

## The Credit System vs. Speculation: Nicholas Biddle and the Second Bank of the United States

4 July 2012

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Part 3 of 4

### 2. Nicholas Biddle Restores Hamilton's System

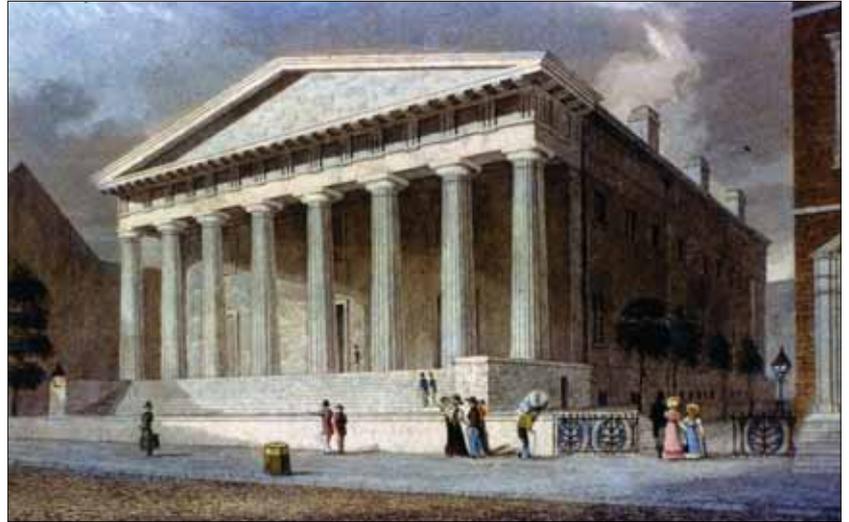
Having served as a Bank director since the time Cheves became President, Biddle was voted in as President of the Bank in January 1823, with a different intention and background than the last two directors. He knew the prolongation of depressed business conditions after 1820 had resulted from the needless 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<sup>14</sup>, 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 to take place, both of which he began implementing in February. One was to make the local state bank currencies equivalent to specie at the places issued, which would make them competent for local purposes, require less currency, and reduce cost of commerce to the proper value. The other was to make the Bank itself the channel of the commerce.<sup>15</sup>

He permitted the interior branches to issue notes as they had before 1819, rather than conduct banking second hand with state bank notes. 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 bank, where this bill of exchange was to mature and eventually be payed by the debtor, in coin. The notes originally issued by the western branch to purchase a merchant's bill of exchange would find 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 would cash in a western bank note to pay duties to the government, the eastern branch would now 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 1000



The Second Bank of the United States in Philadelphia (1819–1824) designed by William Strickland, who modeled the building on The Parthenon at Athens, seen as an enduring symbol of Athenian democracy.

miles away by the interior branches.<sup>16</sup>

The producer or shipper of produce at New Orleans 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 giving him the price of his crop without delay, and without charging the planter the interest he was charged by a broker.

The involvement of the Bank also kept the 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 reduction in fluctuation 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 circulation, allowing it to keep the state banks in check. Since national notes were sought for interstate commerce, and since domestic and foreign taxes were often paid with state bank notes, the branches were often able to raise a balance in their vaults of more state bank notes than the state banks held of its notes. When this occurred, if a state bank's 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, the solvency of the banks having seldom to be considered in fixing the rate of exchange, business was done at less expense to the country.<sup>18</sup> In addition to engaging a large amount of the bank's capital in bills of exchange, with respect to loans, Biddle also altered the prac-

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tice of Cheves with respect to loans. Instead of his policy of seeking security company stock held by its depositors or real estate, which had further decreased its influence in commerce, he sought quicker loans toward production, manufacturer, and distribution of raw materials and goods.

Over two years, the currency of the country had been brought under control, linked directly to the commercial exigencies of the nation, and brought state bank currencies to their appropriate place.<sup>19</sup>

“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.”<sup>20</sup>

Later in 1828, in Richard Rush’s last report as Secretary of the Treasury, he would review the actions of the bank, concluding that “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.”

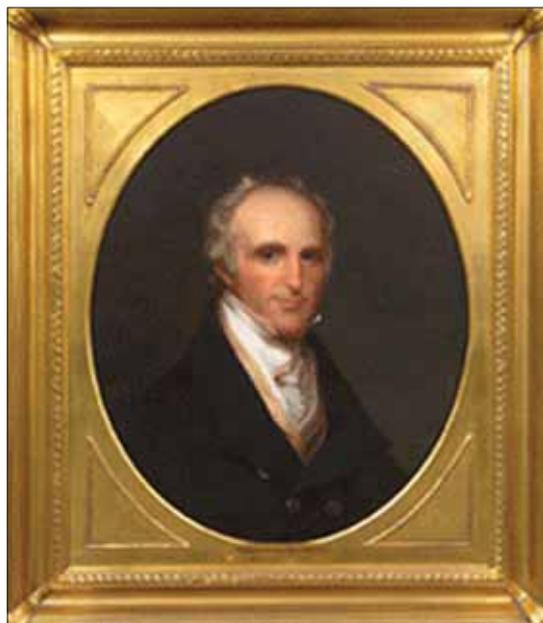
Having reviewed these immediate actions by Biddle, we now pull back to view the more general characteristics of the full credit system which was being implemented.

### 3. The American Credit System

With the proper role of the Bank of the United States restored, and John Quincy Adams becoming President, the period which ensued inaugurated the greatest growth in our history and a new Declaration of Independence.<sup>21</sup>

The nationalist unification was ready and waiting, as its post-war desire and plans for major internal improvements and industries had been sitting nearly idle since 1817 and even earlier, due to the series of shocks to public and private credit. 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 tie up much of their surplus funds. It was only by 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



Portrait of Richard Rush, Secretary of the Treasury, by Thomas Sully. The Second Bank of the United States, chartered in 1816, still faced widespread opposition when Rush became Secretary. Rush defended the Bank and stated that in addition to being a secure depository for government funds, it afforded the necessary facilities for transferring the public monies from place to place. He was the son of Dr. Benjamin Rush, who signed the Declaration of Independence.

money jobbers, monopolizing its means and playing into each others hands.<sup>22</sup> We will now review the relationship of the Bank of the United States to the promotion of manufactures, agriculture, and internal improvements.”

### The Bank’s Role in Canals

With the Hamiltonian Credit System of national banking re-established, American patriots around the country 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 very credit system, opening up transportation routes for the products of new land.

In April of 1824, President Monroe recognized the constitutional relation toward 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 also coming to completion, and other states began

realizing the vast resources of their interiors that were going to waste without being submitted to the application of labor.

Nicholas Biddle, who had himself pushed for canals in Pennsylvania unsuccessfully as a state senator in 1811, succeeded in persuading his fellow legislators to charter the Shuylkill Navigation Company in 1815, and attempted to gain support for a Chesapeake and Delaware canal, and a canal connecting the Susquehanna to Allegheny rivers in 1816-1817. Now as president of the Bank, Biddle spoke out on internal improvements, advocating investments and loans for canals, rail, turnpikes, river navigation, and harbors.

John Quincy Adams utilized the Bank for his purpose in 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, and the peripheral history is included.

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 the meetings throughout the year, where a canal convention in Pennsylvania was planned to petition 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.<sup>23</sup> 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, which led to the governor’s signature a year later, 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,

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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.”

It was in this year when these various conventions led by these people converged on the determination that the state governments should undertake at their expense a vast network of internal improvements. President John Quincy Adams intended to promote the plans entirely, 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.

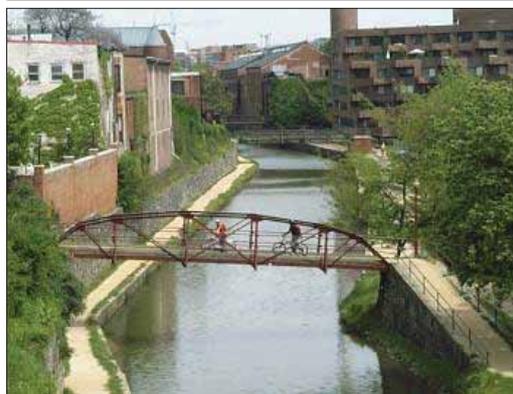
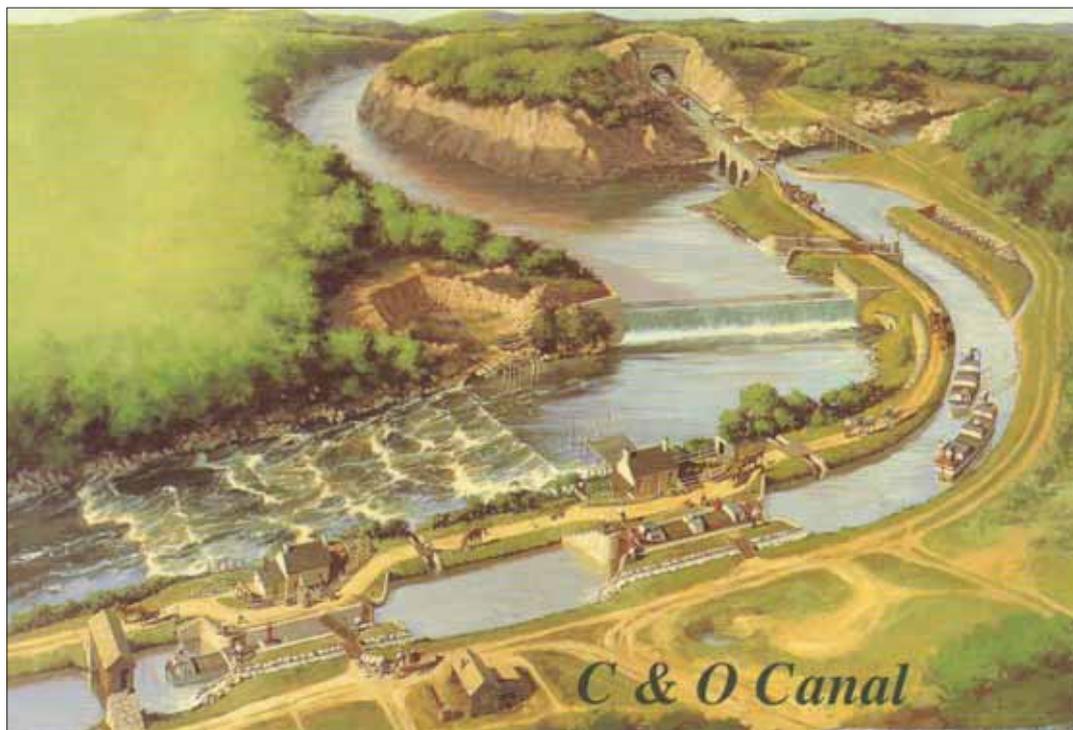
In 1825, the Federal Congress authorized a subscription to the stock of the Chesapeake and Delaware Canal Company, stating, “That the Secretary of the Treasury be, and he is hereby, authorized and directed to subscribe, in the name and for the use of the United States for one thousand five hundred shares 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 workers, with the credit of future profit made by the bank of the United States. In addition, between 1826-1828, the Bank of United States<sup>24</sup> directly loaned the company 1 million dollars in four installments.<sup>25</sup>

In his December 6<sup>th</sup> 1825 State of the Union Speech, John Quincy 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, Thomas Ellicott, and Hezekiah Niles pushed the state of Maryland forward toward this goal, holding the “State Convention on Internal Improvements” on December 14<sup>th</sup> 1825, of which the main topic was the Chesapeake and Ohio Canal. Charles Carroll—signer of the Declaration of Independence, and co-founder of the first and second bank 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 the temporary financial investment of taking a loan for the principal and interest for a few years, would generate almost immediately, through agricultural productions and coal shipped along the canal, more than enough to pay the interest on the loan, from increasing land values, exports, and the density of productivity of the population. “From such a population, 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 John Quincy 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,



The Chesapeake and Ohio Canal, abbreviated as the C&O Canal, operated from 1831 until 1924 parallel to the Potomac River in Maryland from Cumberland, Maryland, to Washington, D.C. The total length of the canal is about 184.5 miles (296.9 km). The elevation change of 605 ft (184 m) was accommodated with 74 canal locks. To enable the canal to cross relatively small streams, over 150 culverts were built. The crossing of major streams required the construction of 11 aqueducts. The canal also extends through the 3,118 ft (950 m) Paw Paw Tunnel.

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and was very gratifying to the inhabitants of the District.”<sup>26</sup> Like the Chesapeake and Delaware Canal, Congress authorized the Secretary of the Treasury to make a subscription to its 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 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<sup>th</sup>, 1828, John Quincy Adams dedicated the C&O canal<sup>27</sup>, giving his famous address here: “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 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.<sup>28</sup>

The six major canal companies which were chartered in the 1820s 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 single purpose of profit, and the politicians could not use it as a source of patronage to increase their personal or party power.

### Footnotes

<sup>14</sup>For the development of Hamilton’s concept of the Bank of the United States, see the NAWAPA XXI Special Report, p.57-67, [http://larouchepac.com/files/20120403-nawapaxxi-forweb\\_0.pdf](http://larouchepac.com/files/20120403-nawapaxxi-forweb_0.pdf)

<sup>15</sup>Niles’ Register, October 8<sup>th</sup>, 1831.

<sup>16</sup>To restate the complicated process for clarity, for example, the New Orleans branch would accept a bill drawn on Pennsylvania, meaning Pennsylvania would pay the debt for the transaction of the merchant. The New Orleans branch would pay for the bill of exchange in bank notes. That branch would then send the bill of exchange to Pennsylvania, where it would eventually be paid for by the Merchant or debtor in Pennsylvania whom the bill was drawn on. 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, based on having received coin from the debtor of the bill of exchange.

<sup>17</sup>Also, its 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.

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<sup>19</sup>Nicholas Biddle: Nationalist and Public Banker, Thomas Payne Govan, 1959. 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 1823-1824. Speculators who were owners of the shares of the Bank and controlled some of the Bank’s directors, attacked Biddle for not increasing the 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 in 1826 when the same interest would later attempt to subject the Bank to the control of a single private interest by owning the majority of the bank stock, timing 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 simply presenting any of the notes of Barker’s banks for immediate redemption, knowing he had simply used the assets of his first purchase for the second bank, and the third with the second, and so on, and could not withstand actual redemption of its notes for specie, the whole scheme collapsing in fraud by the fall of the year.

<sup>20</sup>1830 Congressional Committee for the Investigation of the Bank of the United States, McDuffie.

<sup>21</sup>Chaitkin, Anton, “The American Industrial Revolution That Andrew Jackson Sought to Destroy,” EIR, vol. 39, no. 25, June 22, 2012.

<sup>22</sup>Niles’ Weekly Register, Vo. XLIII, September 22<sup>nd</sup>, 1832.

<sup>23</sup>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.”

<sup>24</sup>On October 17<sup>th</sup>, 1828, after the Bank of the United States loaned 1 million dollars to complete the canal between 1826-1828, Biddle gave a 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.”

<sup>25</sup>“Million Dollar Club” <http://www.neversinkmuseum.org/articles.html>

<sup>26</sup>Later in 1828, he continues: “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.”

<sup>27</sup>That same day, another groundbreaking ceremony took place for the Baltimore and Ohio Railroad, where Charles Carroll, the last remaining signer of the declaration of independence, now 92 years old, laid the cornerstone.

<sup>28</sup>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 dollars each month January through April to various canal companies. In April 1832 alone, it loaned and purchased shares of stock to multiple ongoing canals 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 250,000, encouraging others as well, and enabled the company to commence construction. That same year, Biddle was president of the Erie Railroad convention.