Part 2: John Quincy Adams and Internal Improvements

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by Michael Kirsch

"If the individual capital of this country has become more adequate to the exigencies than formerly, it is because individuals have found new resources in the public credit—in the funds to which that has given value and activity. Let public credit be prostrated, and the deficiency will be greater than before. Public and private credit are closely allied, if not inseparable. There is, perhaps, no example of the one being in a flourishing, where the other was in a bad state. A shock to public credit would, therefore, not only take away the additional means which it has furnished, but by the derangements, disorders, distrusts, and false principles which it would engender and disseminate, would diminish the antecedent resources of private credit."

— Alexander Hamilton, 1795 Report On Public Credit.

The years between the expiration of the First Bank's charter in 1811, and the founding of the Second Bank of the United States in 1816, saw a predictable return to monetary confusion. The circulating medium of much of the country was once again, as during the revolutionary war, depreciated and lacked uniformity, confusing all public and private interests. Fluctuating paper currencies burdened commercial exchanges between states and counties, and crippled the government's ability to transfer funds to areas of need without great difficulty.

Multiple proposals to charter a Second National Bank were made after the war, with Madison vetoing the first plan as inadequate. A second plan was written, this time with a charter almost identical to Hamilton's first Bank of the United States, and was signed by Madison and became law in 1816.

By 1831, the bank directors would report, "*This circulation is in all respect equal and in most respects superior in value to any metallic currency of the same amount. Indeed, there is not now, and probably never has been, in any other extensive country, a paper currency comparable in its union of all the qualities of a good circulating medium—perfect security—easy convertibility into the metals—and general uniformity of value. The notes of the bank, moreover, not only afford a sound currency themselves, but they sustain and purify the much larger mass of circulating medium into which they are infused.*"[7] They likewise reported that there had never been a period where the interior trade of the United States was transacted with more economy and convenience.

These developments with the Second Bank of the United States were inseparable from, and vital for, the policy of internal improvements, headed up by John Quincy Adams. Before the 1820s the United States had no railroads, no canals (though the Erie Canal was slowly being built, with primitive methods), an insignificant iron industry, no modern factories to speak of, no industrial steam power, no metal machines operating in production facilities, and virtually no public schools.

Two-term U.S. President John Quincy Adams.

In 1824, House of Representatives Speaker Henry Clay put through the first effective protective tariff law, and the General Survey Act authorizing the use of Army personnel to aid in civil engineering projects. The wealthiest Americans, the Massachusetts elite merchants, had made their money from participation in Britain's slave trade and opium trafficking, and from importing British manufactures. They looked with scorn on productive industry in general, and they would not risk money building railroads. *Virtually all U.S. railroad construction was of necessity sponsored by government, involving cooperation at the federal, state, and local levels.*

President John Q. Adams assigned West Point's Army engineers to plan the route for America's first successful commercial railroad, the Baltimore & Ohio, privately owned. The enterprise was financed by the city of Baltimore and the state of Maryland, whose stock purchases and loans brought

timid private investors in as partners.

In all, 61 railroads were designed by U.S. Army engineers, until a free-trade-crazed Congress in 1837outlawed the use of Army engineers for railroad planning. Meanwhile, states, counties, and cities invested massive sums to connect themselves to the rail grid.

State and local authorities organized and chartered private railroad corporations, as well as state-owned canals, and usually issued bonds to subsidize or entirely pay for the enterprises, both private and public alike.[8] The Bank of the United States directed the marketing of these bonds. State governments built the canals that opened up the Midwest to settlement, using Federal land and money grants.

A state-funded $13 million system of canals entirely within Pennsylvania was started in the 1820s, the largest public works project yet undertaken anywhere, with a total mileage twice that of the Erie Canal. This system was devoted to the movement of coal, the mining of which was organized by the political nationalists. Anthracite coal production rose from zero in 1819 to a million tons per year within two decades.

In 1820, the U.S. manufacture of pig iron (metal output from smelting iron ore) was 20,000 tons, about what it had been in the eighteenth-century colonial days. There was a mild positive effect from the weak 1821 tariff law. The 1824, 1828, and 1842 tariff laws sharply increased protection against British imported iron, and U.S. manufacturers immediately organized new production facilities in response to these changes in the law. The effects of these nationalist tariffs can be read most clearly in the record of the U.S. iron industry.[9]

As soon as the tariffs were lowered, in 1833 and again in 1847, new enterprises stopped being set up, and existing businesses contracted or folded. Pig iron production rose from 61,250 tons in 1823, to 130,000 tons in 1828, to 200,000 tons in 1832. After the tariff was lowered, pig iron output rose and fell erratically, and was only 230,000 tons in 1842, when Clay was able to put through a sharply higher tariff. Iron output rose immediately, reaching 800,000 tons in 1847. Then, the Boston merchants and slave owners freetrade alliance reduced the tariff again, and U.S. annual iron production stagnated until the Civil War.

The use of Hamilton's powers of Congress in applying duties and bounties, in the implied Congressional power to use a National Bank as the means to effect the most desired medium for the collection of taxes and regulation of commerce, and the power to provide for the common defence and general welfare in the promotion of internal improvements, were the actions taken by the United States under the leadership of John Quincy Adams in the 1820's and 1830's. This period of progress would define the character of patriots for the rest of the century.

Tariff Rates & Iron Production 1821-1851

Figures shown for every third year

Year	Tariff Rate (%)	Iron Production (Tons)
1821	36.0	34,000
1824	37.5	75,000
1827	41.4	116,000
1830	48.9	165,000
1833	32.0	214,000
1836	31.7	258,000
1839	29.9	301,000
1842	24.0	230,000
1845	32.6	631,000
1848	25.0	800,000
1851	25.4	532,000

Sources: Tariff rates & Iron Production from Fred J Guetter & Albert McKinley, Statistical Tables Relating to the Economic Growth of the United States. (Philadelphia: McKinley Publish Co., 1924).

Part 3: Abraham Lincoln and National Banking

Lincoln's economic policies from early on were on the side of Alexander Hamilton and John Quincy Adams. In 1832, while running for the Illinois legislature, Lincoln was asked to make a speech, and responded with the following short remarks:

"I presume you all know who I am. I am humble Abraham Lincoln. My politics are short and sweet, like the old woman's dance. I am in favour of a national bank, the internal improvement system, and a high protective tariff."

The success of the National Bank when supported by an active use of Executive and Congressional powers posed a great threat to London's control of world trade, and was attacked by Wall Street banks, through the Wall Street run Andrew Jackson Presidency, leading to the take down of the Second National Bank.[10]

The effect of the take down of the national banking system began before its charter ran out, starting with Jackson's usurpation of legislative power in removing the Second Bank of the United States' deposits of public monies in 1834. This initiated the devastating effects to the economy which John Quincy Adams had warned of in a suppressed speech to Congress on April 12th, 1834, regarding this unconstitutional Presidential dictat[11]. Jackson's controllers then sought to ban all bank notes as accepted funds, and limit transactions to gold and silver.

Years later, when the charter of the Second National Bank ran out in 1836, a massive contraction of the whole economy occurred, seizing up the entire banking system. One of Wall Street's responses to the crisis was to formalize the regulated contraction of the power of the U.S. Treasury, by banning all deposits of public money in banks until time for their distribution as payments. This was known as the Sub-treasury system.

Lincoln responded to this on December 27th 1839, detailing his thoughts on the National Bank, of which only an excerpt is included here:

"Of the Sub-Treasury then, as contrasted with a National Bank... I lay down the following propositions, to wit; 1) It will injuriously affect the community by its operation on the circulating medium... (2) It will be a more expensive fiscal agent, (3) It will be a less secure depository of the public money.

"To show the truth of the first proposition, let us take a short review of our condition under the operation of a National Bank. It was the depository of the public revenues. Between the collection of those revenues and the disbursements of them by the government, the Bank was permitted to, and did actually loan them out to individuals, and hence the large amount of money annually collected for revenue purposes, which by any other plan would have been idle a great portion of time, was kept almost constantly in circulation. Any person who will reflect, that money is only valuable while in circulation, will readily perceive, that any device which will keep the government revenues, in constant circulation, instead of being locked up in idleness, is no inconsiderable advantage.

"By the Sub-Treasury, the revenue is to be collected, and kept in iron boxes until the government wants it for disbursement; thus robbing the people of the use of it, while the government does not itself need it, and while the money is performing no nobler office than that of rusting in iron boxes. The natural effect of this change of policy, every one will

Abraham Lincoln. "I am in favour of a national bank..."

*see, is to **reduce** the quantity of money in circulation.*

*"...We do not pretend, that a National Bank can establish and maintain a sound and uniform state of currency in the country, in **spite** of the National Government; but we do say, that it has established and maintained such a currency, and can do so again, by the **aid** of that Government; and we further say, that no duty is more imperative on that Government, than the duty it owes the people, of furnishing them a sound and uniform currency.*

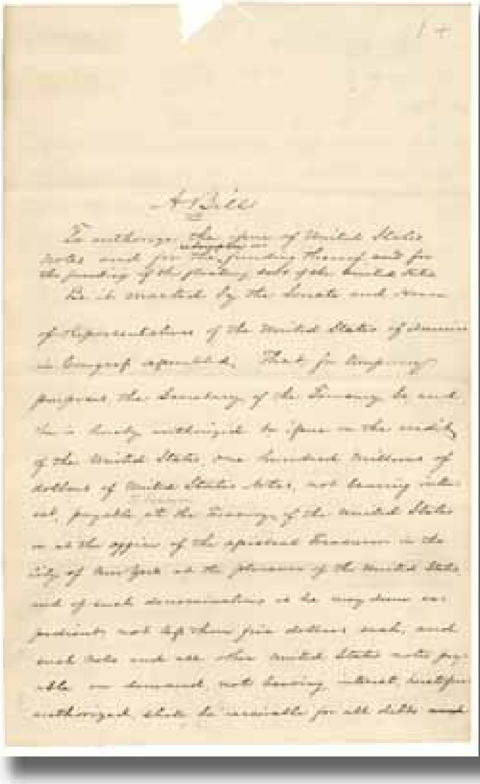
*"...We...do not say...to maintain our proposition, that Bank officers are more honest than Government officers, selected by the same rule. What we do say, is, that the **interest** of the Sub-Treasurer is **against his duty**—while the **interest** of the Bank is **on the side of its duty**... And who that knows anything of human nature, doubts that, in many instances, interest will prevail over duty, and that the Sub-Treasurer will prefer opulent knavery in a foreign land, to honest poverty at home? But how different is it with a Bank. Besides the Government money deposited with it, it is doing business upon a large capital of its own. If it proves faithful to the Government, it continues its business; if unfaithful, it forfeits its charter, breaks up its business, and thereby loses more than all it can make by seizing upon the Government funds in its possession. Its interest, therefore, is on the side of its duty—is to be faithful to the Government, and consequently, even the dishonest amongst its managers, have no temptation to be faithless to it."*

Proof enough of the crime in removing the Bank was seen in the disintegration of the national currency in the years following its demise, and by the time Lincoln became President, there were seven thousand separate kinds of currency in circulation, strangling the power to effectively make long-term investments, and closing off the public credit as a source of loans.

When Lincoln became President, and his plan to resume a

Hamiltonian banking system and protective tariffs was publicized in December 1861, the world's bankers, with the Rothschilds in the lead, organized to block all possible revenue streams to the Treasury.[12] New York banks suspended payments of gold owed to those who had made deposits in their banks, and ceased their purchase of government bonds. The same banks blocked the arrangement of any foreign loans. Our Treasury notes had become discredited and were not received by banks as real payment, causing a seizing up of available credit. The First and Second National Banks served the function of borrowing on credit for needs of government and long-term infrastructure projects; since this was now politically impossible, the credit function would have to come from an additional utilization of the principle of sovereignty over the nation's currency, by legally making emitted bills a medium for payment.

The Legal Tender Act, February 25, 1862, read, "To authorize the issue of United States Notes and for the redemption or funding thereof, and for funding the floating debt of the United States."


A Bill

HR 240, Legal Tender Act, February 25, 1862
Civil War spending caused a shortage of coins—the only legal tender at that time. With the Legal Tender Act of 1862 Congress revolutionised the U.S. monetary system by making paper notes legal tender and creating a national currency for the first time.
Records of the U.S. House of Representatives, National Archives and Records Administration

With Congress's passage of this act, the government took control of the currency, and issued its own paper—greenbacks—as a circulating medium necessary to allow for continued commerce and provide the necessary war materiel for the Union forces. James Blaine wrote in 1886, "The administration narrowly escaped a damaging defeat in 1862, and but for the relief to business which came from the circulation of legal tender notes, the political struggle might have been hopeless."[13] Almost one half of the circulating currency became greenbacks. Lincoln increased government spending by 300% by creating $450 million in greenbacks during the Civil War. This legal tender could be used by investors to purchase 6% bonds sold by the Treasury, a process continually regulated by the Treasury. From October 1862 to January 1864 the Treasury Department oversaw the selling of more than $500 million of 6% bonds to individual citizens, enough to finance the greenbacks which it issued.

Ohio Congressman John Bingham, during the House debate over the Legal Tender Act denounced the efforts of the New York banks "to lay the power of the American people to control their currency, a power essential to their interests, at the feet of brokers and of city bankers who have not a title of authority save by the assent of the people to deal in their paper issues as money."

By refusing to back down to foreign manipulation, and averting the immediate crisis, Lincoln set about consolidating the national currency, cleaning out the wildly unregulated and speculative state banking system with its 7000 different currencies and counterfeit notes, under the Banking Acts of 1863 and 1864. Federal oversight over the banking system was created, where banks were given the incentive to incorporate under federal, not state, charters.

The national banking reorganization required "all banks to purchase United States stocks to hold as securities for their circulating notes." [14] Therefore, as with the First and Second National Banks and their local branches, having a large portion of their initial capital stock in the form of the public debt, the bank notes which were circulated and loaned out were issued based on the bonds which the banks held, and purchased from the Treasury. The state banks had to put a third of their capital in the Treasury, and would receive government notes to circulate as bank notes. Smaller banks had the same relation with the largest state banks.[15] This nation wide banking system set up became the basis by which a single currency was re-established, and by which long term, low interest loans to manufactures became accessible.

Treasury Secretary Salmon Chase then repeated Hamilton's funding of the public debt, implementing the greatest array of internal revenue duties in our history, getting Congress to pass an Act "To provide internal revenue to support the government and to pay interest on the public debt" in 1864.

Footnotes:

To see the whole report you can go online www.larouchepub.com to see NAWAPA XXI LaRouche PAC Special Report, March 2012, Appendix 2, Detailed Proposal to Restoring the Public Credit Through NAWAPA XXI.

7. For example, the state railroad debt of $43 million, represented 63% of the cost of the 1900 miles of railroad built, as of 1838. As o f 1838, states had $60 million in canal debts, $43 million in railroad debts, and $7 million in highway debts. The total state debts were $173 million, and thus, infrastructure projects accounted for 64% of all state debt held. See Table 1 of *Leibniz, Gauss Shaped America's Science Successes* by Anton Chaitkin on the Schiller Institute Website.
8. Tariff rates and iron production form Fred Guetter and Albert McKinley, Statistical Tables Relating to the Economy Growth of the United States, 1924.
9. The story of Aaron Burr and Martin van Buren's exploitation of Andrew Jackson's populist aura for the purpose of destroying the functioning economy which the Bank had created during the Monroe presidency is a matter of record. See "THE FRAUD OF ANDREW JACKSON: Think Like an American—Restore Hamilton's Bank" *EIR, February 10, 2012*.
10. Speech, Suppressed By The Previous Question, Of John Quincy Adams, Of Massachusetts: On The Removal Of The Public Deposits, And Its Reasons (1834).
11. James Blaine 1886, "Twenty Years of Congress".
12. Ibid. James Blaine.
13. The History of Greenbacks, 1903, Wesley Mitchell, University of Chicago.
14. For more on the Greenback and National Banking Acts, see, EIR, Jan 20, 2006 "Lincoln Financed the War by Taking On The British-Backed New York Banks".
15. For more on the RFC see: "How Roosevelt's RFC Revived Economic Growth", EIR March 17, 2006.