

THE
Kidder National
GOLD BANK
 OF BOSTON
 MASSACHUSETTS

THE KIDDER NATIONAL GOLD BANK OF BOSTON (#1699) was the first national gold bank chartered, and the only one located outside California. Its life was brief, a little over two years. It is apparent from the scanty records available that there was not a significant need for specie banks in the major port cities along the east coast, even



THE PAPER COLUMN

By Peter Huntoon

though international trade was conducted on a gold basis, and customs duties on imports were payable to the treasury in gold.

The bank was organized August 2, 1870, and chartered August 15, 1870. The principal officers were Henry P. Kidder, president, and Oliver W. Peabody, cashier. Both were principals in the venerable Kidder, Peabody & Company investment banking firm of Boston. Kidder was the senior partner in that firm, Peabody the junior partner. Francis H. Peabody, the third principal in Kidder, Peabody & Company, and Oliver's older brother, also participated.

Opening a specie bank in Boston by these men seemed to be a sensible business proposition at the time they organized their bank. It is worth placing the bank, and these gentlemen, in the context of those times.

Civil War Money

Let's first develop a perspective on the circulation of money during this period. Specie in the form of gold and silver coin did not circulate in all but a few far western states and territories from late 1861 until early 1879; rather, it was hoarded by the public. Specie payments by the banks and U. S. Treasury had been suspended at the end of 1861 in order to conserve what little remained in reserve.



H. P. Kidder *O. W. Peabody*

The circulating U. S. paper money during and after the Civil War consisted of Legal Tender Notes, and later National Bank Notes and Fractional Currency which were redeemable in Legal Tender Notes. Legal Tender Notes were simply circulating federal debt, carrying a promise by the federal government to pay at an unspecified date.

The value of Legal Tender Notes varied in relation to the confidence the public had in the ability of the U. S. Treasury to ultimately redeem the notes for gold. Thus, the Legal Tender Notes, and National Bank Notes and Fractional Currency which were convertible into legal Tender Notes, circulated at discount relative to gold coin. At the lowest ebb, near the end of 1864, when the treasury's stock of gold was all but depleted, one could buy Legal Tender Notes for 38.7 cents in gold, if one wanted them.

Specie payments by the treasury were resumed by law on January 1, 1879. The value of Legal Tender Notes and gold converged at that time, and both circulated at par thereafter. Prior to 1879, local economies in the east were largely on a legal tender basis, whereas some in the west, particularly in California, were conducted on a specie basis. Specie convertible National Gold Bank Notes made sense in the west where they were readily exchangeable, because they were more easily handled and transported than gold coin.

Kidder, Peabody & Company

It is important to fit a gold bank in Boston into this two-tiered web of currency. The following account of Kidder, Peabody & Company is distilled from Carosso (1971), and will set the stage.

The firm opened April 1, 1865, in the Union Bank Building at 40 State Street in the heart of Boston's financial district. The business was a reorganized spin off of Thayer and Brother, with roots tracing back to 1824, a firm in which Kidder and the two Peabodys served as clerks. The Thayers carried investment accounts, conducted a brokerage business, dealt in state and federal bonds, invested and traded in Massachusetts real estate and western lands, and dealt in securities of banks, insurance companies and railroads. In addition, the firm operated the leading currency exchange in Boston, a business concerned with discounting bank notes issued by various entities presented at its counter, and

Above left: Henry P. Kidder was the president of The Kidder National Gold Bank of Boston. (From Carosso, 1979). Above: Oliver W. Peabody was the cashier of The Kidder National Gold Bank of Boston. (From Carosso, 1979).

either selling them elsewhere or arranging for the redemption of them by their issuers. Apparently, the firm also dealt in foreign exchange as well.

The importance of the business and its location is reflected by the company they were keeping. At the time the Thayers occupied the State Street address, the three story building also hosted five banks, four insurance companies, nine loan and fund associations, several private banking and brokerage houses, and the Boston Stock and Exchange Board.

Kidder, Peabody & Company remained in the former Thayer office at 40 State Street, and retained the exchange accounts of the Thayers. They advertised themselves as offering banking, brokerage and exchange services, with brokerage activity in stocks, bonds and gold in New York, Philadelphia and Baltimore. A distinguishing characteristic of the firm as it grew was its ability to recruit capital needed to launch increasingly large and complex business ventures through the issue of bonds and later stock. Thus the firm grew to be one of the most influential investment banking firms in the country.

Early on, it was heavily involved in financing and/or financially reorganizing railroads during the heyday of the railroad building boom of the late 1800s. The firm was involved in financing more than 60 railroad lines including transcontinental systems, major eastern lines, and the Mexican Central Railroad. One major client was the Atchison, Topeka & Santa Fe Railroad, for whom they not only provided financing, but also served as the transfer agent, bank of deposit, and financial consultant.

Kidder, Peabody grew to the challenge of financing the huge and increasingly complex corporate structures that emerged during the onset of the industrial era. Clients firms that they launched at the turn of the 20th century included American Telephone and Telegraph and U. S. Steel, the latter to become the first billion dollar corporation. At this time, they also became heavily involved in the sale of foreign government loans in the United States, and even served as the bank of deposit for the Italian government. Of course, such activities could not be undertaken single handedly, so Kidder, Peabody formed or joined syndicates of investment bankers to finance these enterprises. One of its early and strongest partnerships was Baring Brothers & Co. of London.

A considerable part of Kidder, Peabody business in the early years was dealing in gold and specie, buying and selling foreign exchange, and issuing commercial and travelers letters of credit. Thus Kidder, Peabody had a major presence in the domestic and foreign currency and gold markets, all of which were carried out on a commission basis. Much of its overseas foreign exchange activity was conducted in partnership with Baring Brothers of London.

Species Banks on the Eastern Seaboard

With this background, it is possible to deduce the appeal of operating a National Gold Bank in the eastern financial hub of Boston in 1870. Boston commerce did not operate on a specie basis, so there was little need for specie notes there. Greenbacks - federal promissory notes - circulated freely on the east coast, albeit at a discount relative to gold.

Rather, Boston, a major port city with extensive foreign trade, served as an international financial center in which foreign exchange in the form of specie played a significant role. Thus such a bank would be engaged primarily in the international currency exchange business, and underwriting of commercial and travelers letters of credit backed by gold for international trade.

Comptroller of the Currency Hiland Hulburd contemplated the establishment of such banks in the principle eastern port cities in his 1870 annual report to Congress as follows (Hulburd, 1870, p. vii-viii):

Under the provisions of sections 3, 4, and 5 of the act approved July 12, 1870, authorizing the establishment of national banks for the issue of circulating notes redeemable in specie, but one bank has yet been established, the Kidder National Gold Bank, of

Boston, Massachusetts, with a capital of \$300,000. Information has been received that several other institutions of this character are in the process of organization, or in contemplation, two or three of which are in California. It was not anticipated that specie-paying banks would be established to any considerable extent, at present, in those sections of the country where a paper currency, based upon the legal tender issues of the Government, already prevails; although it was, and is still, supposed that one or more gold banks might be established and successfully conducted in each of those cities on the Atlantic seaboard where a considerable foreign trade is carried on, and in which a certain amount of business is necessarily transacted upon a specie basis. If all the business of this kind that is carried on in the cities of Boston, New York, Philadelphia, and Baltimore could be concentrated in one or two banking institutions in each of those cities, its extent would undoubtedly warrant the employment of a very respectable amount for its exclusive accommodation.

This model appears to be exactly the type of operation contemplated by Kidder and the Peabodys when they organized their National Gold Bank. However, once it was established, it is clear that their existing investment banking company could handle the same business more cost effectively, and with less regulation, because they dissolved the National Gold Bank within two years.

Kidder National Gold Bank

There appears to be very little in the way of records pertaining to the Kidder National Gold Bank enterprise outside of reports of condition published in the 1871 and 1872 annual reports of the Comptroller of the Currency, and in various bank directories of the period. The address of the bank was 40 State Street, the same as the parent Kidder, Peabody & Company. Its directors in 1872 were Henry P. Kidder, Francis H. Peabody, Oliver W. Peabody, F. G. Webster and H. C. Sibley.

The resources of the bank approached \$400,000. Deposits were a bit in excess of \$70,000 in 1871, and loans almost reached \$180,000 in 1872. The bankers reported profits of \$20,984.45 and \$17,841.19, respectively in the years ending October 1871 and 1872.

Despite having National Gold Bank Notes on hand in the bank, none were placed in circulation. The notes were not used to supply the needs of borrowers, so by not pressing them into circulation, the bankers were able to avoid paying the tax on circulation. Rather the loans were financed with specie, or at least covered by specie subject to check.

Kidder National Gold Bank Notes

The history of Gold Bank Notes printed, and sent to the bank, are available from the currency and bond ledgers housed in the National Archives.

Specimen of the \$50 Kidder National Gold Bank face complete with over-printed gold tint. There is legitimate question as to whether the extant \$50 and \$100 specimens were from the plates used to print the notes that were sent to the bank owing to differences between these and the issued California National Gold Bank Notes. (Photo courtesy of Gene Hessler)





Specimen of the \$100 Kidder National Gold Bank face complete with overprinted gold tint. (Photo courtesy of Gene Hessler)

Gold bonds in the amount of \$50,000 were deposited with the U. S. Treasurer to secure the circulation for the bank on August 15, 1870. This was followed on November 5, 1870, by an additional \$100,000 bond deposit.

The first printing of notes for the bank consisted of 50 sheets of Original Series 50-100s. These were received by the Comptroller's office on March 9, 1871, and sent to the bank on March 11th. They carried bank sheet serials 1-50, and treasury serials 273699-273748.

Seventy-five sheets of Original Series 500-1000s were received by the Comptroller on April 5, 1871, and sent to the bank three days later. They bore bank sheet serials 1-75, and treasury serials K2343-K2417. The \$1000s were the only National Gold Bank Notes of this denomination ever ordered and printed. This fact elevates the Kidder story to mythical dimensions among numismatists.

The high denomination shipment boosted the potential Kidder circulation to a total of \$120,000, the 80 percent legal limit for the \$150,000 in bonds that the bankers deposited as security. These two shipments accounted for all the notes ever printed for the bank. The notes bore Allison-Spinner treasury signatures, and August 15, 1870, plate dates.

All of the Kidder notes were returned to, and redeemed by, the Comptroller on December 4, 1871. The bonds for the bank were sold December 9th and 19th in \$140,000 and \$10,000 installments, and the bank was liquidated November 8, 1872.

Proofs survive of the Kidder \$50 and \$100 denominations (See Hessler, 1979), but none have been reported from the \$500 and \$1000 denominations. However, there is ambiguity that the extant \$50 and \$100 specimens are from the plates used to print the actual notes. The specimens exhibit two differences from the notes that were issued by the California banks. (1) The banner across the top is "National Gold Note" instead of "Redeemable in Gold Coin." (2) The Kidder specimens are overprinted with a beautiful gold tint bearing the word "GOLD" which underlies the treasury signatures, and is missing from the issued California notes.

It is entirely possible that the specimens were proposed designs that were later modified, so that nothing remains in private hands to represent the notes that arrived at the bank. This also may explain the survival of these specimens. They were passed out as models for comment, and not returned.

The Fate of National Gold Banking

The fact remains that no other National Gold Banks were chartered along the eastern seaboard. The Kidder, Peabody experience demonstrated that there was no economic incentive to operate special gold banks there. Only nine other National Gold Banks were organized, all in the hard money west, all in California, and all between 1870 and 1875.

They operated at a competitive disadvantage because their reserve



The Kidder National Gold Bank was the only gold bank for which \$1000 National Gold Bank Notes were made. This \$500-\$1000 Original Series sheet was created from the title blocks made for the \$500 and \$1000 notes.

requirements were more stringent than non-specie National Banks, and the amount of circulation they could issue was limited to 80 percent of the value of the bonds on deposit with the treasurer rather than 90 percent. They remained viable only so long as legal tender currencies were shunned by the public.

Congress passed an act that was signed into law on January 14, 1875, requiring the resumption of specie payments by the treasury on January 1, 1879. Consequently the incentives for circulating National Gold Bank Notes vanished as the value of federal promissory notes approached specie at the onset of 1879. Provisions were made to allow the existing National Gold Banks to convert into regular National Banks through another act passed February 14, 1880, and those in California did so or liquidated. The First National Gold Bank of Petaluma was the last of the California gold banks to convert, an action that was taken in 1884 (Huntoon and Raymond, 1995).

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