted with but a whisper of change. It signaled as he had heralded with his words "triumphed," "supremacy," "vindicated," the "divorce of Bank and State," the victory of Republican institutions. Where government funds were concerned the Independent Treasury System most perfectly reflected the doctrinaire laissez-faire position taken by successive Democratic administrations. Through periods of great expansion and contraction, they had adhered undisturbed

15. Thomas H. Benton, Thirty Years' View; or a History of the Working of the American Government . . . from 1820 to 1850 (New York, 1854-6), Vol. II, p. 39.

to the line expressed by Van Buren in 1837 at a time of general distress:

> Those who look to the action of this government for specific aid to the citizen . . . lose sight of the ends for which it was created and the powers with which it is clothed . . . The less government interferes with private pursuits, the better for the general prosperity.[16]

All the while, there were forces abroad that vastly affected the public welfare. The management of federal finances was only one among many but a vital one. In preventing the rechartering of the Bank of the United States, Jackson had removed the only available control over the credit structure. In the absence of such control Federal surpluses and their handling inflated credit and over-stimulated investment. Establishment of the Independent Treasury System had the merit of reducing the effect of these economic factors by removing the public moneys from the reach of the state banks.

The new system would suffice for the present--an agrarian present, marked by general prosperity, reforms in banking practices, and a decade's moratorium in foreign investment.[17] Over the long

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16. Quoted in Paul Studenski and Herman Kroos, Financial History of the United States, Fiscal, Monetary, Banking, and Tariff, including Financial Administration and State and Local Finance (New York, 1952, 1963), p. 112.

17. "Under the limitations imposed by the agrarian thinking which prevailed during the era, the Independent Treasury was the only logical system. It was an attempt to save the government from the allegedly baneful influences of an overly powerful central bank, as well as from dependence on an irresponsible state-banking structure. In another sense, it was a hard-money compromise between conservative centrally controlled paper circulation and aggressive, but overly loose, state-bank circulation." Ibid., p. 119.

haul it would not fare so well. As the nation changed, its economy altered, its social and political ideals with them, the system's disadvantages were to become more and more pronounced. In an industrial America, further modification would prove inadequate to the need. In time complete separation of government and banks would be recognized as the impossible ideal it had been from the start, and it would be replaced.

The 1846 law establishing the Independent Treasury System consisted altogether of 24 sections. Commenting on their extent and effect, the system's historian has written:

> . . . the act completely accomplished the separation of bank and State, at which it was aimed. It made the government distinctively its own banker, essentially and actually, even to the furnishing of the paraphernalia of office-room. Taken in conjunction with the law sanctioning the emission of treasury notes, the sub-treasury act established a bank of issue.[18]

For the first time in its history the Treasury was to become a "substantive treasury" and the Treasurer of the United States a "substantial treasurer, and a real treasurer," in the words of the legislation's advocates. This they argued followed logically from the provision of the Constitution's Article I, Section 9 that "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law . . ." The first Congress had thus interpreted the paragraph when, in establishing the Treasury Department, they had declared "it shall be the duty of

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18. Kinley, Independent Treasury, p. 42.

the Treasurer to reserve and keep the moneys of the United States."[19]

In giving the Treasury a substantial existence, the law's first section defined it in very tangible terms as:

> The rooms prepared and provided in the new treasury building, at the seat of government, for the use of the Treasurer of the United States, his assistants and clerks, and occupied by them, and also the fire-proof vaults and safes erected in said rooms for the keeping of the public moneys in the possession and under the immediate control of said Treasurer, and such other apartments as are provided for in this act as places of deposit of the public money, are hereby constituted, and declared to be, the Treasury of the United States.[20]

The next three sections provided six locations in addition to the treasury building at Washington to be denominated places of deposit and safe-keeping of the public money: the custom houses at New York City and Boston, the rooms provided under the act of 1840 for the receivers-general in Charleston and St. Louis, and the mints at Philadelphia and New Orleans. The two mint directors were given the additional duty, in the sixth section, of performing as assistant treasurers. At the other four cities, by the terms of the fifth section, assistant treasurers were to be established:

> . . . the President shall nominate, and, by and with the advice and consent of the Senate, appoint four officers, to be denominated 'assistant treasurers of the United States,' which said officers shall hold their respective offices for the term of four years, unless sooner removed therefrom; [one of which shall be located at the city of New York] . . .[21]

19. Quoted in ibid., p. 36. See Appendix B.

20. Quoted in ibid., p. 40. Underscoring is the writer's.

21. Quoted in ibid., p. 273.

Other sections dealt with the mechanics of giving bond, making deposits and transfers, inspecting facilities, safekeeping funds, fixing penalties for embezzlement and violation of the act, providing mode of paying drafts and salaries, securing temporary quarters, and providing for incidental expenses.[22]

The sixth section, dealing with functions of Treasury officials, was at the heart of the Treasury's transformation:

> That the Treasurer of the United States, the treasurer of the mint of the United States, the treasurers, and those acting as such, of the various branch mints, all collectors of the customs, all surveyors of the customs acting also as collectors, all assistant treasurers, all receivers of public moneys at the several land offices, all postmasters, and all public officers of whatsoever character be, and they are hereby, required to keep safely, <u>without loaning, using, depositing in banks, or exchanging for other funds</u> than as allowed by this act, all the public money collected by them or otherwise at any time placed in their possession and custody, till the same is ordered, by the proper department or officer of the government, to be transferred or paid out; and when such orders for transfer or payment are received, faithfully and promptly to make the same as directed, and to do and perform all other duties as fiscal agents of the government, which may be imposed by this or any other acts of Congress, or by regulation of the Treasury Department made in conformity to law; and also to do and perform all acts and duties required by law, or by direction of any of the executive departments of government, as agents for paying pensions, or for making any other disbursements which either of the heads of those departments may be required by law to make, and which are of a character to be made by the depositories hereby constituted, consistently with the

22. *Ibid.*, pp. 274-283.

official duties imposed on them.[23]

Section eighteen, known as the "specie clause," was the act's indispensable provision. Without its operation the severance of the government's tie with banks could not have been effected; receiving and relaying their notes would have been unavoidable, and the sub-treasuries a sham. It provided:

> That on the first day of January, in the year one thousand eight hundred and forty-seven, and thereafter, all duties, taxes, sales of public lands, debts, and sums of money accruing or becoming due to the United States, and also all sums due for postages, or otherwise, to the General Post-Office Department, shall be paid in gold and silver coin only, or in Treasury notes issued under the authority of the United States . . .[24]

The reverse of this coin was provided in section nineteen's directing that on and after the first of April of the same year ". . . every officer or agent engaged in making disbursements on account of the United States, or of the General Post-Office, shall make all payments in gold and silver coin or in Treasury notes, if the creditor agree to receive said notes in payment; . . ."[25]

An interesting provision of the act, and one significant of the relative importance of the various assistant treasuries, was that in section twenty-two, scaling compensation. At the top of

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23. Reproduced here in its entirety; underscoring of prohibition is the writer's. Ibid., pp. 273-4.

24. Ibid., pp. 280-1.

25. Ibid., p. 281.

the list was to be the Assistant Treasurer at New York with a salary of $4,000 per annum. The other three assistants were to receive $2,500, while the two mints' directors could count on $500 over their regular stipends.[26]

This then was the system that the Bankers' Magazine predicted would come to grief: "That scheme we consider utterly impractical and indefensible . . . [it as law] cannot be in force for six consecutive months, nor will it be, in our opinion, strictly complied with for forty-eight hours."[27]

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26. Ibid., pp. 282-3.

27. Quoted in ibid., p. 37.

CHAPTER 2. HOW EFFECTUALLY THE INDEPENDENT TREASURY SYSTEM OPERATED

Although the Independent Treasury System persisted on into the twentieth century, long before its discontinuance it had ceased to be in fact independent. Almost from the start loose practices sprang up that circumvented the intent of the law. In the transfer of public funds disbursing agents of the government found it advantageous to give drafts to bankers and brokers who circulated them long enough to compensate for transporting the specie. Secretary of the Treasury Guthrie, a strict interpreter of the law, closed off this leak upon assuming office in 1853. And in 1857 the Independent Treasury Law had to be amended to require that disbursing officers make deposits in the sub-treasuries. Until then some had continued to make deposits in banks.

But at first a mood of confidence prevailed. As was to be expected initially there was no end of difficulties: no appropriation made for salaries of assistant treasurers and mint directors, no provision for the expenses of transferring moneys, inadequate provision for the expenses of transferring moneys, inadequate provision for incidental expenses, unevenness of security arrangements for care of moneys, opposition of banks and distrust of the public for an untried system, and the like. As reported by William M. Gouge, first to inspect the places of deposit, after several months on circuit: "One depository in the western country that I visited in 1849

reminded me more strongly of what Robinson Crusoe's fortification may be supposed to have been, than anything I have seen either before or since."[28] Such problems as these had no general effect

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28. "The chief tavern in the town was the building believed to afford the best security, and an apartment adjoining the bar-room was made a depository of the treasury of the United States. Immediate access from the bar-room to the depository was shut off by closing the door of communication, and, as further security, the partition-wall was lined with boards; but as the glass lights in the communicating door were left uncovered, in order that the keeper of public treasure might, when in the bar-room, see into his own apartment, a determined burglar could, in a few minutes, have forced his way in.

"The entrance into the depository was through a back passage under a stairway. Every person who attempted to enter had to stoop till he was almost double, and then he found his further progress obstructed by a grated door, fastened by an iron chain in such a way that it could not be opened except by main force, or with the consent of the sub-treasurer. When in the depository, the citizen who had business there found it divided into two apartments by a temporary partition. One of these was lighted by a single window, defended by iron grates of no great strength. In this division of the room the officer kept the chief part of his silver in boxes; screening the boxes themselves, as well as he could, from public view, by covering them with a wooden casing, somewhat resembling in form a giant coffin. In the other division of the room, being that to which there was entrance under the stairway, there was an iron safe, in which the depositary kept his gold and so much silver as he could store therein. Around this apartment ran a low gallery, constructed by the depositary expressly that, in case of attack, he might, if in danger of being overpowered below, retire above, and shower down upon his assailants stone bottles and other missiles of this kind, of which he had provided an abundant store. He slept in this room, and guns, pistols, and pikes completed his assortment of weapons, offensive and defensive.

"In this fantastical fortification was kept, for years in succession, hundreds of thousands of dollars of the United States money, simply because Congress had made no appropriation to provide anything better. This was not in an obscure part of the country. It was in Jeffersonville, Indiana, immediately opposite to Louisville, the largest city in Kentucky." William M. Gouge, "Report on the Public Depositories," (May 26, 1854), Doc. No. 30, <u>Report on the Finances</u>, <u>Senate Executive Documents</u>, 33d Cong., 2nd Sess. (Wash. 1854), p. 257.

on the system and were remedied in good season.

Conditions favorable to the system's success attended it from the beginning. Business was good and commerce increased with the abolition of England's corn laws and the resulting large export of grains to that country. This gave the United States a favorable trade balance, bringing in specie. The squeeze in the money market caused by the Mexican War had been thus ameliorated, while the upheavals in Europe in 1848 had made for more markets for American agricultural surpluses. With the discovery of gold in California, this country became an exporter of gold as a commodity. Surpluses in governmental revenues made possible retirement of bonds. Extravagant claims for the system's effect, such as the one penned by Benton, took on plausibility. Despite imperfections, the Independent Treasury System in 1855 to all appearances was "in good working order, and was apparently accomplishing all that its advocates had claimed for it."[29]

Furthermore, its influence on the money market in times of increased business activity was regarded by well-wishers as salutary: ". . . the Independent Treasury, when overtrading takes place, gradually fills its vaults, withdraws the deposits, and, pressing the banks, the merchants, and the dealers, exercises that temperate and timely control which serves to secure the fortunes of individuals and preserve the general prosperity."[30] The system's

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29. Kinley, Independent Treasury, p. 57.

30. Opinion of Secretary of the Treasury Guthrie. Ibid., p. 59.

stability during the Panic of 1857 seemed proof of the validity of this species of thinking. Banks again failed as in 1837, yet as President Buchanan claimed in his annual message, "Thanks to the Independent Treasury, the government has not suspended [specie] payments, as it was compelled to do by the failure of the banks in 1837."[31]

Even while this near ideal set of circumstances applied, an awareness had developed that the Government surplus could "exercise a fatal control over the currency, the banks, and the trade of the country, and will do so whenever the revenue shall greatly exceed the expenditure."[32] Secretary Guthrie in 1853 had had to redeem over $45,000,000 of the public debt in order to pass into circulation money accumulated in the Treasury that was causing stringency in the money market. He doubtless regarded this simply as exercising proper controls within the intent and purposes of the act. And, of course, keeping little on hand and staying out of the economy was then perfectly good Democratic party doctrine. This process of forced debt payment is in striking contrast to government's

31. Ibid., p. 63. Secretary of the Treasury Howell Cobb called the operation of the sub-treasuries "eminently successful," and claimed that their disbursements of specie afforded relief to the money market. Kinley comments: "This, doubtless, was true. But it could hardly be used as an argument to show the benefits of the Independent Treasury, unless it were also shown that its previous absorption of this specie did not bring on or intensify the monetary pressure."

32. Ibid., p. 59.

deficit financing, so well known to the public of today.[33]

The Civil War ended these halcyon days. And with the change of conditions, the Independent Treasury Law became a dead letter, although its offices, officers and outward appearances remained. The extremities of war-time finance were responsible. After the war a return to the principles of the act never was seriously considered. The offices still functioned as places of deposit and disbursement, but now related intimately to the banking community. The system continued to bask in the warmth of public favor, and despite its working alliance with banks was regarded virtually to the end as "pre-eminently an institution of the people."[34]

The first break with the system occurred when Secretary of the Treasury Chase on July 17, 1861, applied to the banks for the loan of $50,000,000. Later loans that year involved higher totals. These loans satisfied the government's need for gold, but reduced the gold reserves required to sustain the banks' notes. Concurrently, Chase was issuing Treasury notes as a further financing measure, and they drove the bank notes from circulation. The banks then suspended specie payment and the government was forced to follow. This breached the Independent Treasury Act's specie clause, rendering it inoperative. To replace specie the Treasury now issued greenbacks by the hundred million as legal tender fiat

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33. Kinley interprets Guthrie's intimations to mean that " . . . the system was even already on the defensive." Ibid., p. 59.

34. Ibid., p. iii.

money. The greenbacks could not be received as customs payments, however, because this would have deprived the government of its only source of gold, still needed to pay interest. Thus, was the life-giving provision of the Independent Treasury System sacrificed to war-time financing.[35]

So far the sub-treasuries themselves remained untouched. Then the National Banking Act of February 25, 1863, ended their monopoly of government funds, thereby completing the abandonment of the principles of 1846. Those provisions allowing the Secretary of the Treasury to designate certain of the national banks as depositories and other financial officers to deposit government funds in national banks at their own risk; those allowing the banks to be used as financial agents of the government; and those making bank notes receivable for all government payments except customs and interest nullified the act's eighteenth section.[36] Under the pressures of 1861-63 no alternative really existed. The national banking system was created to enable the government to finance the war. It not only answered to that purpose but proved useful in conducting the many transactions involved in raising funds without organizing an army of federal officials. Consequently, the national banking system continued in effect after the war.

The final measure of the wartime series authorized the deposit of gold coin and bullion in sums of not less than twenty dollars

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35. Ibid., pp. 67-8.

36. Ibid., pp. 69-70.

with the treasurer or assistant treasurers in exchange for certificates of denominations equal to United States notes. Its effect was to open the vaults of the Treasury to bankers, brokers, and bullion dealers free of charge.[37] With this last measure the Treasury's mode of operation for several years remained unchanged.

Treasury surpluses, bimetallism, an inelastic currency, and periodic crises in an age of industrial and corporate growth, marked the country's financial experiences in the post-Civil War period. A protective tariff that grew higher and higher created large surpluses following resumption of specie payments in 1879 and at the same time virtually guaranteed the amassing of spectacular fortunes in the protected industries. Periodic currency stringency satisfied neither businessman nor farmer, the former of whom wanted more of the contents of government vaults in circulation, the latter of whom wanted more and more greenbacks. During the speculations in gold, that flourished while metal was a commodity rather than in circulation, the Treasury held absolute power through its hoard. Afterwards it engaged in a frantic balancing act with the double standard of gold and silver. By 1893, a year of crisis, the financial system was generally acknowledged to be vitally defective and, as noted by one authority, in every attempt at reform ". . . some reorganization of the Independent Treasury system, some revision of relations between the government and the banks had an

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37. Ibid., p. 70. In 1873 the same deposit privilege was extended to the banks for their holdings of legal-tender notes. In exchange they received certificates, which they circulated.

important place."[38]

The extent of cooperation and coordination achieved by the Treasury and banks is strikingly illustrated by the pattern developed upon resumption of specie payment in 1879. By provision of the act New York's sub-treasury, at the heartland of American finance, was to be the point of redemption for legal tender, in amounts of not less than fifty dollars.[39] The New York sub-treasury had become a member of the New York clearing house, collecting its checks there and paying balances due the clearing house at the counter assigned it. The banks of that city alone held forty million dollars of the legal tender, and by demanding payment in gold could have wrecked the resumption plan. But they exercised restraint with the result that there was little demand for coin when resumption began.[40]

Without involving this account of the Independent Treasury System with the intricacies of what was known in the last quarter of the nineteenth century as "The Silver Problem," the re-establishment of the silver dollar as a standard monetary unit was followed by the accumulation of vast quantities of that metal

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38. H. Parker Willis, The Federal Reserve System (New York 1923), pp. 24-5.

39. Henry Steele Commager, Documents of American History (New York, 1934, 1948, 4th ed.), Vol. II, pp. 83-4.

40. Kinley, Independent Treasury, pp. 73-4.

in the Treasury.[41] In New York where the operation of foreign exchange was centered, the relationship of the sub-treasury and the banks was most uneasy in the period between 1880 and 1882 as the silver in government vaults mounted and gold declined. Having to receive silver, but employing none of it in settling balances with the associated New York banks at the clearing house, it appeared at one time in 1880 that a single monetary standard would emerge. This was prevented by the very large call for legal tender from the west during the bumper harvest in the fall of that year. The banks receiving large gold shipments at a time when silver was

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41. By provision of the Coinage Act of 1873 (An Act revising and amending the Laws relative to the Mints, Assay-offices, and Coinage of the United States, Feb. 12, 1873), the standard dollar of 412 1/2 grains silver had been omitted from the country's coinage. Other silver coins of fractional denominations (under one dollar) and a trade dollar were made legal tender. This demonetization of silver had passed without attracting public notice at the time, but a few years later when western silver production from new mines boomed acquired a new-found significance as "the Crime of '73." Commager, Documents, Vol. II, p. 75. For the next twenty-five years the silver controversy raged, until put to rest for all time by the Gold Standard Act of 1900. Ibid., p. 198. In the meantime silver advocates agitated for free and unlimited coinage of silver at a 16 to 1 ratio to gold. The Bland-Allison Act of 1878 gave them a coinage of standard weight silver dollars to the amount of not less than two million dollars worth a month nor more than four million. Ibid., pp. 97-8. Not satisfied with this they managed in 1890 the compromise Sherman Silver Purchase Act by the provisions of which practically the entire domestic output was purchased ("four million five hundred thousand ounces, or so much thereof as may be offered in each month"). Commager, Documents, Vol. II, p. 137. In return the silver backers supported the McKinley tariff of that year. The mischief resulting from the operation of the two measures and the inevitable showdown between gold and silver supporters culminated in William Jennings Bryan's "cross of gold" speech at the Democratic National Convention in 1896 and his defeat as that party's nominee in November.

depleted, actually had to request the Treasury to replenish their silver reserve, and the resultant exchange restored the sub-treasury's stock of gold.[42]

Under the further revision of the law of supply of monetary silver in 1890, a situation difficult in the extreme arose in the 1892-4 period. With a Treasury reserve of nearer $200,000,000 needed, but one-third of that amount was available at one point in that period. Where earlier the Treasury had been able to raise its gold holdings by sale of bonds to the banks, it became necessary in the 1895 emergency, when reserves had slipped to $41,000,000, to place bonds with the international bankers through J. P. Morgan and H. P. Belmont. The ready availability of gold from South Africa, to combine with bond sales, by 1898 had raised the reserve to $245,000,000. Legislating out bimetallism in 1900 ended frantic Treasury operations of this description and took care of the mountains of silver in government vaults.[43]

The final facet to be considered of Independent Treasury operations during the 66 active years of the system is its role in the country's periodic economic crises over that span of time. As discussed above, the Treasury during 1857 had supplied the banks

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42. Alexander Dana Noyes, Forty Years of American Finance, A Short Financial History of the Government and People of the United States since the Civil War 1865-1907 (New York, 1898, 1909), pp. 74-81.

43. David Kinley, The Independent Treasury of the United States and Its Relations to the Banks of the Country. Publication of National Monetary Commission, Senate Document No. 587, 61st Congress, 2d Session (Washington, 1910), p. 245. (Cited hereafter as Kinley, Independent Treasury and Banks.)

with specie from its own vaults, affording relief in that panic year. As in 1857 the panic of 1873 resulted from too rapid a movement of circulating capital into fixed capital and the inability of the enterprises, while still undeveloped, to repay the loans with which they had been floated. In other words the panic resulted not from lack of money but destruction of credit.[44] Here again the effect of the system was to lend assistance to the money market and relieve the existing stringency.[45] So too during the recessions of 1884 and 1890. These had in common the look known so well to later American generations of industrial crises rather than the earlier commercial crises. But during the panic of 1893, the situation was reversed and the Treasury had to rely on the banks for aid. The bond issues referred to above had as their primary purpose the relief of government deficits and secondarily easing the money market.[46] Revenue had fallen at a time when the Treasury was at the mercy of a gold-seeking public offering up a seemingly endless supply of silver. The previous usefulness of the Treasury in an emergency here was reversed. Not only did the Treasury in this instance draw from the resources of bank credit for its own needs, but in so doing encouraged hoarding. This in turn drew the lines of contraction

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44. Kinley, Independent Treasury, p. 181.

45. Kinley, Independent Treasury and Banks, p. 245.

46. Kinley, Independent Treasury, p. 209; Kinley, Independent Treasury and Banks, p. 245.

tighter.[47] In summary, Kinley observes "our currency legislation, always vicious from the time of the Civil War, was peculiarly so in the early nineties."[48]

The Panic of 1907 was the last straw. It had all the classic symptoms--business failures following a period of world wide speculation and inflation of credit, the breakdown of chain banking,[49] and then a stock market crash. Not as yet the crash of a broad market, involving the general public, this was the last of the panics centered if not confined to the upper echelons of the financial community before it was invaded by everyone in sight during the 1920s. In this final instance before reform of the country's fiscal machinery, assistance came from the Treasury in the form of $36,000,000 and $37,000,000 advanced in three days to the banks. By the middle

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47. Kinley, Independent Treasury, p. 199.

48. Kinley, Independent Treasury and Banks, p. 246. "The diminution of the bank reserves by the Sub-Treasury diminishes the money basis of credit and thereby at times makes credit more difficult to obtain; but at the same time the withdrawal of money from circulation necessitates a larger resort to credit in the attempt to prevent the reduction of business transacted. That is, since one part of the compound purchasing medium is diminished, the other must enlarge to maintain the same volume of business. Thus the tendency of the action of the Sub-Treasury is to diminish one basis of business to the other basis--credit; while at the same time, and by the same action, it reduces the opportunities for getting credit. The result is a check on business expansion, perhaps an actual reduction of business activity." Kinley, Independent Treasury, pp. 135-6.

49. A form of consolidation in banking not unlike that in corporate development, chain banking involved control of half a dozen banks by a single bank to promote industrial speculation. Kinley, Independent Treasury and Banks, p. 257.

of November that year, the Treasury's working surplus was down to $5,000,000 and hoarding was reckoned at $296,000,000. The time had come to do something about the situation.[50]

Treasury reform had long been in the air. In 1883 one academic critic had written ". . . the chief objection to the Independent Treasury System of to-day is that it has been outgrown by the country; that it is economically wasteful in proportion to the magnitude of its dealings; and that, by its effects on the reserves of the banks, it is becoming dangerous to the banking and business public."[51] If President Polk's "plan of an Exchequer," had in the 1840s been open to the charge that "Its model may be found in the imperial institutions of Darius, the king of Persia, and its principles have descended, with little modification and slight improvement, . . . through all governments where banks do not exist," how well could it be expected to respond to the needs of an industrial age?[52] The "Treasury Octopus," as the institution was now unaffectionately termed, drew fire from all sides. It embodied the conception of government's "grasping centralization" that "accumulated vast sums idly in its Treasury" presumably for

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50. In actuality, this small balance reflected as much the decline in deposit at the Treasury and sub-treasuries as operation of the Panic. In the national banking era Kinley wrote in 1909, "the amount of public money deposited with the banks has steadily increased, until at one time in recent years, only a comparatively small working balance was kept in hand by the Treasury itself." Ibid., p. 325.

51. Quoted in Kinley, Independent Treasury, p. 99.

52. From report of Ways and Means Committee, third session of the twenty-seventh Congress quoted in Kinley, Independent Treasury, p. 34.

the benefit of special interests.[53] Embarassed by a large surplus, President Cleveland saw tariff reductions as a possible alternative to allowing a large part of the circulating medium to be "hoarded in the Treasury," or expended "with all the corrupting national demoralization which follows in its train."[54] With the Treasury under attack successive Secretaries of the Treasury had sought ways of getting surplus funds into circulation. The degree of alienation is evident in the fact that by century's end the Independent Treasury's most vocal critics were Democrats and most ardent defenders Republicans.[55] Until after 1907 the difficulty in getting action stemmed from the principal burden of advocacy's falling upon that community of interest least likely to get a sympathetic hearing in public--the bankers themselves. Their cry of "take the government out of the banking business" and restore elasticity to the currency met with the opposition of government officials and congressmen who mocked the latter as "rubber" currency and put their faith in the National Banking System.[56]

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53. Matthew Josephson, The Politicos 1865-1896 (New York, 1938), p. 399.

54. Allan Nevins, Grover Cleveland. A Study in Courage (New York, 1932), p. 368. Kinley comments: "The reduction of the tariff has often been recommended as a means for preventing the withdrawal of money from circulation. It is evident from our examination of the subject, however, that the relief which would thus be afforded would come solely from the abolition of a surplus revenue. This would not do away with the irregularities of action of the Sub-Treasury, which constitute the really evil feature of the system." Independent Treasury, p. 143.

55. Ibid., pp. 96-7.

56. H. Parker Willis, The Federal Reserve System (New York, 1923), p. 25.

All this changed in the aftermath of the Panic of 1907. Not only did this unexpected collapse of credit in a time of relative prosperity raise the question of banking and currency reform, but also the necessity of reforming the relationship of the Treasury to banking and currency.[57] By 1908 the Vreeland-Aldrich Act was on the books as a stopgap, and the National Monetary Commission had been created to study the problem and report. Four years and a great many monographs later the National Monetary Commission's report and accompanying reform bill found its way to the House Banking and Currency Committee "under a resolution which contemplated a searching investigation of what had become known as the 'Money Trust'."[58] Chairman Pujo divided the task with the committee, himself heading a sensational investigation whose special counsel, Samuel Untermeyer, unearthed trust activities and illicit control of credits leading to far-reaching changes in law. Carter Glass headed the subcommittee to devise a reserve banking system. With H. Parker Willis, his expert adviser, he conceived the Federal Reserve System, modelled as he later claimed "upon our federal political system. It establishes a group of independent but affiliated and sympathetic sovereignties, working on their own responsibility in local affairs, but united in national affairs by a superior body which is conducted from the national point of view.

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57. Ibid., p. 33.

58. Carter Glass, An Adventure in Constructive Finance (New York 1927), p. 68.

The regional banks are the states and the Federal Reserve Board is the Congress."[59]

Still the Independent Treasury System was not quite finished. Under the Federal Reserve Act, as modified, the old relationship of "pet Banks" and the Treasury remained to be assumed as wanted by Treasury officials. This ended with America's entrance into the First World War in 1917, when the necessity for ending the old relationships became so "overwhelming and obvious that it swept away the remnants of the old sub-treasury system and thereby cleared the ground for the necessary relationship which must exist between any sound banking system on the one hand and the financial structure of a government, which involves far greater turnover of cash than any subordinate or industrial enterprise."[60]

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59. Ibid., pp. 173-4. And while about it upheld the age-old Democratic party principles against banker control of the country's finances by rejecting all efforts to adopt a bankers reserve bank as the regulatory machinery. Banker influence in the Federal Reserve System since has brought about much the same effect.

60. H. Parker Willis, The Federal Reserve System (New York, 1923), p. 38. The coup de grace was administered to the system by amendment to the Federal Reserve Act dated May 29, 1920:

"Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States, and the revenues of the Governments made by checks drawn against such deposits . . . ." Quoted in Carter Glass, An Adventure in Constructive Finance (New York, 1923), pp. 376-7.

Following more than twenty years study of the Independent Treasury System, David Kinley recapitulated the experience with it as follows:

> The policy of the Federal Government with reference to keeping public money and dealing with banks has not been consistent. It shows alternate attempts at the use of banks and independent management . . . .
>
> In the past one hundred and twenty years [1789-1909] . . . there are only seventeen, 1847-1864, in which the Government did not use depository banks for keeping the public money . . . .
>
> The evidence therefore shows that there has been, uniformly, a strong tendency for the Government, throughout its history, to use banks . . . .
>
> The causes of this tendency are shown to have been the greater convenience in the management of the public money, the desire of the Secretary and the public that government fiscal operations should interfere as little as possible with the monetary circulation and with business conditions, the necessities of the Government and pressure from banking and other interests . . . .
>
> So far as the history we have examined shows, the independent treasury has been useful in monetary stringencies and crisis, when its absorptions have coincided with a rise in prices caused by speculation; and when its disbursements have coincided with a demand for money for a legitimate temporary expansion of business its action has been beneficial. When it has disbursed during speculation, or absorbed during a healthy business expansion, it has done mischief. It has failed altogether when credit has suspended, and has sometimes made the situation worse by promoting hoarding.[61]

61. Kinley, Independent Treasury and Banks, pp. 7, 268-9, 324.

CHAPTER 3. THE NEW YORK SUB-TREASURY AND ITS FUNCTIONS

The New York sub-treasury at its inception was one of six in the Independent Treasury System, the others being located at Boston, Charleston, Philadelphia, New Orleans, and St. Louis. To these later were added sub-treasuries at Baltimore, Chicago, and San Francisco. The superintendents of the mints at Carson City and Boise were also required to perform the duties of assistant treasurers.[62] The Independent Treasury System included in addition depositories at sixteen other cities.[63] All sixteen gave way to national banks in time.

At the start of operations the six sub-treasuries employed a grand total of 16 officers and clerks with an annual payroll of $21,000. Five of the six had an assistant treasurer and a single clerk; New York had an assistant treasurer and five clerks.

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62. The Treasury Department's chief of the division of public moneys had charge of the system. Kinley, Independent Treasury, p. 82. Charleston phased out of the system with the Civil War.

63. At Buffalo, N.Y.; Charlotte, N.C.; Dahlonega, Ga.; Denver, Col.; Dubuque, Ia.; Jeffersonville, Indiana; Little Rock, Ark.; Louisville, Ky.; Mobile, Ala.; Nashville, Tenn.; Norfolk, Va.; Pittsburgh, Pa.; Richmond, Va.; Santa Fe, N.M.; Tallahassee, Fla.; and Wilmington, Del. Officers of depositories received as compensation one-half of one per cent on the first $100,000 received, one fourth of one per cent on the second, and one eighth on all sums of that to a maximum of $1,500. Ibid., p. 84.

The New York sub-treasury staff grossed $9,100 per annum in salary. By 1909 New York's staff had swelled to 130 officers and clerks paid $206,510.[64]

In brief the work of the sub-treasuries involved ". . . receiving and paying all public money, receiving deposits of disbursing officers, and . . . issuing and redeeming, under proper regulations, all money of the United States."[65] All collectors and receivers of public money in places where there was a sub-treasury or depository were required to make deposits at least once a week. The collectors of New York and Boston made deposit daily. Disbursing officers were required to observe the same requirements for deposit and make withdrawals only as necessary for payment of lawful debts. Post office accounts had to be kept separate from other accounts.[66]

From amounts in the neighborhood of $45,000,000 annually in the late 1840s, the sub-treasuries in 1891 had receipts of $1,865,883,747 and disbursements of $1,915,158,026. New York alone had receipts totalling $1,398,642,961 and disbursements of $1,441,310,453. By 1909 New York's share had risen to receipts of $1,802,315,952 and disbursements of $1,859,063,475, or in other words a volume of business in excess of $3,750,000,000. At the century's end the cash balance in what had become far and away the country's chief money

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64. _Ibid_., p. 83; Kinley, _Independent Treasury and Banks_, p. 85.

65. Kinley, _Independent Treasury_, p. 85. The depositories and national banks also acted as keepers.

66. _Ibid_., p. 87.

office frequently exceeded $200,000,000.[67]

It was in this latter period of much expanded financial activity during the Civil War that the New York sub-treasury occupied the building at Wall and Broad Streets. Mr. Torres has shown the circumstances that in 1862 brought the sub-treasury from its quarters in the Assay Building next door to the building that had been the New York Custom House since 1842. He has also presented in detail from sources in the National Archives alterations made in the building for accommodation of the new tenant, indicating the appearance and layout of the sub-treasury offices.[68] None of this material will be dealt with further here. Suffice it to say that it concerned fitting offices for the various departments, converting offices to vaults, the building of deep vaults as silver flowed in after 1878, providing security against burglary or the action of mobs, and marking the building to distinguish it from the concourse of Wall Street's grand structures around it. As the years passed, the grandiose building may have lost ground to the surrounding verticality of the financial district, but it always stood out as

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67. Ibid., p. 83; Kinley, Independent Treasury and Banks, p. 85; William T. E. Hardenbrook, ed., Financial New York: A History of the Banking and Financial Institutions of the Metropolis (N.Y., 1897), p. 254. (Hereafter referred to as Hardenbrook, Financial New York).

68. Louis Torres, "A Construction History of the Custom House - Sub-Treasury Building" (Federal Hall National Memorial) unpublished report (February 1960), pp. 106-126; Louis Torres, "Historic Structures Report, Parts I and II. Custom House - Sub-Treasury, Federal Hall National Memorial." May 27, 1960, pp. 45-61.

representing the might and authority of the United States government.

Behind the Sub-Treasury Building's iron doors, according to one nineteenth century observer, was a scene of "stupendous operations:"

> A complete knowledge of the business of the Sub-Treasury involves an acquaintance with the general functions of every department of the government. The receipts include, besides the large amounts derived from duties on imports, the tonnage dues and custom fines and penalties; from the internal revenue sources, the whisky and tobacco taxes, chiefly paid into national-bank depositories and transferred to the New York Sub-Treasury; payments for public lands sold; patent and copyright fees; postmasters' deposits of postal revenue and money order funds; tax on national-bank circulation; money derived from sales of bonds from the sale of old material, from the sale of supplies to army officers by commissaries, etc.; from fees of consuls abroad; from profits on coinage; from deposits by national banks to retire circulation or to maintain their five per cent; funds for the current redemption of their notes. As important in volume and in the amount of labor involved is the redemption and exchange business--features which have been engrafted upon the work of Sub-Treasuries by the currency and coinage legislation of the past thirty-five years, under which mutilated notes and certificates are redeemed and small denominations of paper and coin furnished for large ones, or vice versa. This includes the shipment of silver coin at government expense to any point in the country upon deposits made at any Sub-Treasury. The redemption of small coins alone employs twenty persons in the New York office. These pieces come in from transportation companies and banks in the metropolis and its vicinity, and go out again for the large retail stores and manufacturing establishments. One-cent pieces are occasionally ordered in lots of $10,000 (1,000,000 pieces).
>
> The payments are distributed over a wider area. Each of the departments, including the Senate and House of Representatives, has a general paying officer who issues checks for payment of salaries or for supplies; then there are the large disbursements for interest on the public debt and for the principal thereof as the bonds mature; the pension list, involving $140,000,000 per annum; the expense of carrying the mails; the cost of erecting public buildings and rent for hired buildings

at some points; the expenditure for river and harbor improvements, for fortifications, ordnance, battleships, lighthouses and their equipment, the life-saving service, the coast-survey; for contributions to the Indians; for the government of the District of Columbia and the maintenance of soldiers' homes; for disbursements by army and navy paymasters, commissaries, quartermasters, and medical purveyors; payments of claims, purchase of seeds for the Department of Agriculture, instruments for the weather bureau, bullion and material for the mints; paper, ink, etc., for the immense printing office of the government, as well as the distinctive paper, etc., for notes, bonds checks and stamps; in short, the business of every branch of the vast machinery used in the administration of the public affairs of 72,000,000 people comes into view in the transactions of the Sub-Treasuries.

For every receipt of money a certificate is issued, usually in duplicate, so that the depositor may have evidence of the payment; for every disbursement a draft or check is presented and retained as a voucher. The direct payments made by the Treasury are based upon warrants issued by the Secretary of the Treasury and approved by the Comptroller; but a large portion of the payments is made by checks of the disbursing officers (including pension agents, paymasters, etc.), drawn against credits maintained by the Treasurer for these officers, by periodical drafts also based upon warrants; these authorizations are issued pursuant to requisitions from the heads of the several departments, in accordance with appropriations made by Congress, as provided by the Constitution.[69]

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69. Maurice L. Muhleman, writing in Hardenbrook, Financial New York, pp. 255-6. He continues:

> Under the Act of Congress of June 8, 1872, the Sub-Treasury receives deposits of United States notes and issues certificates payable to order, to national banks only, in denominations of $10,000, which are used for the settlement of clearing-house balances and large payments generally; this affords at times a relief to such banks as accumulate large quan[ti]ties of small denominations of notes, and furnishes a safe substitute medium extremely convenient for reserve purposes. The notes so deposited are held separate from the other cash and cannot be used by the Treasury.
>
> Since 1888 the Sub-Treasury at New York has also been permitted to receive deposits in anticipation of customs payments, by means of which the banks are enabled to furnish their importing customers with orders upon the deposits

So important had the New York sub-treasury become by the 1890s that on occasion the Treasurer of the United States himself had to come from Washington to take charge upon the death or expiration of the assistant treasurer's term of office while awaiting the appointment of a successor. Under the provisions of law the assistant treasurer's power of attorney was given to a clerk of the office so it would be ready for business at any time. The custom invariably in New York was for the cashier as chief executive officer to hold power of attorney.[70]

So much bustle and activity necessitated a functional division of labor and organization in the New York sub-treasury. Five departments constituted the organizational structure:

Receiving Department
Paying Department
Minor-Coins Department
Bonds Department
Checks Department

In practice these units were further subdivided into general receiving and gold receiving departments, general paying and gold paying departments, coupon division, registered interest division, accounting and

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so made, which are receivable at the custom-house. This obviates the necessity of carrying to the latter office the great sums which the government receives daily through the Collector of the Port of New York.

For many years (from 1863 to 1878 and from 1882 to 1893) the Sub-Treasury was authorized to issue certificates for deposits of gold coin, which obviated the trouble and expense of handling the coin; the law of 1882, however, provided for the suspension of the issue when the gold reserve of the Treasury fell below $100,000,000, which occurred in April, 1893.

70. Hardenbrook, <u>Financial New York</u>, p. 257.

auditing division, and book-keeper's division.[71]

With seventy per cent of the federal government's disbursements made at the New York sub-treasury, the check department's share of the business was surprisingly large. Although many were checks of disbursing officers, paymasters, and quartermasters, pension checks made up the vast bulk. All government pension checks were handled in the New York offices. According to one account of 1883 "as many as 11,000 individual pension checks averaging some $26.00 each, are paid in one day."[72] There too the clerks disposed of more than a million and a half a year, following the liberality of the "Billion Dollar Congress" of 1889-1891.[73]

In the coins department the time of some clerks was wholly taken up with "receiving, counting, and sorting coins of only one or two different denominations, as one-cent and five-cent pieces."[74]

Those activities connected with currency redemption, handled in the receiving department, also required much clerical labor.

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71. Kinley, Independent Treasury, p. 88.

72. Martha J. R. (Nash) Lamb, Wall Street in History (New York, 1883), p. 78. Hereafter cited as Lamb, Wall Street.

73. When the Harrison administration took office in 1889 it inherited a Treasury surplus of embarassingly large proportions. Harrison had promised he would not weigh "the claims of old soldiers with an apothecary's scales," and the Congress echoed his generous sentiment to the tune of $71,000,000 per annum in additional pensions. Pension applications increased ten-fold and the number of pensioners had doubled by 1893. Matthew Josephson, The Politicos 1865-1896 (New York, 1938), p. 460.

74. Kinley, Independent Treasury, p. 89.

Mutilated bills, generally in denominations of ones, twos, and fives, had to be culled from deposits, tied in packages of one hundred bills each, and punched through.[75] The same clerks also had responsibility for spotting counterfeits. One visitor noted: "So quick are they in detecting spurious paper, that, although they may be counting bills at the rate of one hundred a minute, the momentary glance at a bill as it passes under their eyes is sufficient to let them know whether it is good or bad." Bad bills they stamped with a steel die to cut out the word "counterfeit" in large letters.[76]

The assistant treasurer worked as hard as any clerk in the receiving department, "signing bond, gold certificates, and other documents, writing his name on some occasions three thousand times during the business hours of each morning."[77]

Muhleman's 1897 account of the New York sub-treasury places the various offices in this order:

> The general receiving and paying departments occupy the sides of the rotunda, the other divisions being at the

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75. "The punched bills are then sent on to Washington, where they are counted; they are then split in halves lengthwise, and are recounted twice. If the count is found to be correct, the cancelled bills are then ground into pulp and so destroyed." Ibid., p. 94.

76. "There are counterfeit coins also. Filled coins are the most dangerous of this class, especially filled gold coins, as they are the most profitable. The coin in this case, has been cut open and a portion of the gold taken out; it is then filled in with some base metal which gives it approximately correct weight. These coins circulate with the public, but the sub-treasury clerks promptly detect them and throw them out." Kinley, Independent Treasury, p. 94.

77. Lamb, Wall Street, p. 78.

> end; on the second floor the accounting divisions find space, while in the attic, under the granite roof, are stored the millions of paid checks, systematically arranged, so that any one of them may be readily found.[78]

Most of the remaining space was devoted to storage and safeguarding of the country's principal moneyed cache: "Iron shutters, steel-barred doors, and a dozen or more armed watchmen and detectives, furnish security to a mass of treasure greater probably than the founders of the Independent Treasury ever dreamed would be in its possession."[79] As put by an impressionable visitor of 1883 these valuables rested in

> . . . vaults as inaccessible as the dungeons of the Spanish Inquisition. Numerous great iron doors close over the passages to these vaults, embellished with locks that wind up at night, and which no combination keys can open until they run down again. The silver vault is very spacious - some forty-seven feet long by twenty-eight feet wide, and twelve feet high. It is divided by a corridor into two divisions, on one side of which are four large compartments or bins, some twelve by fourteen feet square, separated by iron lattice-work, and on the other side eight smaller bins similarly separated. The entire vault is surrounded by thick walls of solid masonry on a concrete foundation twenty-five feet deep. It contains at present nearly $33,000,000 in silver coin, weighing over nine hundred tons. The gold vaults are built of solid iron, the walls from floor to ceiling covered with tiers of small bins of equal size, in which the coin is packed in bags, and the doors sealed with sealing wax, . . . Each bag contains exactly $5,000. The amount of gold coin in the Sub-treasury at present is about $72,000,000. In addition to this there are some $75,000,000 of gold certificates ready for issue.[80]

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78. Hardenbrook, Financial New York, p. 255.

79. Kinley, Independent Treasury, p. 95.

80. Lamb, Wall Street, pp. 77-8.

As described ten years later other details emerge. The money was kept in

> . . . vaults, or strong rooms, usually in the basement of the building. There are five of these vaults in the New York sub-treasury. Four of them are bright apartments, well lighted by electricity, on the main floor of the building, one on each side, and one under each of the Pine Street side corners of the rotunda floor. These 'vaults' are simply large safes, or strong rooms, full of steel drawers, and fitted with steel walls, ceilings, floors, and doors. The fifth strong room may be accurately termed a vault; it is the largest of the five and is situated in the basement. . .
>
> Fitted into the walls of the vaults in which silver is kept are iron boxes, or closets, of uniform size, each large enough to hold one hundred bags of silver containing five thousand dollars apiece. As much as forty or fifty million dollars of silver is sometimes collected in a single vault.
>
> The notes are stored in packages, each denomination by itself, and one thousand notes to a package. This arrangement is convenient both for storing and for counting.
>
> There is a large portion of the money in the sub-treasury that is constantly on deposit; that is, is seldom paid out. This is true of the larger part of the silver, which is represented in circulation by certificates. This money is kept in vaults sealed with seals of the assistant treasurer and of some representative of the Treasurer of the United States. When it becomes necessary to open one of these vaults, the seals must be broken and the vault unlocked in the presence of both parties interested, or in that of their duly appointed representatives.
>
> The ordinary vaults, those which are in use every day, are in charge of a vault-keeper, cannot be entered except in his presence, and even then only during business hours, because most of the vaults are fitted with time locks.[81]

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81. Kinley, Independent Treasury, pp. 92-3.

The New York sub-treasury's importance dictated a stability in its work force unmatched elsewhere in the government employ in those days of the spoils system. Many employed there at century's end had served upwards of twenty years. As explained by Muhleman,

> It is obvious that the vast amounts of money handled in the Sub-Treasury require expert public servants; and since much of the work differs materially from that of any other business, expertness can come only from familiarity with the methods, acquired by continuous service. There are, therefore, from the nature of the business, few changes in the Sub-Treasury force.[82]

The sub-treasury staff's elite ranking in the public service paralleled that of the assistant treasurers themselves. With one exception, whom we shall consider again later, all were outstanding men. Some attained high office, John A. Dix, later governor of New York, Senator, and Secretary of the Treasury, conspicuous among them. The first man named to the office, William C. Bouck, had already held the governorship. His successor, John Young, had also served in the same capacity. Charles J. Folger, assistant treasurer from 1869 to 1870, was a Senator when he received the appointment and later became Secretary of the Treasury under President Arthur. Bankers predominated among those who received the appointment at other times.[83]

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82. Hardenbrook, Financial New York, p. 257.

83. Ibid., p. 254; Lamb, Wall Street, pp. 73, 76. See Appendix E for list of assistant treasurers through 1897.

CHAPTER 4. THE SUB-TREASURY'S WALL STREET LOCALE

Just where the Treasury's marble front
  Looks over Wall Street's mingled nations;
Where Jews and Gentiles most are wont
  To throng for trade and last quotations;
Where, hour by hour, the rates of gold
  Outrival, in the ears of people
The quarter-chimes serenely tolled
  From Trinity's undaunted steeple -[84]

Edmund Clarence Stedman, 1867

Many years ago "Wall Street" became a household term expressive of this country's moneyed power, for good or bad or both. By the 1860s that grouping of banks and exchanges encompassed by the term had formed at the junction of Broad and Wall Streets in New York City, where they have remained ever since. Thus, throughout the sub-treasury's period of residency at that location it was a part of and identified with Wall Street.

Among those finding more to praise than condemn was Mrs. Martha J. R. (Nash) Lamb, editor of the Magazine of American History and unofficial historian of New York City, who viewed Wall Street as an awesome prodigy:

> The irresistibly fascinating story of the gradual transformation of Wall Street into a power of overshadowing importance is without parallel in the literature of fact and fiction . . . The simple statistics of bold projects and stupendous enterprises that have originated in Wall Street within the last half century would alone constitute a voluminous

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84. Stedman, listed by the Dictionary of American Biography as an author, poet, and critic who "exercised great influence on the American culture of [his] . . . period, for years made his living as head of a brokerage firm in New York City."

> library . . . The extent of Wall Street has never found intelligible expression in language or figures . . . Just when it first overran its local limits the records fail to report with absolute precision. But for full three-score years it has been leaping all manner of natural barriers, while planting towns and cities through the length and breadth of the land; then, as if that were not sufficient evidence of the part it was playing in history, it proceeded to tie them together with a net-work of railroad spanning the continent. The influences of this great money center for good - possibly for evil - are more far-reaching than those of any other locality on the globe; and from no other source has probably ever emanated so much of what the mind cannot measure or the pen portray - human happiness and human misery.[85]

This was the Wall Street too of the stock exchange, actually a few doors down on Broad, where fortunes were lost in a day. A little farther along was the notorious Gold Exchange, where speculation of the worst sort flourished at times. Around the corner on Wall was the New York Clearing House, principally a machine for expediting the exchange of bank paper but valuable also as a financial auxiliary for raising funds. At other nearby locations stood over a hundred commercial banks, some of them still in Greek temples, others in "tall towers," that helped to make the corner of Broad and Wall the "most valuable real estate in the world."[86] The giants among them in the late century included George F. Baker's First National Bank and Henry W. Ford's Bank of the Republic. Both shared the building on the corner of Wall and Broadway, nicknamed by brokers "Fort Sherman," in tribute to its size. John A. Stewart's United States

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85. Lamb, Wall Street, p. 66.

86. Lamb, Wall Street, p. 87.

Trust Company with some $37,000,000 on deposit then had the largest holdings in the country. The Bank of New York, the Chase National Bank, the National Bank of Commerce, and the Merchant's National Bank were among the biggest and best of the time. The Bank for Savings and the Greenwich Savings Bank were the largest of their specialty. J. P. Morgan Company and Brown Brothers represented the most important among the private bankers of the locale.[87] At the turn of the century the rise of trusts and combining of banking with industrial enterprise added such new giants as the Knickerbocker Trust Company and the National City Bank to the Wall Street community.[88]

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87. Lamb, Wall Street, p. 88ff.

88. Henry W. Lanier, A Century of Banking in New York 1822-1922 (New York, 1922), p. 256.

CHAPTER 5. RASCALS AMONG THE BULLS AND BEARS OF WALL STREET

Wall Street through the years has not been peopled by men of honesty, integrity, and character alone. But few of the unscrupulous in any way affected the New York sub-treasury and its lofty status on "the Street." As the banker in a smaller community was expected to provide a model of gravity and sobriety, so too was the New York banker expected to deport himself before the entire country:

> New York City is the natural center of the business capital of this continent. For its historic progress we can find no parallel. It is the great city of the western hemisphere. Its wonderful commercial activity and unprecedented growth indicate that at no distant day it will have attained absolute commercial supremacy among the cities of the world. More colossal fortunes have been accumulated there in the period of one human life than elsewhere in the history of our race. It embraces within its limits greater diversity of active thought and occupation, both honorable and dishonorable than all the other cities of our country combined. Upon its chief business men, its merchants and bankers, rest a responsibility they have no right to ignore. Their example for good and evil is reflected throughout the land, and makes its impress upon the character of our people as well as upon those drawn hither from other lands.[89]

This admonition was occasioned by a blot on the record of the New York sub-treasury. In August 1872 one John J. Johnson, chief clerk of the stamp division, absconded, leaving a shortage of revenue stamps approximating $175,000. He had managed to make off with that

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89. "Loss of Stamps in Sub-Treasury, New York," House Report No. 70, 42d Congress, 3d Session, Vol. I. (Washington, 1873), p. 4.

amount in stamps over a two year period simply by ordering, in the interval between quarterly inventorying and reporting stock on hand, stamps to replace those taken. As one quarter succeeded another he increased his order to cover the growing deficit. At last, fearing discovery he dropped from sight. The investigation that followed established the fact that he had lost his tainted proceeds in the stock market. The committee laid the blame on treatment of stamps as "public property rather than as public funds," and the small pay of public officials as compared to that paid "managers of money corporations not doing a tithe of the business that passes through the sub-treasury at New York."[90]

Where John J. Johnson was virtually an unknown, at least before his hasty departure from New York, a second occurrence involved the New York sub-treasury with some of the time's most notorious figures and one of the ugliest incidents in the country's history--"Black Friday" in 1869. Included in the cast of characters were such public figures as Jim Fisk and Jay Gould, looters of the Erie Railroad, a naive President Grant and his venal brother-in-law, Abel Rathbone Corbin. Yet the figure of primary interest from another viewpoint was the more prosaic General Daniel Butterfield, assistant treasurer

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90. Ibid., pp. 2-7. "Fortunately for the security and respect of the service, appointments to positions in the office of the assistant treasurer in New York have, as a rule, been uncontrolled by political influence and party considerations. Hence the position of an employe in that office is regarded by himself and by the public as one peculiarly honorable, and one which he can retain long after his services become valuable to the Government by reason of his efficiency in the performance of his difficult and responsible duties." Ibid., p. 6.

of the New York sub-treasury. In describing the merits and achievements of assistant treasurers, Mrs. Lamb, in the lingering odium of his involvement, acknowledges Butterfield only by name. Nevertheless, he was a prominent American, son of the founder of the American Express Company, much honored for conspicuous service during the Civil War, and a man of large affairs throughout later life.[91] In the words of C. Vann Woodward less than a year had passed since the "piratical Erie Railroad War had established Gould and Fisk as the two most unscrupulous and lawless railroad speculators and corruptionists in the country, and Jim Fisk was at the peak of his career as the flashiest debauchee in New York."[92] Corbin, exposed as a corrupt lobbyist before his recent marriage to Grant's sister, was the "inside" man. Having met Gould and Fisk through a real estate deal, he quickly became involved in the former's conspiracy to corner the New York gold market.

In cornering the New York gold market, the big question to be answered was that of the government's policy on release of the Treasury's hoard as prices rose. A further line of intelligence through

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91. No full length biography of Butterfield is listed in the standard bibliographies. The Dictionary of American Biography article (Vol. III, pp. 373-4) covers the general ground in a satisfactory manner.

92. C. Vann Woodward, "The Lowest Ebb," American Heritage, Vol. VIII, p. 3 (April 1957), p. 57. (Hereafter cited as Woodward, "The Lowest Ebb.") The Times wrote of Fisk "Perhaps of him it may one day be said he was first in war, first in peace and first in the pockets of his countrymen." Quoted in W. A. Swanberg, Jim Fisk: The Career of an Improbable Rascal, p. vi. (Hereafter cited as Swanberg, Jim Fisk.)

the Treasury was wanted by the conspirators. They sounded out Butterfield, who was leaving the Army to take over management of his father's estate in New York, and found him amenable to their scheme. Corbin took care of the appointment, working not through Grant but through his personal secretary General Orville E. Babcock, characterized by Woodward as a "subtle and unscrupulous Iago." Butterfield became assistant treasurer on July 1, 1869, and everything was in order for the plunge.[93] Everything, that is, but a fix on the President himself. Corbin went so far as to arrange meetings with him. Fisk on one occasion lectured Grant aboard the Newport steamer Bristol, on the inadvisability of the government's selling gold.[94] Grant met with them at Corbin's home, at dinner in New York, and in a box at Fisk's opera house. Feeling they knew the President's mind they moved ahead with their gold market operation.[95]

The peak was reached on Thursday and Friday, September 23 and 24, 1869. The Gold Room next door to the Stock Exchange on Broad Street, an "amphitheater with a bronze cupid-and-dolphin fountain gurgling in the center and a mechanical indicator to tell the current price of gold" was the scene of the speculation.[96]

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93. Ibid., pp. 129-130, 137-8. The assistant treasurer's post had been vacated by fortuitous circumstance not long before. Gould gave Butterfield $10,000 outright and promised him the profits on $1,500,000 worth of gold.

94. Swanberg, Jim Fisk, p. 131.

95. Woodward, "The Lowest Ebb," p. 57.

96. Swanberg, Jim Fisk, p. 147.

At the opening on Thursday it was packed with humanity, thirsting to buy as the result of rumors that important people, the President included, were out to make a killing on the price of gold. Fisk made an appearance, adding through his flamboyant pronouncements to the chaos and driving prices to new heights. No word had come from Washington, and it appeared that the government would stay out of the situation.

But already unbeknownst to Fisk, the tide was turning. Grant had become deeply disturbed. He had expressed his disapproval on two occasions in recent days indirectly to Corbin, and Corbin had intimated the President's misgivings to Gould.[97] Gould had begun to sell.

On Friday just before noon, with the corner all but complete, Butterfield in his office at the Sub-Treasury received the following telegram from Secretary of the Treasury Boutwell, dated the day before:

> Sell four millions gold tomorrow, and buy four millions bonds.

Almost at noon the messenger bearing his order arrived at the Gold Room, and the collapse began.[98] The bears had already been wiped out; now it was the bulls' turn. Madness reigned on the floor of the exchange and spread to the streets beyond. The gold speculators were not the only ones affected; the stock market itself was severely shaken. Butterfield had anticipated the collapse and had gone over

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97. Ibid., p. 144, 146.

98. Ibid., p. 152

to the bear side. He made a handsome profit.[99]

Once again in 1907 the Sub-Treasury had to bail out the financial community. The great expansion of credit that had marked the early years of the century and the ensuing speculation of 1906 brought a growing uneasiness as depletion of reserves in the New York City banks began to be felt. Speculation by Charles W. Morse and F. A. Heinze brought on a crisis that peaked with the failure of the Knickerbocker Trust Company on October 23, 1907, and the suicide of its president. This shook every bank in New York, and brought the government to the rescue. Secretary of the Treasury Cortelyou himself appeared on the scene in an effort to reassure the bankers:

> Even more impressive than the immense throng which filled Wall and Broad streets was the spectacle of the Secretary of the Treasury - a man of few words, but large executive ability - sitting calmly all day in the office of Assistant Treasurer Fish, at the Sub-Treasury, assuring all his callers of his determination to do everything which his powers as Secretary permitted him to do for the protection of the financial situation.
>
> He was impressive because he represented the great authority and strength of the United States Government.[100]

Although the Treasury made millions available to the banks, the panic was not overcome until J. P. Morgan brought the collective strength of America's financial and industrial leadership together in a

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99. *Ibid.*, pp. 151-2.

100. *The Wall Street Journal*, October 24, 1907.

coordinated effort to block the prevailing trends.[101]

Crowds on Wall Street in one way or another involving the Sub-Treasury building were by 1907 neither new nor novel. During the Panic of 1857, when mobs seized bakers' wagons and cried en masse for appeasement of their hunger, a strong force of United States troops had to be posted at the Customs House and Sub-Treasury.[102] During the Civil War riots the same precautions had to be taken. Crowds on Wall Street have not always been unwelcome. The Sub-Treasury Building's steps have ever been considered suitable for

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101. "The morning after the Knickerbocker smash, while the run on the Trust Company of America was filling all Wall Street with crowds of excited depositors, a man walked into the office of J. P. Morgan & Company, pushed past the guard, and entered Morgan's private room. Morgan nodded and said, 'good morning, Mr. Frick.' The two men talked quietly for perhaps ten minutes. Frick went away; then Edward H. Harriman came in. Following him came other 'masters' one by one, or in pairs. Finally came James Stillman, president of the National City Bank, and spokesman for the great Standard Oil interests.

"That day many millions of dollars were doled out to the banks by the Secretary of the Treasury; Government bonds were supplied by institutions and private investors for temporary use, John D. Rockefeller alone lending ten million dollars' worth. Then both Morgan and Stillman made arrangements to buy bills of exchange in enormous quantities, and force gold shipments from Europe.

"The final stroke was, after securing the Government's consent, to purchase for $30,000,000 the Tennessee Coal & Iron stock which had been pledged for loans of millions with New York Banks; the banks which had called the loans on the stock collateral accepted bonds of the [U. S.] Steel Corporation; a failure which might have brought down the avalanche was averted. 'From that hour matters began to mend.'" John Moody's recollections, quoted from Henry W. Lanier, <u>A Century of Banking in New York, 1822-1922</u> (New York, 1922), pp. 256-7.

102. Lamb, <u>Wall Street</u>, p. 75.

rallies, notably those selling Liberty Bonds or War Bonds. Chaplin, Pickford and Fairbanks and any number of other crowd pleasers have performed there in a host of good causes through the years. A flow of office workers onto Broad Street has traditionally greeted such good news as the Armistice in 1918 and the appearance of popular favorites for any cause.

CHAPTER 6. A NOTE ON THE CUSTOMS IN THE NEW YORK CUSTOM HOUSE

On Washington's birthday 1842 the Collector of the Port of New York, Edward Curtis, opened the doors of his office to business in that city's new custom house. By May of that year the last of the furniture had been placed and the last clerk has positioned himself behind the building's panelled counters.[103] Yet, even then the Custom House was barely adequate. New York's trade had expanded greatly during the years of construction. By 1860 the customs service had completely outgrown it. At the suggestion of Assistant Treasurer Cisco of the New York sub-treasury, who wanted the building for his own growing institution, the customs moved over a period of several months during 1862-3 into the New York Merchants' Exchange, a block east on Wall Street.[104] So, the period of actual use as a custom house spanned twenty years, give a few months on some functions.

At the start of this period the New York port had already outstripped all other domestic ports in sheer volume. With the age

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103. Louis Torres,"A Construction History of the Custom House-Sub-Treasury Building"(Federal Hall National Memorial) unpublished report (February 1960), p. 78.

104. Ibid., pp. 106-8. The Collector's functions were moved to the Merchants' Exchange in 1862, anticipating Congressional authorization of that building's purchase the following year.

of steam rapidly developing, new patterns of shipping along with it, greater prominence than ever before came to the metropolis of the new world. By 1860 only London and Liverpool in all the world exceeded New York's volume of shipping.[105]

To measure the extent of the phenomenon one need only examine the statistics of growth. Between 1791 and 1831 the combined imports and exports increased ten-fold at the rate indicated in this table:[106]

Year	Combined imports & exports (nearest million)	Percentage of National Trade: Imports	Percentage of National Trade: Exports
1791	$ 8,000,000	21	10
1801	45,000,000	23	20
1811	24,000,000	23	20
1821	36,000,000	37	20
1831	82,000,000	50	27

In the great expansion year of 1836 imports alone totalled $118,886,194 and the total of imports and exports $146,341,417.[107] Steady increases over these figures was the rule of the 1840s with jumps that doubled them in the 1850s.[108]

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105. Robert Albion, The Rise of New York Port [1815-1860] (New York, 1939), p. 386. (Hereafter cited as Albion, New York Port.)

106. Quoted in Torres (p. 1) from David M. Ellis, James A. Frost, Harold C. Syrett, and Harry J. Carmen, A Short History of New York State (Ithaca, 1957), p. 174.

107. "Report on the New York Custom-House" (April 28, 1842), House Reports, No. 669, 27th Cong., 2d Sess. V. 2 (Wash. 1842), p. 170.

108. Statistics for New York after 1843 have been difficult to find. Albion has included a useful set in a series of appendixes (New York Port). Those for the entire country are included in U.S. Bureau of the Census, Historical Statistics of the United States, 1789-1945 (Wash. 1949), p. 297.

The amounts collected varied with tariff policy. The mildly protective tariffs of the 1820s gave way during the Jackson and Van Buren administrations with a drop in revenue that carried into the 1840s. From the mid-forties until the Civil War the general trend of expansion increased receipts in spite of tariff policies. New York's contribution to this ran generally over $20,000,000 in the 1840s, more than two-thirds of the total governmental income for those years.[109]

Throughout this period the Treasury among executive departments was in the ascendancy. As a large patronage agency its standing was high. It was moreover, through money control and direction, a center of original power: "In governments as in households, he who holds the purse holds the power. The treasury is the natural point of control to be occupied by any statesman who aims at organization or reform, and conversely no organization or reform is likely to succeed that does not begin with and is not guided by the Treasury."[110] Under Jackson when fiscal affairs made as well as reflected issues that loomed among the largest to confront the public, Treasury department officials became as imposing as had Hamilton and Gallatin before them,

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109. Such other sources as internal revenue were minor excepting an occasional banner year of public land sales, usually in the one or two million dollar range but $14,757,601 in 1835; $24,877,180 in 1836 (the only year to top customs); $8,470,798 in 1854; $11,497,049 in 1855; and $8,917,645 in 1856. Ibid.

110. Quoted from Henry Adams, The Life of Albert Gallatin (Phila., 1879), p. 267, in Leonard White, The Jacksonians. A Study in Administrative History, 1829-1861 (New York, 1954), p. 164. (Cited hereafter as White, Jacksonians.)

though in very different ways.

The Treasury's first comptroller had responsibility for departmental accounts. By express delegation he also had immediate charge of the customs service. As a comptroller he was free of the Secretary of the Treasury's influence, but was in superintending the customs, "entirely subject to his control."[111] The service he managed had always been the largest and most significant of the Treasury divisions. By 1858 it extended to 152 ports of entry and collectors. The smallest of these at Havre de Grace, Maryland, had but a single official, the Surveyor. San Francisco and Philadelphia among the larger offices had respectively staffs of 127 and 189. At the extreme stood New York with 861 officers and employees.[112]

Reasonable efficiency marked the operations of what has been termed a "loose-jointed organization."[113] In 1849 legislation transferred the first comptroller's accounting responsibilities to a commissioner of the customs, and the absence of an inspections system was remedied in part during 1851 by the establishment of four general appraisers. Efficiency inspections didn't begin until Secretary Guthrie's regime as Secretary in 1854. He and free trader Robert Walker, his predecessor who also promulgated regulations aimed at raising the level of Treasury services and promoting its efficiency, were forerunners of the men of ideas and those of business acumen who have become so conspicuous

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111. Ibid., p. 169.

112. Ibid., p. 170.

113. Ibid., p. 174.

in recent administrations.[114]

In the meantime, the combination of patronage and party policy had come to inscribe over the efforts of the New York Custom House's hard-working clerks a harsh legend of peculation and scandal. New York's collector had authority in a customs district that extended from the immediacy of the port itself upriver to Troy, across the harbor and Hudson to New Jersey shores, and to the remote reaches of Long Island. His chief lieutenants included the so-called naval officer, who checked accounts, the surveyor who had charge of "outdoor activities" such as revenue cutter operations, and two appraisers to provide expert opinion in the levying of ad valorem duties. His staff of clerks, inspectors, weighers, gaugers, cartmen, guards, and others numbered 164 by 1827, 503 by 1843, and 861 by 1858. The payroll mounted accordingly over the half million dollar mark.[115] These positions represented a political resource not to be ignored as their numbers mounted.

Tendencies toward partisanship had appeared earlier and been resisted. Before Jackson's administration ended custom house staffs generally and that of the New York custom house in particular had become thoroughly enmeshed in politics. Polk personally took part in selecting the collector at New York, when he assumed office in 1845. The Whigs under Harrison picked up the procedure where the Jacksonians had left off. Their first collector at New York,

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114. <u>Ibid</u>., p. 114.

115. Albion, <u>New York Port</u>, p. 225.

Edward Curtis, lost no time in replacing fifteen of the seventeen measurers on the staff. Two hundred changes were made in the staff of five hundred at that time.[116] When the Democrats returned to office in 1853, following a second Whig administration, fewer yet were to be replaced, but some 27,000 applications were received by June of that year.[117]

Even within parties the battle over appointments raged. Under Pierce the collector, Greene C. Bronson, received notice that he had to meet the rule of factional representation in making appointments. Answering Secretary Guthrie's charge that too few of the Barnburner faction had been appointed with a show of independence, he was immediately removed from office himself.[118]

Given this unsettled and unsettling background, it is not to be wondered that graft cropped up time and again among the staff. Undervaluing of goods offered a method of cooperating with malefactors in the commercial community. Another even more common method of extracting illicit proceeds from office was outright blackmail of importers. Payment of fictitious charges to avoid indefinite delays for port services received a thorough airing in 1860 when twenty-two ship captains exposed their tormentors through the columns of the _New York Commercial Advertiser_.[119] Fraudulent invoices supporting one or

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116. White, _Jacksonians_, pp. 176-7.

117. _Ibid._, p. 177.

118. _Ibid._, pp. 177-8.

119. _Ibid._, p. 176.

another of these practices became a commonplace, leading in time to reforms. Relief for a long time from the errors of the collector could be had only through the courts. At last through the introduction of appraisers having the power of inspection and review upon appeal and adoption of a process of administrative rather than judicial review, remedy became available to the importer.[120]

In the office of the collector itself, however, were to be found the most glaring examples of fraud and peculation. From the first the New York collectorship had through salaries and fees been one of the best paid positions in the land. Among a class of officeholders "appointed to subserve their own profit and convenience," as Hawthorne put it, the New York office "became one of the principal prizes in the patronage lottery."[121] But this was not enough. In enhancing the rewards secured through the appointment itself, certain of the collectors put into effect not very ingenious, even flagrant practices. Samuel Swartwout, collector of the port between 1830 and 1837, and a personal favorite of Jackson, helped himself freely to the collections, eventually being discovered with his hand in the till, so obvious had he become even in that inspectionless day and age.[122] Swartwout's successor, Jesse Hoyt, conducted the collectorship pretty much as he pleased, ignoring or defying instructions received from

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120. Ibid., pp. 179-181.

121. Ibid., p. 176.

122. Ibid., pp. 171-2. Altogether he diverted more than a million dollars into private ventures. He found Europe a healthier location following disclosure of his defalcations. Albion, New York Port, p. 227.

Washington and repudiating the Attorney General's official decision regarding his powers. He went to such extremes of resistance when ordered to stop illegally retaining and using public money. He refused to withdraw his collections from interest-yielding accounts, until Congress made "provision for . . . [his] protection."[123] As reported by the House committee investigating Mr. Hoyt,

> . . . . In all controversies arising out of the seizure of goods, it became the interest of the collector to procrastinate the decision as long as possible, because in the meantime he held the duties, under pretense, that they were a part of the forfeiture, in case the goods were convicted, and the accruing interest ensured to his benefit so long as the goods remained under seizure. The same benefit resulted to the collector on duties received under protest, of which he had the entire use and control, until the duties were directed to be returned by order of the Secretary of the Treasury.[124]

Hoyt customarily held on the average $350,000 from such sources, the report goes on to say "to meet contingencies."[125]

Hoyt's successor, Edward Curtis, also came under investigation as a consequence of reports received by the committee that established the "practice of buying and selling offices in the custom-house,

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123. White, Jacksonians, p. 172.

124. "Report on the New York Custom-House" (April 28, 1842), House Reports, No. 669, 27th Cong., 2d Sess. Vol. 2 (Wash. 1842), p. 127.

125. Ibid., James Guthrie, Secretary of the Treasury under Pierce, a "vigorous and effective administrator," in a series of administrative reforms ". . . required monthly instead of quarterly accounts from the collectors and their prompt settlement, initiated a drive on over $100,000,000 of unsettled accounts in the auditors and comptrollers offices, introduced a rule prohibiting reopening a claim once settled, [and] stopped payment on a handsome extra allowance to the collector of the port of New York." White, Jacksonians, p. 184.

through particular agents; . . ."[126] This may, however, have been induced by Congressional ire aroused when Curtis exceeded the statutory limits set on purchase of furniture for the new Custom House.[127]

Other frauds and malpractices involved overcharges for stationery, irregularities in the administration of the public warehouses, bribes accepted at the entry desks to allow importers to anticipate their regular turn, and acceptance by the clerks of gratuities to work overtime in registering entries.[128]

But these wrongdoers did not set the general tone. The New York Custom House managed to preserve in most quarters a reputation, if not for zeal, at least for regularity and level of competence. Albion notes that more "business was done at New York than at any other port and, on the whole, it was done conscientiously and well."[129] The New York Chamber of Commerce, petitioning Congress in 1843 to disavow planned cuts in the local staff, observed that despite problems,

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126. "Report on the New York Custom-House" (April 28, 1842), House Reports, No. 669, 27th Cong., 2d Sess. Vol. 2 (Wash. 1842), p. 160.

127. Ibid., pp. 160-164. See also "Furnishing and finishing the new customhouse, New York," (August 25, 1842) House Reports, No. 1065, 27th Cong., 2d Sess., Vol. 5 (Wash. 1842), pp. 31-43.

128. "Documents relating to the reduction in the number and compensation of the persons employed in the New York customhouse" (February 17, 1843) Senate Documents, No. 189, 27th Cong., 3d Sess. (Wash. 1843), p. 3; Albion, New York Port, p. 227.

129. He adds: "Incoming foreign travellers at New York, as at other American ports, commented upon the invariable courtesy of the customs inspectors." Ibid.

the "administration of its affairs is uniformly conducted with courtesy, promptness, and efficiency, and a steady observance of law, is accompanied by a disposition to extend every reasonable facility to the merchant . . ."[130]

130. "Documents relating to the reduction in the number and compensation of the persons employed in the New York custom house" (February 17, 1843) Senate Documents No. 189, 27th Cong., 3d Sess. (Wash. 1843), p. 5.

ILLUSTRATING THE NEW YORK CUSTOM HOUSE--SUB-TREASURY

By no means has it been possible within this report's time limitations to conduct a truly representative search for materials illustrating its subject matter. To judge from that encountered in the use of secondary materials there is no lack, and those from easily reached sources were noted in passing. They form the basis of this section.

Architecturally, the building has been extensively illustrated in the Parts I and II (both in one) Historic Structures Report of May 27, 1960. Included in chronological sequence are views of the exterior at various stages, from prints and photographs. Several of these are in the "cries of New York" category, showing activity as well as the changing character of the buildings and streets at the junction of Broad and Wall. An excellent Irving Underhill photograph of the exterior in 1915 can be found in Louis Torres' "A Construction History of the Custom-House Sub-Treasury Building (Federal Hall National Memorial)", February 1960, following page 121. A number of plans in the historic structures report show the location and layout of the Sub-Treasury offices, including counters, vaults, the public and private rooms of the assistant treasurer, and other such features. An interior view of the gold vault has been reproduced from Mrs. Lamb's <u>Wall Street in History</u>. From issues of <u>Frank Leslie's Illustrated</u>

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best cartoons, on pages 90, 91, 202, 203, 210, and 211.

Portraits of the several assistant treasurers are reproduced in the pages of William T. E. Hardenbrook's Financial New York.

A WORD ON THE SOURCES

The Independent Treasury System has passed from the scene, leaving scarcely a ripple on the surface. With the recent disappearance of the last silver certificates, the triumph of fiat money is complete; nothing in circulation today is related on its face to the precious metals and their promise of redemptive worth. Fewer and fewer people can recall "goldbacks," the gold standard, gold coins, and other survivals of America's pre-industrial youth that even in the years after the Independent Treasury disappeared, remained as picturesque anachronisms. In this day and age it is hard to imagine that the old system ever stood for as much as it did, so far is it from the conceptions of today and the spirit of these times.

Little wonder then that the literature of the Independent Treasury System is small. If a graduate student at the University of Wisconsin had not undertaken its study around 1891, there would be very much less on the subject. In throwing light and doubt on that pretentious and ineffective symbol of the people's sovereignty, David Kinley wrote what has ever since been the authoritative work on the system (<u>The History, Organization, and Influence of the Independent Treasury of the United States</u>). A revised version, brought up to date, was published by the National Monetary Commission in 1910 (<u>The Independent Treasury of the United States and Its Relations to</u>

the Banks of the Country). Used together they give a nearly complete story, and they have provided the writer with his main reliance for this study.

What Kinley failed to include about the New York Sub-Treasury proper Mrs. Lamb has covered in her chatty *Wall Street in History*. If romantic and filiopietistic, her little book reveals a reporter's eye for detail and for this reason supplies important facts on the Sub-Treasury's functioning.

None of the other sources merit special discussion although a few were used extensively; they have been cited fully enough in the footnotes to be found if needed.

Appendix A

FISCAL AUTHORITY IN THE CONSTITUTION OF THE UNITED STATES
[from Henry Steele Commager, Documents of American History (New York, 1934, 1948, 4th ed.), pp. 141-2.

Art. I; Sect. 8, par. 1. The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; . . .

Art. I; Sect. 8, par. 2. To borrow Money on the credit of the United States . . .

Art. I; Sect. 8, par. 5. To coin Money, regulate the value thereof, and of foreign Coin, . . .

Art. I; Sect. 8, par. 6. To provide for the Punishment of counterfeiting the Securities and current Coin of the United States; . . .

Art. I; Sect. 8, par. 18. To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.

Art. I; Sect. 9, par. 7. No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; . . .

Appendix B

TITLE AND PREAMBLE TO THE INDEPENDENT TREASURY ACT OF AUGUST 8, 1846 [from David Kinley, The History, Organization and Influence of the Independent Treasury of the United States (New York, 1893), p. 271; U. S. Statutes at Large, Vol. IX, p. 69 ff.]

An Act to provide for the better Organization of the Treasury, and for the Collection, Safe-Keeping, Transfer, and Disbursement of the public Revenue.

Whereas, by the fourth section of an act entitled 'An Act to establish the Treasury Department,' approved September second, seventeen hundred and eighty-nine, it was provided that it should be the duty of the Treasurer to receive and keep the moneys of the United States, and to disburse the same upon warrants drawn by the Secretary of the Treasury, countersigned by the Comptroller, and recorded by the Register, and not otherwise; and whereas it is found necessary to make further provisions to enable the Treasurer the better to carry into effect the intent of the said section, in relation to the receiving and disbursing the moneys of the United States, Therefore:-

Appendix C

"THE DEFICIENCIES AND TERRORS OF THE OLD BANKING SYSTEM--A BREEDER OF PANICS"

[from Carter Glass, An Adventure in Constructive Finance (New York, 1923), pp. 59-62.]

For fifty years prior to the enactment of the Federal Reserve Act, the United States endured the handicap of an unscientific currency system. Again and again it was pronounced by textbook writers and experienced bankers "the most barbarous system on earth." The defects were so glaring and the failure to remedy them fraught with such ill consequences as to constitute a positive indictment of the statesmanship of the nation. For a part of the time, we rested in the imaginary security of ignorance; for another part, we seemed indifferent to our plight, and for the remainder of the time we were afraid to apply the remedy lest we interfere with the processes and profits of a privileged class. For no protracted period were we without warning. At nearly every decennial the hateful malady manifested itself in violent financial disturbances which swept the country from Dan to Beersheba. Catastrophe had overtaken us five times within thirty years right in the midst of great prosperity. Strange to say, prosperity, under the then-prevailing currency system, was actually conducive to disaster!

The Siamese twins of disorder were an inelastic currency and a fictitious reserve system. The bankers and politicians were perfectly willing to tackle the task of readjusting the currency; but the bankers through sheer acquisitiveness, and the politicians, through fear of the bankers, were averse to stirring up enmities among men of power. The consequence was that the sum total of the idle bank funds of the nation was congested at the money centres for purely speculative purposes. Nobody seemed to discern the absolute necessity of subduing at exactly the same time the twin evils of inelasticity in the currency and of pyramiding reserves by book balances. Little could be accomplished by correcting one fault and leaving the other to persist.

The national currency was inelastic because based on the bonded indebtedness of the United States. The ability of the banks to meet the currency needs of commerce and industry was largely measured by the volume of bonds available. And the total was constantly being diminished by reductions in the national indebtedness. For half a century we banked on the absurd theory that the country always needed a volume of currency equal to the nation's bonded indebtedness and at no time ever required less, whereas we frequently did not need as much as was outstanding and quite as often required more than it was

possible to obtain. So, when more was needed than could be gotten, stringencies resulting in panics would be precipitated, to cure which, for the moment, clearing house certificates would unlawfully be resorted to as a substitute for bank notes. When currency was redundant, when the volume was more than required for actual commercial transactions, instead of taking it through the expensive process of retirement, it was sent by interior banks to the great money centres to be loaned on call for stock and commodity gambling.

Appendix D

RECEIPTS AND PAYMENTS, UNITED STATES SUB-TREASURY, NEW YORK, FISCAL YEAR ENDING JUNE 30, 1897.

[from William T. E. Hardenbrook, *Financial New York: A History of the Banking and Financial Institutions of the Metropolis* (New York, 1897), p. 256.

Receipts on account of:	
Internal revenue	$430,194.37
Customs	123,462,549.48
Transfers (including new currency from Treasurer)	235,914,736.22
Patent fees	3,527.90
Miscellaneous	3,468,186.89
Semi-annual duty	277,330.02
Post-Office Department	11,957,718.93
Credits for disbursing officers	149,200,426.18
Treasurer's transfer account	93,453,571.85
Assay office	40,373,435.36
Credits in interest accounts	28,566,108.47
Redemption and exchange	285,351,634.16
Special customs deposits	173,916,664.49
Currency certificates issued	65,165,000.00
Shipments of silver dollars	4,267,240.00
Total	$1,215,808,324.32

Payments on account of:	
General treasury	$234,181,547.91
Post-Office Department	12,128,767.01
Disbursing officers (including pensions)	148,894,975.00
Treasurer's transfer account	87,179,699.01
Assay office	40,278,529.19
Interest	28,566,108.47
Redemption and exchange	285,599,589.16
Mutilated currency sent to Treasurer	135,582,484.00
Special customs	174,007,041.14
Currency certificates redeemed	43,790,000.00
Gold certificates redeemed	3,068,000.00
Bonds redeemed	1,534,429.99
Total	$1,194,811,170.88

Appendix E

ASSISTANT TREASURERS AND CASHIERS OF THE NEW YORK SUB-TREASURY THROUGH 1897

[from William T. E. Hardenbrook, Financial New York: A History of the Banking and Financial Institutions of the Metropolis (New York, 1897), p. 257.]

Date of Appointment.		Assistant Treasurer	Cashier.
August	3, 1846,	William C. Bouck,	Jacob Russell.
August	15, 1850,	John Young,	do.
April	27, 1852,	Luther Bradish,	do.
April	1, 1853,	John A. Dix,	do.
October	24, 1853	John J. Cisco,	do.
August	1, 1864	Jacob Russell, Assistant Treasurer *ad interim*.	
August	29, 1864	John A. Stewart,	Jacob Russell. Jacob Russell. William H. Ferris.
June	22, 1865	Henry H. Van Dyke,	E. H. Birdsall. R. McCartee, Jr. William H. Ferris.
July	1, 1869,	Daniel Butterfield,	(William H. Ferris. (William G. White.
November	17, 1869,	Charles J. Folger,	William G. White.
July	3, 1870,	William G. White, Assistant Treasurer *ad interim*.	
July	23, 1870,	Thomas Hillhouse,	(William G. White. (Walter J. Brittin. (William Sherer.
January	1, 1882,	Thomas C. Acton,	Joseph M. Floyd.
January	1, 1886,	Conrad N. Jordan, Treasurer U.S. *ad interim*.	
January	27, 1886,	Charles J. Canda,	William Sherer.
March	1, 1888,	Alexander McCue,	(William Sherer. (Maurice L. Muhleman.
April	2, 1889,	James W. Hyatt, Treasurer U.S. *ad interim*.	
April	15, 1889	Ellis H. Roberts,	Maurice L. Muhleman
April	1, 1893,	E. H. Nebeker, Treasurer U.S. *ad interim*.	do.
April	24, 1893	Conrad N. Jordan,	do.

Re-appointed in 1897.

The Assistant Cashier and second deputy at present is George W. Marlor.

Appendix F

BRAY HAMMOND ON THE INDEPENDENT TREASURY SYSTEM

[Banks and Politics in America from the Revolution to the Civil War (Princeton, 1957), pp. 543-5]

The system was vitiated by two cardinal faults. First, it confined the federal government's monetary authority to control over coin, the minor part of the money supply, and left control of the major part, comprising bank credit, to be divided among an indefinite number of states, then twenty-nine and increasing. "The great error" in the measure, wrote a contemporary in Hunt's Merchants' Magazine, 1839, "is in the dereliction of duty: the voluntary abnegation" by Congress "of that control over the currency which it is the primary duty of every good government to secure in order that the people should not suffer." Viewed constitutionally, establishment of the Independent Treasury system was one of the current victories for states' rights at the expense of the federal authority. "The whole constitutional argument against the use of banks by the government," said Professor Kinley in 1910, was "but a phase of the old doctrine of states rights and supremacy which prevented Congress from assuming such control over the banking system of the country as would have made it safe, would have prevented wild cat banking, would have saved the financial good name of the country, and would have made the sub-treasury system unnecessary by making the banks as safe for government use as they are to-day."

This statement can bear some qualification. The Independent Treasury did involve a "control" of banking and its more sophisticated advocates said so: cash held in the Treasury reduced the power of banks to enlarge their note circulation. But it was a power without a purpose. The receipts and disbursements of the Treasury, wherever and whenever the one exceeded the other, either decreased the lending power of banks or increased it. For when specie went into the Treasury it decreased the reserves of banks and consequently their power to lend; and when it was disbursed by the Treasury it enlarged the banks' reserves and increased their power to lend. The result was not a control of banking but a haphazard contraction and expansion of bank reserves without reason, intent, or policy. In New York, for example, or in any other port, where and when there were large arrivals of goods from abroad, the importers would have to withdraw specie from the banks in order to pay the customs duties, and for every dollar withdrawn the lending power of the local banks would be diminished from five to ten dollars, that range covering roughly the effective ratio between bank reserves and liabilities. Contrariwise, wherever there was an Army post or a Navy yard or a concentration of payrolls, as in Washington, the

Treasury's expenditures would normally exceed its receipts, the specie it paid out would enlarge local bank reserves, and the banks would have more funds to lend. The results were spotty and fortuitous fluctuations, now restrictive and now inflationary. This was in time corrected by three things of which the Independent Treasury's advocates had not a flicker of foresight: the inflow of specie from Spanish America which had formerly gone to Europe, the specie brought into the country by immigrants, and after 1848 the production of precious metals in California and other parts of the West. The specie from these sources so greatly increased the gross amount in the country that the spasmodic influence of Treasury receipts and disbursements upon the reserves and the lending power of banks became apparent only in crises.

The Independent Treasury's second fault, which embraced a number of technical objections, lay in its neglecting the fact that the federal government was the largest single transactor in the economy, receiving a far greater income and making far larger disbursements for materials and services than any millionaire or corporation. To have required that Mr. John Jacob Astor make all his payments in silver and gold and accept none due him if not in those metals, would have seemed absurd to anyone; but it would have been economically less absurd than it was to do the same with respect to the government. It imposed upon the Treasury a clumsy and inefficient fiscal procedure which the country was rich enough to afford in normal times but not otherwise. The consequence was summed up by the system's opponents in the words: "Gold for the office holders; rags for the people"; but the federal government was the real victim. The banks, for their part, found in time that Mr. Van Buren's arrangement was a very agreeable one. The Treasury had long been a difficult and pusillanimous customer, and the loss or dimunition of its business was of little moment against the gain they derived from freedom of action and the immense growth of the economy.

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