ALEXANDER HAMILTON AND THE ORIGINS OF WALL STREET

ABSTRACT

The origins of Wall Street are tied to Alexander Hamilton's plans for the financing of the new nation and the funding of its debt. The two hundredth anniversary of Wall Street in 1992 occasioned many retrospectives that owe more to mythology than to historical veracity. Wall Street's earliest history consists of market corners, insider trading, and financial scandal that implicated the high (Alexander Hamilton) and the low (William Duer). The 1792 Wall Street response was in the form of private self-regulation in order to hold off governmental regulation, setting a precedent for public policy that carries well into the twentieth century. Using new historical methodology, this article reinterprets the formative financial period of 1790-1792 and the origins of Wall Street.

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Wall Street began in the middle of the seventeenth century as a heap of untrimmed trees, hauled from the nearby forest and made into a brushwood barrier that extended along the southern tip of the Dutch colony of New Amsterdam.[1] Designed to keep Indians out and livestock in, it was only the first of many walls erected to protect the street. As a financial center, Wall Street -- so-named by the British in 1685 -- had its origins in the 1792 Buttonwood Agreement among brokers handling the bonds that Alexander Hamilton floated to replace revolutionary war debt.

Almost immediately after its launching in late 1790, the treasury scheme was followed by speculation, scandal, and a financial crisis that provoked proposals for an intrusive regulation of Wall Street brokerage business by the New York state legislature. The Buttonwood Agreement was Wall Street's response. It established precedents that carry forward into the twentieth century: the alternative of self-regulation to public regulation and rules and fixed commission rates among brokers dealing in securities.

In its first financial decade, Wall Street faced all of the dilemmas that would characterize finance for the next two hundred years in America: resolving a public debt through the issuance of treasury bonds; selling those bonds through brokers to a public whose appetite was stimulated by the appearance of a fast road to riches; followed by financial collapse that left brokers with unpaid debts to the same, now-enraged, public it had once courted.

In the midst of all this was Alexander Hamilton, arguably the progenitor of financial

America, author of sixty-three of the eighty-five essays in the Federalist Papers, and Wall Street habitue whose name has been implicated by some historians, and defended by others, in the financial crisis that followed on his plan to fund the Revolutionary War debt. What was Hamilton's role in the financial speculation and its subsequent cycle of public infatuation and betrayal? Did he pass information, knowingly or unknowingly, to some of his closest friends, associates, and, in one instance, possibly his deputy in the Treasury who used the information about the funding scheme to enrich themselves and seduce an unsuspecting public into Wall Street's first financial scandal? After two centuries of off-and-on debate about Hamilton's involvement, there is still no direct evidence that can resolve the debate. It is, however, worth looking at this question once more in light of an historic marker and new historical methodology.

The marker is the passing of Wall Street's second century as a financial center.[2] The methodology is associated with a new historiography that challenges the solidity of most "facts", looks at historical evidence as not subject to de-coupling from its source, and gives as much weight to perceptions about events -- the play of surfaces -- as it does to the event itself, which is subject to multiple interpretations. This matrix of historical method suits a Wall Street that is itself a wonder of perceptions about a contested reality, multiple interpretation of "facts", each dependent upon the orientation and reputation of the presenter, and decisions based upon a surface that may or may not reflect its underlying reality. Hamilton was himself aware of this when he said that "in nothing are appearances of greater moment, than in whatever regards credit. Opinion is the soul of it, and this is affected by appearances, as well as realities."[3]

Wall Street and Hamilton's Treasury Department

The Strategic placement of Wall Street by New York's natural harbor has always lent it a special claim on New York's commercial and financial life, first with the Dutch, then the British, and finally with the American nation. Under the British, Wall Street became the center of a rapidly-growing port city, populated by merchant's homes and offices, coffee shops and insurance brokers. The British and the Dutch, along with French Huguenots, Sephardic Jews, Africans, and others lived and worked in lower Manhattan in what would become New York's trademark image of a city inhabited by many nationalities.

The decision to center so much of British colonial life on Wall Street was influenced by the appointed British Governor of New York, Thomas Dongan, who had secretly purchased rights to the land adjacent to the wall before it was paved and then subdivided his holdings into lots which he sold in 1686.[4] He was joined in this land speculation by two of The Street's early great names: Nicholas Bayard and Abraham DePeyster. They bought property near Wall Street before it was improved, proposed a site for Trinity Church, and donated the land on which the City Hall was built.[5] In the last decade of the 1600s, the old wooden palisade wall was demolished and its foundation stones used in the construction of City Hall, Wall Street was paved, and the first Trinity Church was built.[6]

Colonial Wall Street, in the 1700s, kept pace with the growth of New York City as a trade center and port city and was content, during the American Revolution, to view the battles from some distance. New York was still a modest third to Philadelphia and Boston in finance and patriotic fervor. By the end of the century, with the city's population standing at over thirty-one thousand, a rebuilt Trinity Church was consecrated (1791) and towered over a street that contained fifty-four merchant businesses, a school teacher, a clockmaker, a snuff and tobacco manufacturer, a grocer, bookseller, milliner, printer, upholsterer, two tailors, three auctioneers, a tavern, a porter house, and a fashionable boarding house.[7]

The most prominent of all these residents in the early republic was Alexander Hamilton. He had a small house at the corner of Wall and Water Streets near the Coffee House Slip on the East River, which he frequently visited.[8] Hamilton was confident that the character of the new nation would be defined as much by the system that produced and distributed articles of commerce as by articles in the Constitution. Hamilton saw his role, according to one interpretation, as closer to that of a prime minister in Washington's presidency than simply that of a treasury secretary.[9]

Hamilton was born in 1755 on the Danish island of St. Croix, came to New York at the age of 17, and was only in his mid-thirties when he took over the dismal finances of the new nation as treasury secretary. A handsome man of average height, Hamilton's slimness and grace set him apart from the more portly male figures of the time as his quick mind had set him apart from other young Revolutionary War officers and made him an aide-de-camp to General Washington. A lawyer by training, he established a home and business at number 57 Wall Street in 1783, where he wrote those famous articles for the Federalist Papers.

Wall Street's emergence as a financial center was initiated by Hamilton's actions as treasury secretary. In 1790 he submitted to the Congress his Report ... for the Support of the Public Credit in which he deftly laid out a subtle means for establishing the new nation's credit in world financial markets. As a legacy of the Revolutionary War, the country had accumulated domestic debt totaling $65 million in the form of paper money -- Continental currency ($40 million) -- and unredeemed state borrowing ($25 million) to finance the war.[10] The currency had become virtually worthless after the war, yet it remained in circulation, falling in value and creating price inflation. Financial confusion reigned as the value of some states' currencies fell, reflecting their debt levels, while others rose. European backers of the Revolution, including Dutch bankers and the French government, awaited payment and investors awaited assurances of monetary stability.

Hamilton's remedy, outlined in his Report, contained three essentials: First redemption of the "Continentals" -- as the currency was called -- at face value even though they were worth a fraction of face value on the current market. Second, he proposed that the federal government assume all the outstanding state debts. Together, these measures became known as the funding and assumption policies of the new federal treasury. Third, he borrowed money for the new federal treasury by issuing federal government bonds. The end result, Hamilton hoped, was an old debt wiped off the books and worthless currency removed from circulation, a new currency with stable value, and money to finance the government. This took some sleight of hand, to say the least, and perhaps some privileged information passed to brokers who were essential in executing the project.

To implement this policy Hamilton first issued a new currency, which he used to buy the Continentals on a one-for-one basis. He then issued some eighty million dollars in federal government bonds and sold them primarily to merchants and brokers, who bought the bonds with the new currency they had received for the old Continentals. In effect, brokers swapped the Continentals for new treasury bonds with the currency exchange used as an intermediate transaction. To acquire the old supposedly worthless Continentals and state debt, brokers bought them at a severe discount from the public. This is where the conjecture surfaces about private information passed on through Hamilton to his friends and neighbors on Wall Street. Did they know Hamilton was going to support assumption of the state debts and did they know he would support buying the Continentals at full value from the final holder?

The extent to which speculation in Continentals was concentrated in lower Manhattan is not known precisely, but there must have been a considerable amount because it was on Wall Street that the first arrangement was conceived among brokers for the sale and purchase of federal government bonds. According to the story Wall Street tells about itself, an agreement was reached among twenty-four brokers on 17 May 1792 under a Buttonwood tree at 68 Wall Street to provide a market for the purchase and sale of these new securities. Known more commonly as a Sycamore, the Buttonwood is a tall, majestic, leafy tree that can grow to one-hundred-fifty feet, spread its girth to as much as a fifteen foot diameter, and takes its name from the hard brown fruit that looks like a button. The largest hardwood in the eastern United States, the Buttonwood is a loner -- a solitary giant that often grows in isolation from other trees, even those of its own kind. The Wall Street specimen was all the more compelling as a singular and sheltering meeting place, because during the Revolutionary War years of 1779-1780 most of Manhattan's trees had been cut down for firewood. This towering Buttonwood and its story has retained a special place in the iconography of Wall Street. The tree survived until 14 June 1865 when at eight in the morning it succumbed to a storm.

We know there was a Buttonwood Agreement but the historical validity of a meeting under the shade of this tree is in doubt -- a skepticism taken up later in this article. The agreement was in the nature of a medieval guild organization: exclusivity of membership and a fixed price. It provided that the twenty-four signers grant preference in transactions to each other at a fixed and uniform commission rate. The twenty-four Buttonwood signers were doing what all market-makers try to do: Monopolize the market by placing a wall between themselves and others and permitting entrance only at the market's convenience and discretion.

The Buttonwood Agreement was completed in the midst of a scandal on Wall Street that threatened its financial brokerage business and threw into sharp relief four recurring archetypes who operate in the world of finance. One was the public policy maker in the person of Alexander Hamilton and another the financier represented by the twenty-four Buttonwood signatories. Perhaps most interesting were the impresario of civic works, John Pintard, and the fallen speculator, William Duer. The fate of all of these types is entwined in Wall Street's first financial scandal.

The scandal originates in Hamilton's funding and assumption measures, which were controversial on several counts. A significant segment of opinion at the time questioned why the buyers of Continentals -- who had purchased on speculation from their original owners at considerably less than face value -- should be paid at face value? Many of the original holders of Continentals had dumped them for whatever they could get. They were soldiers who had been paid in Continentals, or farmers and tradesmen who had sold goods to the army, or soldiers and suppliers who were still awaiting payment from the government.

The buyers of these apparently worthless Continentals were often rich and powerful merchants who snuggled along the coast lines of the port cities and dabbled in whatever could be bought at a low price and sold at a higher price. The sellers were individuals such as the veteran who wrote this letter to the Massachusetts Centinel on 20 March 1790, describing the plight of his fellow soldiers:

> They must dispose of their ...pay, or they
> must go hungry. What was the encouragement when
> they offered their paper for sale? That
> government would never be able to pay it, and
> that it was not worth more than 2s. for 20s.
> This was the language of all the purchasers.

The speculative perspective was captured by an early historian of Wall Street: "The wily hastened to the highways and byways and bought up, at remarkably low prices, the Government `stock' held by ignorant men who did not dream that it could be redeemed at par." These "ignorant men," it turns out, faced formidable bureaucratic obstacles in establishing their back claims to the Continentals.

New York's treasurer, Gerard Bancker, has left a record of how he handled claims of soldiers who had not received full compensation for their war duties. His papers show a draft of a document (1792) in which he first wrote, then crossed out, some words pertaining to certificates of payment due to the "troops who served in the late War and which he was by law directed to deliver ... on their application at the Treasury Office of the State." He replaced this simple formulation -- that the soldier need only apply for his Continentals, now worth a considerable sum in 1792 -- with a bureaucratic nightmare. The individual soldier not only had to apply for back payment, according to the revised rules, but now also had to produce a document from an officer with whom the soldier had served, proving his identity. But even that was not enough. When twenty-two such statements were presented and signed by one officer, several claims were turned down on the basis of the individual soldier having served in a different regiment; or claims for dead soldiers, upon investigation, showed the individual alive and well. All this points to a general confusion over who had title to back pay claims and how they were to be awarded, not to mention the difficulties an individual faced when confronting a government that was prepared to place such a bureaucratic maze in his way.

The willingness of "wily" brokers to buy what everyone else considered worthless paper leads to an obvious query: Was information concerning his scheme to purchase Continentals at face value and assume state debt passed on through or by Hamilton to his merchant friends? How did the buyers of the Continentals know they would be redeemed at par? The evidentiary record points toward the conclusion that the first market for government securities was created by interested parties with special information. One observer, for example, attributed speculators' acquisition of Continentals to "smart gentlemen [who] purchased in anticipation of a federal refunding loan. Residing in the East," he says, "where affairs of state originated and were known to the `inner circle,' they had a great advantage over the general public."

One such member of the "inner circle", and an original Buttonwood signer, was Peter Anspach, and he has left a documentary record that sheds some light on this conjecture. Starting in 1789 and lasting through 1792, there were some nine hundred bills and receipts that Anspach handled, dealing with the sale and purchase of Continentals and state debts -- mostly those of New Jersey. Typically, the state debt notes were bought at a discount of fifty percent. Another New York broker advertised on 22 June 1791, that "any person willing to have their North Carolina debt funded, may have it done on reasonable terms by applying to William Boyd."

Privileged Information and Wall Street Speculation

Alexander Hamilton lived in the center of this merchant-broker world of lower Manhattan. He conversed daily with its residents, drank coffee at the places where business was transacted, and conceivably talked about his ideas for the financing report he was preparing for

Congress, if for no other reason than to refine his thinking. He shared with merchant-brokers a commercial outlook that went beyond the technical financing of debts to cultural and political concepts of nation-building. He may have received ideas from them as much as pass on his own, testing proposals to see if they would work. And all this occurs at a time when sensibilities about the exchange of information between private traders and government officials were vastly different from today. No illegality was associated with such contacts, although political opposition to such arrangements was important in the new republic as it sought to distance itself from precisely this type of behavior, which had plagued England in the eighteenth century.

Two months before Hamilton's report to Congress, William Constable -- a Wall Street merchant-broker, client of Hamilton's, occasional dinner guest and financial adviser to Hamilton who figures prominently in the eventual scandal -- wrote to his colleague Andrew Craigie:

> I dined with Hamilton on Saturday. He is strong in the faith of maintaining public Credit .... I tried him on the subject ... `they must no doubt be funded tho it cannot be done immediately,' was his remark, `they must all be put upon a footing,' meaning these as well as the funded Debt. In short I am more & more of the opinion that they are the best object at present.

This communication from Constable to Craigie occurs after Craigie had expressed the view that he knew of "no way of making safe speculations but by being associated with people who from their official situation know all the present & can aid future arrangements either for or against the funds." Incriminating as these communications are, defenders of Hamilton point to his letter to Henry ("Light Horse Harry") Lee of Virginia who was rebuffed by Hamilton when he sought information on debt funding:

> I am sure you are sincere when you say you would not subject me to an impropriety ... But you remember the saying in regard to Caesar's wife. I think the spirit of it applicable to every man concerned in the administration of finance of a country.

To Hamilton's defenders the "Caesar's wife" metaphor suffices. But does it? Because of Hamilton's geographic proximity and cultural affinity, he would be much more likely to converse candidly about his financial plans with Constable than he would with Lee, a Virginian whose Congressional delegation constituted Hamilton's most important opposition and known neither for his personal reliability nor for his complete support of Hamilton's plans. Lee is simply not someone Hamilton would be expected to take into his confidence. The Caesar's wife defense is, therefore, built on a very shaky foundation. Yet it is cited again and again in the three most authoritative biographies of the past decades. The Lee correspondence raises another question in the form of a false negative: Why isn't there correspondence between Hamilton and his Wall Street friends that can corroborate charges of "insider trading," while there is a clear rebuff to Lee in writing? There is no written documentation, because none was needed. Oral communication would have been preferred in such matters, and it was easier among geographically proximate neighbors and friends.

A second line of defense by Hamilton's supporters dwells on allegations that can be more readily dismissed. One involves an affair he had with Maria Reynolds and an attempt at blackmail by her husband, James, in which he claimed he had evidence of Hamilton's passing confidential information. The pamphleteer, J.T. Callender, used the Reynolds case -- and another charge against Hamilton instigated by a man named Clingman, who was in jail with Reynolds

-- to attack Hamilton in a series of articles published in 1797. Hamilton's curious confessional response to the affair, in a 1797 published pamphlet, has been frequently cited by his defenders:

> Merely because I retained an opinion once common to me and the most influential of those who opposed me, that the public debt ought to be provided for on the basis of the contract upon which it was created, I have been wickedly accused with wantonly increasing the public burthen many millions in order to promote a stock-jobbing interest of myself and friends.

A more serious charge against Hamilton involves the case of William Bingham, a respected Philadelphia merchant and speculator, who wrote to Hamilton spelling out his views on full funding of the debts and asked him "how far any of my Sentiments coincide with yours." Thomas Willing, Bingham's father-in-law, claimed to have seen Hamilton's response in which he states his support for "whole price" funding.

Hamilton's sagacity has never been challenged. Nor is there a trail of money that can be traced back to him. No one contests the fact, however, that he had an abiding obsession with influence and power, whose rewards would be found in a successful alliance with such like-minded men of stature as the Wall Street broker. A more plausible explanation, therefore, is that he never thought twice about testing his ideas and sharing information with people who were his neighbors and allies in the contentious battle over the form of the new republic. Hamilton needed these people to make his cherished treasury plan work. To one of the editors of his collected papers, and a sympathetic biographer, Hamilton "believed that winning and keeping the confidence of men with money to bestow or withhold was essential to the fiscal operations of the new government." A Hamilton critic puts it thusly: "Those who assume that the Secretary of the Treasury could have carried out his enormous reorganization of the finances without conferring with the leading financiers of the time have only an elementary knowledge of Treasury administration."

As to his knowledge of financial affairs, Hamilton had few, if any peers, then or at any time since. He was concerned about a speculative panic because of the historical memory of such financial panics and manias as Holland's tulipomania (1637) and the South-Sea bubble (1720). He would want to take every precaution to avoid their recurrence. One way to do this would be to prepare for contingencies in advance, for example, by limiting speculation largely to a trusted group inside a wall of privileged information, leaving those beyond the barrier to nibble on the residual crumbs from the main speculation. To put the question in the negative: How could Hamilton not know that the gambles of private speculators would make or break his project, depending on whether they "guessed" correctly about a policy whose success he valued at whatever the cost?

Hamilton's mistake was to be blind to what many of his critics saw as a violation of republican sensibilities, best summed up in this 1792 New York Journal commentary in which "this great minister" is taken to task for:

> plans that have tended ... to meliorate the pockets, and not the heads and hearts of the people. ... liberty and independence ... have been struck out from the American vocabulary, and the hieroglyphs of money inserted in their stead. ... the ordinary walks of industry begin to be loathed and are about to be abandoned for the golden dreams of speculation."

The path to Hamiltonian financial policy was further smoothed by certain members of Congress who, directly or indirectly, stood to benefit either from the purchase of Continentals at face value or from the national assumption of state debt. Some members of Congress hired agents to roam the countryside and buy up Continentals and state debt. There was Elbridge Gerry of Massachusetts, $33,000 in Continentals and $16,000 in state debt; Roger Sherman and Jeremiah Wadsworth of Connecticut, a total of nearly $8,000 thousand and $21,500 respectively; Elias Boudinot of New Jersey ($49,500); and George Clymer of Pennsylvania ($12,500). With great solemnity these, and other lesser-holders of now-valuable assets, spoke in favor of Hamilton's plan on the floor and voted against James Madison, who wrote to Thomas Jefferson (July, 1791) and sadly reported: "of all the shameful circumstances of this business, it is among the greatest to see the members of this legislature who were most active in pushing this job openly grasping its emoluments."

Hamilton's plans prevailed over the opposition of such eminent political voices as Thomas Jefferson and James Madison who sought a means to diminish the rewards of speculation. Madison proposed, for example, that secondary holders of Continentals receive their purchase price and the original holders receive the difference between their sale price and face value -- what came to be called "discrimination." Aside from the practical problem of sorting out the chain of ownership, Hamilton supporters have mounted a stout defense of his full funding policy based on the sanctity of contracts and the fact that future financial transactions between government and the public would be hampered if the face value of government securities were not protected. But this misses the point. It was not a question of full funding or partial funding of the debt and the Continentals, or honoring contracts or not honoring contracts. It was a question of <u>who</u> would receive funding and <u>which</u> contract would be honored.

With Jefferson, Hamilton struck a deal in order to placate the Virginia delegation -- a state that had paid off it debts and was opposed to his assumption plan -- during a half-hour walk that started in front of President George Washington's house just beyond Wall Street and continued along lower Broadway. Hamilton agreed to support moving the capital out of New York to a new "federal city" on the Maryland-Virginia border -- after a 10-year detour to Philadelphia to secure Pennsylvania's support for the funding and assumption scheme -- in exchange for Jefferson's acquiescence to his financial plan.

With Jefferson's assent to the Hamilton plan assured, the political capital eventually moved south, while the separate financial capital remained in the north. Wall Street and Pennsylvania Avenue became two thoroughfares with distinct cultures and missions that sometimes collided and at other times colluded.

A year after Congress approved his funding and assumption plan, Hamilton turned to building another financial structure: a national bank, which passed the Congress in February, 1791 again over the opposition of Jefferson and Madison. The bank was endowed with capital supplied partly by the new government and partly by private investors who paid with the very government bonds that Hamilton had issued for funding and assumption. The cleverness by which money passed through a revolving door impressed financiers not only in the United States but across the Atlantic, as well. Hamilton issued government bonds to sponge up bad paper and then recaptured those same notes to fund a new bank that would help finance his scheme for national development. He packaged old debt in a new wrapper and sold this new financial product to a financial Wall Street that had been created for this purpose.

Central to the program was Hamilton's understanding that it relied on confidence and wealth: the creation of a group of wealth-holders who shared his vision of a commercial investment-based culture and their confidence in the federal government's financial stability. His funding-assumption plan provided both, he thought. Capital would be concentrated in the hands of a merchant-broker class who would become risk-takers in investing in the nation's future. The national bank would multiply these possibilities through prudent management of the new nation's finances. To acquire the confidence of these nascent capitalists, Hamilton knew he had to purchase their support in advance and he had done so through the funding-assumption scheme.

As with all programs for financial stabilization, the director is as much a conjurer as a financial genius. Hamilton believed that the public interest could best be constructed, not by Jefferson's notion of individual civic virtue, but by steering private interests into an aggregate public interest. "Men will pursue their interests," said Hamilton to the New York ratifying convention for the Constitution. "It is as easy to change human nature, as to oppose the strong current of the selfish passions. A wise legislator will gently divert the channel, and direct it, if possible, to the public good." Whether viewed as a magician creating illusions about the value of American paper money or as a cynical manipulator whose reforms began as a piece of financial chicanery, Hamilton succeeded. Four decades passed before his system was seriously challenged.

Financial Panic and Scandal on Wall Street

While Hamilton was suspected by his political opponents of too great an intimacy with his merchant friends, he was never seriously charged with using his position for personal financial advantage. He was, however, ill-served by his closest associate: Wall Street's William Duer, who used his close association with Hamilton to profit from, and ultimately destabilize, Hamilton's financial plans.

Born in England in 1747, Duer served as Secretary of the Board of the Treasury from 1786 to 1789, was a member of the Continental and Confederation Congresses, arranged for Washington's house when he moved to New York, and speculated in anything and everything -- Continental scrip, stock of the Bank of the United States, and Ohio and Maine land. When the Treasury Department was created in September, 1789 Duer was appointed Assistant Secretary by his friend, Alexander Hamilton and, according to John Adams, had a significant influence on Hamilton's 1790 "Report on Public Credit." He served in this position only about seven months, when he resigned in April of 1790. In his letter accepting Duer's resignation, Hamilton tells his "dear friend" that he "is sensible of the force of motives" behind his decision. Indeed, Duer's extensive investment in public securities made his position in the Treasury Department politically embarrassing to Hamilton, even by the relaxed standards of the time.

In December, 1790, Duer sent the subsequent Buttonwood-signer, Leonard Bleecker, to South Carolina as his agent to purchase Continental debt. There is evidence that Duer began his buying even before Bleecker's trip, perhaps when he was still Assistant Treasury Secretary and that Duer's close business associates received advance information from him on Hamilton's proposals enabling them to purchase large amounts of debt at low prices. Not satisfied with his speculation in Continentals, Duer entered into a secret partnership toward the end of 1791 with Alexander Macomb, Walter Livingston, Benjamin Walker, and William Constable -- the broker who claimed to have inside information from Hamilton on funding and assumption -- to attempt a corner on the market for securities of the Bank of New York, a state-chartered commercial bank that Hamilton had initiated to handle transactions of the National Bank.

The strategy behind such a maneuver is to buy up as much of the stock of an institution as possible at a price that has been driven down, remove the factors that drove down the stock's price, then sell the stock once the price has risen. With ownership concentrated, the cornerers hope to be able to manipulate the stock's price to their advantage. The trick is to keep the stock price low, at the same time the cornerers are exalting its demand by buying more. For this they have to find a device at the outset to drive the stock price down and be able to keep it low enough and long enough for the corner to be profitably secured. In the Duer corner the mechanism involved a clever ruse that was designed to convince financiers a new bank was being created to compete with the Bank of New York, thereby deflating the price of that bank's securities.

The consortium Duer put together called this the "Million Bank" and to their delight other financiers copied the idea in January, 1792 and floated proposals for two other banks: the Merchants Bank and the Tammany Bank. Within a short time all three folded into the original Million Bank, but the start-up of several banks had accomplished its purpose and the price of securities for the Bank of New York fell.

Duer bought up bank shares by borrowing against anything he could find and when he ran out of collateral, he borrowed from the New York citizenry at interest rates of from two to four percent per month. As his principal agent he employed an inexperienced Wall Street broker, named John Pintard. Pintard's family had been engaged in various merchant activities. He was established in business with the aid of his uncle, Lewis Pintard, who had raised the young, orphaned John Pintard. He first surfaced on Wall Street in a partnership with the eminently estimable Leonard Bleecker in December, 1790. But this was short-lived, and one month after the partnership dissolved in October of 1791, Pintard was employed by Duer as his agent. Pintard first went into the brokerage business for himself, with Duer as a major client, and then with four others opened an office at 22 Wall Street -- "a large convenient room for the accommodation of dealers in stock," said the public announcement on 6 February 1792. In the five months between November, 1791 and March of 1792, Pintard signed notes for Duer worth nearly seven-hundred-thousand dollars.

Pintard was the visionary American of the Federal era who saw vast possibilities in the future of the new nation. The United States embodied the ideas of the eighteenth-century European Enlightenment not only in its form of government, but also in a generation of men who believed that all branches of knowledge could be mastered by the public-spirited citizen for the benefit of the republic. Such a man of parts was Pintard. In him, as in others, this honorable goal was flawed by an occasional inability to separate his private gain from the public interest.

Descended from French Huguenots, he was born in 1759 and graduated from Princeton College in 1776, subsequently served in the New York Assembly, and was an Assistant Alderman for New York's east ward. Later as a trustee of the New York Society library, Pintard was a major contributor to its collection. He was the principal force behind the founding of the American Museum, which aimed at educating and elevating the public while demonstrating to a skeptical Europe that the new American republic had not only abundant varieties of natural history, but the art and science to portray and classify them. For Pintard, Wall Street, too, could work to prove the superiority of American institutions while, happily, compensating him and its investors well.

By August of 1791 Hamilton began to have doubts about his friend William Duer and cautioned him against undue speculation, to which Duer proffered an indignant reply. Hamilton then wrote:

> I think I know you too well to ... harbour the
> most distant thought that you would wander from
> the path either of public good or private integrity.
> But I will honestly own I had serious fears for
> you -- for your <u>purse</u> and for your <u>reputation</u>...

Upon subsequently learning of the Duer scheme to add a competitive bank to the Bank of New York, Hamilton was enraged both for reasons of pride and his concern that another bank would lead to an overextension of credit, thereby jeopardizing his grand plan for establishing the credit-worthiness of the new nation. He collaborated with William Seton, cashier of the Bank of New York, to deprive Duer and his accomplices of access to the bank by refusing to accept their deposits. The Bank of New York tightened credit and curtailed the discounting of paper, which had the effect of retarding Duer's scheme to buy up bank securities but also brought on the very financial panic Hamilton had wanted to avoid.

With interest payable at from two to four percent per month, any interruption of a cash flow is deadly. Almost immediately after Hamilton's counter-attack through the Bank of New York, Duer and Pintard were forced to default. Once the word got out, they were besieged by creditors wanting to be paid off while they still could, but it was too late. On 9 March 1792 Duer stopped payment on the notes. In an effort to deflect responsibility away from himself and toward Pintard, he said they were "issued by my Agent during my absence, under Circumstances which require Investigation." As panic took over the city and angry mobs demanded retribution, Duer was fortunate to be placed in jail. The turmoil was captured in this account:

> There is scarcely anything but Noise and Racket last
> night and the night before we had a Mob Raised and nothing
> would satisfy them but the father of Speculation,

> the great W. [Duer] who is confined in gaol at present
> and who they blame for carrying off all the money from this city,
> and the cause of many failures that has happened. Lately,
> the Mob has endeavored to get him out of gaol, but the
> Mayor & city officers have prevented them as yet -
> almost one half of this city is turned Bankrupt, owing
> to the Cursed Speculation.

Said his colleague William Constable of Duer: His "talents are confessed and his information and resource superior to any Man I ever knew but he cannot go straight."

Duer and Pintard each blamed the other for the financial crisis and for inducing innocent people to depart with their savings. Alexander Macomb, a Duer defender, has written that Pintard took the life savings of "shopkeepers, widows, orphans, Butchers, Carmen, Gardners, market women & even the noted Bawd, Mrs. Macarty." On 24 March 1792 from his prison cell, Duer published a handbill in which he claimed that he was the victim of the "malice of open enemies and the insidious insinuations of pretended friends" and offered to make "prompt arrangements for the reimbursement of all advances made by distressed widows, or orphans, mechanics or tradesmen." Duer never made good on his pledge. A few days later, Duer's allies rallied to his defense and further implicated Pintard. Here is what Alexander Macomb said about Pintard, about a month before Macomb joined Duer in jail: Duer, he claims, had "entrusted Pintard with his signature to Blank notes [and] Pintard had gone off ... with a very considerable amount of a man's property whose agent he had been."

To avoid creditors, Pintard retreated to Newark, New Jersey where he sought absolution by claiming he had made an "error" in having "unfounded confidence in Mr. Duer, while acting as his agent." Pintard remained in Newark for eight years, of which fourteen months was spent in jail between 1797 and 1798. These reverses and his confinement may have made him introspective. As a self-professed rational man, he was able to separate his personal financial disaster from his observations of nature and politics. Pintard became a diarist during his exile and produced perhaps the most detailed record of daily life from the period that has been preserved.

Alexander Macomb, foreshadowing the repentance of later Wall Street schemers who get caught, lamented:

> Three months past in this city every face
> was blythe, everything seemed to flourish,
> all had favourable prospects and everything
> look'd well. At present every countenance is
> gloomy, all confidence between individuals is
> lost, credit at a stand, and distress and general
> Bankruptcy to be daily expected -- for everyone
> gambled more or less in these cursed Speculations.

The Invention of Wall Street

The Duer-Pintard financial scandal was one of the proximate events that led to the Buttonwood Agreement, as brokers sought to pacify an angry public by devising rules for securities' markets that preempted public regulation and left self-regulation of financial markets under their control. It was partially an effort to hold off government intervention after the New York state legislature had made securities auctions illegal on 2 April 1792, and further bills had been introduced in the New York and Pennsylvania legislatures to address the 1792 financial crisis and scandal.

A week after Duer's arrest and about two months before the Buttonwood signing, the group met on 21 March 1792 at Corre's hotel where, as reported in the Gazette of the U.S., the "merchants and dealers in stocks ... appointed a committee to report such regulations relative to the mode of transacting their business, as in their opinion may be proper." Here is the true origin of the Buttonwood Agreement, which produced a self-regulated Wall Street securities industry that invents itself in response to its first financial scandal in order to wall itself off from more aggressive government regulations. It is from this point forward that Wall Street develops the case for its being a private membership association that authenticates the integrity of its members and provides physical facilities for a closed club. Looked at this way, it is not a business and, therefore, not susceptible to public business regulation.

The initial meeting at Corre's Hotel frames a more accurate portrait of Wall Street's origins in repairing the damage incurred in its first financial scandal. It does not, however, satisfy the need for a soothing icon, such as the Buttonwood picture, that can be painted, reproduced, and framed -- Currier and Ives style -- and hung in scores of brokers' offices. Nor does it lend itself to the sort of myth-making found in the 1892 centennial remarks of the New York Stock Exchange's President in which he borrowed an elysian, pastoral imagery to enshrine the legend of a group of "unconscious founders of the great Stock Exchange," who found themselves "in the shade of the spring mantled limbs, with the birds chirping in the leaves overhead and village gamins playing about."

Wall Street, in just two years as a financial center, wrote and enacted a script that would be reenacted over the next two hundred years. Between 1790 and 1792 it witnessed a brilliant financial scheme by Alexander Hamilton to establish the new nation's credit by marrying public and private interests. The first formal brokers' agreement among securities dealers was created in response to a financial crisis to bring some order and respectability to an institution in disrepute after the Duer scandal. While Wall Street produced early financiers who saw themselves as responsible and benevolent, it also gave rise to frenzied speculation orchestrated by schemers and scoundrels who anticipated many of the mea culpas of subsequent fallen financial angels. And, finally, it threw forth a great cultural interpreter -- John Pintard -- whose efforts at preserving and sponsoring American art and literacy are another Wall Street contribution to the nation. His greatest achievement was the establishment of the New York Historical Society in 1804 where his papers, letters, and diaries reside. His death at age 86 in 1844 ended a career that is best described by an 1870 profile of him:

> He could ignite a handbill that would inflame the minds of people for any good work. He could call a meeting with the pen of a poet, and before the people met, he would have arranged the doings for a perfect success. He knew the weak point of every man, and he would gratify the vanity of men and get their money, and accomplish his good purpose, without any of them suspecting they were merely the respectable names and moneyed tools that Mr. Pintard required.

The basic character of an institution is often established in its infancy. Such is the case during the early years of Wall Street. In its first two years a cycle of euphoria, speculation, and panic is accompanied by the public's infatuation then sense of betrayal, followed by reform and redemption. The intersection of government and Wall Street started with Hamilton. To the two streets -- Wall Street and Pennsylvania Avenue under construction -- that create a uniquely American-style confluence of finance and politics, a third was added: the Main Streets of America where the typical citizen lives who is swept up in the prospects of quick gain from a financial gamble or who simply feels the impact of Wall Street without participating directly.

Looking back over the accumulated weight of evidence, it is difficult to avoid the conclusion that Wall Street's origins are intimately connected to the use of privileged information in the hands of a select, well-connected group of brokers. There is, first, a shared idea about the requirements for nation-building between Hamilton and his neighbors on Wall Street. Next there is the undisputed role of William Duer, Hamilton's protege and confidante, and the widespread effort of Wall Street brokers before 1790 to buy up what to everyone must have looked like absolutely worthless paper. Then there is the evidence surrounding the Buttonwood Agreement, its true origins as a counter-attack against stringent proposals for public regulation, rather than the innocence associated with the quaint, yet official, Wall Street mythology. Finally, there is enough direct testimony from several of Hamilton's associates to frame the context: That Hamilton saw his program as absolutely central to his view of nation-building and that he required the assistance of a small group of trusted intimates to make it work.

The density of this evidence invites the negative: How could all this happen without confidential information passed by or through Hamilton to his Wall Street allies in nation-building, at a time when Hamilton faced serious opposition from the powerful and influential Virginians? Based on contemporary historiography, Wall Street's lineage is more suited to a complex and multi-layered story than is the oft-reproduced print of nattily-attired, up-right gentlemen, gathered under a Buttonwood tree and solemnly affixing their names to a document as if it were the Constitution or the Declaration of Independence.

ENDNOTES

It was erected under William Kieft, the colony's third governor. He had gone bankrupt in his merchant business in Amsterdam before his appointment. Known as having an "irascible temper" and for his "hasty judgment," he left a $200,000 debt for his successor, Peter Stuyvesant. [Bank of America, A History of Fifty Feet in New York at Wall & William Streets (N.Y.: Bank of America, 1926), p. 63.] Kieft's wall consisted principally of "untrimmed trees felled at the edge of the adjoining forest and piled together to form a sort of barricade." [Frederick Trevor Hill, The Story of a

Street (N.Y.: Harper & Brothers, 1908), reprinted: (Wells, VT.: Fraser Publishing Co., 1969.]

The most prominent of the retrospectives was Wall Street's commission of its own official history, a lavishly illustrated and otherwise excellent treatment of the history of The Street: James E. Buck, ed., The New York Stock Exchange. The First 200 Years (Essex: Conn.: Greenwich Publishing Group, Inc., 1992). However, it side-stepped these issues associated with Wall Street's origins.

Forrest McDonald, Alexander Hamilton. A Biography (N.Y.: W.W. Norton & Co., 1979), p. 164.

Maxine Friedman, Wall Street. Changing Fortunes (N.Y.: Fraunces Tavern Museum, 1990), p. 15.

The City Hall is on the corner of what is now Wall and Nassau Streets. [Bank of America, pp. 19 and 21.]

Friedman, p.15; and Hill, p.29.

Edmund C. Stedman, The New York Stock Exchange (N.Y.: Stock Exchange Historical Co., 1905), reprinted: (N.Y.: Greenwood Press, 1969), p. 34; and Oswald Garrison Villard, "The Early History of Wall Street, 1653-1789," New York Historical Society, Box 10, #4, pp. 9 and 18.

Robert Sobel, Panic on Wall Street. A History of America's Financial Disasters (N.Y.: The Macmillan Co., 1968), p. 9.

Thomas K. McCraw, "The Strategic Vision of Alexander Hamilton," The American Scholar (Winter, 1994), p. 47.

Charles A. Beard, An Economic Interpretation of the Constitution of the United States (N.Y.: The Macmillan Co., 1913), p. 33; and Jacob Ernest Cooke, Alexander Hamilton (N.Y.: Charles Scribner's Sons, 1982), p. 76.

Villard, pp. 17-18

Prior to the agreement, securities were exchanged in individual broker's offices in an auction-like setting, for example, as in this notice in a local newspaper, Loudon's Register (March 1792): "the stock exchange office was opened at 22 Wall Street" for the purpose of holding a daily public sale of stock at noon.[Robert Sobel, The Curbstone Brokers. The Origins of the American Stock Exchange (N.Y.: The Macmillan Co., 1970), p. 1.]

Joseph S. Davis, Essays in the Earlier History of American Corporations (Cambridge: Harvard University Press, 1917), p. 180.

Stedman, p. 50.

Gerard Bancker, "1792 - the Memorial of Gerard Bancker, Treasurer of the State of N.Y.," New York Historical Society, Box 14, No. 8.

Humphrey B. Neill, The Inside Story of the Stock Exchange (N.Y.: B.C. Forbes & Sons Publishing Co., Inc., 1950), pp. 13-14.

Peter Anspach, "Anspach & Rogers Papers," New York Historical Society, 3 boxes.

The charges against Hamilton reached such a crescendo that the House of Representatives conducted an inquiry in 1794, which vindicated Hamilton of allegations that were introduced by a blackmailer, James Reynolds, and a former treasury department employee, Andrew G. Fraunces. [Cooke, p. 125.] The inquiry, however, pitted Hamilton against easily dismissable accusers and should not be viewed as conclusive. The debate continues: A prominent history textbook of the 1960s and 1970s concluded that many of Hamilton's colleagues and associates in lower Manhattan "had known that his report would contain such a recommendation and had begun buying up certificates when they could be found." [John M. Blum et. al., The National Experience. A History of the United States, fourth edition (N.Y.: Harcourt Brace Jovanovich, 1977), p. 134.] More recent Hamilton scholars dispute this allegation.[See, for example, McDonald; and Cooke.]

in Broadus Mitchell, Alexander Hamilton. A Concise Biography (N.Y.: Oxford University Press, 1976), p. 225. The "subject", Constable refers to, are indents -- certificates of interest due on the public debt. Although this is only a part of Hamilton's financial conundrum, it does reveal that he was willing to discuss specifics about his funding and assumption plan with Wall Street brokers who had a direct speculative interest in his plans. Hamilton called on Constable for advice, as in their exchange of letters about estimates for revenue that could be raised with new customs duties. [Harold C. Syrett and Jacob E. Cooke, eds., The Papers of Alexander Hamilton, 1757-1804, 27 vols. (N.Y.: Columbia University Press, 1961-1987), vol. V, pp. 452 and 454. The editors of Hamilton's papers added a footnote to this exchange: "Perhaps H. requested the data supplied by Constable in connection with `Report ... for the Support of Public Credit,' Jan. 9, 1790." [Ibid., p. 454.]

Mitchell, p. 223.

Broadus Mitchell, Alexander Hamilton. vol. II. The National Adventure, 1788-1804 (N.Y.: The Macmillan Co., 1962), p. 160. Lee's communications with his wartime friend were at times obsequious and at others suggestive of a quid-pro-quo, for example, when he promised Hamilton a grand riding horse (August 22, 1791) but later downgraded the offer to a "gentle horse ... less addicted to starting and stumbling." (October 18, 1791) [Syrett and Cooke, eds., vol. IX, pp. 31, 92, and 404.] Lee was very direct in his entreaty to Hamilton that produced the Caesar's Wife response: "From your situation you must be able to form with some certainty an opinion concerning the domestic debt. Will it speedily rise, will the interest accruing command specie ..., what will become of the indents already issued? These queries are asked for my private information, perhaps they may be improper, I do not think them so ..." [Syrett and Cooke, eds. vol. V, p. 517.]

This is used, for example, in the two most recent Hamilton biographies -- Cooke and McDonald -- as proof of Hamilton's innocence and as sufficient to dismiss the allegations against him, as it is also cited as exculpatory evidence in the two-volume biography by Broadus Mitchell (1962)

Henry Lee's letter to Hamilton in Syrett and Cooke, vol. IX, p. 31.

Mitchell (1962), McDonald (1979) and Cooke (1982), who was one of the editors of Hamilton's collected papers. Full citations in earlier endnotes. Hamilton's reputation has had cyclical fluctuations. It suffers after his death in a duel with Aaron Burr in 1804 and reaches its nadir during the Jacksonian period. His reputation is rehabilitated and resurrected after the Civil War, peaking between 1890 and 1920, especially with Herbert Croly's influential work, The Promise of American Life (1909). After World War I, and the defeat of the Progressives, it once again falters, only to be restored after World War II. [Michael Lind, "Hamilton's Legacy," Wilson Quarterly (Summer 1994), vol. 18, no. 3, pp. 40-52.

in Beard, pp. 103-104. The Reynolds and Hamilton correspondence are in: Syrett and Cooke, eds., vol. X, pp. 376-379; 387-390; 396; 401; 503; and 519-520.

Beard, p. xv. The Willing evidence is contained in the private journals of Senator W. Maclay, an opponent of Hamilton's. Since the journals were private, not meant for public consumption and not made available until well after his death, the documentary record of the moment must carry some weight.

Cooke, p. 78.

Beard, pp., 111-112.

In a letter to William Duer, Hamilton refers to "Bank Script getting so high as to become a bubble, ... `tis a South Sea dream ..." [Syrett and Cooke, eds., vol. IX, p. 74.]

Mitchell (1962), p. 172. [emphasis in original]

McDonald, p. 176.

Blum, et. al., pp. 134-135; and Beard, p. 126.

Buck, p. 16. This version appears in the officially-commissioned 1992 New York Stock Exchange history of Wall Street. Another recent history has the deal struck at a dinner among Hamilton, James Madison, and Thomas Jefferson. [Kenneth R. Bowling, The Creation of Washington, D.C.: The Idea and Location of the American Capital (Fairfax: George Mason University Press, 1991)]. Overly apologetic Hamilton biographers imply that Madison opposed Hamilton's funding plan in order to force the deal that moved the capital to the falls of the Potomac, near land that Madison and Henry Lee had bought on speculation. [McDonald, p. 175.]

The bank flotation was over-subscribed and many would-be investors outside of New York, Boston, and Philadelphia were disappointed in their lack of access to the bank's bonds. Hamilton, for example, wrote a letter to three Richmond, Virginia businessmen, apologizing for their inability to invest. [Syrett and Cooke, eds., vol. IX, pp. 113-114.] This reinforces what is probably a more serious charge against Hamilton than his class bias: Namely that he never understood sectional sensibilities. [Cooke, p. 79.]

in Cooke, p. 78.

McDonald, pp. 39 and 189; and Stedman, p. 50.

Manning J. Dauer, The Adams Federalists (Baltimore: Johns Hopkins University Press, 1953, p. 64.

Davis, pp. 174, 176, and 177.

Ibid., p. 191.

McDonald, pp. 244-247; David L. Sterling, "William Duer, John Pintard and the Panic of 1792," Joseph R. Freese, S.J. and Jacob Judd, eds., Business Enterprise in Early New York (Tarrytown: The Sleepy Hollow Press, 1979), pp. 106-113; Robert F. Jones, "William Duer and the Business of Government in the Era of the American Revolution," William and Mary Quarterly, 32 (1975), pp. 393-416; and Walter Werner and Stephen T. Smith, Wall Street (N.Y.: Columbia University Press, 1991), pp. 15-16.

A stock broker's license was awarded to John Pintard on November 25, 1790 by the city's mayor, Richard Varrick, that specifies his title as "Stock Broker in the Funds of the United States of America." It obligated Pintard to conduct his affairs without "Fraud or Collusion according to the best of his skill and understanding and that he will not directly or indirectly be in any-wise concerned or interested on his own private account in the purchase or sale of Funds of the United States of America."[New York Historical Society, Pintard Papers.] A day after Pintard was awarded the broker's license he took out this ad in the newspaper of record, the New York Daily Advertiser (November 26, 1790), which reads in part:

> The opinion of many respectable characters has confirmed his own idea of the utility of establishing an office in this city upon the principle of a sworn broker in Europe. The advantages of negotiating through the medium of an agent, no ways interested in purchases or sales on his own account, is too evident to every person of discernment to need any comment.

[Sterling p. 102.]

Davis, p. 287; Sterling, pp. 101 and 122; and Walter Barrett, The Old Merchants of New York, Vol. II (N.Y.: M. Doolady, 1870), p. 219.

Sterling, pp. 102-107.

But the effort failed, as did others like it in the new nation. The building that housed the American Museum was bought by P.T. Barnum, who displayed circus-type, side-show curiosities in the 1840s, around the same time as Wall Street was about to become dominated by the ex-circus roustabouts: Jim Fisk and Daniel Drew. Barnum's museum burned down on July 13, 1865, leaving a "dead whale ... in the streets for two days after the fire, and a marble statue of Queen Victoria perched blithely among the blackened ruins ..." [Frederick L. Collins, Money Town (N.Y.:

G.P. Putnam & Sons, 1946), p. 236.]

Syrett and Cooke, eds. vol. V, pp.74-75. [emphasis in original] In that same letter Hamilton is clearly cross at Duer, admonishing him for leaving the Subscription Book for the manufacturing Society and not retrieving it, yet concluding the letter by telling Duer that he thought Bank Script should sell at about 190 and "I sincerely wish you may be able to support it at what you mention."

Letters between Hamilton and Seton in Syrett and Cooke, eds. vol. X, pp. 525-526; and 528-529.

McDonald, p. 247.

"The Panic of 1792," New York Historical Society, Box 14, No. 1.

Sterling, p. 109.

Ibid., p.104

Davis, pp. 295-296; and Sterling, p. 115.

Sterling, p. 114. Seth Johnson wrote to Andrew Craigie, a competitor of Duer's, on March 25, 1792 saying that "Pintard has gone off without clearing up his character & from all appearances he has been a perfect swindler." [Davis, p. 296.]

Sterling, pp. 114, 121, and 122.

From 1793 to 1794 he kept a daily horticultural diary concerning the garden he started in Newark. While in Newark prison, he maintained a detailed reading diary, making notes and comments on a voluminous literature in Greek, Latin, some Italian, as well as English. [John Pintard, "Diary and Garden Calendar of John Pintard at Newark, New Jersey (April 1793-May 1794)," New York Historical Society, Box 2A; and John Pintard, "Miscellaneous Papers Relating to John Pintard and His Family," New York Historical Society, Box 2.]

Sterling., pp. 118 and 123.

Werner and Smith, pp. 24-25. At least four of the Buttonwood signers had been involved with Duer, including the very prominent Leonard Bleecker and Benjamin Seixas.

Davis, p. 308; and Hill, p. 139.

Peter Eisenstadt, "How the Buttonwood Tree Grew: The Making of a New York Stock Exchange Legend," Prospects. An Annual of American Cultural Studies, 19, p. 79.

Recent scholarship finds the first reference to the Buttonwood story in an 1885 article in Harper's Monthly. [Ibid., p. 82.]

Ibid., p. 84.

Barrett, Vol. II, p. 237

This analogy appears in Eisenstadt, p. 85.