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The Credit System vs Speculation:

Nicholas Biddle and the Second Bank of the United States

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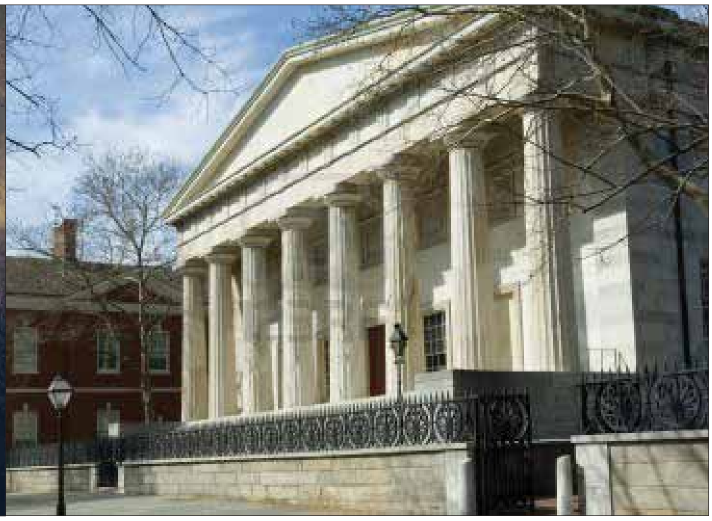
by Michael Kirsch
Part 1 of 4

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 according to constitutional powers, and how to generate wealth and the means of funding a nation-wide recovery. There is an alternative to Federal Reserve and Eurozone bailouts and austerity. The alternative is a re-establishment of a U.S. Credit System, in which the first step is a re-instatement of the Glass-Steagall law, as represented in Rep. Marcy Kaptur's H.R. 1489.



Philadelphia born: Nicholas Biddle and the Second Bank of the United States.

For the purpose of understanding how to fully re-implement a U.S. Credit System in July-August 2012, the research for this article was done on the full history of how the Second Bank of the United States functioned to create the greatest period of economic growth in our history. This research was done as follow up to a similar investigation with regard to the way in which NAWAPA XXI would relate to the Hamiltonian System of Public Credit, which report was published in March 2012.

In a recent EIR article,[1] the unification of the nationalist movement which led to and created the industrialization of the United States was developed in full. In this article, the subject is the workings of the credit system, how it was directed and the conception which made it possible.

The in-depth historical investigation is necessary knowledge for those taking the matter of fixing the current global mess which has been created, and designing a plan that can fund a U.S. recovery, or a recovery for their own nation. While this article does not include a full demonstration of applying the historical principles reviewed, as was done in Appendix 2 of the recent **NAWAPA XXI report** just referenced, it is an important piece of the complete scope of historical fact and functioning of the Credit System, in its most outstanding form. Our story begins near the beginning of the War of 1812, when the first Bank of the United States met its demise.

Preface

In 1810-1811, the political parties were split on the issue of re-chartering the Bank of the United States, and 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 January 3rd 1811, on the eve of the decision to dissolve the Bank of the United States, a 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 of the United States. Surprising the committee, he spoke instead with hours of prepared study on the subject, reviewing the history of the Bank, and challenging party rhetoric against the bank that it was unconstitutional and served the monied aristocracy. He outlined the system of public credit which it 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, relieves 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."

He addressed the fallacious argument of usurpation by foreign monied influence 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."

Turning to his direct warning, he described 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.

"This deficiency of revenue would only be secondary when compared with the overthrow of punctuality and credit, which will break up 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...

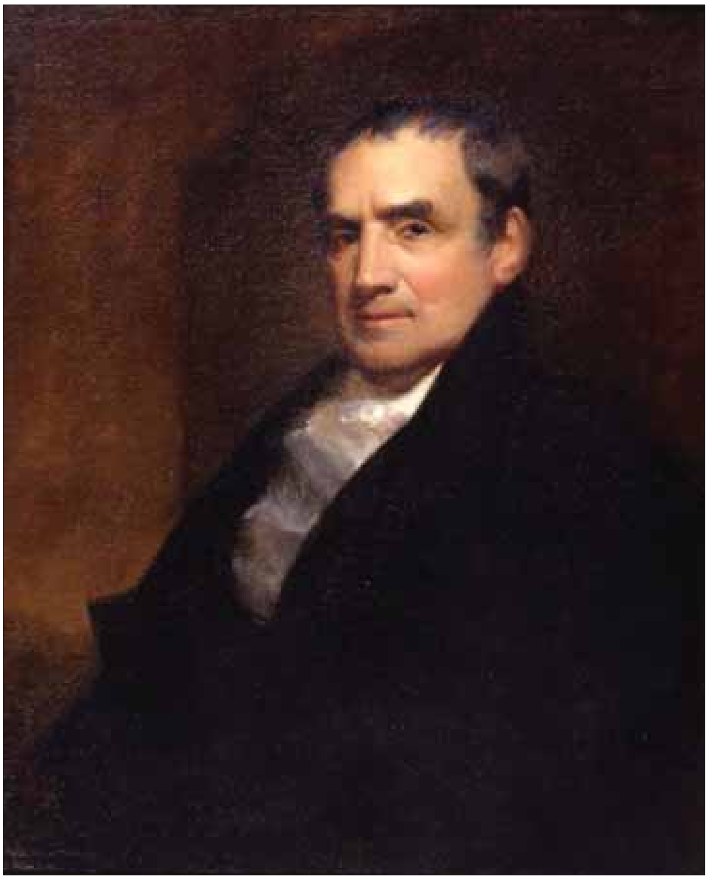
"We are now preparing our non-intercourse for England which may drive us into a war with that country. With the dreary prospect of such a misfortune...when the government needs all its strength to meet such dangers—is this a time to disorder its finances?"

Mathew Carey—one of the closest co-thinkers of Benjamin Franklin in the United States—had likewise attempted to stave off the calamity which was threatened, writing in the newspapers and writing 8 letters in December 1810 to his Representative in Philadelphia, which he circulated the weeks before the final vote on January 24th, 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 of non-renewing the charter of the bank.

"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."

This article demonstrates the nature of the U.S. Credit System as developed to its fullest expression by Nicholas Biddle, President John Quincy Adams, and other Americans devoted to a vision of what the future should look like under



Mathew Carey.

the full development of the power of the United States of America. In this article spanning a period from 1811-1832, we will look at the failure to re-charter the first Bank of the United States, Nicholas Biddle's intervention to save the second, the re-establishment of 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 ability and action in protecting the growth of the credit system from speculation internally and abroad.

The greatest crime ever committed within the United States was the destruction of the credit system in 1832-1836 by the hand of Andrew Jackson, by which farmers, laborers, manufacturers, and the whole 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 was destructive to the liberties and safety of the republic.

In 2012, after the world productive economy has likewise been ravaged for many years, those who purport themselves the saviors of the people turn to Jackson and his destruction of the Bank of the United States as their model, blind to the destruction and lies which made up that sorry destruction and intentional shrinkage of the economy, and its continued effects. The deadly error with this situation is not the fact that people have been duped into believing a lie, but that it represents a failure to understand the great credit system of Nicholas 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 realize 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 relevant needed powers vested in Congress with respect to the pecuniary exigencies of the nation, and that those powers could most successfully be executed by means of a Bank of the United States.

By funding the national debt with duties and domestic taxes and by other powers of congress,[3] the debt would become the basis for a currency of bank notes which would circulate upon the credit of those funded debts, making up most of the bank's capital stock. Various debt certificates originally 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 an interest payment in bank notes, increasing the currency, while the branches of the banks accepted the new debt certificates as deposits and would loan and give out bank notes 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 capital, which gave life and activity to business. [4]

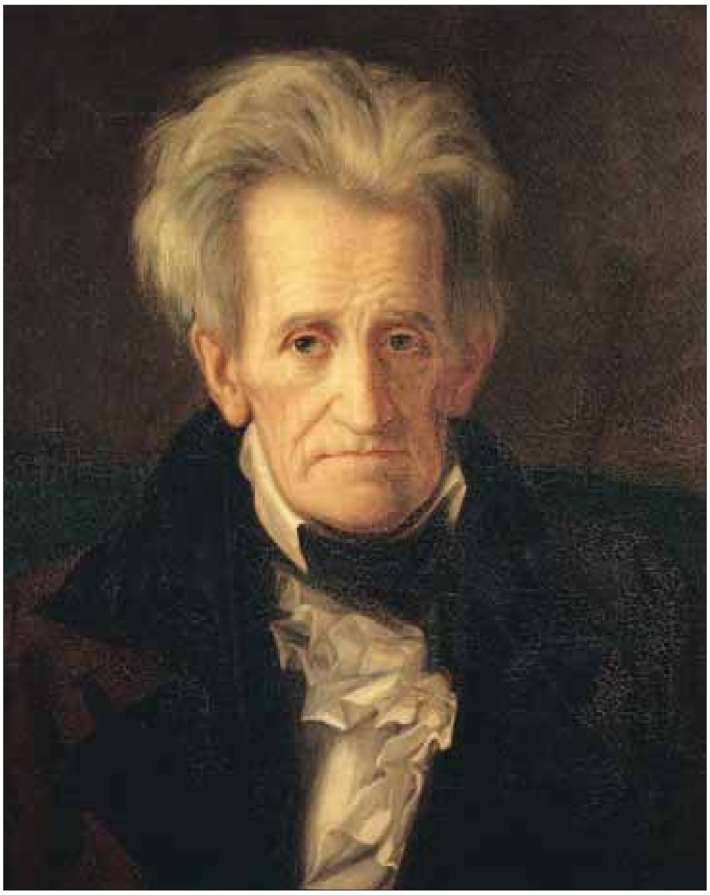
"In a sound and settled state of the public funds, a man possessed of a sum in them can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal sum in coin."

— *Alexander Hamilton, 1791*

Congress made the notes of the bank 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 bank notes having a value set by the amount of specie in the bank, and they could redeem the note 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 the 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 U.S., but because such a law would demand *that much of the active capital of the nation*, be traded for the coin to make the payment, draining the capability to conduct foreign commerce as well as creating a non-dependable 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 with merchants 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



President Andrew Jackson led the destruction of the American system of credit in the 1830s.

a metallic currency by selling their surplus, all progress would have ground to a halt.

In general between 1790-1811, the Bank of the United States and state banks would keep one-third of 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 of two-thirds of the capital of the country was absorbed in the purchase of land, new dwellings, and new manufactures. Instead of needing gold for dependable purchases of goods, the nation was able to depend on the government's system of national banking, and available loans from branches of the bank, and trading with bank notes of unified value. The amount of paper exceeded the metallic capital of the country, but no where near the commercial and manufacturing capital of the nation. With the growth of confidence of the government, men who possessed capital wanted to invest it in action and for use, reducing the tendency for it to accumulate sitting idle in the form of gold and silver. The substitution of bank notes for metal increasingly decreased the capital required to be used as a currency.

As long as the paper possesses 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 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.* [emphasis added][5]

It was the system of national credit that enabled agriculture, mercantilism and development to take off in the United States.

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 awaiting expenditure, 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.

"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 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."[6]

The uniform currency of bank notes was to be accepted for all taxes, domestic and foreign, and created a dependable payment since the bank could make loans to assist individuals and companies in their payment. 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 from the risk and responsibility of collection, and the merchant from 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.

The American Industrial Revolution That Andrew Jackson Sought To Destroy

I. Nationalism

Read it at www.larouchepub.com

Footnotes

[1]Chaitkin, Anton, "The American Industrial Revolution That Andrew Jackson Sought to Destroy," *EIR*, vol. 39, no. 25, June 22, 2012.

[2]Mathew Carey, Letters to Dr. Adam Seybert Dec 5th-17th 1810, Published January 8th, 1811.

[3]"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, Outgoing Message as Financier of Continental Congress, 1783.

[4]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 LaRouchePAC Special Report, available at www.larouchepac.com/nawapaxxi

[5]Nicholas Biddle, January 3, 1811, Lancaster PA.

[6]Alexander Hamilton, Report on Public Credit, 1795.