The Independent Treasury: Origins, Rationale, and Record, 1846-1861

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Origins

The historical consensus has long ascribed the authorship of the independent federal treasury to President Martin Van Buren, or implicitly to his advisers, although a few historians have maintained that the idea originated within the Jackson administration.[1] Certainly Van Buren deserves credit, as Jackson does not, for proposing its adoption, which he did in his special message to Congress, in September 1837. The real author was William M. Gouge, a Philadelphia newspaper editor and political economist specializing in monetary and banking theory. In addition, his friend and fellow Philadelphian Condy Raguet deserves credit for helping him defend and spread the idea. Thus, ironically, Philadelphia was the home not only of the first two federal banks, but it was the home of the two libertarian political economists who introduced the independent treasury idea into the public consciousness, defended it with theoretical rigor, and created public pressure for its enactment. Only later did classical liberal Democratic politicians like Martin Van Buren and Thomas Hart Benton decide to embrace it.

Why should we care who authored a long-gone treasury system? Is not the question of mere antiquarian interest? By no means. Historical truth is one of the greatest weapons that Austrians have for refuting the lies of the Left. We must never forget that classical liberalism does not represent a utopian ideal, incapable of being realized in the real world; but it is a practical economic philosophy that for eighty years (1780-1861) was capable of winning elections and governing a country.

President Andrew Jackson's first annual message to congress, in early December 1829, had questioned "both the constitutionality and expediency" of the Bank of the United States, declared "that it has failed in the great end of establishing a uniform and sound currency" and suggested that a *new* "national" bank might be "founded upon the credit of the Government and its revenues, . . . which would avoid all constitutional difficulties and at the same time secure all the advantages to the Government and country that were expected to result from the present bank."[2] His proposal lacked any specifics and left entirely answered several key questions. If the present federal bank were unconstitutional, then would not a new "national" bank be unconstitutional as well? Second, what were these "advantages" to which the president referred? If one of them were the provision of a "uniform and sound currency," then the Bank of the United States had largely succeeded; for B.U.S. notes of various denominations were circulating throughout the union at par and during the 1820s their purchasing power had actually increased.

The classical liberal economic historian William Graham Sumner observed that the president's indictment lacked any factual basis at all: "The currency never had been as good as it was then, for the troubles of the early 20s, both in the East and the West, had been to a great

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[1] The two exceptions are Major L. Wilson *Presidency of Martin Van Buren* (Lawrence, KA: University Press of Kansas, 1984), 65, and Davis R. Dewey *Financial History of the United States* (New York: Longmans, Green, & Co., 1902), 235; both identify the real author, but only as one of many proponents of the measure.

[2] Andrew Jackson, "First Annual Message," 8 December 1829, *Messages and Papers of the Presidents, 1789-1897*, ed. James D. Richardson (Washington: Government Printing Office, 1896), II: 462.

extent overcome. The currency has never, since 1829, been better and more uniform, if we take the whole country over, than it was then." Moreover, Sumner observed that Jackson's proposed government bank "sounded like a big paper-money machine."[3] Jackson's message plus Sumner's research cast grave doubts about whether Jackson's administration, or the president himself, was initially committed to hard money and private banking. Some of Jackson's key advisers—Isaac Hill, Francis Blair, William B. Lewis—were soft-money men, close to the state-banking interest, whose chief hostility to the federal bank seems to have been founded partly on jealousy of it as a large competitor and partly on resentment that Nicholas Biddle, the president, was not a Jackson man or amenable to their influence. Sumner reveals that Jackson's treasury secretary, Samuel D. Ingham, wrote Biddle a series of letters in 1829 intimating that if only Biddle would agree to allow his bank to become politically (and financially) useful to the president, and his party, then all would be well (i.e. the president would support a re-charter). When Biddle refused to buckle to these subtle but real political threats, Jackson's advisers decided to deny the bank its federal privileges. Hence, in November 1829, William B. Lewis had Jackson's New York City organ, the *Courier and Examiner*, publish an editorial containing a series of queries. One asked whether "sundry banks throughout the Union" could "take measures to satisfy the general government of their safety in receiving the deposits of the revenue, and transacting the banking concerns of the United States." A second asked whether "a proposition be made to authorize the government to issue exchequer bills, to the amount of the annual revenue, redeemable at pleasure, to constitute a circulating medium equivalent to the notes issued by the United States Bank?"[4] One month later came the president's message suggesting that the B.U.S. not be re-chartered but a new national bank established.

Senator Thomas Hart Benton of Missouri was known as "Old Bullion" Benton for his uncompromising devotion to the gold standard, a hard currency, and 100 percent reserve banking. Partly due to his influence, Missouri's banks kept a higher specie reserve than any other state in the union, except Louisiana, in the years previous to the War Between the States. Benton always considered himself to be a Jeffersonian republican of the old school, and on most issues he was. He was also an ardent Jacksonian. During Andrew Jackson's two administrations (1829-1837), Benton was not only a trusted friend and adviser to the president, but he was his chief supporter and legislative lieutenant in the U.S. Senate. Benton's retrospective history of the American government from 1820 to 1850, *The Thirty Years' View*, contains the following intriguing passage revealing that the Jackson administration from early on had a long-run plan for monetary and banking reform along hard-money lines. Benton recalls speaking to the president sometime after hearing his first annual message to Congress. Benton explains that while both of them were aware that each opposed the Bank of the United States they had never spoken about a proper "substitute" for it should its present charter not be renewed in 1836:

> I had never mentioned to him the idea of reviving the gold currency—then, and for twenty years—extinct in the United States: nor had I mentioned to him the idea of an independent or sub-treasury—that is to say, a government treasury unconnected with any bank—and which was to have the receiving and disbursing of the public moneys. When these ideas were mentioned to him [when?], he took them at once; but it was not until the Bank of the United States should be disposed of that anything could be done on these two subjects; and on the latter a process had to be gone through in the use of local banks as depositories of the public moneys which required several years to show its issue and inculcate its lesson. Though

[3] William Graham Sumner, *Andrew Jackson* (1882; repr. Boston & New York: Houghton Mifflin & Co., 1910), 281, 284.
[4] Ibid., 271-280.

> strong in the confidence of the people, the President was not deemed strong enough to encounter all the banks of all the States at once. Temporizing was indispensable—and even the conciliation of a part of them. Hence the deposit system—or some years' use of local banks as fiscal agents of the government.[5]

If Benton's account is true, then we must credit the Jackson administration with a great degree of political acumen, economic prescience, and perhaps a little Machiavellian ruthlessness. However, there are strong reasons to suspect Benton's veracity. When Benton was writing his memoirs, the independent treasury had become the settled policy of the country and was widely regarded as a success. Benton is claiming credit for originating the idea. Second, Benton's account claims that Jackson and his advisers anticipated that the state bank deposit system would fuel a credit and monetary expansion that would result a few years later in financial panic and depression, but they went ahead with their plan anyway as it was the price the country had to pay to divorce bank and state. As it was now accepted dogma among Democrats that Jackson's policies had contributed to the Panic of 1837 and ensuing business depression, Benton could only claim that the Jacksonians had planned it all along.

There is also contemporary evidence from within the Jackson administration that there existed no such plan as Benton described. William J. Duane was a respected Philadelphia lawyer and the son of the fiery Jeffersonian editor of the *Aurora*, William Duane. The son inherited the old-republican and hard-money principles of the father.[6] In December 1832, Jackson asked Duane to become his treasury secretary. Duane had been a supporter of Jackson since 1823, and he was known to oppose the Bank of the United States on both constitutional and economic grounds. Soon after Duane assumed the office in June of 1833, Jackson asked him to remove the government deposits and place them in Democratic state banks throughout the union. Duane refused. His grounds were the following: as secretary of the treasury, he, and not the president, was responsible for safeguarding and administering the public funds; the funds were safe in their current location; the B.U.S. had a legal and contractual right to hold and disburse the government money until its charter expired in 1836; only Congress had the legal right to designate a new depository for the public funds; and, lastly, the proposed state-bank depository system would prove a dangerous and unsound replacement for the B.U.S. After all, it had been tried before, from 1811 through 1816, and it had been a disaster. The states had founded new banks on the theory that the retirement of the federal bank would diminish the supply of discounts and paper money available to the market. The new state banks thus flooded the country with new money, prices rose as a consequence, business boomed, and a crash followed. Duane warned that the results of this first "experiment" would be repeated if Jackson's scheme were carried out.

> Does not the President see, that, however selfish the United States Bank may be, the local banks have not more extended principles of action? Will not the anxiety to make money, the ignorance, or the imprudence of, particularly remote, local banks, tempt them so to extend their loans, and trade upon the public money, that when that money shall be called for, they may either fail to pay it, or ruin their debtors by demanding its return? Upon whom would reproach, in such events, be cast? Not on the banks, but on the secretary of the treasury, as an oppressive, perhaps a party, measure. It is manifest that the welfare of the people demands,

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[5] Thomas Hart Benton, *Thirty Years' View; or, A History of the Working of the American Government for Thirty Years, 1820-1850,* (New York: D. Appleton & Co., 1854), I: 158.

[6] Duane wrote that he remained true to "the fundamental principles of the old republican party," and he adhered "to the doctrine of the Virginia school as to a national bank," William J. Duane, "Letter I," 17 February 1834, in *Letters, Addressed to the People of the United States, in Vindication of his Conduct* (Philadelphia, 1834), 3-5.

> that, instead of being a partner of either, they should be independent of both United States and local banks.
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> [Should not the president] consider, whether the fiscal operations of the government may not be conducted without such agency? Could the inquiry be made at a more propitious time? Is it wise to make entangling alliances either with an institution not authorized by the constitution of the United States [the B.U.S.], or with loose corporations, which interfere with, derange, depreciate, and banish the only currency known to the constitution, that of gold and silver?[7]

Here is inconvertible proof that Duane, as secretary of the treasury, not only warned the president of the inflationary consequences of his state-bank depository scheme but suggested an alternative: that the government collect and disburse its funds independent of all banks, whether federal or state. Duane had recommended the independent federal treasury directly to the president. Now, if Jackson and his advisers had a long-range plan to reach the worthy goal of an independent treasury by way of inflation and financial panic it stands to reason that they would have informed their own secretary of the treasury, who was a staunch hard-money man and adhered to the old Virginia republicanism! That they did not suggests that they had no such plan, and that Benton recollections were clouded with a degree of creative special pleading.

Another Philadelphian, William M. Gouge, a newspaper editor and political economist deserves the credit for originating the idea. From 1823 through early 1831, Gouge was the proprietor and editor of a commercial newspaper, the Philadelphia *Gazette.* In addition to supporting Andrew Jackson's presidential prospects, Gouge carried on a steady campaign against corporate banking, paper money, and fractional-reserve lending. When he retired in February 1831, he went immediately to work on a history of American paper money and banking with a theoretical critique of the inflationist principles under-girding it. He finished it in two years. Unable to find a publisher willing to offend the powerful banking interest, he had the book published at his own expense.[8]

In a chapter entitled, "Of the Fiscal Concerns of the Union," Gouge recommended an independent federal treasury dealing only in gold and silver coin as an alternative to either a federal bank or a system of federally privileged state banks. "The natural and appropriate way of keeping the public funds is in the Treasury and in sub-treasury offices. The natural and appropriate way of transferring them from point to point is by bills of exchange, and the occasional transportation of specie." Furthermore, "nothing but gold and silver should be received in payment of dues to the Government." While Gouge denied that the federal government had any constitutional authority to regulate the state banks, he argued that if the federal government dealt only in specie, the state banks would be forced to maintain a higher reserve of specie "to meet the demands of the merchants having payments to make to Government. This would force them to diminish the amount of notes in circulation." Gouge estimated that having a specie-based sub-treasury system "would double the amount of metallic money in circulation." He understood that by accepting paper money in the collection of taxes, and then paying it out, the government gave both credit and legitimacy to the fractional-reserve banking system of the states. "If the operations of Government could be *completely* separated

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[7] William J. Duane to President Andrew Jackson, Treasury Department, 10 July 1833, reprinted in "Letter IV," *Letters to the People of the U.S.*, 31.

[8] William M. Gouge, *A Short History of Paper Money and Banking in the United States, to which is prefixed An Inquiry into the Principles of the System* (Philadelphia, 1833); see also William Gouge, "Preface to the New Edition," *Journal of Banking* 1 (July 1841), 9-10.

from those of the Banks, the system would be shorn of half its evils. If Government would neither deposit the public funds in the Banks, nor borrow money from the Banks; and if it would in no case either receive Bank notes or pay away Bank notes, the Banks would become mere commercial institutions, and their credit and their power be brought nearer to a level with those of private merchants." Establish "sub-treasury offices" throughout the union, dealing only in gold and silver coin, and Americans would have "a *solid money Government*, as was intended by the framers of the Constitution."[9] Gouge appears to have coined the term "sub-treasury" to refer to the idea of an independent federal treasury.

A year later, in March 1834, another Philadelphian, the political economist Condy Raguet wrote Whig Senator Hugh Lawson White of Tennessee urging him to use his influence in the senate to build support for a complete divorce of bank and state at the federal level. He began his letter by admitting to being "one of the very few individuals north of the Potomac who entertain a conscientious conviction of the unconstitutionality of a federal bank." He then confesses to White that in the wake of Jackson's successful efforts to deprive the B.U.S. of its privileged position as the government depository, and to defeat Whig attempts to renew its federal charter, "public opinion" had taken a wrong and dangerous turn threatening "disastrous" consequences for the business of the country: "I allude to the mania for the incorporation of State banks with immense capitals, founded solely on the expectation of having the control of the public money. These banks, if they should be chartered in various States, might by combinations be rendered as dangerous to the peace of the country as any single federal bank; and it seems to me that all who are opposed upon principle to the extension of paper machinery, should use their influence in preventing it." The solution? "The future happiness of the country demands that the government should be wholly separated from the banking system *in all its forms*."[10]

In June, a Virginia congressman, William Fitzhugh Gordon, introduced a bill for an independent treasury. Had Raguet written him as well? An old republican and classical liberal, Gordon denied that the Constitution vested the federal government with any control over the banks or currency of the country, much less the authority to charter a federal bank. The government should collect the revenue in hard coin, keep it in its own depositories, and pay it out in coin or treasury drafts (money certificates). Gordon's hard money plan was supported by many of his fellow Virginians; but the combined opposition of Whigs and bank Democrats was too much. He re-introduced the measure in February 1835, but it was rejected a second time.[11]

In the fall of 1834, Raguet, began making the case for a separation of bank and state in the pages of his weekly journal, *The Examiner and Journal of Political Economy: Devoted to the Advancement of the Cause of State Rights and Free Trade* (Philadelphia, 1833-34), whose motto was *laissez-nous faire* (leave us alone). He began by explaining that the country had only three choices about how to organize the federal treasury, only the third being compatible with liberty and a free market. "We believe a federal Bank to be unconstitutional, and shall therefore oppose it. We believe the tendency of a league of State Banks is to corrupt the Government and the people, and we shall therefore oppose it." He wished "to see the federal government wholly divorced from the banking system." Therefore, he supported divorce and "the hard money

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[9] Gouge, *Inquiry into the System*, 111-113, 139; "The financial operations of the United States' Government should be strictly limited to the collection, safe-keeping, and disbursing of the public moneys, and the transferring of them from the places where they are collected to the places where they are disbursed. Further than this, Government should have no more concern with Banking and brokerage than it has with baking and tailoring," *Short History*, 230.

[10] Condy Raguet to Hugh Lawson White, 28 March 1834, *Memoir of Hugh Lawson White,* ed. Nancy N. Scott (Philadelphia: J.B. Lippincott & Co., 1856), 143-144.

[11] Armistead C. Gordon, *William Fitzhugh Gordon: A Virginian of the Old School; His Life, Times, and Contemporaries, 1787-1858* (New York: Neale Publishing Co., 1909), 231-241.

plan."[12] Raguet's plan was to convert every customhouse and land office into a hard-money bank of deposit and transfer. Funds would be collected and paid out either in coin or treasury drafts (representing actual specie in deposit). Echoing Gouge, Raguet argued that the measure would force the state banks to keep on hand more specie and thus limit their power to inflate the money supply and hence depreciate and derange the currency. It would also restore, in the words of John Randolph, "the hard money government" intended by the framers.[13] The only American founder whom Raguet had greater respect than Thomas Jefferson was John Randolph of Roanoke.

A chief objection to the independent treasury was that it would deprive the federal government of its constitutional and necessary power to regulate the currency. This was a favorite argument of the Massachusetts' mercantilist Daniel Webster, but even the stalwart Calhoun long believed that the federal government had this power. Raguet asked, what power? "Congress has no more authority under it [the Constitution] to regulate the currency, excepting that portion of it which consists of coin, than it has to regulate the emission of promissory notes by individuals." The federal compact never "placed the national currency under the regulation of Congress."[14] For Raguet, who was a strict constructionist, the intent of the framers settled the matter. Besides, as Raguet had demonstrated in numerous meticulously argued essays and editorials, neither the federal government nor its chief agent, the B.U.S., had ever "regulated" the currency in any way except to depreciate its purchasing power through steady, and at times immoderate, inflation. Another argument against divorce was that only the federal government could maintain a sound and uniform currency. Raguet gagged. He wrote: "We know [from experience] that a uniform currency can not be sustained but at the price of immense mischief to the country, unless it be in the form of a hard money currency, and that is the only kind we desire to see."[15] In other words, the safest and most uniform currency is a gold and silver one.

The Record; Two Case Studies: the Mexican War; the 1850s

Although Van Buren signed the Independent Treasury Act into law on the Fourth of July 1840, it lasted only a year; for the Whigs, who won a congressional majority in the 1840 elections, promptly repealed the act (13 August 1841). Four years later, President James K. Polk, a hard-core Jeffersonian Democrat from Tennessee, revived the idea. He made it and a reduction of the tariff the two pillars of his domestic economic program. He used all his powers of persuasion, pressure, and patronage to push the act through congress. The house, by a strict party vote, passed the second Independent Treasury Act on 2 April 1846; the Senate passed it in early August; and Polk signed it into law on 6 August 1846. Just a week earlier, Polk had signed the Walker Tariff (30 July 1846). Although it was not, as it is often described, a *pure* revenue tariff, it did abolish many specific duties, substituted a series of *ad valorem* scales, and reduced average rates to 24 percent, the lowest level since the early 1820s.[16]

Polk's laissez-faire program is even more remarkable when one realizes he was at the same time about to lead his country in a war with Mexico. Congress declared war on Mexico on 11 May 1846. The real object of the war was to annex California and its Pacific ports. Yet, just three months later, Polk was signing legislation lowering taxes and preventing the government

[12] Raguet, "The Future Collection of the Revenue," *Examiner* II (October 1834), 108-109.
[13] Raguet, "The Future Collection of the Revenue," *Examiner* II (November, 1834), 124-127.
[14] Raguet, "Regulation of the Currency," *Examiner* II (October, 1834), 112.
[15] Raguet, "A Federal Bank—An Uniform and Sound Currency," *Examiner* II (December 1834), 158-159.
[16] Dewey, *Financial History*, 249-252.

from collecting or borrowing paper money. There are only three ways of financing a war: taxation, borrowing, or inflation (paper money). Polk chose to borrow rather than tax or inflate. In two years of war, his treasury secretary, Robert Walker, borrowed $49 million without the aid or agency of banks; and *all of it was subscribed in specie*. What is more, the government sold its bonds at a premium, and it issued treasury notes at par, the value of the latter never falling more than .5% during the war.[17] The Mexican War remains the *only* war in American history that was not financed through paper-money inflation. Every other war in American history has been financed by the emission of fiat paper, issued either by banks or government. America's two other major nineteenth century wars—the War of 1812 and the War Between the States—were characterized by massive inflation, the suspension of specie payments by the banks, and a wartime economic boom that culminated in postwar panic and depression (1819 and 1873). Not one of these things happened during, or after, the Mexican War. The reason? The existence of the independent treasury prevented the federal government from directly or indirectly inflating the currency to fund the war. Consequently the economic disruption and waste characteristic of all wars was kept to a minimum in this one.

Ludwig von Mises understood the historical connection between inflation and war. Modern governments prefer to finance their wars through inflation because this method of financing requires the least amount of support or sacrifice from the public.[18] What is more, because the inflation inevitably produces an artificial boom, the public erroneously concludes that the war is not only harmless but actually beneficial to the economy. Government requires two things to wage war—men and money. Governments bent on waging unpopular, long, or numerous wars will always favor standing armies and paper money, for they make it easier to wage war and less likely that the war will provoke widespread opposition. If one had no other reason, one could oppose private fractional-reserve banks merely on the ground that their very existence provides the government with a ready and painless recourse to an inexhaustible source of funds—fiat currency. Mises understood the essential contribution of the monetary printing press in funding Europe's wars during the previous two centuries. His theoretical and historical insights are confirmed by American experience.

The Role of the Independent Treasury in Restraining Inflation

Supporters of the independent treasury system argued that it would restrain the inflationary tendencies of the state banks in the following ways. First, it would deny the banks any support. The banks no longer could use government deposits as a loanable fund, nor would the market value of their notes be enhanced by being accepted and paid out by the government. Second, by dealing only in specie, or treasury notes and drafts redeemable in specie, the federal government would create a new demand for specie. The banks would have to keep on hand a higher proportion of specie reserves than they had previously in order to meet the additional demands upon them for those having payments to make to government; and the importing merchants would have to keep on hand more specie as well. Finally, by paying out specie to government employees and contractors, more specie would be kept in circulation than otherwise. The cumulative effect would be that specie would make up a higher proportion of the money supply of the country. Let us consider the statistics for the period during which the independent treasury was in existence and on a specie basis to see if these things happened:

[17] Dewey, *Financial History*, 255-256; David Kinley, *The History, Organization, and Influence of the Independent Treasury of the United States* (1893; repr. New York: Greenwood Press, 1968), 47, 65.
[18] Ludwig von Mises, *Theory of Money and Credit* (Indianapolis, IN: Liberty Fund, 1981), 254, 468-469.

Banking and Money Statistics from 1847 to 1860[19]

	1847 (Jan.)	1860 (Jan.)	Increase
Number of Banks	715	1562	118%
Bank Loans	$310m.	$692m.	123%
Bank Notes	$106m.	$207m.	95%
Bank Deposits	$92m.	254m.	176%
Bank Specie	$35m.	84m.	142%
Reserve Ratio	17.6%	18.2%	3%
Specie in country	$120m.	$253m.	110%
Total Money Supply	$283m.	$630m.	123%
Inflation	$163m	$377	131%
Population	20.5	31	51%
Money per capita	$13.80	$20.32	47%
Inflation per capita	$7.95	$12.16	53%
Commodity Prices	65.9	73.8	4%

As indicated by the increase in the supply of money and the rise in commodity prices, having a hard-money treasury did not keep the state banks from inflating the money supply, thus depreciating its purchasing power and causing prices to rise. Considering that the 1850s witnessed steady productivity gains due to new inventions, improved machinery, reduced transportation costs, and an increase in the supply of agricultural commodities and manufactured goods, one would expect to see the index of commodity prices at the end of the decade *lower* not higher. However, the rise in commodity prices is not great, being only four percent in fourteen years (for an annual inflation rate of only .28 percent). Nor has the independent treasury forced the banks to increase significantly their proportion of specie reserves to their liabilities. Nevertheless, the proportion did not shrink (as it did during the two previous periods when the state banks were public depositories and under no federal banking restraint, the 1810s and 1830s). The reserve ratio for the banking system as a whole has actually increased slightly. The amount of specie in the banks has almost tripled, while the amount in the country as a whole has more than doubled. Thus, the specie supply has more than kept up with the increase of bank notes and deposites. There seems to have been a real increase in personal wealth. The money supply has increased by 53% per capita; yet the rise in the general price level has been minor, and the purchasing power of the dollar has fallen only slightly.

The Independent Treasury Act did not restrain the state banks from inflating the money supply and creating yet another business cycle. The year 1857 witnessed, seeming with the unerring certainty of fate, another panic and business convulsion. It was the third of the century. Remarkably, the three up to that time were almost exactly twenty years apart (1819; 1837 and 1839; and 1857). Yet, the Panic of 1857 and its ensuing business contraction was the mildest of the three, by far. The Panic of 1818-19 had been followed by a four-year recession, lasting until mid-1822. The Panic of 1837 had been followed by a successor panic in 1839 and a four-year recession, lasting until mid-1843. The state banks suspended specie payments for years both times. Furthermore, due to a bankrupt treasury, the federal government had to resort to printing

[19] Dewey, *Financial History*, 260; A. Barton Hepburn, *A History of Currency in the United States* (New York, 1903; repr. New York: Augustus M. Kelley, 1967), 159-160, 177-178; I have added bank deposits to bank notes and specie totals to get the total money supply; deposits refer only to demand deposits not savings deposits, which by 1860 were considerable: $149 million.

treasury notes to pay its employees and creditors. By contrast, the Panic of 1857 was followed by only a six-month recession; and the banks were in suspension for only a few months. Having suspended in October, the New York banks resumed paying specie in December.

Let us contrast the money figures for the three years previous to the panics of 1837 and 1857 to see if there is a significant difference in the extent of the inflation:

Banking and Money Statistics three years previous to the Panic of 1837[20]

	1833 (Dec.)	1837 (Jan.)	Increase
Number of Banks	506	788	56%
Bank Loans	$379m.	$582m.	53%
Bank Notes	$115m.	$160m.	39%
Bank Deposits	$87m.	$129m.	48%
Bank Specie	$36m.	$41m.	14%
Reserve Ratio	18%	14%	-22%
Specie in Circulation	$41m.	$73m.	78%
Total Money Supply	$243m.	$362m.	49%
Inflation	$166	$248	49%
Population	14m.	15.7m	12%
Money per capita	$17.36	$23	32%
Inflation per capita	$11.86	$15.80	34%
Commodity Prices	75.3	90.4	20%

The money supply has increased by fifty percent in three years (an average of 14.6 percent a year); the reserve ratios of the banks have fallen 22 percent; and the price level have risen by 20 percent (seven percent annually). The ratio of hard-money reserves has shrunk by six percent.

Banking and Monetary Statistics three years previous to the Panic of 1857

	1854 (Jan.)	1857 (Jan.)	Increase
Number of Banks	1208	1416	17%
Bank Loans	$557m.	$684m.	23%
Bank Notes	$205m.	$215m.	4%
Bank Deposits	$188m.	$230m.	22%
Bank Specie	$59m.	$58m.	-1%
Reserve Ratio	15%	13%	-13%
Specie in country	$241m.	$260m.	7%
Total Money Supply	$575m.	$647m.	12%
Inflation	$334m.	$387	16%
Population	27	29	7%
Money per capita	$21.29	$22.31	.04%
Inflation per capita	$12.37	$13.34	.07%
Commodity Prices	85.7	88.1	2.8%

[20] Dewey, *Financial History*, 260; A. Barton Hepburn, *A History of Currency in the United States* (New York, 1903; repr. New York: Augustus M. Kelley, 1967), 159-160, 177-178.

In three years, the money supply has increased 11 percent (for an annual average of 3.6 percent); prices have increased 2.8 percent (for an annual average of .9 percent). Bank notes (the form of paper credit most likely to be presented for redemption) have increased by only four percent over three years (an annual average of .9 percent). The contrast with the figures from the 1830s is dramatic and significant, and it accounts in large measure for the short duration and comparative mildness of the 1857-58 contraction. The independent federal treasury brilliantly fulfilled the goals set for it by its original proponents (Gouge, Raguet, and Duane). It had rendered the system of incorporated state banks of issue far less inflationary than they would have been if the federal government had sanctioned and promoted them by accepting their notes and credits in payment of taxes, for land sales, or for subscriptions to loans. Furthermore, and perhaps most important for the sake of limiting government, it denied the federal government the recourse of borrowing paper money, or printing paper money, to finance unnecessary wars and "internal improvements" (infrastructure and public works projects).