

Jefferson and State Banks

By James Stivers

"[The] Bank of the United States... is one of the most deadly hostility existing, against the principles and form of our Constitution... An institution like this, penetrating by its branches every part of the Union, acting by command and in phalanx, may, in a critical moment, upset the government. I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation, or its regular functionaries. What an obstruction could not this bank of the United States, with all its branch banks, be in time of war! It might dictate to us the peace we should accept, or withdraw its aids. Ought we then to give further growth to an institution so powerful, so hostile?" --Thomas Jefferson to Albert Gallatin, 1803. ME 10:437

General ignorance prevails over the reasons why Thomas Jefferson opposed Alexander Hamilton's first Bank of the United States. Hamilton, it should be remembered, did not propose a national bank as is commonly believed. The first Bank of the United States was a stockholder's corporation that was owned by private persons and other corporations, both foreign and domestic. This private bank was given the monopolistic privilege of receiving into account the tax receipts of the government of the United States. In addition to these substantial deposits, it enjoyed the power of fractional reserve lending upon those deposits – the pernicious phenomenon of modern banking.

Patrick Henry opposed the bank because he believed it was a ruse of the British monarchy – and the European nobility in general – to regain control of the newly independent American colonies through economic means. Through this Bank of the United States, royal corporations, acting in their private capacity, would simply use the monetary authority to buy the assets of the nation. He was proved right when the bank's charter expired just prior to the War of 1812 and the stocks were liquidated. Most were owned by British and Dutch entities.

Thomas Jefferson's opposition, on the other hand, was primarily constitutional, although he too expressed fears as Henry did that the bank would gain ascendancy over the popular government. Jefferson did not believe that the Constitution gave to Congress the power to create private corporations. He did not perceive Hamilton's proposal as a public bank, but rather as a private bank endowed with sovereignty over money – which the Constitution explicitly gave to Congress (Art. I, Sec. 8).

"It has always been denied by the republican party in this country, that the Constitution had given the power of incorporation to Congress. On the establishment of the Bank of the United States, this was the great ground on which that establishment was combated; and the party prevailing

supported it only on the argument of its being an incident to the power given them for raising money." --Thomas Jefferson to Dr. Maese, 1809. ME 12:231

After the bank was created, Jefferson and his allies continued their opposition through every means available to them. The first bank charter was due to expire in twenty years. This expiration occurred during the presidency of James Madison, a Jeffersonian. It took another war with Britain to force the nation to renew the charter. Andrew Jackson was infuriated with Madison's capitulation, and thus began his own career to abolish the bank, a story well-known to history.

Jefferson and Paper Money

"Paper is poverty,... it is only the ghost of money, and not money itself." -- Thomas Jefferson to Edward Carrington, 1788. ME 7:36

Jefferson's disdain for paper money and his preference for specie (gold and silver coins) are well known to historians. What is not well known is the distinction which Jefferson drew between *publicly*-issued paper money and *privately*-issued paper money. Most historians, either from ignorance or duplicity, ignore this distinction and pass-over Jefferson's proposed remedy to combat the powerful banking institutions which controlled America's monetary system: ***fiat and fiduciary money issued directly into circulation by the federal government:***

"Bank paper must be suppressed, and the circulating medium must be restored to the nation to whom it belongs. It is the only fund on which they can rely for loans; it is the only resource which can never fail them, and it is an abundant one for every necessary purpose. Treasury bills, bottomed on taxes, bearing or not bearing interest, as may be found necessary, thrown into circulation will take the place of so much gold and silver, which last, when crowded, will find an efflux into other countries, and thus keep the quantum of medium at its salutary level. Let banks continue if they please, but let them discount for cash alone or for treasury notes." --Thomas Jefferson to John W. Eppes, 1813. ME 13:361

Most Jeffersonian quotes condemning paper money, in their proper context, are directed to the paper issued by private banks, including the Bank of the United States. These promissory notes issued by the banks he regarded as fraudulent:

"It is said that our paper is as good as silver, because we may have silver for it at the bank where it issues. This is not true. One, two, or three persons might have it; but a general application would soon exhaust their vaults, and leave a ruinous proportion of their paper in its intrinsic worthless form." --Thomas Jefferson to John W. Eppes, 1813. ME 13:426

But he did not feel the same way about Treasury bills issued as a national currency to compete with bank paper money:

"In order to be able to meet a general combination of the banks against us in a critical emergency, could we not make a beginning towards an independent use of our own money, towards holding our own bank in all the deposits where it is received, and letting the treasurer give his draft or note for payment at any particular place, which, in a well-conducted government, ought to have as much credit as any private draft or bank note or bill, and would give us the same facilities which we derive from the banks?" --Thomas Jefferson to Albert Gallatin, 1803. ME 10:439

"There can be no safer deposit on earth than the Treasury of the United States." --Thomas Jefferson to Lafayette, 1825. ME 19:281

Historians tell us that Abraham Lincoln was the first to implement this idea in what has come to be known as "the Lincoln greenback." Lincoln, however, found his economic advisor in Henry Carrey and the advocates of the "American System," such as John Calhoun and Henry Clay, Jackson's presidential opponent.

Clay got the idea from Jefferson and Jefferson said:

"Necessity, as well as patriotism and confidence, will make us all eager to receive treasury notes, if founded on specific taxes. Congress may borrow of the public, and without interest, all the money they may want, to the amount of a competent circulation, by merely issuing their own promissory notes, of proper denominations for the larger purposes of circulation, but not for the small. Leave that door open for the entrance of metallic money." --Thomas Jefferson to Thomas Cooper, 1814. ME 14:189 (emphasis added)

The issuance of these Treasury bills as tax certificates Jefferson regarded as the government's competitive advantage over the private banks:

"Put down the banks, and if this country could not be carried through the longest war against her most powerful enemy without ever knowing the want of a dollar, without dependence on the traitorous classes of her citizens, without bearing hard on the resources of the people, or loading the public with an indefinite burden of debt, I know nothing of my countrymen. Not by any novel project, not by an charlatanerie, but by ordinary and well-experienced means; by the total prohibition of all private paper at all times, by reasonable taxes in war aided by the necessary emissions of public paper of circulating size, this bottomed on special taxes, redeemable annually as this special tax comes in, and finally within a moderate period." --Thomas Jefferson to Albert Gallatin, 1815. ME 14:356 (emphasis added)

Jefferson explains how this would work in detail:

"If treasury bills are emitted on a tax appropriated for their redemption in fifteen years, and (to insure preference in the first moments of competition) bearing an interest of six per cent, there is no one who would not take them in preference to the bank paper now afloat, on a principle of patriotism as well as interest; and they would be withdrawn from circulation into private hoards to a considerable amount. Their credit once established, others might be emitted, bottomed also on a tax, but not bearing interest; and if ever their credit faltered, open public loans, on which these bills alone should be received as specie. These, operating as a sinking fund, would reduce the quantity in circulation, so as to maintain that in an equilibrium with specie. It is not easy to estimate the obstacles which, in the beginning, we should encounter in ousting the banks from their possession of the circulation; but a steady and judicious alternation of emissions and loans would reduce them in time." --Thomas Jefferson to John W. Eppes, 1813. ME 13:275

In plain English, Jefferson envisioned the federal treasury issuing what later became known as "US Savings Bonds" to fund the War (the War of 1812). Additionally, the government would be its own bank by issuing non-interest bearing Treasury bills as negotiable instruments to circulate as money and to pay its bills. Because they could be used to pay taxes, they would be received back by the government the same "as specie" and would maintain "an equilibrium with specie." By so doing, the banks would be "ousted" from their control of the nation's currency.

Jefferson and State Banks

"The incorporation of a bank and the powers assumed [by legislation doing so] have not, in my opinion, been delegated to the United States by the Constitution. They are not among the powers specially enumerated." -- Thomas Jefferson: Opinion on Bank, 1791. ME 3:146

What powers were denied to Congress were reserved to the States, or to the People, as the Constitution declares (10th Amendment). While Jefferson felt that Congress could not charter a bank, the States certainly could:

"The States should be urged to concede to the General Government, with a saving of chartered rights, the exclusive power of establishing banks of discount for paper." --Thomas Jefferson to John W. Eppes, 1813. ME 13:431

If Jefferson believed that the States had the power to charter banks which could issue paper money (a power he once wished they would surrender to Congress), how is it possible to argue that the States themselves do not also have the power to issue paper money? One would suppose, from a simple logical inference, that the creator is greater than the thing created.

Certainly, issuing paper money as “legal tender” is barred to the States by the Constitution, as it stands now (Art. I, Sec. 10). However, issuing paper money as “tax certificates” is not barred to the States because such certificates serve as barter scrip in a voluntary exchange, just as T-bills are for the federal government. There is no coercion involved.

Tax certificates – or as known in the state of Idaho as *tax anticipation notes* – can be issued as interest-bearing or non-interest bearing instruments.

The Bank of Idaho

The current proposal for a state bank of Idaho would be a publicly-held corporation, not a stockholders corporation. It would receive its monetary authority from the Federal Reserve System as does any other bank. It would use the lawful money of the United States – as it now stands – for its deposits: the Federal Reserve Note.

But as an entity of a sovereign state, it could re-assume the monetary authority outright – without deference to the Federal Reserve – at any such time as the state legislature may decide to do so.

Thus, the issuance of tax certificates (the state-level version of the federal T-bill) as an alternative currency is a moot point, as the monetary authority already allows any bank to create digital money by a simple bookkeeping entry. Most money in circulation is digital.

The constitutional merits of this proposal have been established elsewhere in other studies. What this report has offered is substantiation for the state bank idea as one which is *Jeffersonian*. **Jefferson envisioned a system of competing currencies between bank money and the people’s money.** He believed government-issued paper would eventually displace the banker’s paper and unshackle gold and silver from the fraud of fractional reserve lending.

This result is identical with Ron Paul’s efforts to remonetize gold and silver to create a competing currency situation with the Federal Reserve Note and its digital derivative. A state bank further facilitates this objective because it creates the institutional mechanism by which a sovereign state can do the same thing: remonetize gold and silver, recognize the people’s money, and utilize digital money to protect the state treasury from the malpolicy of the Federal Reserve.

It is hoped the reader will investigate further Jefferson’s ingenious solution to this perplexing problem of the monetary authority in modern banking. We might call this proposal an important part of the “American School of Economics.”

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Sources: *Thomas Jefferson on Politics & Government*, §36. Money & Banking, on-line at <http://etext.virginia.edu/jefferson/quotations/index.html> (ME: Memorial Edition)