THE CREDIT SYSTEM VS. SPECULATION

Nicholas Biddle and the 2nd Bank of the United States

by Michael Kirsch

July 4—Many in the United States Congress want to know how to reorganize the U.S. economy, but are stuck with two fundamental questions: how to regulate speculation constitutionally, and how to generate wealth and the means of funding a nationwide recovery. There is an alternative to Federal Reserve and Eurozone bailouts and austerity: a re-establishment of a U.S. Credit System, in which the first step is a re-instatement of the Glass-Steagall law, as presented in Rep. Marcy Kaptur's H.R. 1489.

For the purpose of re-implementing a U.S. Credit System in 2012, this article reviews the full history of how the Second Bank of the United States created the greatest period of economic growth in our history up to that time. This research was a follow-up to an investigation of how NAWAPA XXI (the updated North American Water and Power Alliance) would relate to the Hamiltonian system of public credit, the results of which were published in March 2012.[1]

Anton Chaitkin[2] *recently told the story of the unification of the nationalist movement which led to, and created, the industrialization of the United States. In the present article, the subject is the workings of the credit system, how it was directed and the conception which made it possible. We present an important piece of the historical development of a functioning Credit System, in its most outstanding form.*

Such in-depth historical investigation is necessary knowledge for those determined to fix the current global mess, and to design a plan that can fund a recovery for the U.S. and other nations.

Our story begins near the beginning of the War of 1812, when the first Bank of the United States met its demise.

Preface

In 1810-11, the political parties were split on the issue of re-chartering the Bank of the United States, whose charter was to set to expire in 1811. The vote to re-charter lost by the tie-breaking vote of the President of the Senate, cast against President Madison's wishes, and by a single vote in the House of Representatives.

On Jan. 3, 1811, on the eve of the decision to dissolve the Bank of the United States, the 24-year-old Nicholas Biddle, serving as a state representative at Lancaster, Pa., who had been promoting canal building and public education in the state unsuccessfully, rose to challenge a resolution to dissolve the Bank. Surprising the legislators, he spoke on the basis of hours of prepared study, reviewing the history of the Bank, and challenging party rhetoric that it was unconstitutional

1. See the LaRouchePAC *NAWAPA XXI Special Report* at www.larouchepac.com/nawapaxxi or http://larouchepac.com/files/20120403-nawapaxxi-forweb_0.pdf

2. . Anton Chaitkin, "The American Industrial Revolution That Andrew Jackson Sought To Destroy," *EIR*, June 22, 2012.

and served the monied aristocracy. He outlined the system of public credit which the Bank had made possible, and warned of the effects which would ensue, following its demise:

> To my mind no principle of national economy is clearer, than that the most natural way of protecting the poorer classes of a society is by a [national] bank: an institution ...which enables the farmer to reserve his crops for a better market, instead of sacrificing them for his immediate wants; and by loans, at a moderate rate of interest, reliev[ing] every class of society from the pressure of usury. As to a monied aristocracy, is it not obvious that the funds of a bank are of all other kinds of property the least calculated to promote the influence which is feared? An extensive proprietor of land may oppress his tenantry; the holder of mortgages may influence and control a whole neighborhood; but a large stockholder in a bank sees interposed between him and his debtors an association of individuals whose private feelings are merged in the passion of pecuniary gain.

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Nicholas Biddle became president of the Second Bank of the United States in 1823, vowing to create an actual national currency and to achieve "a more enlarged development of its resources and a wider extension of its sphere of usefulness." The Bank, shown here, is in Philadelphia, Pa.

Courtesy of the American Philosophical Society, Philadelphia

Biddle addressed the fallacious argument of usurpation by foreign monied individuals who owned stock in the Bank, but were forbidden from partaking in its direction:

> [The Bank's] shares rise in value till foreigners, desirous of placing their funds beyond the insecurity of Europe, send over their money and purchase its stock. In the first place, our citizens gain the additional price, and this foreign money is lent by the bank to individuals, who, after employing it in the improvement of the soil, the establishment of manufactures, and in the advancement of every branch of the national industry, return it to the bank, who send to foreigners the interest; that is, the surplus which our citizens have earned with it, above their own income from its employment.

Then Biddle warned of the effects of dissolving the Bank:

> The resources of the union are almost wholly drawn from commerce. As the treasury must be supplied from the collection of duties, it must depend on the ability of the merchant to pay the duties by means of the loans from the bank and in notes of the bank. ... On a sudden you declare that there shall be no longer any loans ... you annihilate the credits on which the merchant had relied for the fulfillment of his contracts with government—and the facilities which enabled him to discharge them without specie.
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> This deficiency of revenue would only be secondary when compared with the overthrow of punctuality and credit, which will break up

Library of Congress

This caricature of President Andrew Jackson was probably issued in the Fall of 1833 in response to his order to remove Federal deposits from the Bank of the United States (without Congressional approval). The Crash of 1837 was one result of his move.

> the foundations of mercantile confidence, and spread a wide and universal calamity throughout the country.... The demand for specie will place the poorer classes at the mercy of the rich, the great money lenders will issue abroad to prey upon their fellow citizens. Yes, sir, in the sweeping ruin which will overwhelm humble and useful industry in the general submersion of small traders, the only beings who will be seen floating on the wreck are these very "monied aristocrats," whom the resolutions denounce with such indignation....
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> We are now preparing our non-intercourse for England which may drive us into a war with that country. With the dreary prospect of such a misfortune ... when the government needs all its strength to meet such dangers—is this a time to disorder its finances?

Economist Mathew Carey—one of the closest cothinkers of Benjamin Franklin in the United States—had likewise attempted to stave off the calamity, writing in the newspapers, and in eight letters in December 1810, to his Representative in Philadelphia, which he circulated the weeks before the final vote on Jan. 24, 1811, rebutting the charges that had been thrown up against the Bank of United States, reviewing President Jefferson's 1804 extension of the Bank's power, and warning of the effects that failure to renew the Bank's charter would have:

> The productions of the earth will look in vain for a profitable market in our seaport towns. They will remain on hands unsold, or, if they be sold, the capitalists will be able at pleasure to regulate the prices—for there will be little or no competition.
>
> Many people believe that the struggle for the destruction of the Bank of the United States, is a war of the middle and poorer classes of society, against the rich; and that if it should be successful, the interests of the former will be promoted at the expense of the latter. Fatal error! Should the enemies of the Bank triumph, the interests of the middle and poorer classes will be laid prostrate for the advantage of the overgrown capitalists, who will be able to possess themselves of the property of the distressed, at thirty or forty per cent below its value.[3]

This article will demonstrate the nature of the U.S. Credit System as developed to its fullest expression by Biddle, John Quincy Adams, and other Americans devoted to the full development of the power of the United States. Spanning a period from 1811 to 1832, we will look at the failure to re-charter the first Bank of the United States, Nicholas Biddle's intervention to save the Second Bank, the re-establishment of Alexander Hamilton's intention for the functionality of the Bank as a means of carrying out the powers of Congress, the full development of that Credit System in the internal development of the country, and Biddle's action to protect the Credit System from speculation internally and from abroad.

The greatest crime ever committed within the United States was the destruction of the Credit System in 1832-36 by Andrew Jackson, as a result of which farmers, laborers, manufacturers, and the expansion of the economy were crushed, through the tyrannical usurpation of legislative power. The greatest lie ever told in the United States was that the Bank of the United States, under the direction of Nicholas Biddle (from 1822 to 1836), was destructive to the liberties and safety of the Republic.

In 2012, after the world's productive economy has likewise been ravaged for many years, those who pur-

3. Mathew Carey, "Letters to Dr. Adam Seybert," Dec. 5-17, 1810, published Jan. 8, 1811.

port to be the saviors of the people turn to Jackson and his destruction of the Bank as their model, blind to the lies which made up that sorry destruction and intentional shrinkage of the economy, and its continued effects. The deadly error is not that people have been duped into believing a lie, but that it represents a failure to understand the great Credit System of Biddle and the Bank of the United States, a failure to understand the powers of Congress which made this system possible, and a failure to bring about its re-establishment today, for the sake of a unified national credit structure for sovereign nations.

Introduction

The great period of bankruptcy during the Revolutionary War, and the depreciated bills of credit of the states and Continental Congress which flooded the country, led Robert Morris, Alexander Hamilton, James Wilson, Gouverneur Morris, and other Founders to a shared commitment. For a union of states to withstand the financial warfare of its enemies, and create a national system of paper credit, it was necessary to channel the resources of the nation as a whole behind the currency, using the powers vested in Congress; those powers could most successfully be executed by means of a Bank of the United States.

By funding the national debt with import duties and domestic taxes and by other powers of Congress,[4] the debt would become the basis for the issue of banknotes which would circulate upon the credit of those funded debts, making up most of the Bank's capital stock. Various debt certificates issued during the war were reissued as a representation of the new power of government in action, and those who held new debt certificates received interest payments in banknotes, increasing the currency, while the branches of the Banks accepted the new debt certificates as deposits and would lend banknotes on their credit, as well as loans on the credit of expected manufacturing and industry. The provision for funding the debt of the United States threw into circulation an immense amount of capital, which gave life and activity to business.[5] Or, as Alexander Hamilton said in 1791, "In a sound and settled state of the public funds, a man possessed of a sum in them can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal sum in coin."

Congress made the notes of the Bank's legal tender and "receivable in all payments to the United States." The Congress's power "to coin money and regulate the value thereof" was carried out by the banknotes having a value set by the amount of specie in the Bank, and they could redeem the notes for specie if desired, "payable on demand, in gold and silver coin." As the system was designed to prevent the necessity for this redemption, a circulating currency was created of a magnitude proportional to the active capital of the country, the manufactures, agriculture, etc., without having to trade in most of that capital for specie, with which to exchange goods. Precious metals were themselves objects of trade and the basis for foreign commerce.

Had all taxes been demanded in gold and silver, it would have been highly oppressive in 1790, not only because there were no mines or mint in the United States, but because such a law would demand *that much of the active capital of the nation* be traded for the coin to make the payments, draining the capability to conduct foreign commerce, as well as creating a non-dependable source of revenue for the government.

Likewise, in the settlements of new land, it required years before the land was developed and a surplus of production would be obtained for the market, and when it was finally generated, it was exchanged for the continued necessities of development. An even longer time would be necessary for a whole community to part with its resources for the purposes of a circulating medium of coin, and had settlers been forced to buy a metallic currency by selling their surplus, all progress would have ground to a halt.

In general, between 1790 and 1811, the Bank of the United States and state banks would keep one-third of

4. "The payment of debts may well be expensive, but it is infinitely more expensive to withhold the payment. The former is an expense of money, when money may be commanded to defray it; but the latter involves the destruction of that source from whence money can be derived when all other sources fail. That source, abundant, nay, almost inexhaustible, is public credit. The country in which it may with greatest ease be established and preserved is America, and America is the country which stands most in need of it, whether we consider her moral or political situation; and whether we advert to her husbandry, commerce, or manufactures.... A due provision for the public debts would at once convert these debts into a real medium of commerce. The possessors of certificates would then become the possessors of money." Robert Morris's outgoing message as financier of the Continental Congress, 1783, cited in Ellis Paxson Oberholtzer, *Robert Morris: Patriot and Financier* (New York: Macmillan: 1903), Chapter 5.

5. The establishment of the powers of Congress and first Bank of the United States is developed in detail on pages 57-67 of the *NAWAPA XXI Special Report*, *op. cit*.

the whole currency in specie in their vaults to meet any settlements required, meaning a saving of two thirds of the capital required to create a currency. This saving was absorbed in the purchase of land, new dwellings, and new manufactures. Instead of needing gold for purchases of goods, the nation was able to depend on the government's system of national banking, with loans from branches of the Bank, and trading with banknotes of unified value. The amount of paper exceeded the metallic capital of the country, but was nowhere near the size of the commercial and manufacturing capital of the nation. With the growth of confidence in the government, men who possessed capital wanted to invest in economic activity, reducing the tendency for it to sit idle in the form of gold and silver. The substitution of banknotes for metal decreased the capital required to be used as a currency.

Biddle explained it this way, in a speech on Jan. 3, 1811:

> As long as the paper possess the confidence of the people and as long as the even balance of trade supplies us with enough of the precious metals for ordinary demands, every object of interior commerce is perfectly accomplished. But the delicate structure of credit must be gently touched. If you require that the gold and silver, whose place the paper occupies, should suddenly be produced, when they have been sent abroad for foreign trade; if at the same time you force from circulation the specie which had hitherto been ready to obey and support the notes, you derange the whole system. The metals cannot be brought forward, the paper becomes suspected, and the holders of it clamorously demand payment from the banks: they cannot pay, because not suspecting so sudden a demand, they had placed their funds in a less convertible shape, and reserved only what was required by the accustomed course of trade. Even if they can pay, they can issue no more notes; they can no longer lend; and thus the whole trading community is distressed: *not because they are without substantial wealth, but because it cannot be turned into money, the standard of wealth: not because they are unable to pay ultimately, but because the loss of their accustomed credits forces them to pay suddenly*[6] [emphasis added].

EIRNS/Stuart Lewis

The first Bank of the United States was created by Treasury Secretary Alexander Hamilton. "Public Credit . . . is among the principal engines of useful enterprise and internal improvement," he wrote. ". . . it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts." The statue is in Paterson, N.J.

In addition to the large capital stock, other deposits were added from those who had idle capital, which could now yield them a corresponding interest, as it was loaned out to a wide array of industrious classes. Also, instead of sitting idle in the Treasury, the collected taxes were paid into the regional branches of the Bank, and could be utilized at all times in the growth of the economy until time of appropriation.

This function was described by Alexander Hamilton in his *Report on Public Credit* of 1795:

> Public Credit ... is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.... It is a matter of daily experience in the most familiar pursuits. One man wishes to take up and cultivate a piece of land; he purchases upon credit, and, in time, pays the purchase money out of the

6. Nicholas Biddle, speech on the re-charter, Jan. 3, 1811, Lancaster, Pa.

> produce of the soil improved by his labor. Another sets up in trade; in the credit founded upon a fair character, he seeks, and often finds, the means of becoming, at length, a wealthy merchant. A third commences business as manufacturer or mechanic, with skill, but without money. It is by credit that he is enabled to procure the tools, the materials, and even the subsistence of which he stands in need, until his industry has supplied him with capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.[7]

The uniform currency of banknotes was to be accepted for all taxes, domestic and foreign, and created a dependable means of payment, since the Bank could make loans to assist individuals and companies. It especially related to the power of laying and collecting taxes, facilitating the payment of duties to the government on behalf of the customs house before the merchant was able to pay the full amount, relieving the government of the risk and responsibility of collection, and the merchant of the ruinous expedient of forced sales.

The further development of this system of public credit will be described in the third section of this paper.

1. Speculators Take Over

Unfortunately, the vast majority of Congressmen who were ignorant of the relation of the Bank to their districts were, as Mathew Carey put it, "liable to be bewildered and led astray—to be instrumental in dashing the bark of public credit upon rocks and quicksands—and producing an awful scene of destruction." They rushed headlong into the trap set for them, and the effects of which Biddle, Carey, and others had warned, were as bad as predicted.

The removal of a massive amount of credit was replaced as numerous state banks loaned more than prudence allowed, and, stoked by speculation, a situation ripened whereby a nation abounding in patriotism during the war, and full of resources, had a government that was bankrupt for the want of an institution that would facilitate government loans and other Treasury operations.

By attempting to fill the enormous vacuum created by the demise of the Bank, and profiting from the lack of regulation, the state banks augmented the circulation of paper by more than half during and after the war with Great Britain, which diminished the value of the circulation by more than one third. While many banks attempted to curtail loans to make sure that specie could be provided for those seeking to redeem their notes, in the Summer of 1814, all the banks south and west of New England finally suspended the payment of specie as the only mode of keeping their circulation of notes at an amount proportional to the demands of their customers.

The failure of numerous banks which had puffed up fictitious and factitious credit without any substantial basis to redeem their bills, was later commented on by a merchant in Charleston: "If we look back to what took place ... we shall see the grossest impositions committed by banks, commencing with a few thousand dollars in specie ... and after getting their bills into circulation, blowing up, and leaving the unsuspecting planter and farmer victims of a fraud, by which they were deprived of the hard earnings of years of honest industry."

In addition to the general depreciation of the currency due to an over-issuance of state bank paper, without a unified national currency of Bank of the United States notes, there was also a *relative* depreciation of the various currencies of the states ranging from 5 to 25%.

A merchant engaged in interstate commerce was compelled to resort to a money broker to exchange his depreciated currency for available funds in another currency, and since state banknotes were held in less confidence outside that state or region, the holder of Western and Southern notes was compelled to allow a discount[8] when he purchased goods in Eastern markets. The broker took into consideration the solvency of the bank, the distance, and the time that would elapse before he could turn this depreciated paper into available funds, a discount augmented when the capital was small, making it less worthwhile to transmit for redemption, making it even more of a tax on those just beginning their ven-

7. Alexander Hamilton, *Report on a Plan for the Further Support of Public Credit*, 1795.

8. Receiving less credit than the full value for a note, or receiving less in advance for the value of a bill of exchange. Discounting by banks is similar to a loan, except instead of the bank giving the full amount asked for and charging interest, the bank will give a lesser amount, and expect the full amount back. Simply said, getting a 20% discount from the bank means borrowing 80, and paying back 100.

tures. By 1816, the depreciated currency led merchants to pay a 15% increase for a bill of exchange[9] drawn on a debtor in New York, due to the risk of loss on Western money. The merchants engaging in a bill of exchange with the broker would then pass on this expense to the farmers. In other words, the various brokers taking advantage of the situation were taxing all trade at a cost 10-20% higher than it had been through the Bank of the United States.

The state currencies imposed extravagant premiums upon the Treasury for the mere act of transferring revenues to the government from the point of collection, thereby reducing government revenues overall. In the Fall of 1814, the notes of the Baltimore banks were usually depreciated by 20%, those of New York by 10%, while those of Boston were at par. Since state banknotes were received by the revenue officers at those places in payment of duties, the importer at Baltimore paid one fifth, and at New York one tenth less than the importer at Boston. These varying depreciations at the points of importation drew imports to the cities where the depreciation was the greatest and diverted them from elsewhere, encouraging each state to degrade its own currency to attract foreign commerce. While the government was consequently receiving less than it should for duties, it was also apparent to all that this situation made it impossible to discharge the power of Congress, which states that all taxes collected "shall be uniform throughout the United States," and that "No preference shall be given by any regulation of commerce, or *revenue*, to the ports of one state over those of another," as this would be a discrimination in favor of the lower value, proportioned to the depreciation of the local currency which is 20% below value of another. Notwithstanding this clear violation of the Constitution, this inequality continued for two years.

Some banks reaped the reward of lending under the conditions of a general depreciation of the currency, and then getting paid back later with a currency nearly twice as valuable, taking nearly twice the amount of property from people for the debts that had been originally contracted. Also, intentional, abrupt curtailments of loans would reduce prices, obliging the debtors to sacrifice their wealth at low prices to the speculators. Reviewing this period in 1830, Congressman George McDuffie wrote:

> When banks have the power of suspending specie payments, and of arbitrarily contracting and expanding their issues, without any general control ... [i]n such a state of things, every man in the community holds his property at the mercy of money-making corporations which have a decided interest to abuse their power.... By a course of liberal discounts and excessive issues for a few years, followed by a sudden calling in of their debts, and contraction of their issues, they would have the power of transferring the property of their debtors to themselves, almost without limit.[10]

Some of these banks had allowed their money, which was earlier stock of the national Bank, to be lent productively, but now they speculated upon the distresses of the community, having nothing better to do with their large surpluses of money.

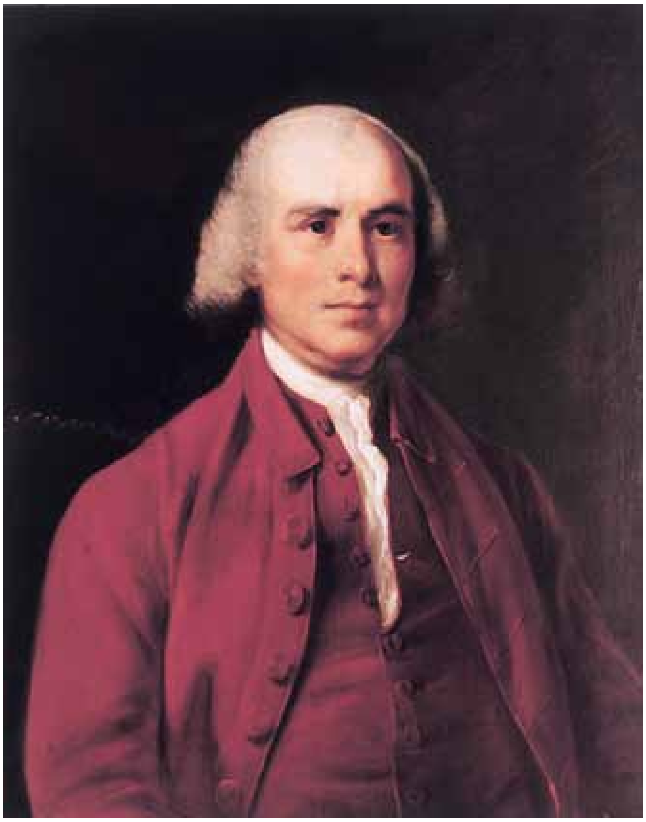
Without the agency of a bank established by Federal government authority, the Congress had no control whatsoever over that which fills up the channels of pecuniary circulation. In the absence of a National Bank, the state banks become in effect the regulators of the public currency; in such a condition, it was vain for Congress to regulate the value of coin, when the circulating paper currency of local banks had no relation to this value. In essence, the state banking corporations had usurped this power from Congress, with the strongest motives for abusing it for profits.

The state legislatures were never designed to be the exclusive suppliers of the national currency; long before any state had a bank, there was a National Bank, whose operation and purpose were intimately tied to the creation of the Constitution.[11] It was the Founders' intention to vest in the Federal government the exclusive control over the currency, by prohibiting the states

9. A bill of exchange can involve an innumerable number of parties, but usually three or four. For example, Merchant A has a debt from Merchant C, but wants to buy goods from Merchant B, and presently does not have the funds on hand. Merchant A therefore purchases them on the credit of Merchant C, who owes him an amount necessary to cover the purchase, by means of a bill "drawn on Merchant C"—i.e., to be eventually paid by Merchant C. Merchant B can now use this bill of exchange as payment to another trader, who can then have it discounted by a bank or broker, receiving cash to pay a farmer or manufacturer for goods he wishes to buy.

10. House of Representatives, Committee of Ways and Means, George McDuffie, April 13, 1830.

11. See *NAWAPA XXI Special Report,* Section III. How NAWAPA XXI Will Restore the System of Public Credit, *op. cit.*



James Madison had opposed the shutdown of the first Bank of the United States in 1811. As President, in 1816, he signed into law a new charter, establishing the second Bank of the United States.

from coining money and emitting bills of credit. The constitutional power over the legal currency vested in Congress was one of its very highest powers, and its exercise of this power was one of the strongest bonds of the Union of the States. This power must be exercised by Congress, or one of its powers affecting all the daily operations of society remains dormant.

A Charter Doesn't Make the Bank

Consequent to this disastrous experience, President James Madison, who had been in favor of re-charter in 1811, after reviewing various proposals for a new bank, accepted a design for a charter almost identical to Hamilton's original one and signed it into law in 1816, with overwhelming support from all sides.[12]

Madison delivered the following message on Dec. 16, 1816:

> For the interests of the community at large, as well as for the purposes of the Treasury, it is essential that the nation should possess a currency of equal value, credit, and use wherever it may circulate. The Constitution has entrusted Congress exclusively with the power of creating and regulating a currency of that description, and the measures which were taken during the last session in execution of the power give every promise of success. The Bank of the United States has been organized under auspices the most favorable, and can not fail to be an important auxiliary to those measures.

The patriotism that continued in the wake of the War of 1812 led to great recognition of the need for internal improvements and domestic manufactures, led by West Point's Army engineers. The Erie Canal was begun in 1817, and designs and plans for canals in Virginia, North Carolina, and Georgia, were being put forward by the government, while industries of all kinds started up.[13] However, the resumption of a national currency and Credit System able to facilitate this plan was not guaranteed by the mere existence of the Second Bank of the United States. The bank faced an army of unregulated state banks, and the government had taken out a loan for the war at 20% interest, which it was to pay back in a currency of twice the value, a situation requiring a director with the full national interest in mind and with the resolution of an Alexander Hamilton to handle the fragile situation. Instead of such a bank president, there now ensued two administrations of the bank that

12. The reader is encouraged to read the charter for the second Bank of the United States, delivered to President Madison by Secretary of Treasury James Dallas in 1816. It is almost identical to Hamilton's charter of the first Bank, which is reviewed in detail in the reference cited in footnote 11, except that the capital stock of the bank available for subscription by citizens in the U.S. and abroad was $35 million rather than $10 million. Shares were subscribed for three-fourths part public debt and one-fourth part specie. While initially the subscribers were mainly wealthy individuals, once the stock price equalized, the range of stockholders became more and more representative of the general population, as purchasing shares in the bank became the most secure and efficient place to invest one's savings. In 1830, the main stockholders were: foreigners owned 7 million; the U.S. government owned 7 million; the middle class owned 7 million; super-wealthy individuals owned 3 million; and widow and orphan charities owned 8 million. The dividends from the bank's stock were the sole income for many widows and the needy in general, and a key source of income for many in the middle class. Investing in the Bank of the United States was very much like the way investment of one's earnings in the Social Security Fund yields interest, and provides for members of society a secure source of income in later years.

13. Chaitkin, *op. cit,* footnote 2.

did not fulfill its mission.[14]

William Jones, the first president, was unqualified for the post and chosen for political reasons. The policy of forcing banks to resume specie payments brought pressure on their borrowers, causing great protests in the interior of the country. Also, speculators were not absent in the opposition to the Bank. Jones succumbed to these pressures, and to silence the protests, he supplanted the state bank bubble with loans from the regional branches, without limit or relation to the capital stock of the national bank. The notes issued from the Western branches were accepted in the East, and therefore capital and resources of the bank were being transferred from the East, where valid debts were being paid, to the interior, where speculators in land and stocks were taking advantage of loose credit. Meanwhile, Jones himself was involved in fraudulent banking practices in the East.

When other directors of the bank finally began to exert its influence in July 1818, its forced curtailment of loans put pressure on merchants and speculators and state banks, and led to mass bankruptcy. The bank was overextended, drained of much of its specie. Jones was thrown out for mismanagement and fraud, and in January 1819, President Monroe appointed Langdon Cheves as the new president of the bank, and Nicholas Biddle as one of the government directors. Biddle had refused to serve as a director under Jones' administration.

Cheves ordered the interior branches to cease issuing notes, and to forward a large amount of their specie and two thirds of their government deposits back East, while demanding complete settlement with state banks. As stated, a chief cause of the overextension was issuance of currency in the interior states and the eventual demand for specie redemption of the notes at branches in the East for duty payments. He therefore suspended the part of the Bank charter that said that all the notes given out by the bank and its branches would be receivable at any branch—i.e., it would be a national currency. John Quincy Adams, as Secretary of State, described the state of affairs in 1819-20, in his memoirs, from his discussions with Treasury Secretary William Crawford and President Monroe. On April 5, 1819, he wrote, "The bank is so drained of its specie that it is hardly conceivable that they can go to the month of June without stopping payment. The measure which Cheves now represents as indispensable is the *refusal to receive in payments for public account the bills of the several branches of the bank at any other branch than that from which they issued.*"

Cheves' action burst all of the speculative lending in the country which Jones had allowed. Beginning in the Summer of 1818 and continuing through 1819, all real estate and products of labor collapsed in value. Multitudes of farmers and manufacturers who had established themselves from the credit supplied by the first national bank, and had invested their money in the state banks which had taken its place, now were left penniless, when these banks were finally made to adhere to the necessary regulation. John Quincy Adams continued to discuss the situation with his fellow Cabinet members, in May 1819:

> I had also some conversation with [Treasury Secretary] Crawford on the present situation and prospects of the country, which are alarming. The banking bubbles are breaking. The staple productions of the soil, constituting our principal articles of export, are falling to half and less than half the prices which they have lately borne, the merchants are crumbling to ruin, the manufactures perishing, agriculture stagnating, and distress universal in every part of the country....
>
> The house of Smith and Buchanan, which has been these thirty years one of the greatest commercial establishments in the United States, broke last week with a crash which staggered the whole city of Baltimore and will extend no one knows how far.
>
> The banks are breaking all over the country; some in a sneaking and some in an impudent manner; some with sophisticating evasions and others with the front of highwaymen. Our greatest real evil is the question between debtor and creditor, into which the banks have plunged us deeper than would have been possible without them.

Unfortunately, while Cheves restored the soundness of the Bank, he greatly over-corrected, and numerous debtors who were legitimate businessman and purchasers of land were stuck with the same fate as the speculators. Shoring up the Eastern banks with funds from the

14. It is crucial to look closely at this period of bad management, because it was later used fraudulently by the Andrew Jackson operation to attack the bank, long after Biddle had entirely corrected these errors. See Report of Mr. [John Quincy] Adams, May 14, 1832, Committee Investigation of the Bank of the United States, 22nd Congress, 1st session.

interior, and canceling loans and purchases of bills of exchange, led to a reduction of business activity and forced the state banks, which were already being pressed for payment, to do the same.

Consequently, all banknotes were kept in the vaults, and bills of exchange were almost unsalable. Trade and commerce were almost wholly suspended; confidence among people was greatly impaired; the interest of money privately borrowed was extravagantly high; few bought anything except what they could immediately sell; no reliance was placed on the collection of debts; and manufacturers were daily discharging their workmen, unable to raise money for their wages.

Mathew Carey wrote to the directors of the bank on June 28, 1819, calling on them to reverse the policy of austerity, outlining this state of affairs and its consequences. He concluded by stating, "The system pursued by your immediate predecessors, invited applications for discounts, in consequence of which immense sums were borrowed, which were invested in trade, commerce, houses, and lands. Yours is the antipode of theirs. But surely, in order to cure a plethora, arising from repletion, it cannot be necessary to starve the community to death." He signed his letter "A Friend To Public Credit."

Despite this, and similar encouragement from Biddle, Cheves firmly believed that the only way to resume issuance of notes at all branches was to hold more specie than notes issued, abandoning the idea of supplying a national currency; he even pushed for Congressional alteration of the Bank's charter from its

Biddle's Ally Mathew Carey: 'The Harmony of Interests'

Mathew Carey was a protégé of Benjamin Franklin, who emigrated to America from Ireland, under British threat because of his republican writings. In 1814, toward the end of the War of 1812, Carey published *The Olive Branch*, an appeal to patriots in both the Federalist and Democratic parties to rally to the development of the nation, and to crush the British-allied Boston Brahmins' efforts to recolonize the country for the British Empire.

Mathew Carey (1760-1839); painting by John Neagle, 1825.

The book's impact was extraordinary. Sold out soon after it hit the bookstores, by 1818, it had gone through ten editions, and became the bestselling book, other than the Bible, for decades. Federalists and Democrats used it to work together to save the country from ruin. Carey exposed not only the intent of the British invaders, but their American collaborators, such as the Lowells, the Cabots, the Pickerings, and the Peabodys.

The Olive Branch consolidated the principle of "the harmony of interests" between labor and capital, which was the focus of Carey's American System economic theory, itself based on the economics of Alexander Hamilton. He called for a political alliance of farmers, laborers, industrialists, and merchants, with their representatives in government, saying that by joining forces they could "raise profits and wages at the same time," through development of technology and the productivity of labor.

Carey's son, Henry Carey, wrote many books, including *Harmony of Interests*, and became President Abraham Lincoln's chief economic advisor.

For more information, see Roger Maduro, "The Olive Branch: How a Book Saved the Nation," *EIR*, Nov. 9, 2007 (originally published in *New Solidarity*, Aug. 26, 1983).

Hamiltonian design. Instead of its own notes, it reissued state banknotes as loans and discounts, especially in the interior regions; it was unwilling to issue its own, because it might be compelled to pay at one of many places remote from the point of issuing them, when they showed up at a different branch.

The continuance of this situation would have defeated the objective in establishing the Bank, since by declining the issue of its notes, it could not furnish the circulating medium expected of it, and by re-issuing the notes of the state banks, it surrendered its most efficient means of control over the currency, which was to keep exchange rates to a minimum by regulating the state bank currencies, and providing a national currency. It couldn't press the state banks for payment of specie for its notes, when it wasn't even issuing its own notes and was sitting on capital far beyond its currency issued. This state of affairs was fatal to the Bank's intended usefulness.

2. Biddle Restores Hamilton's System

Having served as a Bank director since the time Cheves became president, Biddle was voted in as president of the Bank in January 1823, with a different intention and background than the previous two directors. He knew the prolongation of depressed business conditions after 1820 had resulted from the needless continuation of restrictive policies of the National Bank. With a legacy of pushing for internal improvements as a state senator, promoting technological agriculture, and having fully internalized Hamilton's conception of the Bank,[15] he came in ready to enact the changes necessary to create a national currency. He had written to Secretary of War John Calhoun the month before, in December 1822:

> This unfortunate institution has from its birth been condemned to struggle with the most perplexing difficulties, yet even with all its embarrassments it has sustained the national currency and rescued the country from the domination of irresponsible banks, and their depreciated circulation. The time has perhaps arrived when it may combine its own and the country's security with a more enlarged development of its resources and a wider extension of its sphere of usefulness. To this object ... my own exertions shall be anxiously directed.

Now, as president, Biddle could introduce the system for which he'd been pushing, as a first step in remedying the situation. Biddle saw two interconnected actions as necessary, both of which he began implementing in February. One was to make the state bank currencies equivalent to specie at the places issued, which would make them effective for local purposes, require less currency, and reduce the cost of commerce to the proper value. The other was to make the Bank itself the channel of the commerce.

He permitted the interior Bank branches to issue notes as they had before 1819, rather than conduct banking second-hand with state banknotes. But instead of loaning money, he required the branches to issue them almost entirely for purchase of bills of exchange. Biddle recognized that merchants follow predictable pathways of trade, and by unifying the various business centers of the Bank branches, he could solve multiple problems at once.

The Bank's currency was issued for bills of exchange drawn on Eastern cities—i.e., issued for claims of debts owed to merchants in the Eastern cities—and would be sent to the Eastern branches of the Bank, where the bill of exchange was to mature and eventually be paid by the debtor, in coin. The notes originally issued by the Western branch to purchase a merchant's bill of exchange would eventually find their way to the East Coast, due to the high demand for funds in the payment of duties. This way, when a merchant cashed in a Western banknote to pay duties to the government, the Eastern branch would be supplied with ample coin to redeem the note from the funds built up from the collection and sale of the bills of exchange at the East Coast branches, even though the note was originally issued 1,000 miles away.[16]

The producer or shipper of produce at New Orleans,

15. For the development of Hamilton's concept of the Bank of the United States, see *NAWAPA XXI Special Report*, pp. 57-67, *op. cit.*

16. For example, the New Orleans branch would accept a bill drawn on Pennsylvania, meaning Pennsylvania would pay the debt for a merchant's transaction. The New Orleans branch would pay for the bill of exchange in banknotes. That branch would then send the bill of exchange to Pennsylvania, where it would eventually be paid for by the merchant or debtor. Eventually, the notes that were issued in New Orleans to a merchant for that bill of exchange would wind up at one of the Atlantic branches, cashed in for payment, and the Eastern branch would be able to pay, having received coin from the debtor.

A promissory note issued by the Second Bank of the United States. The creation of a uniform currency of banknotes created a dependable means of payment, replacing the hodge-podge of currencies of the various states.

in making shipments to Europe, could cash his bill on credit, drawn against such shipment, without charge for brokerage. The planter would sell to the shipper, who then had his bill of exchange discounted by a branch of the Bank, and was thus able to pay the planter without delay, and without charging the planter the interest he was charged by a broker.

The involvement of the Bank also kept exchange rates low and relatively fixed. By becoming the great purchaser of bills in the producing regions of the country, and seller in the East, the Bank prevented too great a fall in the rate of exchange in one place and too great a rise in the other, a stabilization that was only protested by the brokers and speculators, whose interest it was that the rates of exchange be low in the interior, and high at the seaboard where they were sold.

Within six months, the Bank had transformed its role; its notes were a substantial portion of the total circulation, allowing it to keep the state banks in check.[17] Since national notes were sought for interstate commerce, and since domestic and foreign taxes were often paid with state banknotes, the branches of the national Bank were often able to raise a balance in their vaults of more state banknotes than the state bank held of its own notes. When this occurred, if a state bank exceeded the requirements of the business community, it was confronted with demands for settlement in specie from the other banks and was forced to contract its circulation. This balance in favor of the Bank was a condition built into the system, and served as a chief regulatory function. By keeping the currency sound and at or near par, and the solvency of the banks having seldom to be considered in fixing the rate of exchange, business was conducted at less expense to the country.[18]

In addition to engaging a large amount of the Bank's capital in bills of exchange, Biddle also altered Cheves' practice with respect to loans. Instead of his policy of seeking long-term security in lending on the basis of company stock or real estate, which had further decreased the Bank's influence in commerce, he sought quicker loans toward production, manufacturer, and distribution of raw materials and goods.

Over the course of two years, the currency of the country had been brought under control, linked directly to the commercial exigencies of the nation, and state bank currencies were relegated to their appropriate place, relieving honest state banks from taking on a larger demand for commerce than they could support, and shutting down dishonest money-making operations.[19] The state bank presidents became some of the most ardent supporters of the Bank, under-

17. Thomas Payne Govan, *Nicholas Biddle: Nationalist and Public Banker* (Chicago: University of Chicago Press, 1959), pp. 86-87.

18. Also, the Bank's great capital, its role as government depository in transmitting funds to the places where they were to be expended, and the fact that its notes were receivable for all debts to the government and custom house bonds, contributed to the Bank's ability to keep the exchange rate relatively fixed and low. Friends of Domestic Industry, *Report on the Bank Question,* 1832, New York Convention.

19. The speculative interests and enemies of the credit system which the Bank of the United States under Biddle was facilitating, reacted immediately to his operations of 1823-24. Speculators who were owners of the shares in the Bank and controlled some of the Bank's directors, attacked Biddle for not increasing dividends, and circulated letters that he was regulating the currency at the cost of state banks, attempting to sway stockholders to vote in a new President in January 1825. The vote by the directors on the speculators' motion failed, setting into motion a speculative attack the following year, 1826, when the same group would later attempt to subject the Bank to the control of a single private interest by owning the majority of the Bank stock. They timed the operation to coincide with a debt payment of the government, when the funds of the Bank would be fully tied up. Over the course of a year beginning in 1825, Jacob Barker, a New York speculator, gained control of 14 banks and insurance companies. Biddle waited out the plan, and other such speculative attempts, by presenting any of the notes of Barker's banks for immediate redemption, knowing Barker had used the assets of his first purchase for the second bank, and used the second to buy the third, and so on, and could not withstand actual redemption ofits notes for specie, the whole scheme collapsing in fraud by the Fall of the year. This is an extreme, but precise, example of the built-in regulating capability of the issuance of state banknotes by a properly managed Bank of the United States.

standing the challenge of regulating a national currency, and glad to serve the local needs of their communities in smaller loans, while the Bank of the United States engaged in the larger regional and national trade associated with bills of exchange, the collection and distribution of government funds, as well as the creation of a far more extensive source of credit for all areas of productive enterprises (see the next section).

Congressman McDuffie described the benefits in 1830:

> It is not among its least advantages that [the currency] bears a proper relation to the real business and exchanges of the country; being issued only to those whose credit entitles them to it, increasing with the wants of the active operations of society, and diminishing, as these subside, into comparative inactivity; while it is the radical vice of all government paper to be issued without regard to the business of the community, and to be governed wholly by convenience of government.[20]

In 1828, in Richard Rush's last report as Secretary of the Treasury, he reviewed the actions of the Bank, concluding, "Under the mixed jurisdiction and powers of the state and national systems of government, a national bank is the instrument alone by which Congress can effectively regulate the currency of the nation."

Having reviewed these actions by Biddle, we now step back to view the broader characteristics of the full credit system which was being implemented.

3. The American Credit System

With the proper role of the Bank of the United States restored, and John Quincy Adams becoming President (1825-29), the period that ensued inaugurated the greatest growth yet in our history, and, in effect, a new "Declaration of Independence."[21]

The nationalist impulse for growth had been eagerly awaiting such a state of affairs with many plans growing for internal improvements but unable to take shape. Canal subscriptions had been slow, and state governments were in no position to make such long-term investments, which would be bigger than any undertaken before, and would tie up much of their surplus funds. It was only because of the new confidence of the people that the Bank was finally established and would provide a stable currency for the foreseeable future, and be a source of credit, that the new lands were then settled with such speed, manufactures with such spirit, and canal projects with such scope.

> The bank, because of the facilities which it affords in the exchanges, as well as on account of the uniformity in the currency which it establishes, is now a splendid pillar in the broad "American System;" for a large part--perhaps two-thirds of all its accommodations, in one way or another, are for the direct encouragement and extension of agriculture and the mechanic arts, the promotion of internal improvements, and erection of all sorts of buildings--dwellings and stores, and factories and workshops.... The power of this institution was once possessed by speculators--stock and money jobbers, monopolizing its means and playing into each others hands.[22]

We shall now review the relationship of the Bank of the United States to the promotion of manufactures, agriculture, and internal improvements.

The Bank and Internal Improvements

With the Hamiltonian Credit System of national banking re-established, American patriots proceeded to work with the Bank of the United States to utilize its full power and promote internal improvements for continual growth and expansion of the interior of the country, based on that credit system, opening up transportation routes for the products of the new lands.

In April 1824, President Monroe recognized the constitutional mandate for government financing of improvements of the interior regions of the country, and Congress authorized the General Survey Act of Congress, which appropriated money toward such ends. The Erie Canal was coming to completion, and other states began realizing the vast resources of their interiors, which were going to waste without being submitted to the application of labor.

Biddle, who had pushed for canals in Pennsylvania

20. Rep. George McDuffie, 1830 Congressional Committee for the Investigation of the Bank of the United States.

21. Chaitkin, *op. cit*., footnote 2.

22. *Niles' Weekly Register,* Vol. XLIII, Sept. 22, 1832.

unsuccessfully as a state senator in 1811, had succeeded in 1815 in persuading his fellow legislators to charter the Shuylkill Navigation Company, and attempted to gain support for a Chesapeake and Delaware Canal, and a canal connecting the Susquehanna to the Allegheny rivers in 1816-17. Now as president of the Bank, Biddle spoke out on internal improvements, advocating investments and loans for canals, rail, turnpikes, river navigation, and harbors.

President John Quincy Adams utilized the Bank for financing large projects, purely within the profit of the credit system itself, without borrowing money, and Biddle loaned and subscribed directly for nearly 50% of all the capital raised to construct the six major anthracite coal canals for the iron industry. Some examples of this credit financing are reviewed here.

The White House Historical Association

President John Quincy Adams utilized the Bank for financing large projects, purely within the profit of the credit system itself, without borrowing money. Painting by Gilbert Stuart, 1818.

In November 1824, Biddle joined Mathew Carey in organizing the Society for the Promotion of Internal Improvements of Pennsylvania. Throughout 1825, Biddle held the position of secretary at its meetings, where a canal convention in Pennsylvania was planned for the purpose of petitioning the legislature to provide funds for the opening of a water route from Philadelphia to Pittsburgh by connecting the Susquehanna and Allegheny rivers, and creating a system of canals throughout the state.[23] The convention took place in August 1825, and the governor signed off on the project in February 1826. The final resolution of the Canal Convention stated:

> Be It Resolved ... that the application of the resources of the State to this undertaking ought not be regarded as an expenditure, but as a most beneficial investment; for its successful execution will increase the public wealth, improve the public revenue, and greatly enlarge the ability of the State to extend her aid to every quarter where it may be wanted, and, and at the same time, will encourage industry, create circulation, extend trade and commerce, enhance the value of land, and of agricultural and mineral products, and thereby augment the means of the citizens to promote his own and the public welfare by contributions to similar works.

These various conventions converged on the determination that state governments should undertake a vast network of internal improvements. President Adams intended to promote the plans, embarking on the largest Federally financed infrastructure project in our history, planning the Chesapeake and Ohio Canal, and for the first time, subscribing to a national canal explicitly through the future profit of the directed loans of its stock in the Bank of United States.

In 1825, Congress authorized a subscription to the stock of the Chesapeake and Delaware Canal Company, stating:

> That the Secretary of the Treasury be, and he is hereby, authorized and directed to subscribe, in the name and for the use of the United States for one thousand five hundred shares of the capital stock of the Chesapeake and Delaware Canal Company , and *to pay for the same*, at such times, and in such proportions, as may be required by the said company, *out of the dividends which may grow due to the United States upon their bank stock in the Bank of the United States* [emphasis added].

In other words, the Treasury Secretary would purchase stock of the company with which it would pay its

23. As pointed out in Anton Chaitkin's article referenced earlier, William Strickland, a member of the Society who was sent to Europe to study canals and rail, moved the society in favor of rail projects. Biddle later pointed out to the association that, with coal at each end of the state and iron in the middle, the expense of building and operating the steam wagon would not be very great. "Once established it would inevitably bring western trade through the heart of PA to its commercial capital."

workers, with credit based on the future profit of the Bank of the United States. In addition, during 1826-28, the Bank[24] directly loaned the company $1 million in four installments.[25]

In his Dec. 6, 1825 State of the Union speech, Adams announced this subscription and also the completed surveys for "a canal from the Chesapeake Bay to the Ohio River," which would be the largest Federally sponsored internal improvement up to that time.

Eight days later, Charles Carroll and Hezekiah Niles pushed the state of Maryland toward this goal, holding the State Convention on Internal Improvements on Dec. 14, 1825, at which the main topic was the Chesapeake and Ohio Canal. Carroll—signer of the Declaration of Independence, and co-founder of the first and second banks of the United States—presided over the convention, and became one of the directors of the Chesapeake and Ohio Canal. Their analysis showed, as in Pennsylvania, that taking a loan for the principal and interest for a few years would generate, almost immediately, through agricultural production and coal shipped along the canal, more than enough to pay the interest on the loan, from increasing land values, exports, and the increased productivity of the population. "From such a population," they wrote, "engaged in all the pursuits of agriculture commerce and manufactures, no revenue that can ever be required for the support and maintenance of the laws; the establishment and extension of public works; or, what is of still more importance, a well organized system of education, which shall ensure to all her children the lights of knowledge, can ever be oppressive or burdensome."

President Adams wrote in his memoirs, June 1826: "General Bernard told me that the Board of Engineers this morning completed their report upon the Chesapeake and Ohio Canal. He also mentioned the vote in the House of Representatives this day for the passage to the third reading of a bill authorizing the subscription of one million of dollars in five annual installments to the stock of the Chesapeake and Ohio Canal. It passed by the unexpected majority of forty-four votes, and was very gratifying to the inhabitants of the District."[26]

The Maryland Historical Society

Charles Carroll (1737-1832) was a co-founder of both the first and second Banks of the United States, and was one of the directors of the Chesapeake & Ohio Canal. Painting by Michael Laty.

Congress also authorized the Secretary of the Treasury to make a subscription to the canal company's stock: "Be it enacted by the Senate and House of Representatives....That the Secretary of the Treasury be, and he is hereby, authorized and directed to subscribe, in the name and for the use of the United States, for ten thousand shares of the capital stock of the Chesapeake and Ohio Canal Company, and to pay for the same, at such times, and in such proportions, as shall be required

24. On Oct. 17, 1828, after the Bank of the United States loaned $1 million to complete the canal between 1826 and 1828, Biddle gave an address on the Chesapeake and Delaware Canal. He saw this section of the intracoastal waterway as a strategic block against foreign enemies, so that never again could the blockading fleets of a hostile power prevent the internal movement of troops and supplies. He described the general effect of the improvements and how local interests would be best served by promoting the interest of the others. "In truth every mile of the railroad westward, every section of a canal in the remotest part of the Union, is serviceable to all the American cities. They add to the movement and the mass of the nation's wealth and industry; they develop its resources; and the share of these advantages which each can obtain is a fit subject of generous competition, not of querulous rivalry."

25. "Million Dollar Club" http://www.neversinkmuseum.org/articles.html

26. Later, in 1828, Adams wrote: "Mr. Rush came to speak of putting into operation the Chesapeake and Ohio Canal. He subscribed last week for a million of dollars of the stock for the United States, and has been urging the Mayors of Washington and Georgetown to make preparations immediately for commencing the work."

U.S. Army Corps of Engineers

Results of the program of internal improvements included the Chesapeake & Delaware Canal (shown as it looks today), which was financed in part with a $1 million loan from the Bank of the United States.

The six major canal companies which were chartered in the 1820s, and which created the great canal systems, were run by private individuals, but the Bank of the United States, state banks, the Federal government, and the state governments were among the subscribers to its stock. The managers of the canal were constrained to operate it in the public interest, not with the sole purpose of profit, and the politicians could not use it as a source of patronage to increase their personal or party power.

of and paid by the stockholders, generally, by the rules and regulations of the company, out of the dividends which may accrue to the United States upon their bank stock in the bank of the United States."

On July 4, 1828, John Quincy Adams dedicated the C&O canal,[27] giving his famous address: "It is one of the happiest characteristics in the principle of internal improvement, that the success of one great enterprise, instead of counteracting, gives assistance to the execution of another."

Other canals reflected the efforts of the same network of collaborators and participation of the Bank. The Lehigh River Canal, completed in 1829, was financed by Ebenezer Hazard (a political operative of Mathew Carey), and by the Bank of the United States. Philip Hone, a political lieutenant to Clay and Biddle, who was elected mayor of New York in 1825, built the Delaware and Hudson Canal, from northeast Pennsylvania into New York City; this was financed by the State of New York, the Bank of the United States, and by Hone's merchant friends.[28]

The American Exception

The credit system of the 1820s and '30s was a uniquely American invention and uniquely a product of the government's regulation of the currency, to channel all the available surpluses from the productive economy into an increased availability to generate more productive surpluses, through the means of the National Bank.

The most fundamental concept of a credit system is the operation of a physical system on the basis of the future productive wealth to be generated by that system, which will exceed the physical capital initially invested into that system. The credit system meant that any citizen could compete with a wealthy capitalist; that it was the right of anyone with a spirit of enterprise to receive the means to increase productivity.

In settling and cultivating new lands, families that lacked stores of gold or stock in companies, took with them little more than their clothing, furniture, agricultural implements, and a small herd of cattle. In a few years, the fertility of the soil enabled them to send a

27. That same day, a groundbreaking ceremony took place for the Baltimore and Ohio Railroad, for which Charles Carroll, the last remaining signer of the Declaration of Independence, then 92 years old, laid the cornerstone.

28. In 1830, the Bank of the United States loaned $250,000 to the Delaware and Raritan Canal. In the Spring of 1832, records show "loans on other stocks" were roughly $1.2 million each month January through April to various canal companies. In April 1832 alone, the Bank loaned and purchased shares of stock to multiple canal and rail companies: Union Canal $160,000, Schuylkill Canal $130,000, Chesapeake & Delaware $300,000, Lehigh $340,000, Delaware and Hudson Canal $110,000, Delaware and Raritan Canal $100,000. In 1831, the Erie Rail Road Co. was chartered under the title of Little Schuylkill and Susquehanna Railroad Company. Little was done on the railroad until 1836, when the United States Bank subscribed for $250,000, encouraging others as well, and enabled the company to commence construction. That same year, Biddle was president of the Erie Railroad Convention.

surplus of agricultural produce to exchange for European-manufactured products at the stores of the country traders in the nearest towns; these traders in turn transmitted the produce to the seacoast, for consumption in the more thickly settled portions of the country, or for export. While generating this new wealth, these various classes obtained the necessaries of life to a great extent from the merchants in the interior, on credit founded on the expected returns of their industry, whether in a few months for the tradesman, a year for the manufacturer, or when the farmer's crops are sold.

> Active trade is kept between seaports and interior, and those in the interior stand in need of various articles, which for many years they require on credit to be paid for from the next year's harvest, it follows that the interior is invariably in debt to the merchants on the sea board. *These debts they are enabled to discharge by their cultivation and the advance of prosperity in the improvement of the country; and contrary to a received maxim in other countries, they grow rich although they continue in debt:* that is, they are constantly augmenting the value of their farms, and each year they are enabled to enjoy some additional comfort or luxury, which they do not hesitate to purchase on credit, because they are in general certain of being better able to pay for it before the lapse of another year [emphasis added].[29]

They were able to purchase on credit, because of the operations of the Bank of the United States, which guaranteed payments for goods and wages for laborers, or made loans of banknotes available.

Congressman Charles Barnitz of Pennsylvania declared in 1834:

> The merchant in the country obtains his credit to the usual amount from the merchant in the city, and he in turn has his accommodations from the United States Bank, the great center and source of the active capital of the country. Thus the accommodation and credit originally obtained from the bank is extended from the one to the other, in a beneficial course, until it reaches, in some useful degree, to every workshop and every cottage; and those acquainted with the operations of business, know that these benefits have been extensively enjoyed, although, in a manner silent and imperceptible, until a derangement of the course made us to feel and to perceive the injurious cause.[30]

The credit system was the system of transactions outside of the immediate exchange of goods. Credit and money are not comparable; money is a direct conversion of goods, whereas credit lies outside the goods, and was the means to avoid such push-and-pull mechanisms. The Bank coordinated and balanced the debts and credits between the parties involved, allowing payment for commodities to be separated from the immediate transaction at hand. Debts would be set off from payment until, with the passage of time, various other debts and credits had arrived in the Bank and its branches with which to settle the transactions. The role of the branches of the National Bank, in taking such a great role in the domestic and foreign exchange market, was to coordinate these debts and credits with the least expense and greatest facility for the whole economy, as well as to provide loans directly. Numerous transactions to settle debts, such as bills of exchange between branches, were handled so as not to involve any gold and silver in the operations, allowing the rest of the capital generated to be absorbed into further productive growth.

Biddle's statement, in a letter to John Quincy Adams, rings clear: "In truth the banks are but the mere agents of [the] community. They have no funds not already lent out to the people, of whose property and industry they are the representatives. They are only other names for the farms, the commerce, the factories, and the internal improvements of the country...."[31] The Bank of the United States was a means through which the powers of government and production operated.

Michel Chevalier, a Frenchman touring the United States in 1834, made a number of observations on the uniqueness of the situation created by the Bank of the United States from 1823 to 1834, in contrast to Europe, and France in particular:

29. "The Bank Question, Report on the Currency," by a Committee of the New York Convention of the Friends for Domestic Industry, *The American Quarterly Review Vol. XI, March & June 1832.*

30. Rep. Charles Barnitz May 19, 1834, House of Representatives, Speech on the Removal of the Deposits from the Bank of the United States.

31. Letter to John Quincy Adams on the Specie Circular April 5, 1838.

The great extension of credit, which resulted from the great number of banks, and from the absence of all restraint on their proceedings, has been beneficial to all classes, to the farmers and mechanics not less than to the merchants. The banks have served the Americans as a lever to transfer to their soil, to the general profit, the agriculture and manufactures of Europe, and to cover their country with roads, canals, factories, schools, churches, and, in a word, with every thing that goes to make up civilization. Without the banks, the cultivator could not have had the first advances, nor the implements necessary for the cultivation of his farm.... The credit system has ... also enabled him, although indirectly, to buy at the rate of one, two, or three dollars an acre, and to cultivate lands, which are now, in his hands, worth tenfold or a hundred fold their first cost. The mechanics ... owe to it that growth of manufacturing industry, which has raised their wages from one dollar to two dollars a day.... [I]t furnishes the means by which many of their number raise themselves to competence or wealth; for in this country every enterprising man, of a respectable character, is sure of obtaining credit, and thenceforth his fortune depends upon his own exertions.[32]

Frenchman Michel Chevalier (1806-79) visited the United States in 1834-36, and liked what he saw. He wrote: "A metallic currency, has, in our [European] notions, a superiority to any other representative of value, which to an American . . . is quite incomprehensible; to our peasants, it is the object of a mysterious feeling, a real worship; and, in this respect we are all of us more or less peasants."

It was only through this system that the opening of new lands became possible, to the extent that was carried out. With this system of credit, any free man inspired with the spirit of invention, would not be inspired in vain. Chevalier pointed out that this was not the case in Europe, where manufacturers, smiths, masons, canal engineers, et al., who possessed the capital needed to construct a project for their community, that is, the necessary labor, skill, and workforce, etc., kept their designs on paper, since they had *no means of raising on their lands and houses the ready money to serve as currency between the commodities to be exchanged*.[33]

Without the Bank, the tradesman was unable to sell his wares, the laborer was unable to use his hands, and the canal engineer unable to pay his workers, and this was exactly the case in most places in Europe at the time, which lacked this system of credit. Nearly all such projects and industrial growth that required large investments, stood idle, since only those with large stores of wealth had the ability to undertake them.

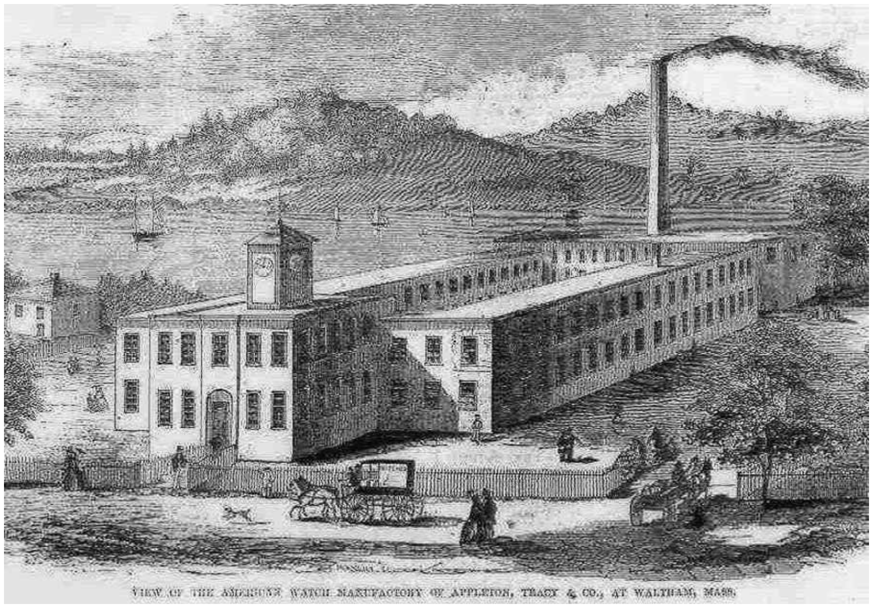
Loaning on interest was the proper use of surplus capital for those who would generate wealth far beyond the original use of the capital. In Europe, noblemen were generally unwilling to lend their capital for productive use, and tended to accumulate it as stores of metal currency; but in America, anyone who wanted to get a loan was able to be industrious.

It was never the intention of equal rights, that the man qualified for commercial pursuits should not embark in them on capital obtained for an equivalent interest secured to the lender. It was never designed that the man of skill in the manufacturing arts should not have that scope given to his enterprise and usefulness which a confidence established between him and the money lender is so well calculated to carry out into the community; nor was it ever contemplated that the farmer, who stands first in the important train of interests ... should not strive to become the owner of the soil he cultivates by a purchase

32. Michel Chevalier, *Society, Manners and Politics in the United States: Being a Series of Letters on North America, 1834-1836.* (Boston: Weeks, Jordan and Company, 1839).

33. *Ibid.*

upon credit, depending upon the products of his labors to discharge the debt. It was never designed by the laws which regulate and protect the rights of well ordered communities that none but capitalists should engage in the active pursuits of civilized life.[34]



It is the ability to engage in long-term investments for industry, infrastructure, and agriculture, on the basis of their future completion, which determines whether an economy is operating under a credit system—not what is exchanging hands. Shown is a 19th-Century watch factory in Waltham, Mass.

The success and possibility of this system of credit was based on the confidence of man in his fellow man which existed in America, and particularly so, once the government had made proper use of its powers. "Conscious of the ability to meet his own engagements, each was willing to repose confidence in those of his neighbor; and that confidence had been so fully and honorably redeemed as to have given to credit a firmness and extent which threw wide open to industry and enterprise the avenues to competence and wealth."[35] Since good conduct of a worker could ensure his ability to obtain the aid of capital, rendering his labor more productive and his condition improved, there was an increasingly large number of incentives for Americans to apply their property productively and accumulate real wealth. The tendency to moral improvement increased, while interest for borrowing capital decreased.

The situation opened up by this established system of credit led to the greatest prosperity throughout the Union in its history:

> That enterprise had encouraged industry; competence had rewarded labor; commerce had carried our produce to a ready, profitable, and fair market; and mutual confidence had extended, without weakening credit; that the constant occupation given to our mechanical and laboring classes, and ready payments made to them, had enabled them, equally with the more wealthy, to obtain those articles necessary to their wants or their comfort, which our commercial intercourse with the largest cities in our Union had introduced amongst us.[36]

Chevalier pointed out that this confidence and security made the difference in Europe:

> In France ... it would be difficult to teach them to look upon a scrap of paper, although redeemable at sight with coin, as equivalent to the metals. A metallic currency, has, in our notions, a superiority to any other representative of value, which to an American ... is quite incomprehensible; to our peasants, it is the object of a mysterious feeling, a real worship; and, in this respect we are all of us more or less peasants.
>
> The Americans, on the other hand, have a firm faith in paper; and it is not a blind faith.... [T]hey have had their continental money, and they need not go far back in their history to find

34. Senate Documents. Submitted by 253 citizens of Northumberland County, Pa., "For the restoration of the Deposits, and renewal of the charter of the Bank of the United States." May 1, 1834.

35. Senate Documents, 23d Congress, 1st Session, Submitted by a group of citizens of Essex County, N.J. "Against the removal of the Deposits, and in favor of the recharter of the Bank of the United States." May, 13, 1834.

36. Senate Documents, 23d Congress, 1st Session. Submitted by a group of the People of Bristol County, Rhode Island, "For the restoration of the Deposits, and recharter of the Bank of the United States," March 29, 1834.

> a record of the failure of the banks in a body. Their confidence is founded in reason, their courage is a matter of reflexion.... [I]t will be a long time before we shall be in a condition, in France, to enjoy such a system of credit as exists in the United States or England; in this respect we are yet in a state of barbarism....[37]

The ability to have an entire economy operating on the basis of accepting future payment for productive investment was, and still is, revolutionary. It allowed an increasingly large amount of surplus productivity to be immediately absorbed into further productive investment, because the continued development of the Hamiltonian credit system[38] viewed the currency as a constitutional responsibility of government to facilitate the spirit of enterprise and scientific ingenuity. With an established capability to direct and coordinate interactions of productive growth based on the credit of their completion, nearly any valid enterprise was facilitated through the credit of the Bank of the United States, in coordination with the state and Federal governments, provided it was within the means of the regulated currency. As more agricultural land was developed, as more manufacturing facilities became established, and as more transportation networks for produce and coal for manufacturing facilities were completed, the number of banknotes that could safely be put into circulation increased in proportion, doubling and tripling over that decade.

It is the ability to engage and embark on long-term investments on the basis of their future completion which determines whether an economy is operating under a credit system—not what is exchanging hands. By removing the credit system, Americans suffered, and must always suffer, a sick irony: that with a banner of equal rights waving over our heads, the demand to pay on the basis of existing or past wealth imprisons enterprise, and disables the ability of a person to increase the power of his labor.

Beating the Monetary System

Various regulations were taken to protect the domestic economy, based increasingly on this credit system, from the influence of speculation, which continuously threatened the delicate structure of future payment. The process of growth described in 1823-32 was only made possible by constantly regulating and maintaining the financial system within the time scale of the credit system, and preventing the old European money system from introducing its destructive rules, which insist on immediate payment in cash, into the American system.

As stated above, while the currency was fixed to specie in order to give it uniform value, and trade deficits were settled with specie, it was possible to engage in most transactions internally, on the basis on future productivity, credit, and not metal, since most transactions were in fact of such a nature. On the other hand, trade deficits with foreign nations were settled and arranged on the basis of specie, and therefore, foreign merchants had to be paid in coin, not banknotes. This necessity further underscored the importance of operating domestically on a credit system, since all of the coin that would otherwise be locked up for interior circulation would be released for foreign trade. However, if an overabundance of such payments occurred, it would cause shocks to the internal currency, since a removal of coin from banks had a multiplier effect on credit, reducing the total amount of safe lending by banks.

Biddle described the regulation capability in an essay in 1828, paraphrased here:

The increase of too many banknotes increases the prices of domestic goods. While foreigners see a market for their goods in these conditions, they do not take home an equal amount due to the increased price of our goods. This trade deficit must settled by coin, and soon the specie reserves in the Bank become too little to support excessive paper issues and the banks fail. To prevent failure, the Bank could therefore prevent merchants from borrowing coin to purchase foreign goods, when sensing a drain on specie. When the regulated banking system can curtail loans, domestic goods now fall in price, with fewer notes in the hands of merchants. Debtors now want the scarce notes, and therefore sell goods ever cheaper to obtain them. Foreigners export no more because of the cheap prices for which they would have to sell their goods, money being scarce, and Americans import no more since the market for foreign goods becomes poor. The remaining coin within the country seeks cheaper domestic goods instead, and foreigners find it more worthwhile to return the coin they took away by purchasing domestic goods. The coin will then stay until a superabundance of paper occurs

37. Chevalier, *op. cit.*
38. See *NAWAPA XXI Special Report*, *op. cit.,* pp. 57-67.

again.[39] Time is thus gained until the arrival of the internal Southern exchange market, which will supply the demand without the aid of coin, and then everything resumes its accustomed course.

We will now detail this and other important regulatory functions which Biddle performed as president of the Bank, and then comment on the central feature of his method.

Biddle coordinated payments of war debt so as to avoid a mass of funds being taken out of circulation all at once on the anticipated dates, by inviting creditors to borrow money ahead of time, gradually, protecting the economy from losing its customary credit facilities due to a mass of government funds being unavailable for lending.[40]

The British monetarist system at work: William Hogarth's "The Flood Debtors' Prison," from "A Rake's Progress," ca. 1733. The 1825 London banking collapse and panic would have spread to the U.S., had it not been for Biddle's Bank.

In 1825-26, even in the midst of a government debt payment, Biddle protected the American economy from one of the greatest speculative waves of the century, centered in London, by taking measures to prevent all branches of the Bank from engaging in the excessive lending, beyond the actual needs of the economy, and keeping the Bank in a position to prevent a bank panic due to occurrences on the London market. When all state banks had closed their doors and a general panic was threatening the country, his Bank prevented interstate specie drains by coordinating through its branches, initiating a gradual supply of credit, even though 104 banks closed in London, and companies were going bankrupt throughout Latin America. The Bank remained sound, since its primary motive was convenience and stability for the economy as a whole.[41]

The Bank's regulation capability prevented an internal collapse of the economy in the Winter of 1827-28. A flood of imports, combined with a collapse of American exports, created a perfect storm for the export of specie, as American planters were not supplying funds to purchase bills of exchange for imports, which continued to

39. Biddle, "Essay on Banking," April 1828.

40. "In large payments of the principal of the debt ... it avoids the inconvenience of too great an accumulation of money in the vaults of deposit used by the Government, and of the vacuum that would succeed its too sudden distribution. It does this by anticipating, as the periods of payment approach, the disbursement of a considerable portion of the stock, in the form of discounts in favor of those who are to be paid off; thereby enabling them otherwise to employ their capital, as opportunities may offer, beforehand. In this manner heavy payments of the debt are ... made gradually, instead of the whole mass being thrown at once upon the money market, which might produce injurious shocks. So prudently this, and other respects, does the bank aid in the operation of paying off the debt, that the community hardly has a consciousness that it is going on." —Secretary Treasury Richard Rush, Report of the Treasury, 1828.

41. Another key function Biddle initiated that year was to prevent a drain of specie contributing to the ability to weather the global storm. Instead of allowing an annual shock to the economy when merchants trading with China and India would pull a large amount of specie from the banks to trade with, Biddle sold bills of exchange drawn on London, as payment instead, which were equally or even more valuable in the Pacific than specie; the merchants had debts there to settle, which could be done faster this way through American ship-owners, than by sending coin."This advantage the bank has secured to the community by confining within prudent limits its issues of paper, whereby a restraint has been imposed upon excessive importations, which are thus kept more within the true wants and capacity of the country. Sometimes judiciously varying its course, it enlarges its issues, to relieve scarcity, as under the disastrous speculations of 1825." —Treasury Secretary Richard Rush, 1828.

increase. This crisis, if allowed to "correct" itself, would have been a mirror of London's 1825 banking collapse. Biddle declined loans to brokers who were exporting specie, and sold assets to collect state banknotes, which decreased, but didn't prevent, the speculative frenzy for imported goods. He then slowly brought tax payments into the Bank's branches in the form of state banknotes, and immediately demanded specie from the state banks, until the pressure to reduce their loans reined them in.

During every period of strain and pressure, in these and similar situations of correction and intervention by the Bank, time was the essential factor, since every merchant, banker, and producer operated on credit; what was crucial was to provide the time for adjustment, to keep all assets active in long-term investment and growth, not sitting idle in banks or in Treasury Department boxes.

No one could call in debts and pay for goods that had not yet been produced, without reducing the power of the economy, not because real capital doesn't exist among the merchants in a credit system, but because the operation of the internal economy based on a credit system increasingly invests its surplus in the active capital of technological and productive progress, and cannot turn this active capital into the demanded payment of gold and silver, which the monetary system imposes. *Valid debts are never immediately collectible in a credit system, as they only present themselves as a continual stream of benefit in the progress of wealth creation, never an object of money.*

Biddle's principle was to maintain the economy's operations within the credit system, rather than dipping into the money system for metallic currency; he prevented the use of coin except to balance trade deficits (and even then, as little as possible). Thus, the domestic economy was able to grow in relation to its productive power, on credit, rather than by artificial controls. By these means, he was able to protect the credit system, upon which an increasingly number of all transactions were based, as the freedom and security of a person's property was more and more established, and as confidence in one's neighbor and government increased.

The government used the Bank of the United States to protect the real economy from the speculative markets, unlike what would occur in the great crash of 1837, the final effect of the Jackson Administration's numerous measures to destroy the credit system.

Conclusion: The People's Bank

Within a few years of Biddle's reorganization of the Bank, the confidence of the people that the Bank of the United States would now be the dependable means for economic investment, gave the impetus to enterprise which led to the great expansion of canals and industries, encouraging thousands of industrious, honest, and capable men to commence operations as merchants, manufacturers, and farmers, without sufficient capital at the outset to support their enterprise, leaning for aid upon the credit system. They were fully invested into that future investment system.

With Jackson's attempted replacement of the credit system with a pure metallic money system, the entire class of citizens who depended on credit--the poorest, yet most enterprising, farmers, manufacturers, and masons--were crushed, while the citizens of the states already bearing a tax for the internal improvements had ripped from their hands the vision of the future. Van Buren mocked the nation as President, in the midst of the intentional contraction of the economy by *50%,* following Jackson's actions with respect to the Bank and currency, saying to the people and state governments, that they were in debt because they had spent too much money, and must now live within their means; that the collapse was due to interference in the "free market" by the Bank of the United States, and remnants of a currency not solely of gold and silver.

Biddle and others attempted in vain, though righteously, to continue the facilities provided by the credit system without the government's role, preventing a complete contraction of the economy through the continued operations of Biddle's United States Bank of Pennsylvania, and nearly single-handedly aiding the states in completing canals and building railroads. The American attempt to break free from the monetary system of the British Empire, by defeating it in a foreign-exchange war, was thwarted by the destruction of the Bank, and in the years after, specie was sucked out of the country into England. The United States reverted to near-colonial status, until Lincoln's forces, those patriots waiting in the wings, struck forward with an approximation of the system implemented under President John Quincy Adams, Nicholas Biddle, Mathew Carey, and others.

The credit system is a system of commerce in which the intention and confidence in *the future* is the medium of exchange, rather than the past production, or stores of wealth built up. It is a system where growth itself is

This cartoon, captioned "Let every one take care of himself," attacks President Jackson's plan to distribute Treasury funds, formerly kept in the Bank of the United States, among "branch banks" in the states. Jackson appears as a jackass, "dancing among the Chickens" (the branch banks), to the alarm of the hen "U.S. Bank." Other political figures of the time look on, including Martin Van Buren, the fox at the lower right.

the currency, not the products of growth. The merchants may be exchanging the same goods that they would be with a hard-money system, but the saving is made possible by a nationwide regulation system and government control, which makes all the transactions on credit possible. Without the regulation and national Banking structure, growth on credit and long-term investment is not possible. Without the regulated exchange rates which the Bank of the United States created through its national power, there was no long-term assurance in investment, and all transactions accomplished by the various private and local substitutes served as, in effect, a large tax upon all sectors of the economy.

The credit system makes possible not merely more output, but more of higher quality, and allows an economy to be commensurable with the spirit of man, the spirit of enterprise; to be related to moral incentive.

In addition to a re-establishment of a Bank of the United States, what is needed today is for a group of statesmen in industry, agriculture, science, and technology to be the main drivers and directors of branches of a national banking system; men and women of the fiber of Mathew Carey, Nicholas Biddle, and Charles Carroll, who have a vision of what the country and world should look like, and who work with their associates in government and business to invest the nation's and the world's resources to that end.

Such a team of statesmen must immediately move to replace the bankrupt and rotten financial system with the American System of Public Credit, beginning with a wipeout of the vast derivatives bubble, through the implementation of Glass-Steagall, a derivatives bubble whose creation was as much a violation of the Constitution as that which usurped the Congress's control of the currency in 1811-16, or the treasonous destruction of the Bank by Jackson in 1832-36.