



Abraham Lincoln's 'bank war'

Part 3 of the series on Lincoln's economics by Anton Chaitkin, author of Treason in America.

In 1839 the Illinois state legislature faced with gloom the complete ruin of its pioneering railroad system. The state had persisted in selling bonds for the construction of some 2,000 miles of rail lines, despite the national depression. Financial chaos had erupted with the closing of the Bank of United States, and the Bank of England stopping credit to the unprotected American economy. Quoting the Hay-Nicolay biography of Lincoln, "One banker and one broker after another, to whose hands [state bonds] had been recklessly [sic] confided in New York and London, failed, or made away with the proceeds of the sales."

The Whig Party leader in the Illinois legislature, 30-year-old Abraham Lincoln, had led the fight for the state-built railroads. He was justifiably bitter against the aristocratic "free trade" faction which had brought down the Founding Fathers' economic system; the northeastern bankers, political followers of Swiss nobleman Albert Gallatin, president of John Jacob Astor's National Bank of New York; and the South Carolina-based slaveowners' secession movement, organized around the free-market doctrines of British revolutionary immigrant Thomas Cooper.

Alexander Hamilton's program of protective tariffs, government-sponsored transportation projects, and the national bank, enacted in the first Congress over the opposition of Albert Gallatin, had now been aborted. The bankers-planters alliance was rolling the U.S.A. back to colonial status, to be a mere producer of cheap raw materials for the British Empire, with themselves the colonial overseers.

Abraham Lincoln and the other Henry Clay Whigs were determined to rescue American financial, industrial, and political independence. From late 1839 through the presidential election of 1840, Lincoln led the Illinois Whig campaign by

focusing his party's program around the restoration of the Bank of the United States.

Lincoln knew that national survival depended on their political success. This is the conclusion of his Dec. 26, 1839 speech on banking:

"[A debate opponent] confidently predicts, that every State in the Union will vote for Mr. Van Buren at the next Presidential election. Address **that** argument to **cowards** and to **knaves**; with the **free** and the **brave** it will effect nothing. It **may** be true; if it **must**, let it. Many free countries have lost their liberty; and **ours may** lose hers; but if she shall, be it my proudest plume, not that I was the **last** to desert, but that I **never** deserted her. I know that the great volcano at Washington, aroused and directed by the evil spirit that reigns there, belching forth the lava of political corruption, in a current broad and deep, which is sweeping with frightful velocity over the whole length and breadth of the land, bidding fair to leave no green spot or living thing, while on its bosom are riding like demons on the waves of Hell, the imps of that evil spirit, and fiendishly taunting all those who dare resist its destroying course, with the hopelessness of their effort; and knowing this, I cannot deny that all may be swept away. Broken by it, I, too, may be; bow to it I never will.

"The **probability** that we may fall in the struggle **ought not** to deter us from the support of a cause we believe to be just; it **shall not** deter me. If ever I feel the soul within me elevate and expand to those dimensions not wholly unworthy of its Almighty Architect, it is when I contemplate the cause of my country, deserted by **all** the world beside, and I standing up boldly and alone and hurling defiance at her victorious oppressors. Here, without contemplating consequences, before High heaven, and in the face of the world, I swear eternal

fidelity to the just cause, as I deem it, of the land of my life, my liberty and my love. And who, that thinks with me, will not fearlessly adopt the oath I take. Let none falter, who thinks he is right, and we may succeed. But, if after all, we shall fail, be it so. We still shall have the proud consolation of saying to our consciences, and to the departed shade of our country's freedom, that the cause approved of our judgment, and adored of our hearts, in disaster, in chains, in torture, in death, we **never** faltered in defending."

The Whig candidate, Gen. William Henry Harrison, was elected U.S. President. He appointed as Treasury Secretary Thomas Ewing of Ohio, stepfather of future Gen. William Tecumseh Sherman and co-leader of the Whigs with Sen. Henry Clay. But the boisterously healthy President Harrison mysteriously died of pneumonia complications one month after inauguration; the disloyal vice-president, John Tyler, assuming Harrison's place, vetoed the Bank. Another Whig President elected in 1848, Gen. Zachary Taylor, also died early in his term.

Lincoln was forced to watch his country fall under the complete control of the free-trade faction. Instead of government-fostered industrial development edging out the slave plantation system, plantation cotton, supported by anti-industrial bankers in New York and London, spread westward and dominated national politics. The banking system itself was an unregulated, chaotic swindle. Each bank printed its own notes, redeeming what it would. There was no national currency. Bank-fed speculation exploded in 1857, collapsing much of the factory system.

Lincoln, the respected political leader of the Henry Clay tradition, was elected President in 1860, prompting the anti-nationalists to launch secession and civil war. It was a two-front war, militarily in the South . . . and politically against the London-allied Northern bankers, only recently the main brokers of slave cotton. The Associated Banks of New York were led by James Gallatin, a resident of Switzerland and the son of Albert Gallatin.

The Eastern banks had agreed to a \$150 million government loan package just after the Civil War commenced in 1861. They would resell U.S. bonds in England with the Barings and Rothschilds, putting the United States at the mercy of the British aristocracy.

In December 1861, President Lincoln's own financial plan was presented by Treasury Secretary Salmon Chase (a free-trade liberal sweating and agonizing in the President's harness), and by Lincoln himself. Its measures included:

- a nationally regulated private banking system, which would issue cheap credit to build industry;
- the issuance of government legal-tender paper currency;
- the sale of low-interest bonds to the general public and to the nationally chartered banks;
- the increase of tariffs until industry was running at full tilt;

- government construction of railroads into the middle South, promoting industrialism over the Southern plantation system.

Lincoln spelled out his underlying republican philosophy, and shot his barbs at the aristocratic bankers, in his Annual Address to Congress, Dec. 3, 1861:

"Labor is prior to, and independent of, capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration. Capital has its rights, which are as worthy of protection as any other rights. Nor is it denied that there is, and probably always will be, a relation between labor and capital, producing mutual benefits. The error is in assuming that the whole labor of the community exists within that relation. . . . In most of the southern States, a majority of the whole people of all colors are neither slaves nor masters; while in the northern a large majority are neither hirers nor hired. . . .

"Many independent men everywhere in these States, a few years back in their lives, were hired laborers. The prudent, penniless beginner in the world, labors for wages awhile, saves a surplus with which to buy tools or land for himself; then labors on his own account another while, and at length hires another new beginner to help him. This is the just, and generous, and prosperous system, which opens the way to all—gives hope to all, and consequent energy, and progress, and improvement of condition to all. No men living are more worthy to be trusted than those who toil up from poverty—none less inclined to take, or touch, aught that they have not honestly earned. Let them beware of surrendering a political power which they already possess, and which, if surrendered, will surely be used to close the door of advancement against such as they, and to fix new disabilities and burdens upon them, till all of liberty shall be lost. . . ."

On Dec. 28, 1861, the New York banks suspended payment of gold owed to their depositors, and stopped transferring to the government the gold which they had pledged for the purchase of government bonds. The banks of other cities immediately followed suit.

James Gallatin headed a delegation of bankers who came to Washington to meet with the administration and Congress. His program contradicted the President's. First, the Treasury must deposit its gold in private banks, and let those banks pay the government's suppliers with checks, keeping the gold on deposit for the investment use of the bankers. Second, the government should sell high-interest bonds to these same banks, for them to resell to the European banking syndicate. Finally, a great deal of the war should be financed by a tax on basic industry.

Gallatin was shown the door. While Lincoln fought the Eastern bankers over the national banking system, the Treasury issued several hundred millions of the new green-colored currency. Banker Jay Cooke was hired to sell small government bonds to the average citizens; with 2,500 sub-

agents Cooke sold over \$1.3 billion worth of bonds from 1862 to 1865.

President Lincoln pushed for his measure of control over the banking system, using more of his influence in Congress than on any other issue. The New England and New York bankers instructed their congressmen, such as New York's cynical Sen. Roscoe Conkling, to defeat the bill. But Lincoln's prestige and authority won out, and he signed the National Currency Act on Feb. 25, 1863, and the National Bank Act on June 3, 1864.

National Banking was, in truth, only a compromise with the old European oligarchs. But it was a bold and necessary stride toward national sovereignty.

The office of Comptroller of the Currency was established. No National Banking Association could start business without his certificate of authorization. He could at any time appoint investigators to look into the affairs of any national bank.

Regulations covered minimum capitalization, reserve requirements, the definition of bad debts, reporting on financial condition and identity of ownership, and other elements of safety to depositors.

Every bank director had to be an American citizen, and three-quarters of a bank's directors had to be residents of the state in which the bank did business.

Each bank was limited, in the interest rate it could charge, by the strictures of its state's usury laws; or if none were in effect, then to 7%. If it were caught exceeding this limitation, it would forfeit the loan in question and would have to refund to the victimized borrower twice what he had paid in interest.

Banks could not hold real estate for more than five years, aside from bank buildings.

A national bank had to deposit with the Treasury, U.S. bonds amounting to at least one-third of its capital. It would receive in return government-printed notes, which it could circulate as money. Thus the banks would have to lend the government substantial sums for the war effort, to qualify for federal charters; and a sound currency would be circulated to the public for an expanding economy.

Meanwhile, national banks could not circulate notes printed by themselves. In order to eliminate all competition with the new national currency, the notes of state-chartered banks were hit with a massive tax in the following year.

Most large commercial banks organized themselves according to the new system, and many new large banks were formed, as national banks. Despite historically unprecedented financing needs, the government raised, and printed, the cash to fight and win the Civil War. With the combination of banking, tariff, educational, and agricultural measures enacted under Abraham Lincoln, the United States began the greatest period of industrial development ever seen anywhere.

But the banking system was only a compromise, a truce between Lincoln and the Eastern bankers.

The free-trade *New York Times*, whose owner Leonard

Jerome was closely identified with the British and Austrian oligarchies, publicly supported the passage of the National Banking Act. As part of the bargain, an open enemy of the new system, Hugh McCulloch, was appointed first Comptroller of the Currency! The *Times* printed a letter from McCulloch on May 21, 1863:

"Dear Sir: From what you may recollect of the opinions I have heretofore expressed to you upon the subject of the currency, you may be surprised at my acceptance of the office of 'Comptroller' under the National Banking law enacted by Congress at their last session. . . ."

In a position similar to that of Salmon Chase at Treasury, McCulloch enforced the regulations as the National Banks came into the system, all the while blasting "paper money as evil" in public reports.

Lincoln appointed McCulloch as treasury secretary in March, 1865. The following month the war ended, and Lincoln was assassinated. McCulloch and his international banking allies quickly went on the offensive against Lincoln's entire economic program. Secretary McCulloch called for the greenbacks to be retracted, so that only gold would once again be legal tender—and so that farm prices and other values would fall so fast that the country could be bought for a song by the British banking syndicate. (McCulloch later helped the syndicate destroy the patriotic banker Jay Cooke, and took over Cooke's company when it failed.)

The calling-in of greenbacks, and the redemption of Civil War bonds for gold, were fiercely debated until 1879. The growing power of the British banking syndicate finally passed Specie Resumption over the dead body of Lincoln's chief financial adviser and teacher, Henry Carey. Tariffs and government-sponsored development of the West survived longer, until Teddy Roosevelt's presidency. The American industrial system was never allowed to spread to the tropical countries, as Lincoln and his allies had planned.

Today, 125 years after President Lincoln's inauguration, the world is divided between a slave-system—the Soviet bloc—and the Western area dominated by a lawless banking system, a system more criminal and unstable than that of the King Cotton era of the 1850s: Illegal narcotics profits pour through the system as its major prop of liquidity. Over 100 major American banks have been found guilty of "money laundering" for the dope mob. Speculation increases in hot Eurodollars and in the worthless debts of starving tropical countries, while industrial plant construction is simply not funded. Since the Kennedy administration, debt-service payments have climbed from 6% to about 30% of the national income. In this destructive work the de facto privately controlled Federal Reserve Board is complicit.

The present, chaotic tyranny of unregulated international banking creates, in Lincoln's words, a "great volcano at Washington, aroused and directed by the evil spirit that reigns there, belching forth the lava of political corruption." Have we the courage, and can we revive the cultural and political heritage of Lincoln's day, to restore freedom to our country?