Postage and Progressivism: Political Ideology and the Start of Postage Stamp Production at the Bureau of Engraving and Printing, 1893-1894


By Franklin Noll

Introduction

Postage stamps were introduced in 1847. For almost 50 years these gummed slips of paper were printed by private bank note companies; but, in 1893, during the second administration of Grover Cleveland, all this changed. Late in that year the Post Office Department advertised for bids for its annual supply of over 2 billion postage stamps. And, instead of accepting the offer of one of the established bank note printers, the Post Office Department accepted a bid from a printing establishment with almost no experience in postage stamp production and none of the rare but requisite gumming machines: the United States Bureau of Engraving and Printing (BEP).

After winning the contract, the BEP had only a matter of months to assemble the necessary people and machines and start producing stamps. What if the Bureau of Engraving and Printing failed to deliver the needed stamps? What would happen to the postal system, to everyday communication, to the nation’s business? Why did the Post Office Department take such a risk? The explanation offered in the past was that the Post Office Department’s decision was a purely economic one. The reported cost savings were significant.

However, were the expected savings really worth the risks involved? Maybe there was more behind the decision than dollars and cents that compensated for the risk. Indeed, this paper argues that the reasoning for the Post Office Department’s action had less to do with the bottom line and more to do with politics and ideology. It presents the case that the start of postage stamp production by the government was an effort by the Cleveland administration to advance its political fortunes by appearing economical and to be advancing Progressive ideals in the federal government.

The Postage Stamp Contract for 1894

Contracts for the printing of postage stamps in the nineteenth and early twentieth centuries were awarded for four-year terms through competitive bidding. And, it was the contract for the years 1894 through 1898 that was awarded to the Bureau of Engraving and Printing. The Post Office advertised for bids for this contract through its

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“Proposals for Adhesive Postage Stamps,” officially released on October 16, 1893.
Four types of stamps were to be produced: ordinary postage stamps, special delivery stamps, newspaper and periodical stamps, and postage due stamps. In calculating the bids, printers and bank note companies were to use production figures from fiscal year 1893. Bids were due by noon, November 15, 1893; and delivery of finished stamps was to begin on July 1, 1894.

The Post Office asked for bids per 1,000 stamps under three classifications: printed by hand press only, by a combination of hand press and steam press, and by steam press only. While printers could bid under only one mode of printing, the Post Office preferred that all modes be considered. The chosen printer also had to prove “that he either has in his possession, or is able to procure within a reasonable period, all suitable and necessary facilities with which to properly commence and carry on the contract.”¹ And, there was one more important proviso:²

1. In case it should be decided by the Secretary of the Treasury to submit bids or estimates for doing the work and furnishing the stamps by the Bureau of Engraving and Printing, the Postmaster General reserves the right to make award under said bids or estimates, if they should be found to be lower or more advantageous to the Government than the bids submitted by private bidders.

During the last contract, the American Bank Note Company charged the following for postage stamp production:³

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.0747</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.18</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.18</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0849</td>
</tr>
</tbody>
</table>

These prices reflected the use of hand presses with probably some use of steam presses; and they were the prices to beat.

By the deadline of November 15 bids were received from three printers or bank note companies: Charles F. Steel, Hamilton Bank Note Company, and American Bank Note Company.⁴

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¹ “Proposals for Adhesive Postage Stamps,” 16 October 1893. Folder: 1893 Post Office Advertisement for Proposals for Postage Stamp Production, Historical Resource Center, Bureau of Engraving and Printing. (The latter hereafter cited as HRC Records.)
² Ibid.
³ “Postage Stamps issued by the P.O.D. cost at the prevailing contract rates....,” 5 March 1894. Folder: 1893 Post Office Advertisement for Proposals for Postage Stamp Production, HRC Records.
Charles F. Steel:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>By Hand Press</th>
<th>By Hand / Steam Press</th>
<th>By Steam Press</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.075</td>
<td>.054</td>
<td>.0525</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.14</td>
<td>.12</td>
<td>.12</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.085</td>
<td>.065</td>
<td>.063</td>
</tr>
</tbody>
</table>

Hamilton Bank Note Company:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>By Hand Press</th>
<th>By Hand / Steam Press</th>
<th>By Steam Press</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.076</td>
<td>.0642</td>
<td>.0642</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.16</td>
<td>.16</td>
<td>.16</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.16</td>
<td>.16</td>
<td>.16</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0825</td>
<td>.0825</td>
<td>.0825</td>
</tr>
</tbody>
</table>

American Bank Note Company:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>By Steam Press</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.0585</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.0585</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.0585</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0585</td>
</tr>
</tbody>
</table>

All the bids submitted were lower than those of the 1890 to 1894 contract; but it was hard for any printer new to the adhesive postage stamp trade to beat the American Bank Note Company which had held a monopoly on postage stamp production since 1847.  

However, five days after the deadline for bids and after the received bids were opened, a letter was sent from Chief of the Bureau of Engraving and Printing Claude Johnson to Postmaster General Wilson S. Bissell dated November 20, 1893, and bearing the approval of the Secretary of the Treasury. In the letter Johnson presented the Bureau’s bids for postage stamp production and laid out why the Bureau should be awarded the contract. The first point he made was that the Bureau was “the most extensive and complete establishment engaged in the work of engraving and plate printing in existence,” consisting of a fire-proof building, varied machinery, and highly-skilled workers. Moreover, as the government’s security printer, it was an extremely secure operation.

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5 “Memorandum, Post Office Department, Office of the Chief Clerk,” 28 March 1894. Folder: Old Documents Related to the Production of Postage Stamps, HRC Records.

The second point was one of cost. As a government facility uninterested in making a profit, the BEP could be expected to produce items at a lower cost than a for-profit business. Johnson then made a long, rambling, and confusing statement about the cost of postage stamp production.

In the execution of the work on the securities of the Government it is necessary to employ...a large number of [employees] of various kinds whose number and compensation remain the same until the maximum amount of work which they are capable of performing is reached. The cost of this force is in the nature of a permanent or fixed charge against the amount of work to the executed, and no additional expense on this account is incurred until the amount of work to be done exceeds their capacity. For the execution of postage stamps by this Bureau the cost would be therefore only the actual additional expenditure incurred by it on account of the execution of this work.\(^7\)

Johnson appeared to be saying that much of the labor cost of production was fixed and could be considered overhead (implying that the cost could be charged against Congressional appropriations). The only variable cost, besides materials of course, was the labor cost of the pressmen and other piece-rate workers involved in actual postage stamp production. These factors would dramatically reduce the cost of production.

As a result, Johnson continued, the cost would be $139,487.52 for producing the number of stamps required in fiscal year 1893 (the basis of the bidding). The bid also presumed that all stamps would be produced using the cheaper steam-press methods rather than using the hand presses.

In conclusion, the Bureau of Engraving and Printing presented the following bid for postage stamp production:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>By Steam Press</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
</tr>
</tbody>
</table>

How did these numbers compare with the other steam-press only bids?\(^8\)

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\(^7\) *Ibid.*

\(^8\) “Comparative Rates of the Several Competitors—for all steam work,” 8 February 1894. Folder: Old Documents Related to the Production of Postage Stamps, HRC Records.
<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>BEP</th>
<th>C.F. Steel</th>
<th>American B.N.</th>
<th>Hamilton B.N.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0525</td>
<td>.0585</td>
<td>.0642</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.12</td>
<td>.0585</td>
<td>.16</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.12</td>
<td>.0585</td>
<td>.16</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.063</td>
<td>.0585</td>
<td>.0825</td>
</tr>
</tbody>
</table>

Total Cost using 1893 production: $139,487.52 $146,454.93 $162,401.61 $179,294.40

Given these numbers, it would make sense to award the contract to the Bureau of Engraving and Printing.

However, all this seemed questionable and suspicious to the Bureau’s competitors. By January the bank note companies were protesting the BEP’s bid, arguing that it was impossibly low and probably illegal. On the legality of the Bureau’s bid, Johnson asked for the opinion of the solicitor of the Treasury. In response, Solicitor of the Treasury Felix Reeve wrote to Secretary of the Treasury John Carlisle with his findings. He stated that it was apparent that the Bureau was not a valid bidder given the guidelines in the Post Office advertisement. The solicitor then dismissed this finding as immaterial to the matter. What was important to Reeve was whether the Post Office adhered to Section 3709 of the Revised Statutes that required it to advertise for and receive bids on postage stamp work; this it did. After fulfilling this requirement, the Post Office was free to reject all bids and arrange with the Secretary of the Treasury to have the Bureau do the work as long as the stamps “can be furnished on better terms by the Bureau than by private parties.”

9 F.A. Reeve to John G. Carlisle, 16 January 1894. Folder: Legal Opinions Re: BEP Producing Postage Stamps, HRC Records. Also see Reeve’s brief, “In the matter of the right of the Postmaster General to reject bids received…,” *idem* and F.A. Reeve to John G. Carlisle, 31 January 1894, *idem*.


legislation, he concluded that the Bureau’s “operations were restricted to work for the Treasury Department.” An exception was made by Congress in 1879 wherein the Bureau could print postage stamps “if the same could be furnished at less than the cost in the then existing contract,” but this authority was later repealed. All this suggested to Hazen, that the Bureau could only bid on and produce postage stamps if it was specifically authorized to do so; otherwise the Bureau had no legal right to print postage stamps. “It is not improbable, therefore, in the absence of further legislation, that should bids or estimates be submitted by the Bureau for the forthcoming contracts, as foreshadowed by Mr. Burrill, the consideration by the Department of such bids or estimates would be the subject of protest on the part of other bidders interested.” Burrill later submitted bids in March 1885; but the Bureau had little chance of winning the contract. Its bid almost tied for the highest cost quoted, and American Bank Note retained the contract with a substantially lower bid than its competitors.

But things were very different in 1894. This time the Bureau came in with a vastly lower bid; and the protests by competitors were immediate and vociferous. To deal with the problem Bissell and Carlisle agreed to give a hearing to the protests. On January 26, they met with Charles F. Steel, James Macdonough (President of the American Bank Note Company), Allen Evarts (attorney for American Bank Note), and Johnson. Some sense of what went on in the meeting can be gathered from documents written afterward. Carlisle evidently ran the show with Johnson told to stay in the background. The secretary’s answers were sparse and evasive. This was just to be an opportunity for the complainants to blow off steam. Basically, the competitors argued that the Bureau’s bid was unethical if not illegal, that it misrepresented its ability to do the job, and that the prices quoted by the BEP were impossibly low, smacking of incompetence or wrongdoing.

The first complaint was that the BEP turned in its bid late, violating the rules set forth by the Post Office. Technically, this should have voided the Bureau’s bid. Accepting its late bid for consideration allowed it an unfair advantage in the bidding. Bids were due no later than noon of November 15, 1893 after which the bids were unsealed. As the BEP turned in its bid a full five days later, it had a chance to examine the previous bids and undercut them. This infuriated Steel, “I know of no precedent in such business matters that would permit the award of a contract to an irregular bidder, even at a lower price.”

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12 Ibid.
13 Ibid.
14 The same view was reported as current in 1889. “Stamps by the Billion,” The Washington Post, 4 August 1889: 16.
This action, Steel argued, also voided the recent decision of the solicitor of the Treasury on the right of the Bureau of Engraving and Printing to submit a bid. Furthermore, the solicitor had failed to consider the legality of the Bureau to print postage stamps. There was no law authorizing the BEP to take on stamp production and previous legislation opening the possibility was repealed, which could “only be taken as a prohibition against the Bureau doing the work.”

The specter of corruption was also raised by Steel. He argued that Johnson did not have the authority to go into the stamp making business without the needed money for production already being appropriated. Johnson could not make contracts involving the expenditure of government funds without prior, official approval. Such laws were in place to avoid official corruption, suggesting that Johnson was personally benefiting from the whole affair.

Steel continued his attack, arguing that the Bureau was not able to perform the work without lengthy preparation. It did not have the necessary machinery or physical plant. To prove the latter point he pointed to Johnson’s own 1893 report that stated that the Bureau did not have sufficient facilities to do the work it already had. Given that production was to start in less than 6 months, it was unlikely that the BEP would be ready in time.

Both Steel and American Bank Note believed the Bureau’s prices to be too low to be true. Even if the BEP was able to do the work, Steel argued, the amount being charged for the work would not cover the total costs. He believed that the Bureau of Engraving and Printing and the Treasury were failing to take into account the start-up costs of production.

“It [the BEP] has asked for an appropriation of many thousands of dollars to cover costs of preparation for the work, all of which is in addition to what must be expended upon the actual cost of producing the stamps. This and the wear of the machinery, interests and other contingent expenses will bring the actual cost of the stamps far above my bid; I believe fully up to that of the highest bidder.”

Further, Steel continued, Bureau employees worked fewer hours and were paid more than workers in the bank note companies. He did not see how it was possible for the Bureau’s numbers to be accurate.

The American Bank Note Company concurred and asked to see the detailed estimates used by the Bureau to set its proposed prices. If the Bureau of Engraving and Printing was “to be allowed to compete in price with private bidders, the latter have every right to

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18 Ibid.
19 Ibid.
20 Ibid.
21 Ibid.
inspect and criticize [sic] the estimates upon which such bureau’s bid is based.”

American had been asking for this right since November 23, 1893, days after the Bureau’s bid was submitted. The company was basically told to wait until the January 26 hearing was held.

What Macdonough and Evarts heard there stunned them. Not only did Carlisle say they would not receive any more information on the estimates underlying the Bureau’s bid, “Johnson permitted it to be supposed that no such estimates had been prepared.”

After the meeting, Johnson backpedaled and affirmed that details did exist but that private bidders had no right to examine them. In the same conversation, Johnson then tried to evade the topic of the estimates by arguing that they did not matter. He then stated,

“that the position taken in the matter on behalf of the Bureau is that the Bureau was not and was never intended to be a bidder under the advertisement, and that his sole claim of authority to do the work lies in the proposition that it would be a compliance with the requirements of Sec. 3709 R.S. relating to advertisements for proposals for the Postmaster General to reject all bids and then without re-advertising [the] contract” award the contract to the Bureau.

An astonished Evarts wrote to Carlisle, “I hesitate under the circumstances to believe it possible that the Treasury Department will assume any such position.”

All these protests proved to be in vain, the Bureau was given the contract less than a month after the meeting. The official Post Office statement of February 21, 1894, read: “It appearing to the Postmaster-General that the interest of the Government requires it, it is hereby ordered that the proposals received at this Department on the 15th of November, 1893, for furnishing adhesive postage stamps during the four years beginning on the 1st day of July, 1894, be all rejected, and that the work of preparing and furnishing such stamps be done by the Bureau of Engraving and Printing of the Treasury Department.”

**Legality and Economics of the Postage Stamp Contract**

Despite the outcome, we cannot dismiss the protests without examining their validity and hopefully coming closer to the truth of the affair. Were there, in fact, any bases to these protests? Specifically, was the participation of the Bureau of Engraving and Printing in the bidding legal? Was the Bureau prepared to do the job? Was the bid too low? Was Johnson profiting from the affair?

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22 Ibid.
23 Ibid.
24 Ibid.
25 Ibid.

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The legality of the Bureau’s bid seems endlessly debatable and hinges upon whether one believes that it needed special statutory permission to print postage stamps. In a letter to the House of Representatives, Carlisle argued that the Bureau of Engraving and Printing had the statutory right to print postage stamps because they were government securities. Citing section 5413 of the Revised Statutes, which listed the items considered obligations of the United States, Carlisle pointed out that stamps were present. However, as the statute undoubtedly referred to revenue stamps and not postage stamps, Carlisle was on shaky legal ground. He was also ignoring the decision of 1885 when it was determined that the Bureau needed explicit authorization to print postage stamps. Evidently, the proviso in the Post Office’s “Proposals for Adhesive Postage Stamps” was added to provide this authorization and overcome any impediment to the Bureau taking on postage stamp production. And, by submitting bids the private firms implicitly agreed to honor the proviso. But did a proviso in a proposal for bids have sufficient legal weight to alter the statutory mission of the Bureau of Engraving and Printing? It seems unlikely; but, again, the point is debatable.

Yet, if we accept that the proviso gave the Bureau legal authorization to produce postage stamps, did this also require it to be a valid bidder for the contract, namely that its bid meet all the terms of the “Proposals for Adhesive Postage Stamps”? This is also the question that needs answering if one starts from the belief that the Bureau does not need special permission to print postage stamps. Everyone, including the solicitor of the Treasury, agreed that the Bureau of Engraving and Printing had not met the conditions of the Post Office’s advertisement and therefore was not a valid bidder. Therefore, the Bureau’s bid needed to be thrown out. However, the proviso did not explicitly state that the Bureau had to follow the same rules as private bidders. It conveyed the sense that the Bureau could submit bids to the Post Office how and when it wished. In fact, if one believed from the start that the Bureau had the right to print postage stamps, the proviso simply became a warning to private bidders that the Post Office was not bound in any way to accept the lowest private bid offered.

So, was the participation of the Bureau of Engraving and Printing in the bidding legal? The answer is yes if one accepts two points: First, one must agree that the proviso inserted into the “Proposals for Adhesive Postage Stamps” had sufficient legal authority to permit the Bureau of Engraving and Printing to get into the business of postage stamp production or that the BEP did not need explicit authority to print stamps; but to do this one must ignore the decision of 1885 and accept that a paragraph in an advertisement had the legal weight of a statute. Second, one must then also accept that the proviso freed the Bureau from the rules of submitting bids laid down in the official proposal. To do this one needs to reject standard business practice and ethics, allowing a government bureau to compete unfairly in the market. If these points are a little hard for us to swallow, they also obviously were for Solicitor of the Treasury Reeve. Remember that in his decision he ignored the proviso and these other points altogether and rested his opinion on whether the Post Office had advertised for bids. Having fulfilled this legal obligation, he concluded, the Post Office could do what it wanted.

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Everything else was irrelevant. In sum, the Bureau of Engraving and Printing’s right to bid on the postage stamp contract rested on dubious legal argument.

Next, what are we to make of Steel’s charge that the Bureau was not prepared to do the job and could not get itself ready in time to start stamp deliveries? He argued that the Bureau of Engraving and Printing did not have the needed physical plant or machinery, pointing to Johnson’s own report for fiscal year 1893. In truth, space was at a premium at the Bureau. For years, former chief William Meredith complained in his annual reports that there was not enough room for production, causing the widespread use of overtime.\(^{28}\) Also, many support groups, like the ink mills, laundry, etc., were housed out of necessity in temporary wooden structures built next to the main building. These were fire traps that Meredith repeatedly begged to have replaced, fearing a conflagration that would wipe out the Bureau.\(^{29}\) So, it was a fair question to ask whether there was room at the Bureau for a whole new postage stamp operation, requiring more employees, storage areas, and room for new machinery.

Then there was the question of the machinery. Printing postage stamps meant the refitting of presses and the acquisition of much new machinery. When it bid on the postage stamp contract, the Bureau of Engraving and Printing had no perforating or gumming machines.\(^{30}\) Perforating machines were available on the open market, but gumming machines were not.\(^{31}\) This technology was considered proprietary by American Bank Note. In fact, all postage-stamp printing technology was held in secret by American: “Information [on stamp production] is often refused to foreign governments, and agents of the United States have repeatedly made fruitless visits to the company to be admitted to the rooms where the stamps are manufactured.”\(^{32}\) So, the Bureau of Engraving and Printing was going to have to invent its own stamp technology, especially gumming machines.\(^{33}\)

Could the Bureau find the room, train the employees, refit the presses, and invent a new gumming machine in a few months? Steel said it could not be done; and Johnson had his own doubts. Johnson closed a letter to Bissell written after the meeting with the private bidders by asking for a quick decision on awarding the contract. The reason was that the Bureau of Engraving and Printing needed as much time as possible to prepare for postage stamp production. It was in much the same position as the C.F. Steel Company (which had no experience in postage stamp production) and, Johnson wrote, “it would seem impossible for him to make the proper preparation before the


\(^{29}\) *Ibid*, 1890, 5; *idem*, 1891, 5; *idem*, 1892, 5.

\(^{30}\) Postmaster General Report, 1894, 474.

\(^{31}\) *History of the Bureau of Engraving and Printing, 1862-1962* (Washington, DC: Treasury Department, 1962), 64. (Hereafter cited as Bureau History.)


\(^{33}\) Director’s Report, 1895, 3, 4.
expiration of the present contract.” In fact, Johnson continued, “the American Bank Note Company is the only party involved in this controversy prepared to do the work.”

Johnson feared that American would drag out the fight as long as possible to prevent the Bureau from having enough time to make the necessary preparations, forcing the Post Office to have American continue postage stamp production. In sum, Steel’s contention that the Bureau was not capable of doing the work or preparing in time was confirmed by the Bureau’s chief.

In the same letter, Johnson commented on the charge that the Bureau’s bid was impossibly low. He was not “convinced [by the arguments of the bidders] that the estimates made by this bureau were in any respect too low.” This was an odd statement; was he not sure of the validity of his figures going into the meeting and thought that maybe he was wrong? Evidently this was the case for he continues in his letter, “Since that hearing I have made a careful revision of the bureau’s estimates, and am now more firmly convinced than ever that they are correct.” One now wonders, as Macdonough and Evarts did, were there any real numbers behind the BEP bid to begin with?

This is a hard question to answer as there are only two extant documents giving any of the detail behind the bids. One is an undated typescript memorandum that breaks down the total cost into labor, materials, and “contingencies.” The other is a handwritten worksheet that roughly breaks down the total cost by function or activity: printing, counting sheets, packaging, etc. This is date-stamped February 8, 1894 and bears eraser marks under some numbers. There is something shady about these documents as their totals add up to the penny even though the totals are derived from different bases and use rough approximations. These facts suggest that the numbers were manipulated to reach a desired total and that the documents were prepared after the fact. In other words, these documents were created to provide support for the bids already submitted.

The lack of existing supporting numbers when the bids were made is supported by Johnson’s statement in the Bureau of Engraving and Printing’s original bid that the Bureau’s bids were for all steam work. Reconstructing the math behind the bids shows that the bids were actually based on a combination of steam work and hand work. All steam work would have resulted in even lower cost figures!

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35 Ibid.
36 Ibid.
37 Ibid.
40 See Appendix A: Reconstructing the BEP Stamp Bid.
41 See Appendix B: Calculating Bid Prices for All Work on Steam Presses.

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stupendous mistake when writing the bid or he had no detailed information to go by when drafting his letter.

But just because there are no detailed charts or pages of estimates does not make the final figures incorrect. If we accept that the final bids and what supporting numbers that exist were honestly derived then we can move on to see whether the numbers were too low. Was something left out of the calculations? Steel believed that start-up costs were missing from the bid, and if they were added back in the Bureau of Engraving and Printing would come out as the highest bidder in actuality. He was right on both counts.

Missing from the bid is any consideration of start-up costs, costs incurred in beginning a new business or line of production. For the Bureau the start of postage stamp production required the fitting out of new production areas, the purchase of new machinery, and the hiring and training of new personnel in preparation for the start of production. Bureau management was fully aware of these costs and received an appropriation of $163,000 to cover the expense.  

In business, these one-time costs are amortized or paid off over a number of years or over the quantity of a production run. For the Bureau it would make sense to amortize the start-up costs over the length of the 4-year contract to produce postage stamps. If the equipment and new employees could be maintained and used after the loss of the postage stamp contract, then the Bureau could conceivably amortize the costs over 10 years, which seemed to be the Bureau’s practice with other machinery. Amortizing the expected start-up costs over 4 years would result in an annual charge of $40,750 ($163,000 / 4), while a 10-year amortization meant a yearly expense of $16,300 ($163,000 / 10).

These annual charges typically would be met by increasing the price for postage stamp production over the first 4 or 10 years of production. Yet, it appears that the BEP did not do this, forcing the Treasury to cover the start-up costs. This conclusion is supported by a number of facts. Firstly, there is no evidence of a line item expense to repay start-up costs in the documentation explaining how the bid was calculated. Secondly, it is possible that an additional charge for start-up was included in the overhead. However, the bid used a standard overhead factor of 15%, which is not large enough to handle the extra annual charge to recover start-up costs. Lastly, it would be possible for the BEP to repay the start-up appropriation by reducing its future demands for appropriations by cutting costs in other areas. This does not appear to

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42 Director’s Report, 1895, 4.
43 Ibid, 1896, 3.
45 See Appendix A: Reconstructing the BEP Stamp Bid.
46 This appeared to be the plan—if there was one. The $163,000 was meant to cover the cost of the first year’s production. Of this amount, $56,243 was spent on new equipment. The remaining $107,000 was spent on production, which was reimbursed to the Bureau by the Post Office Department. However, as I point out, none of this money was paid back to the Treasury. Director’s Report, 1895, 3-4, 6.
have happened as appropriations for the BEP increased over the next 10 fiscal years with 7 of those years seeing extra appropriations to meet deficiencies in operating income.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Original Appropriation ($)</th>
<th>Additional Appropriation ($)</th>
<th>Sheets Produced (Currency, Bonds, etc)</th>
<th>Sheets Produced (Postage Stamps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1892</td>
<td>1,095,450</td>
<td>- 0 -</td>
<td>52,508,438</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1893</td>
<td>1,045,450</td>
<td>37</td>
<td>48,853,528</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1894</td>
<td>1,045,450</td>
<td>150,255</td>
<td>55,516,961</td>
<td>- 0 -</td>
</tr>
<tr>
<td>1895</td>
<td>1,045,450</td>
<td>83,400</td>
<td>49,012,351</td>
<td>21,873,682</td>
</tr>
<tr>
<td>1896</td>
<td>1,157,450</td>
<td>- 0 -</td>
<td>54,402,824</td>
<td>30,647,771</td>
</tr>
<tr>
<td>1897</td>
<td>1,120,450</td>
<td>- 0 -</td>
<td>55,144,884</td>
<td>31,029,882</td>
</tr>
<tr>
<td>1898</td>
<td>1,131,150</td>
<td>80,720</td>
<td>57,868,748</td>
<td>35,110,730</td>
</tr>
<tr>
<td>1899</td>
<td>1,235,150</td>
<td>350,720</td>
<td>72,638,149</td>
<td>39,522,973</td>
</tr>
<tr>
<td>1900</td>
<td>1,433,850</td>
<td>379,910</td>
<td>76,634,446</td>
<td>40,274,977</td>
</tr>
<tr>
<td>1901</td>
<td>1,873,020</td>
<td>235,050</td>
<td>79,207,411</td>
<td>42,350,880</td>
</tr>
<tr>
<td>1902</td>
<td>2,072,802</td>
<td>612,644</td>
<td>93,108,764</td>
<td>46,058,595</td>
</tr>
<tr>
<td>1903</td>
<td>2,219,050</td>
<td>570,102</td>
<td>103,005,010</td>
<td>52,738,681</td>
</tr>
<tr>
<td>1904</td>
<td>2,756,629</td>
<td>- 0 -</td>
<td>104,673,445</td>
<td>55,244,616</td>
</tr>
<tr>
<td>1905</td>
<td>2,843,840</td>
<td>73,047</td>
<td>106,971,885</td>
<td>58,328,629</td>
</tr>
</tbody>
</table>

Source: Director's Report, 1892-1905.

In sum, there is no evidence of the Bureau of Engraving and Printing paying back or calculating into its bid for postage stamp production the start-up costs involved. These need to be added back into the price quotes to get accurate final figures, to calculate what the BEP's bid should have been. Using the $163,000 figure and 1893 stamp production of 2,776,094,211 we get the following numbers for start-up costs amortized over 4 and 10 years:

Annual start-up costs per 1,000 stamps:

Amortization over 4 years = [($163,000 / 4) / 2,776,094,211 stamps] x 1,000
= $0.0147 per 1,000 stamps

Amortization over 10 years = [($163,000 / 10) / 2,776,094,211 stamps] x 1,000
= $0.0059 per 1,000 stamps

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Bid w/ 4 yr amort.</th>
<th>Bid w/ 10 yr amort.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0647</td>
<td>.0559</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.1287</td>
<td>.1199</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.1287</td>
<td>.1199</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0752</td>
<td>.0664</td>
</tr>
</tbody>
</table>

Total Cost using 1893 production:

$139,487.52  $180,296.11  $155,866.48

If we put these projected costs in the context of all the 1893 bids, we get a new picture of where the BEP stood vis-à-vis its competitors.


<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>BEP Original</th>
<th>C.F. Steel</th>
<th>BEP w/ 10 yr amort.</th>
<th>American B.N.</th>
<th>Hamilton B.N.</th>
<th>BEP w/ 4 yr amort.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0525</td>
<td>.0559</td>
<td>.0585</td>
<td>.0642</td>
<td>.0647</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.12</td>
<td>.1199</td>
<td>.0585</td>
<td>.16</td>
<td>.1287</td>
</tr>
<tr>
<td>Post. Due</td>
<td>.0605</td>
<td>.063</td>
<td>.0664</td>
<td>.0585</td>
<td>.0825</td>
<td>.0752</td>
</tr>
</tbody>
</table>

**Total Cost using 1893 production:**

- **$139,487**
- **$146,454**
- **$155,866**
- **$162,401**
- **$179,294**
- **$180,296**

In fact, the Bureau of Engraving and Printing did present the highest bid. Steel was right.

Was he also right about Johnson possibly personally profiting from the contract? For what other reason would Johnson submit a bid of dubious legality and financial credence for a government printer barely able to keep up with current commitments and unprepared for postage stamp production? Johnson did indeed have something to gain personally from the contract, but it was not measured in terms of dollars.

On the veiled charge of corruption made by Steel, Johnson, in his post-meeting letter, begged Bissell to believe that he had nothing personal to gain monetarily from the contract. His goals were unabashedly political: “to save money for the Government and that the administration of which I am but a small part may be successful.”

It must be remembered that Johnson, like many Bureau chiefs of the period, was a political appointee, receiving his position through patronage. His fortunes were tied to those of the administration.

Johnson first arrived at the Bureau of Engraving and Printing in mid-April as Custodian of Dies, Rolls, and Plates (another patronage position) and was appointed chief on July 1, 1893. By this time, he reported that he was “fairly familiar” with the Bureau and its workings. These appointments came through the influence of fellow Kentuckian, Secretary of the Treasury Carlisle. Besides being an active member of the Democratic Party machinery in Kentucky, Johnson had been a popular mayor of Lexington for eight years. Eager to make a good impression, Johnson set about “shaking up” the Bureau less than a month after becoming chief, firing engravers and making other “sweeping changes.”

He evidently also sought from the start to expand the business of the Bureau into postage stamp production, discussing the plan with Carlisle who approved

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50 Jackson, 156.

of the idea early on. Later, when the postage stamp contract came up for bid, Carlisle gave Johnson the go-ahead to submit a bid.

Politics of the Postage Stamp Contract
But how does the printing of postage stamps by the Bureau of Engraving and Printing advance the political fortunes of the Cleveland administration? The transfer of the contract from the American Bank Note Company did not really save any money. However, it certainly did create the appearance of an economical move by the government. And, while every administration likes to report how it is saving tax payers’ money, the Cleveland administration seemed particularly eager to do so to the extent of pushing through a bid of questionable validity. Why? There were two interrelated reasons for Cleveland’s eagerness, almost desperation, to appear economical: the financial situation of the government and country in 1893 and the need to appease political supporters of Cleveland.

Part of Cleveland’s election strategy in 1892 was to attack the spending of Republican candidate Harrison’s administration. The Democratic Party platform of 1892 pledged a “relentless opposition to the Republican policy of profligate expenditure, which, in the short space of two years, has squandered an enormous surplus and emptied an overflowing Treasury, after piling new burdens of taxation upon the already overtaxed labor of the country.” Beginning in 1890, Harrison and the Republican-dominated Congress cut tariff revenues and then went on a spending spree to eliminate a Treasury surplus. However, a downturn in trade beginning in 1891 resulted in declining tariff income, the main source of government revenue, and therefore Treasury deficits. Once elected Cleveland announced, “It is a plain dictate of honesty and good government that public expenditures should be limited by public necessity, and that this should be measured by the rules of strict economy.”

Cleveland was held to these promises especially tightly because of the Panic of 1893, striking in May 1893 and continuing until August, and the ensuing economic depression. By inauguration day, the Treasury was so low that it was using the gold reserves to pay bills, threatening the country’s adherence to the gold standard. Frantic and politically controversial funding moves by the Treasury ameliorated the situation somewhat by the end of January 1894 but put the administration’s spending under a microscope.

Additional pressure to appear economical, especially on the matter of postage stamps, came from the recurring deficits of the Post Office Department. Since at least 1875, the Post Office had operated in the red (save for 1882 and 1883). The 1894 contract and the apparent savings stemming from Bureau of Engraving and Printing production of stamps would be a feather in Bissell’s cap while helping out the administration of his friend and former law partner Cleveland.

But it was not enough that Cleveland appeared to be saving money, he also needed to be seen as promoting efficiency and honesty in government. These were the hallmarks of the Mugwumps and other Progressives that had supported Cleveland’s election. These groups constituted an important political force in the Northeast and had to be appeased, and they were infatuated with idealizations of administrative and productive efficiency (the latter taking the form of scientific management). Moving postage stamp production from the private to the public sphere served to fulfill this desire to see things done more efficiently. The fact that currency and securities were printed by the government but postage stamps were not unsettled the Progressive mind. There was a feeling of incompleteness, of disunity, of inefficiency in this arrangement. It was believed that all government products should be produced by the government. According to Carlisle, this was Johnson’s primary motivation for pursuing the postage stamp contract:

> The fact that the Government was maintaining an establishment for this class of work [currency, securities, etc], yet was having a small amount of it executed in a private establishment remote from the seat of Government seemed to present an opportunity for a consolidation of the work of this character in the Government establishment which would result in advantage, both as regards economy and security.

The themes of efficient organization and economy were repeated by Johnson when he explained his motivation in his annual report addressed to Carlisle.

> Feeling that the interests of the Government required that all of its securities should be produced in its own establishment and under the immediate direction of its own officers, and that this work could be done by this Bureau at

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63 Postmaster General Report, 1894, 474; Bureau History, 65.
considerably less cost than if done by private parties, with your approval I submitted a proposal to the Postmaster-General for the execution of this work. 65

Almost the exact same sentiments were voiced by the postmaster in his annual report wherein he cited the reasons for giving the postage stamp contract to the Bureau of Engraving and Printing as being the "convenience of having the work done at Washington, where nearly all the other securities of the Government are printed, and the saving to be secured in the cost of manufacture." 66

With the Progressive desire for efficiency went that for political purity or honesty in administration. The two went hand in hand. Efficiency and corruption were antithetical—a corrupt organization was by definition inefficient. Hence, candidate Cleveland "intended to purge the executive of corruption and waste." 67 There were two major sources of corruption in government: patronage and the influence of big business. 68 Patronage was the target of civil service reform, championed by the Mugwumps and firmly supported by Cleveland and his administration. 69 In this line of reform, who produced postage stamps was of little concern. However, when one considered the matter of business-related corruption, it became very important.

Cleveland and his Progressive supporters attacked monopolies and the "unjust governmental favoritism" awarded to some of them, which allowed them to reap tremendous profits. 70 In his second inaugural address, Cleveland stated,

The existence of immense aggregations of kindred enterprises and combinations of business interests formed for the purpose of limiting production and fixing prices is inconsistent with the fair field which ought to be open to every independent activity….These aggregations and combinations frequently constitute conspiracies against the interests of the people, and in all their phases they are unnatural and opposed to our American sense of fairness. To the extent that they can be reached and restrained by Federal power the General Government should relieve our citizens from their interference and exactions. 71

The American Bank Note Company was established by the administration—as one of these monopolies, crushing fair competition and overcharging the government. The attack on American Bank Note was most forcefully put in a set of memorandums sent to members of Congress by the Post Office Department. The goal of these documents was to bolster the administration's case for

65 Director’s report, 1894, 5.
66 Postmaster General Report, 1894, 474.
government production of postage stamps in the face of lobbying by the American Bank Note Company.

The company was portrayed as a “powerful corporation” that had maintained a monopoly on postage stamp production since the introduction of the stamps in 1847.\textsuperscript{72} American Bank Note, it was argued, maintained this exclusive control by absorbing other printing companies and lobbying Congress. The result was that the company had received from the government “many millions of dollars” and “in the aggregate their profits have been immense.”\textsuperscript{73} The scale of the price gouging, the memorandums suggested, was evident in the disparity between the estimates put forward by American Bank Note and the Bureau of Engraving and Printing. In fact, “[i]n the matter of the Columbian [Exposition] Stamps which have recently been supplied, this company has realized a princely fortune in a single year.”\textsuperscript{74} While these memoranda mentioned that money would be saved by having the Bureau print postage stamps, they were more interested in attacking the dishonest source of the profit than the magnitude of the profit.

In sum, putting the BEP in charge of stamp production was seen as the culmination of a “correct public policy” in which all government security documents were produced by the government.\textsuperscript{75} This policy would result in greater government efficiency and further the separation of big business and government.

Conclusion

So, why did the Post Office Department risk the functioning of the postal system by handing over postage stamp production to a largely unprepared government agency on the basis of a legally and financially dubious bid? The answer is that the potential political gain was worth the risk. Chief of the Bureau of Engraving and Printing Johnson would expand his agency’s size, influence, and importance. This aggrandizement would reflect upon his superior, Secretary of the Treasury Carlisle. At the same time, Postmaster General Bissell (who had never before held an important public office) would appear an able and effective administrator. In the process, this triumvirate would promote the success of its patron Grover Cleveland by making his administration appear economical and Progressive at a politically important time.


\textsuperscript{74} “Memorandum,” 26 March 1894. Folder: Old Documents Related to the Production of Postage Stamps, HRC Records.

\textsuperscript{75} Bureau History, 65.
Appendix A: Reconstructing the BEP Stamp Bid

This reconstruction is based on two documents. One is a typescript memorandum that breaks down the total cost into labor, materials, and “contingencies.”76 The other is a handwritten worksheet that roughly breaks down the total cost by function or activity: printing, counting sheets, packaging, etc.77 In both cases, the documents calculate the costs from the basis of producing the number of stamps required for fiscal year 1895 or 3,053,703,600 stamps. The total calculated cost reported in both sources is $153,436.28, which when pro rated to the smaller 1893 figure of 2,776,094,211 stamps results in the official bid of $139,487.52. For simplicity, the following calculations also use the 1895 production numbers and seek to recapture the related total cost. The following study also assumes that all costs in the documents were reported accurately and truthfully and not simply made up to get a desired result or to support prices based on guesswork or a desire to present a very low quote.

Costs per Sheet

The sources prompted the breakdown of costs into three segments: paper, printing (both steam and hand), and processing. From the “Estimate for Postage Stamps,” it was possible to calculate these costs per sheet. This document also provided the rate of spoilage, giving the number of perfect and total sheets needed for each class of stamp. Accordingly, the following figures were calculated:

Paper:
Other material costs were included under specific activities. For example, ink costs were included with the printing costs.

\[
\text{Cost of paper per sheet} = \frac{23,655.28}{7,885,095 \text{ total sheets}} = 0.003 / \text{sheet}
\]

Printing:
Printing costs included labor and materials.

\[
\text{Cost of printing (hand press)} = \frac{2,297.21}{123,630 \text{ sheets}} = 0.0181 / \text{sheet}
\]

\[
\text{Cost of printing (steam press)} = \frac{44,310.22}{7,758,465 \text{ sheets}} = 0.0057 / \text{sheet}
\]

Processing:
This includes counting, wetting paper, gumming, perforating, packaging, and delivery.

\[
\text{Cost of processing} = \frac{44,737.29}{7,655,432 \text{ perfect sheets}} = 0.0058 / \text{sheet}
\]

We can then take these per sheet costs and apply them to the estimated sheets needed per type of stamp shown below. 

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Press used</th>
<th>Perfect Sheets</th>
<th>Total Sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>Steam</td>
<td>7,463,306</td>
<td>7,687,205</td>
</tr>
<tr>
<td></td>
<td>Hand</td>
<td>100,000</td>
<td>103,000</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>Steam</td>
<td>19,404</td>
<td>19,986</td>
</tr>
<tr>
<td>Newspaper</td>
<td>Hand</td>
<td>22,942</td>
<td>23,605</td>
</tr>
<tr>
<td>Postage Due</td>
<td>Steam</td>
<td>49,780</td>
<td>51,274</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>7,655,432</td>
<td>7,885,095</td>
</tr>
</tbody>
</table>

**Basic Costs of Production**

The total cost per type of stamp can be determined using this formula:

\[
\text{Total Cost} = \text{Cost of Paper} + \text{Cost of Printing} + \text{Cost of Processing}
\]

or

\[
\text{Total Cost} = (\text{Cost of paper per sheet} \times \text{Total Sheets}) \\
+ (\text{Cost of printing (hand press)} \times \text{sheets printed via hand press}) \\
+ (\text{Cost of printing (steam press)} \times \text{sheets printed via steam press}) \\
+ (\text{Cost of processing} \times \text{Perfect sheets})
\]

Then the cost per 1,000 stamps can be calculated using the following:

\[
\text{Cost per 1,000 stamps} = (\text{Total Cost} / \text{Total number of stamps}) \times 1,000
\]

The numbers of stamps used in the calculations are shown below:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Total Stamps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>3,025,322,400</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>3,880,800</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>4,588,400</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>19,912,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3,053,703,600</td>
</tr>
</tbody>
</table>

Ordinary Stamps:

Total Cost

\[= \$23,370.62 + \$1,868.42 + \$43,817.07 + \$43,867.17 = \$112,923.28\]

---

\(^{78}\) *Ibid.*

\(^{79}\) *Ibid.*
Cost per 1,000
= \( \frac{112,923.28}{3,025,322,400} \) x 1,000 = $0.0373 per 1,000

Special Delivery Stamps:
Total Cost
= $59.96 + $0 + $113.92 + $112.54 = $286.42

Cost per 1,000
= \( \frac{286.42}{3,880,800} \) x 1,000 = $0.0738 per 1,000

Newspaper Stamps:
Total Cost
= $70.89 + $410.51 + $0 + $133.06 = $614.46

Cost per 1,000
= \( \frac{614.46}{4,588,400} \) x 1,000 = $0.1339 per 1,000

Postage Due Stamps:
Total Cost
= $153.82 + $0 + $292.26 + $288.72 = $734.80

Cost per 1,000
= \( \frac{734.80}{19,912,000} \) x 1,000 = $0.0369 per 1,000

Then we can compare the results with the bid:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Basic cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0373</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.0738</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.1339</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0369</td>
</tr>
</tbody>
</table>

How do we explain these discrepancies? First, we have to consider that the initial cost estimates were made using rounded numbers. Only after the bid was submitted and challenged as too low did officials at the BEP work backwards to justify their numbers. The resulting documents contain fractional numbers. We also have to consider rounding errors occurring in these calculations. Rounding the total costs and recalculating the cost per 1,000 results in the following:

Ordinary Stamps:
Cost per 1,000
= \( \frac{113,000}{3,025,322,400} \) x 1,000 = $0.0374 per 1,000

Special Delivery Stamps:
Cost per 1,000
= \( \frac{250}{3,880,800} \) x 1,000 = $0.0644 per 1,000
Newspaper Stamps:
Cost per 1,000
= ($600 / 4,588,400) x 1,000 = $.1308 per 1,000

Postage Due Stamps:
Cost per 1,000
= ($750 / 19,912,000) x 1,000 = $.0377 per 1,000

Resulting in these numbers:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Basic cost (rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0374</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.0644</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.1308</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0377</td>
</tr>
</tbody>
</table>

Adding Overhead
The difference between the price bid and the cost is still significant. Remember that since the BEP is a non-profit enterprise, no profit margin would be included; meaning the bid and cost should be the same. The basic cost of production calculated above consists of labor and materials. It does not consider overhead costs—heating, steam generation, janitorial service, managerial salaries, etc. These need to be added to the cost calculations.

Overhead is usually added to bids as a certain percentage of the cost of labor and materials. This percentage can range anywhere from 5% to 25%, depending upon the industry or business. The federal government currently uses 12%. In the 1890s, it appears that the overhead factor was 15%. In our source documents, $20,436.28 is consistently added to the total cost under the category of “contingencies.” This figure is roughly 15% of the total production costs. Adding 15% to the cost yields:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Basic cost (rounded)</th>
<th>Cost + 15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0374</td>
<td>.0430</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.0644</td>
<td>.0741</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.1308</td>
<td>.1504</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0377</td>
<td>.0434</td>
</tr>
</tbody>
</table>

These numbers are closer to the bid price, but more adjustments need to be made.

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81 Of course given that the numbers in the documents were derived by the writers working backwards, the contingency figure may just be a “fudged” number. It could be the difference left over when all other costs were accounted for and had to be added in to make the numbers add up correctly. However, I am assuming that “contingencies” was equivalent with “overhead” in nineteenth-century business parlance. Further calculations support this view.
Reconciling the Numbers

Ordinary Stamps:
The calculated cost is significantly below the bid price. However, the numbers approach parity if we add into the total cost of producing ordinary stamps $18,000 listed as an expense for “Reconstructing machinery and new machinery.” While the documents do not explicitly assign the expense to a specific category of stamp, it makes some sense that the expense is added to ordinary stamps mainly because these are the most produced. Hence, the machines running ordinary stamps will need the most maintenance and replacement. Also, it is easiest to “hide” the cost in the high production. There will be a smaller cost burden per unit. The calculations follow:

\[
\frac{\text{Rounded cost + Machinery expense}}{\text{Number of Stamps}} \times 1,000 = \frac{\$113,000 + \$18,000}{3,025,322,400 \text{ stamps}} \times 1,000 = \$0.0433 \text{ per 1,000}
\]

Adding the overhead costs:
\[
\$0.0433 \times 15\% = \$0.0433 \times 1.15 = \$0.0498 \text{ per 1,000}
\]

This number rounds to $0.05 per 1,000, matching the bid price.

Special Delivery and Newspaper Stamps:
The bid prices for these two types of stamps are the same, $.114 per 1,000. This is odd given that the special delivery stamps were done on the steam press and the newspaper stamps on the hand press, resulting in widely different costs of production. However, it appeared to be the convention among bank note companies to have identical prices for these two classes of stamps.

As both types were produced in roughly the same amount, the most logical action is to average the costs of each.

\[
\frac{\text{Special Delivery stamp cost per 1,000} + \text{Newspaper stamp cost per 1,000}}{2} = \frac{\$0.0741 + \$0.1504}{2} = \$0.1123 \text{ per 1,000}
\]

This number is extremely close to the bid price of $.114, especially given all the possible rounding errors.

Postage Due Stamps:
The largest discrepancy between figures is in the Postage Due stamp bid price and cost, $.0605 and $.0434 respectively. The numbers can be reconciled only if we ignore statements in the documents that say the stamps were produced on steam presses and consider that they were produced on hand presses.

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Total Cost on Hand Press
= $153.82 + $930.11 + $0 + $288.72 = $1,083.93

Cost per 1,000
= ($1,083.93 / 19,912,000) x 1,000 = $.0544 per 1,000

Cost with rounding
= ($1,050 / 19,912,000) x 1,000 = $.0527 per 1,000

Adding the overhead costs
= $.0527 x 15% = $.0527 x 1.15 = $.0606 per 1,000

The final number of $.0606 per 1,000 is extremely close to the bid price of $.0605 per 1,000.

Finally, a comparison of the bid prices with our reconstructed costs:

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Calculated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0498</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.1123</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.1123</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0606</td>
</tr>
</tbody>
</table>
Appendix B: Calculating Bid Prices for All Work on Steam Presses

The purpose of this section is to determine what the BEP bid prices would be if all stamp production was done on steam presses as was asserted in Johnson's letter containing the Bureau of Engraving and Printing's bid for postage stamp production. While documents state that it was intended to use hand presses to produce some of the ordinary stamps and all of the newspaper stamps, the final bid prices also assume that all postage due stamps would be produced on hand presses as shown in Appendix A. Using the costs per sheet and formulas in Appendix A, we get the following results:

Ordinary Stamps:
Total Cost
= $23,370.62 + $0 + $43,817.07 + $43,867.17 = $111,641.95

Plus machinery expense of $18,000 = $129,641.95

Cost per 1,000 with rounding
= ($130,000 / 3,025,322,400 stamps) x 1,000 = $.0430 per 1,000

Adding the overhead costs
= $.0430 x 15% = $.0494 per 1,000

Special Delivery Stamps:
Total Cost
= $59.96 + $0 + $113.92 + $112.54 = $286.42

Cost per 1,000 with rounding
= ($250 / 3,880,800) x 1,000 = $.0644 per 1,000

Adding the overhead costs
= $.0644 x 15% = $.0741 per 1,000

Newspaper Stamps:
Total Cost
= $70.89 + $0 + $134.69 + $133.06 = $338.64

Cost per 1,000 with rounding
= ($350 / 4,588,400) x 1,000 = $.0763 per 1,000

Adding the overhead costs
= $.0763 x 15% = $.0877 per 1,000

Postage Due Stamps:
Total Cost
= $153.82 + $0 + $292.26 + $288.72 = $734.80

Cost per 1,000 with rounding
= ($750 / 19,912,000) x 1,000 = $.0377 per 1,000

Adding the overhead costs
= \$.0377 \times 15\% = \$.0377 \times 1.15 = \$.0434 \text{ per 1,000}

Then averaging the cost of special delivery and newspaper stamps we get:

\[
\frac{\text{Special Delivery stamp cost per 1,000} + \text{Newspaper stamp cost per 1,000}}{2}
\]

\[
= \frac{\$.0741 + \$.0877}{2} = \$.0809 \text{ per 1,000}
\]

We can now compare the bid submitted with what the bid should have been for producing all stamps on steam presses.

<table>
<thead>
<tr>
<th>Type of Stamp</th>
<th>Bid per 1,000</th>
<th>Calculated Cost per 1,000 w/ steam only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>.05</td>
<td>.0494</td>
</tr>
<tr>
<td>Special Delivery</td>
<td>.114</td>
<td>.0809</td>
</tr>
<tr>
<td>Newspaper</td>
<td>.114</td>
<td>.0809</td>
</tr>
<tr>
<td>Postage Due</td>
<td>.0605</td>
<td>.0434</td>
</tr>
<tr>
<td><strong>Total Cost using 1893 production:</strong></td>
<td><strong>$139,487.52</strong></td>
<td><strong>$137,272.97</strong></td>
</tr>
</tbody>
</table>