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A Permanent Engine of Corruption

First national monopoly: The Bank of North America, founded at the behest of Alexander Hamilton and Robert Morris in 1781, was not only America's first central bank, but also the only bank permitted to operate in the country. After only two years of inflation, it went bankrupt, leaving a ruined economy in its wake.

The American Revolution was a war of secession from the British empire and its corrupt economic system of "mercantilism." A set of policies that benefited politically connected businesses at the expense of their customers, British mercantilism involved protectionist trade policy that eliminated foreign competition and raised prices, government grants of monopoly to politically connected businesses, bailouts and subsidies to the same, heavy taxes and public debt, and the treatment of its subjects in the Colonies as tax slaves and cannon fodder for its imperialistic ventures. All of this was financed by the British central bank, the Bank of England.

As soon as the Revolution was over, the "nationalists" in American politics, known as the Federalists, sought to impose this very system on Americans. They were led by Philadelphia businessman Robert Morris, a native of Liverpool, England, who became very wealthy as what we would today call a defense contractor during the Revolution, with the help of his political frontman, young Alexander Hamilton. Morris was the first "superintendent of finance," which would later be called the secretary of the treasury. Some believe he was the wealthiest man in America at the time.

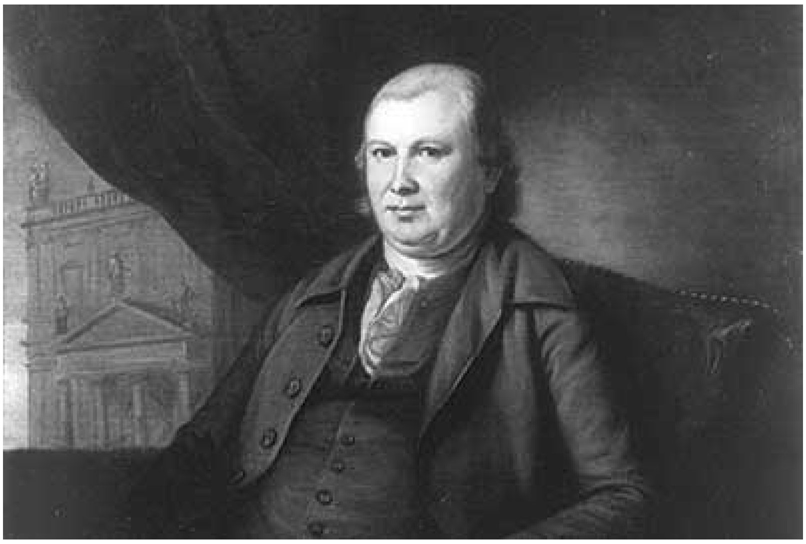
The apparent thinking of the Morris/Hamilton Federalists was that it was a bad thing to be on the *paying* end of a mercantilist empire, even worth fighting a bloody revolution to escape. But it was a *good* thing to be on the *money-making*, tax-collecting, and wealth-creating end of an empire.

As explained by Murray Rothbard in *The Mystery of Banking*, Morris, Hamilton, and the other nationalists, mostly from New York, Philadelphia, and New England, wanted

> to reimpose in the new United States a system of mercantilism and big government similar to that in Great Britain, against which the colonists had rebelled. The object was to have a strong central government, particularly a strong president or king as chief executive, built up by high taxes and heavy public debt. The strong government was to impose high tariffs to subsidize domestic manufacturers, develop a big navy to open up and subsidize foreign markets for American exports, and launch a massive system of internal public works. In short, the United States was to have a British system without Great Britain.

An important part of what Rothbard called "The Morris scheme" was "to organize and head a central bank, to provide cheap credit and expanded money for himself and his allies" and to "subsidize their businesses in other ways.… The Bank of North America [America's first central bank] was deliberately modeled after the Bank of England."

Alexander Hamilton, whom Rothbard called Morris' "youthful disciple," assisted Morris in creating this central bank while he was still an aide to George Washington near the end of the Revolution. He had no real knowledge of or experience in economics and finance, so he asked Colonel Timothy Pickering, who would become President Washington's secretary of state and secretary of war, for assistance. As Ron Chernow wrote in his biography of Hamilton (*Alexander Hamilton*), when George Washington found out that Hamilton was interested in the job of superintendent of finance, he "confessed that he had never discussed finance with his aide" and was unaware that he knew anything about the subject.



Financier of the American Revolution: Wealthy Liverpool native Robert Morris wanted to impose on Americans the same central banking system used by Great Britain.

"Hamilton brushed up on money matters," writes Chernow, with some primers Pickering sent him such as "tracts written by the English … polemicist Richard Price, and his all-purpose crib, Postlethwayt's *Universal Dictionary of Trade and Commerce*." So Hamilton read *a dictionary* along with *British mercantilist propaganda pamphlets* to teach himself enough financial lingo to write an April 30, 1781 letter to Morris that advocated protectionist tariffs, a central bank, taxes on land, poll taxes, and a large public debt. These are all things that he knew Morris had long been in favor of. "A national debt, if not excessive, will be to us a national blessing," Hamilton famously said. This was of course the British mercantilist system in drag, audaciously relabeled "The *American* System" by Hamilton in a breathtaking act of Orwellian doubletalk.

American court historians have long touted the economically uneducated Hamilton as some kind of financial genius while portraying Jefferson as an economically clueless, backwoods farmer who supposedly did not want any banks to exist. Exactly the opposite is true.

Upon returning home after serving as the American ambassador to France, Jefferson placed a plaster bust of French Finance Minister Anne Robert Jacques Turgot at the entrance to his home, Monticello. A replica is still there to this day. Turgot was a brilliant economics scholar, a friend of Adam Smith, and literally one of the founders of the discipline of economics. His writings on the economics of capital investment and savings informed Adam Smith's famous book *The Wealth of Nations*. It was Turgot who coined the phrase "laissez-faire" to describe the system of peaceful, voluntary trade under a regime of economic freedom. He was also a powerful and well-known critic of French and British mercantilism. Jefferson was very familiar with his writings and the writings of the other European founders of the discipline of economics, such as Adam Smith.

It was Jefferson who was well-schooled in the economics of his day, not Hamilton, contrary to what the court historians have said. In his 1890 biography of Hamilton (also titled *Alexander Hamilton*), the great late-19th/early-20th-century Yale University sociologist William Graham Sumner described Hamilton's economic writings as "completely befogged in the mists of mercantilism." He said that Hamilton's economic theories "show a remarkable amount of confusion in regard to money, capital, and debt," and that his reputation in the field of finance "has been greatly exaggerated."

Morris and Hamilton got their bank, the Bank of North America, in 1781. It was granted a monopoly privilege of its notes being receivable in all tax payments to state governments and the federal government. No other banks were permitted to operate in the country! It lent most of its newly created money to the federal government, with taxpayers forced to pay the bank principal and interest. Despite these privileges, the bank inflated its currency so much that it became severely depreciated and no one trusted it. The bank lasted only two years, went bankrupt, and was privatized in 1783. So went America's first central bank.

Rather than abandoning the Quixotic, mercantilist scheme of a central bank run by politicians for the benefit of banks and other politically connected businesses, Morris, Hamilton, and the Federalists doubled down and went on a crusade to create an even bigger and more grandiose central bank, also modeled after the Bank of England. Thanks to the Bank of England, Hamilton declared in his letter to Morris, "Great Britain is indebted for the immense efforts she has been able to make in so many illustrious and successful wars," and has showered that nation with "imperial glory." One assumes that Hamilton did not include the British war against the American Colonists in his list of "illustrious" and "successful" wars financed by the Bank of England.

An "Engine of Influence"

When Hamilton called the public debt "a national blessing" in his letter to Morris, he was alluding to one of his own Machiavellian schemes. As he explained, the wealthier people of the country would be the ones who owned government bonds. These influential people would then become part of a powerful political constituency in favor of bigger government and higher taxes to make sure there was always enough money in the treasury to pay the principal and interest on their government bonds. They would be helpful in bringing the rest of British mercantilism to America, in other words. As Sumner wrote in his biography, Hamilton favored a large national debt because it has "a tendency to strengthen … government by increasing the number of ligaments between the government and the interests of individuals."

Douglas Adair, editor of an edition of *The Federalist Papers*, wrote in his introduction that as treasury secretary, "Hamilton transformed every financial transaction of the Treasury Department into an orgy of speculation and graft in which selected senators, congressmen, and certain of their richer constituents … participated."

Perhaps the best example of this "orgy of speculation" was how Treasury Secretary Hamilton nationalized the state government debt that had been mostly accumulated during the Revolution. New federal government bonds were issued, backed by tariff revenue, and the old debt was to be cashed out at face value. At the time, the bonds were trading at between two and 20 percent of face value and many of them were owned by Revolutionary War veterans who were paid partly in government bonds. This plan "immediately became public knowledge in New York City," wrote John Steele Gordon in *Hamilton's Blessing*. But "news of it spread only slowly … to the rest of the country," said Gordon.

A tremendous arbitrage opportunity was therefore established whereby the New York/Philadelphia/New England business and political establishment (i.e., the Federalists) could enrich themselves by purchasing the bonds from unsuspecting war veterans for as little as two percent of face value and then cashing them in at 100 percent of face value. As historian Claude Bowers explained in *Jefferson and Hamilton: The Struggle for Democracy in America*,

> Expresses [i.e., stage coaches] with very large sums of money on their way to North Carolina for purposes of speculation in certificates splashed and bumped over wretched winter roads…. Two fast-sailing vessels, chartered by a member of Congress who had been an officer in the war, were ploughing the waters southward on a similar mission.

Among the men who became instantly wealthy — or more wealthy — through this scam, according to Bowers, were "leading members of Congress who knew that provision for the redemption of the paper [at full face value] had been made." New York newspapers estimated that Morris himself made $18 million in the deal; New York Governor George Clinton pocketed $5 million; and Hamilton also participated by "purchasing bonds through buying agents in Philadelphia and New York." This was the first major *political* insider trading scandal in America.

Fourteen years after Hamilton's death, Thomas Jefferson published a February 4, 1818 essay (in *Thomas Jefferson: Writings*) in which he explained what he thought Hamilton and his fellow Federalists had really been up to. Noting that the Hamiltonian speculators used "the most fraudulent practices and persuasions" to get their hands on the war veterans' bonds, Jefferson believed it was about more than just becoming wealthy. "Men thus enriched by the dexterity of a leader," he wrote, "would follow of course the chief who was leading them to fortune, and thus become zealous instruments of all his [political] enterprises." Moreover, it made Hamilton "the master of every vote in the legislature which might give the government the direction suited to his political views."

But the nationalization of the state debt was a one-time event, Jefferson noted, and the political power created by the scheme "would be lost with the loss of the individual members whom it had enriched" (through retirement or death). "Some engine of influence more permanent must be contrived," said Jefferson. That would be a central bank, he said.

Jefferson then described a conversation he had had with Hamilton, Secretary of War Henry Knox, John Adams, and Attorney General Edmund Randolph at a dinner party in 1791, "for the truth of which I attest the God who made me." He recalled Adams saying, "purge that [British] constitution of its corruption … and it would be the most perfect constitution ever devised by the wit of man." Hamilton objected by saying, "Purge it of its corruption … & it would become an impracticable government; as it stands at present, with all its supposed defects, it is the most perfect government that ever existed." Hamilton was "so bewitched & perverted by the British example," wrote Jefferson, "as to be under thoro' conviction that corruption was essential to the government." Because of this, and Hamilton's preference for a permanent president, Jefferson concluded that Hamilton was not just for monarchy, but "monarchy bottomed on corruption," the cornerstone of which was to be a central bank modeled after the Bank of England.

The First Bank of the United States was created in 1791, despite the fact that Secretary of State Jefferson and Attorney General Edmund Randolph told President Washington that it was, in their opinions, unconstitutional. It was not among the delegated powers in the Constitution, they pointed out, and the Constitutional Convention *had* discussed the idea and rejected it.

Hamilton responded to their seemingly indisputable, factual arguments by claiming that there are mysterious "implied powers" hidden in the Constitution, discoverable by clever lawyers such as himself, paving the way for virtually unlimited governmental powers in the name of vague "general welfare" goals.

Hamilton's permanent engine of corruption, the Bank of the United States (BUS), was nevertheless supported by fellow Federalist George Washington and given an initial 20-year charter beginning in February of 1791. It was modeled after the failed Bank of North America, and its first president was the same man who was president of the Bank of North America, former Morris business partner Thomas Willing of Philadelphia.

The BUS promptly did what central banks do. As explained by Murray Rothbard in *A History of Money and Banking in the United States*,

> The Bank of the United States promptly fulfilled its inflationary potential by issuing millions of dollars in paper money and demand deposits [i.e., checking accounts], pyramiding on top of $2 million in specie. The Bank of the United States invested heavily in loans to the United States government. In addition to $2 million invested in the assumption of pre-existing long-term debt assumed by the federal government, the Bank of the United States engaged in massive temporary lending to the government, which reached $6.2 million by 1796. The result … was an inflationary rise in prices [of] 72 percent" in five years.

Cheap credit also spawned massive speculation in real estate, causing a real-estate market bubble. Some things never change. After 20 years of generating price inflation, boom-and-bust cycles, real-estate bubbles, and shady political cronyism, the BUS was not rechartered by Congress in 1811. There were still many in Congress who agreed with Jefferson and Randolph that the BUS was unconstitutional. But then the debt accumulated to finance the War of 1812 provided an excuse to resurrect the BUS. The BUS must be resurrected in order to monetize the war debt, it was argued.

Engine of Influence 2.0

The federal government struggled to pay its bills and could not sell sufficient war bonds to pay them. The Second Bank of the United States was created, as even the strict constructionists abandoned their principles and acquiesced in the creation of a second central bank that would lend money to the U.S. Treasury to pay the war debt. The Second Bank of the United States began operations in January of 1817.

Pay it upward: The Second Bank of the United States, chartered in 1817 after six years without a central bank, continued the inflationary policies of its predecessors, expanding the money supply by running up debts to pay for the War of 1812 — and lining the pockets of its wealthy beneficiaries. (wikimedia/Bestbudbrian)

The first president of the Second BUS was a U.S. Navy captain named William Jones who had no banking experience and had recently gone personally bankrupt. But he was well-connected politically, and was awarded the job despite a complete lack of financial credentials (similar to Hamilton himself). He expanded the money supply by about 40 percent in two years, creating an inflationary boom that turned into a bust known as the Panic of 1819, the first "great depression" in American history, according to Rothbard in *The Panic of 1819*, which lasted two years. Historian William Gouge described what happened: "The bank was saved, and the people were ruined."

Jones' successor, Nicholas Biddle, continued to politicize the Second BUS. In *Andrew Jackson and the Bank Wars*, historian Robert Remini documented how Biddle granted below-market interest-rate loans and "consulting contracts" to members of Congress to literally buy their votes in support of the bank. Henry Clay was the strongest supporter of a central bank in Congress. After accumulating some $40,000 in gambling debt, he left Congress for two years to become the general counsel of the bank. In *Henry Clay and the American System*, historian Maurice Baxter wrote that Clay was paid more than enough in two years to pay off his debts. At the time, the *annual* salary of a member of Congress was less than $3,000.

Senator Daniel Webster demanded "a retainer" from the bank as a condition of voting for it, according to Baxter. When President Andrew Jackson opposed the bank in the late 1820s, Biddle financed the campaigns of Jackson's congressional opponents and financed "internal improvement" projects in districts of congressmen in return for their support. He also paid for the publication of Henry Clay's speeches in praise of the bank.

All of this corruption, cronyism, and economic destruction caused by the first two central banks ignited a populist uprising against the BUS led by President Jackson, with the help of the people of quite a few states. Indiana and Illinois amended their constitutions to prohibit the Bank of the United States from operating within their borders. North Carolina, Georgia, Maryland, Tennessee, Kentucky, and Ohio imposed onerous taxes on the bank — $50,000 per year for each of two branches of the bank in Ohio. New York and New Hampshire adopted resolutions for the bank's abolition.

When the BUS refused to pay the $50,000 annual tax on each of its branches, the state of Ohio sent an armed marshal into the bank with a large trunk. He walked into the vault, filled the trunk with $100,000, and walked out. No wonder John Marshall famously said that "the power to tax is the power to destroy." He understood that Ohioans and others wanted to tax the BUS out of existence.

In the 1819 case of *McCulloch v. Maryland*,Chief Justice Marshall declared that the BUS *was* constitutional. President Jackson responded, "To this conclusion I cannot assent. Congress and the president as well as the Court must each for itself be guided by its own opinion of the Constitution.… The opinion of the judges has no more authority over Congress than the opinion of Congress has over the judges, and on that point the president is independent of both."

This was the majority view in all states prior to the Civil War. Yes, there was judicial review by the Supreme Court, but it was understood that there are *three* branches of government, not one. The people of the sovereign states also had an equal say in such matters. In *The Sovereign States*, James J. Kilpatrick quoted an 1821 resolution by a committee of the Ohio Legislature saying, "The committee are aware of the doctrine, that the Federal courts are exclusively vested with jurisdiction to declare, in the last resort, the true interpretation of the Constitution.… To this doctrine … they [the committee] can never give their assent." Never! This was in the spirit of the 1798 Virginia and Kentucky Resolutions, authored by Madison and Jefferson respectively, which nullified the Adams administration's Sedition Act that essentially outlawed free political speech. It wasn't until after the Civil War that the federal government became the sole arbiter of the limits of its own powers through its Supreme Court.

All of this opposition to central banking led President Jackson to veto the BUS's recharter. In his July 10, 1832 veto message, he stated,

> It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purposes.… Every man is equally entitled to protection by the law; but when the laws undertake to add to … natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society … who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their Government.… If [government] would confine itself to equal protection … it would be an unqualified blessing. In the act before me [the recharter of the BUS] there seems to be a wide and unnecessary departure from these just principles.

America's disastrous beginnings with central banking had come to an end, and the bank was defunded over the next several years. However, Henry Clay and the Whig Party — the party of big business, big banks, and big cronyism from the 1830s to the 1850s — commenced another crusade to resurrect central banking. This time it was led by Clay, who proudly championed the Hamiltonian "American System" as the political cornerstone of the Whig Party. After Clay's death, the crusade was continued by Abraham Lincoln and the Republican Party.

Permanent Corruption

It was not until 1913, however, that the crusade would finally succeed, with the creation of the Federal Reserve System. In a replay of the first years of the Second Bank of the United States, the new "Fed" monetized the debt incurred to finance American participation in World War I, creating another inflationary boom in doing so, which once again turned into a bust, in the form of the Great Depression of 1920, which was even worse in terms of unemployment than the first year of the better-known Great

Depression of the 1930s.

Thomas Jefferson knew what he was talking about when he surmised that central banking was a permanent engine of influence. As just one recent example of this, consider what David Stockman said about the Fed-orchestrated bailouts of big investment banks such as Goldman Sachs during the "Great Recession" of 2008 in *The Great Deformation: The Corruption of Capitalism in America*. After being handed $10 billion by the government, the company "swiveled on a dime and generated a $29 billion financial surplus," including $16 billion *in salary and bonuses*, just three months after the bailout. Goldman Sachs said the bailout was necessary to "save it from extinction," writes Stockman. In reality, the threat of extinction was propaganda cover for the incredible selfishness and greed of Goldman Sachs executives and their political conspirators in government — including the Fed.

The insurance company AIG also threatened extinction unless bailed out for its foolish business decisions. It was handed $180 billion (!), although, as Stockman shows, 90 percent of the business was solvent. There was therefore no need to give AIG a dime from the government. As with Goldman Sachs, the AIG bailout was "all about protecting short-term earnings and current-year executive bonuses."

Two hundred thirty-two years of central bank corruption is about as permanent as things can get with American government. It makes one think that the whole purpose of central banking is not "stabilization policy" or "fighting" inflation and unemployment, as economists contend, but corruption for the benefit of the banker class and its political patrons — at great expense of and misery for everyone else.