

An Austrian Perspective on Some Leading Jacksonian Monetary Theorists

by James P. Philbin*

One of the last movements to successfully eradicate a central bank was the victory by Andrew Jackson and his Administration over the forces of Nicholas Biddle and the supporters of the Second Bank of the United States. Unfortunately, the victory by the Jacksonians did not prevent the eventual return of central and fractional-reserve banking to America. Despite this, the Jacksonian triumph is important in the history of economic thought, for it highlights a traditional American opposition to banks and monopoly privilege that began in colonial times. The Jacksonians, like their colonial predecessors, were not simple agrarian ruffians, but sophisticated economic thinkers who understood the function of money and the baneful effects of inflation.

The purpose of this paper is to discuss the monetary philosophies of some of the leading Jacksonian economic theorists, as revealed during their opposition to the Second Bank of the United States. The analysis will be conducted from an Austrian school monetary framework, because its proponents have developed the theory of money to the fullest extent and have done the most to show the destructive effects of central and fractional-reserve banking. In addition, the importance of the Jacksonian victory will be put into historical perspective.

* Department of Economics, University of Nevada, Las Vegas, NV 89154. My studies with Murray Rothbard have been the inspiration for this paper. I would also like to thank Hans-Hermann Hoppe of U.N.L.V. for helpful suggestions. Any errors are of my own making.

An Austrian View of Central Banking

Austrian school economists have been the severest critics of inflation and central banking in the twentieth century.¹ Austrian economists have typically favored "hard" money (a commodity-backed currency), the elimination of artificial bank credit, and the abolition of central banking. Writers in the Austrian tradition view the primary function of money as a medium of exchange, one that originates on the market as a useful commodity. Once a commodity has been established as money, there is no need to increase its supply; hence any supply of money is "optimal" for the facilitation of exchange.² An artificial increase in the supply of money—either through debasement or by bank credit expansion—confers no social benefit. Inflation can only result in increased prices, dilution of the purchasing power of the monetary unit, and the redistribution of wealth.³ Inflation of the money supply, especially in the form of bank credit, will necessarily lead to a temporary boom through malinvestment in the capital goods industries, and a resultant bust and depression.⁴

Fractional-reserve banking—the issuance of bank notes beyond the amount of specie banks hold in reserve—is considered by some Austrian economists to be fraudulent, a form of embezzlement that when practiced should be prosecuted as such.⁵ Governments, though, have traditionally allowed banks to continue engaging in fractional-reserve banking despite failure to meet their obligations (as in a "bank run"), and suspension of specie payments has had an infamous history in both the U.S. and Britain.⁶ Central banking, the most serious form of government intervention in banking, is opposed on the grounds that both the central bank and its member banks can engage in credit expansion without the market checks that exist in a system of free, 100 percent reserve banking.⁷ Through its monopoly privilege of note issuance the central bank can allow member banks to expand the money supply without fear of runs, because it can always print additional notes to cover the obligations of the inflating banks.

The preceding brief exposition of Austrian objections to inflation and fractional-reserve banking is meant to provide a framework for the analysis of some of the chief Jacksonian monetary theorists and their opposition to the Second Bank of the United States. Hopefully this paper will show that the leading Jacksonians expressed similar concerns to those held by later Austrian school theorists.

William M. Gouge

The leading Jacksonian hard-money theorist was William M. Gouge. Gouge was an advisor to Democratic leaders and Presidents and a financial editor of a number of journals. He was a staunch opponent of paper money and privileges for the banking system. He was also one of the principal architects in the framing of the Independent Treasury System that replaced the Second Bank of the United States.⁸

Like Menger, Gouge pointed out that money receives its value and importance as a medium of exchange from the market, rather than from government decree or a social contract. "Some fancy that it is the authority of government that gives money its value. But the true value of money, as measured by the amount of goods for which it will honestly exchange, cannot be affected by edicts of princes or acts of Parliament." He recognized that the state could, and did, have a pernicious effect on money through debasement: "Monarchs and Ministers may alter the weight of coins, or lessen their purity." He also correctly reasoned that government could not create value in money by fiat: "[T]hey cannot make a coin containing an half of an ounce of pure silver, worth as much as a coin containing an ounce."⁹

One of the consistent themes in Gouge's writings is his distain for bank-issued paper money not backed by specie: "[N]o legislative enactments can afford an adequate remedy for the evils which flow from incorporated paper money Banks. The system is, to use the language of the lawyers, *malum per se*—or a thing which is evil in its nature."¹⁰ Furthermore, Gouge's discussion of the privileged position of the country's banking system demonstrates that he clearly understood Gresham's dictum that money coercively overvalued by the state drives "good" money out of circulation: "They [the banks] drive away what may be called the *natural* money of the country, and substitute for it something which differs from this natural money in both the *nature* of its value, and the *causes* of its value."¹¹

On the relationship between the quantity of bank notes and prices, Gouge observed that "[a]n increase or decrease of bank notes in the United States, has the same effect on prices, that an increase of solid money has on prices in Spain or Switzerland. Increase the amount of bank notes, and, *other things being the same*, prices will rise. Diminish the amount of bank notes,

and, *other things being the same*, prices will fall.”¹² Moreover, he realized that an increase in the supply of notes would not increase wealth: “Nothing is gained by this forced extension of the credit system. . . . If banks at any time make money more plentiful than it would be if only gold and silver circulated, they diminish its value in increasing its quantity. The valuation, or relative estimation of things is thereby enhanced, but not an atom is added to the wealth of the community.”¹³

He perceptively saw what an increase in the supply of paper money would do to an economy. Inflationary bank credit would cause an artificial boom—he labeled it “speculation”—and then a painful bust. “The banks, by expanding their issues, give ailment to the wild spirit of speculation when it begins; and by their contractions, they aggravate the evils of the natural reaction.” Under a hard-money commodity standard, however, booms and busts would cease to be a nagging reoccurring problem.¹⁴

As the Scholastic tradition and later Cantillon had shown, an increase in the money supply has redistributive effects. Gouge likewise recognized that the first recipients of the “new” money receive a transfer from the later receivers:

If the superior credit the banks enjoy, grew out of the natural order of things, it would not be a subject of complaint. But the banks owe their credit to their charters—to special acts of legislation in their favor, and to their notes being receivable in payment of dues to government. The kind of credit which is created for them by law, being equipollent with cash in the market, enables them to transfer an equal amount of substantial wealth from the productive classes to themselves, giving the productive classes only representatives of credit, or evidences of debt, in return for the substantial wealth which they part with.¹⁵

Gouge’s position in the titanic struggle to recharter the Second Bank of the United States was based on this understanding of central banking. The pro-Bank forces argued that the Bank of the United States should be rechartered on the grounds that it would act as a check on the note issuance of state banks. T. F. Gordan, a contemporary proponent of the Second Bank, admitted that the state banks were inherently inflationary and had greatly expanded their note issue beyond the gold they held in reserve: “There is a constant tendency in the state banks to overissue.” He also saw that these state banks would be insolvent if their customers were to demand their gold: “Thus, it is apparent that the circulation of the state

banks is at least seven times greater than their specie, and that, consequently, they would be wholly unable to withstand any run, which might drain them; and would be compelled to contract their issues. . . .''¹⁶

Gordan believed that the Second Bank would be a remedy to this problem. He saw the central bank as a restraining influence on note issue by the state banks, making an analogy with the sun's role in the solar system. "It is supposed, justly supposed, that the presence of the Bank of the United States, like the sun in the system, vivifies, regulates, and preserves the subordinate banks. . . .''¹⁷

Gouge's analysis of central banking, and the Bank of the United States in particular, was less sanguine than Gordan's. He maintained that the Second Bank would be just as inflationary, and just as dangerous to economic prosperity, as the state banks; it was no solution to the problem. "Neither is the establishment of a United States paper-money incorporated bank, the 'necessary and proper,' or 'natural and appropriate' way of correcting the evils occasioned by the state banks. A national bank, resting on the same principles as the state banks, must produce similar evils. It must 'contract' and 'expand' as well as they.'' ¹⁸

Condy Raguet

In 1829 Gouge agreed to support another hard-money Jacksonian theorist, Condy Raguet, who headed a workingmen's committee to limit the issuance of the number of bank charters.¹⁹ A member of the American Philosophical Association and president of Philadelphia's Chamber of Commerce, Raguet had spent many years as a student of money and banking. He saw how Europe's and especially England's experience with bank credit had damaged their respective economies.²⁰ In his *Treatise on Currency and Banking*, published in 1840, he delightfully related that because of Gibraltar's and Havana's pure metallic media of exchange, their economies had not suffered through periodic booms and busts. He was particularly happy to learn that a movement to erect a bank in Gibraltar was crushed: "[S]everal attempts to establish a bank there were put down by almost common consent.'' ²¹

Like Gouge, Raguet identified a fundamental difference between capital (savings) and bank credit: The former was legitimate and necessary for an increase in the standard of living, while the latter was a fictitious crea-

tion of the banking system and could only lead to economic ruin.²² Hence he warned against the possibility that the entire industrialized world would adopt a paper money standard that would permit unchecked worldwide inflation. An international gold standard would limit any one country's inflation by the outflow of gold; if gold were eliminated internationally and replaced by paper there would be little restraint on unified global credit expansion.²³ By admonishing against such a possibility, Raguét showed not only that he was a perceptive prognosticator, but also that he understood the Hume-Ricardo price-specie flow mechanism.²⁴

To prohibit banks from fractional-reserve practices Raguét proposed "strict convertibility." He called on both the public and the government to force the banks to redeem their notes immediately on demand—it was the public's duty to be forceful and vigilant when redeeming their notes. Like Rothbard and other Austrians, Raguét urged the populace to be watchful of bank practices:

The duties which the public have to perform, as a check upon this perpetual tendency to overissue, are incumbent on every citizen; and he who withholds his cooperation, when he has a motive to act, becomes a participator in the wrong. They are simply, for every man who wishes to convert bank notes or deposits into coin . . . to make his demand without being influenced by fear, favor, or affection, or through any false or mistaken delicacy towards the directors of banks, or their debtors who might in consequence thereof be called upon for an earlier reimbursement.²⁵

Raguét called on the government to suspend or cancel the charters of banks which did not immediately convert their notes into specie.²⁶ Swift convertibility of paper notes into specie, he believed, would prevent the dreaded boom-bust cycle. "With such convertibility as this would accomplish, we should run comparatively very little risk of expansions and their consequent contractions. . . . The overtrading of each particular bank would be checked . . . and if recklessness should characterize the conduct of one, or a dozen, or 100 banks, it or they would simply fail, like individual traders, and make an assignment of their property, without producing the catastrophe of a general suspension of specie payments."²⁷

Raguét's monetary acumen proved to be far superior to that of his more celebrated British counterparts. Rothbard points out that Raguét was the first to see that demand deposits were just as much a part of the money supply as were bank notes. The British currency school, by contrast,

tragically neglected to include demand deposits as a component of the money supply, and that omission made it easier for the Bank of England along with the British and Scottish country banks to inflate the money supply by increasing demand deposit accounts.²⁸ Raguett's superb insight further supports the contention that American monetary theorists not only equalled, but surpassed, their British rivals. This enabled American hard-money forces to combat more effectively the establishment of central banking.

John Taylor

Although the bank war culminated nearly ten years after his death, John Taylor of Caroline can still be placed in the Jacksonian ambit. Born into a wealthy Virginian family in 1753, Taylor would become a successful lawyer and rich planter. He served in the Continental army and was elected to both the Virginia legislature and to the U.S. Senate.²⁹ Taylor had opposed Hamilton's original proposal of a national bank and had argued against its rechartering in 1816. He correctly saw that if the bank were instituted it would be used to buy the federal government's debt, which happened to be held by many of the bank's supporters.³⁰ Moreover, Taylor raised objections to the constitutionality of the bank.

Taylor realized the threat to liberty posed by an alliance between the banks and the government. He disparaged the privileges that legislatures had bestowed on the banks by allowing them to suspend specie payments and still stay in operation. He labeled such practice as fraud: "[U]nder our mild policy . . . [the banks'] crimes may possibly be numbered, but no figures can record their punishments, because they are never punished." The Virginia libertarian understood that were it not for the government's intervention the banks' inflationary practices would eventually be discovered. "In a free country, the detection, sooner or later, is inevitable . . . Exposed to the scrutinizing eye of liberty, a detection of fraud will come at last."³¹

In a passage from his book on constitutional government Taylor asked a series of rhetorical questions on whether a republican form of government can exist when banks have so much power. He noted that governments have always used unscrupulous methods to acquire additional wealth: "Governments have repeatedly aggrandized themselves and enriched the initiated, under intricate and plausible schemes for enriching the nation;

and labor is induced cheerfully to exchange its earnings, for dogma or a charm."³² He also expressed little concern for the country's currency if the national bank were eliminated: "The free industry of the people, if suffered by the government to operate fairly upon the commercial world, will rapidly supply us with a better currency than the involving, fluctuating, vanishing, counterfeited currency of [bank] corporations."³³

Like some of the British currency school adherents, Taylor gave some consideration to the idea that the national government, rather than a central bank, should have the task of regulating the currency. He regarded such an option the "wisest" of any proposed, but insisted that if it were based on a paper currency he would oppose it. "[T]hough I believe that the best experimental paper currency was that before the revolution; and that an imitation of it would be our wisest course, if we must have a paper currency, which I do not believe; I do not enter into the subject, because it does not fall within my plan."³⁴

John Randolph

A fellow Virginian and radical libertarian equally hostile to central banking was John Randolph of Roanoke. Randolph and Taylor represented the "Old Republican" branch of the Democratic-Republican Party, which by the time of Jefferson's second term was in open revolt against his policies. This group opposed any government subsidy of business, especially protective tariffs, and they condemned the war with Great Britain, warning against the then-growing neo-mercantilism that would later become known as the American System.³⁵ Naturally, the Bank of the United States with its monopoly position came under attack from Randolph and his cohorts. He argued vehemently in Congress against its proposed recharter in 1816.³⁶

Randolph despised state banks as well, equating them in one speech to bordellos. Like Taylor, Randolph questioned the constitutionality of such institutions, and he evoked the memory of the British East India Company and its inflationary bust that had left such a vivid impression on the Founding Fathers.³⁷

Even though James Madison had recently died, Randolph did not hesitate to blame him for the economic distress that the First Bank had caused: "I am sorry to say, because I should be the last man in the world to disturb the repose of a venerable man . . . all the difficulties under which we have labored, and now labor on this subject have grown out of a fatal admission by one of the late Presidents of the United States . . . an admission

which gave a sanction to the principle that this government had the power to charter the present colossal bank of the United States.”³⁸

Thomas Hart Benton

Another opponent of the Bank of the United States was Missouri senator Thomas Hart Benton. Like many other Jacksonians, his opposition began during the Panic of 1819. Benton's involvement with the failure then of the Bank of Missouri transformed him into an ultra hard-money advocate for the rest of his political career.³⁹

Benton's consistent commitment to hard money did not just apply during times of prosperity. During the Panic of 1837 he held fast to his position, despite calls for the suspension of specie and government relief of debtors; the result was Missouri's relative prosperity during the Panic. He commented that his state's retention of the gold standard had “given us solid, permanent, and *diffused* wealth, with happiness and tranquility.” Benton's biographer William N. Chambers credits his influence in outlawing “wildcat” banks for enabling Missouri to prosper during the economic downturn.⁴⁰

Nationally, Benton planned to pursue policy similar to the one he so successfully employed in his home state. He refused to entertain any ideas of reconstituting a central bank or suspending specie payments as a solution to the 1837 panic. Instead, he continued to call vehemently for hard money: “Throughout the long debates, Benton's voice ‘resounded’ again and again in dogged defense of the agrarian, hard-moneyed position.”⁴¹

As for the cry for state relief mounted, Benton countered with a proposal for an *Independent Treasury* in which the government would deposit its own funds, with the primary purpose of separating government from banking. Throughout Van Buren's term Benton continued to push for passage of an *Independent Treasury* in Congress. Unfortunately, Benton and his forces were ultimately defeated by a combination of Whigs and moderate Democrats.

As Randolph had done, Benton blamed Madison's administration for chartering the First Bank. During his criticism of the former President, the Missouri senator made it perfectly clear what type of medium of exchange he desired: “Gold and silver is the best currency for a republic; it suits the men of middle property and the working people.”⁴² Yet statements like this have frequently been misconstrued by historians, due to their faulty understanding of monetary economics. Chambers, for

example, misinterprets Benton's above statement on gold or silver as meaning that "[t]o many self-styled followers of Jefferson, 'democracy' had come to mean only *political* equality. . . . In 1830 and 1831, however, the question of relative *economic* and *social* equality was brought to the fore again."⁴³ To label Benton and other Jacksonians as economic egalitarians is not only incorrect, it also glosses over their sophisticated monetary insights. Their criticisms were directed at wealth achieved through state aid, not wealth *per se*. To compound the error, Chambers includes Jackson's veto of the Maysville Road Bill with the abolition of the Second Bank as indication of the Jacksonians desire for equality.⁴⁴ Jackson's veto, however, was fully in line with the *laissez-faire* Democrats' antipathy for government-sponsored internal improvements, and not a display of egalitarianism.

Martin Van Buren

Despite being plagued initially by the Panic of 1837 and widespread demand for government intervention, Martin Van Buren pursued a courageous hard-money program throughout his Presidency. Van Buren demonstrated libertarian leanings in his response to calls for government relief in the form of a national paper currency. He responded to such pleas by evoking the traditional Jeffersonian position on limited government: "All communities are apt to look to government for too much." The purpose of government was to protect property and refrain from intervention.⁴⁵

Van Buren's plan for coping with financial difficulties was to completely separate banking and government. He believed that the idea of an Independent Treasury would remedy the excessive issue of notes by banks holding federal funds. Banks were using the federal deposits as a base to "pyramid" and expand their credit issues. Van Buren reasoned that if the funds were kept in the Treasury, the ability of banks to expand credit would be reduced.⁴⁶

Facing a severe economic downturn and possible defeat in the upcoming election, Van Buren demonstrated that he was a principled follower of hard money. In 1839 he proposed a number of remedies to combat the financial panic: One was the proposal of a federal bankruptcy law that would immediately close any state bank unable to redeem its notes in specie on demand; the second was a law to ban notes of small denominations from circulation; in addition, and in accordance with later Austrian policy

recommendations for curing depressions, he called for government expenditures to be drastically slashed.⁴⁷ These policy proposals were announced despite the gloomy economic climate and an impending election. It is rare for a politician to undertake such a course of action, and it eminently shows the commitment that Jacksonians had for sound money.

Conclusion

This paper has attempted to sketch the monetary position of some leading Jacksonians. From these theorists' pronouncements on money, banking, and government, certain conclusions can be advanced. First, the Jacksonians understood monetary economics better than most historians have acknowledged. They knew the function of money in a market economy and saw the dangers of inflation and fractional-reserve banking. Many of their views would be later seen in a more systematic and refined manner among the works of Austrian economists. Second, unlike the British currency school, the Jacksonians realized the destructive possibility of a central bank in generating an unchecked price inflation. Finally, most of these thinkers consistently advocated a medium based on gold or silver to avoid the unpleasant consequences of a boom-and-bust cycle.

Sadly, the Jacksonian destruction of the Second Bank of the United States was one of the last major triumphs of the gold-standard advocates over those of central banking. Throughout the nineteenth century, inflationists (Whigs and Republicans) whittled away at the gold standard and reestablished a central bank in 1913. Nonetheless the elimination of the Second Bank was important, for it paved the way for the hard-money system that was the cornerstone for the unprecedented growth and prosperity of nineteenth-century America.

Notes

1. For a selection of some of the most significant of the modern Austrian economists' contributions to monetary theory and hostility to inflation, see Ludwig von Mises, *The Theory of Money and Credit* (London: Jonathan Cape, 1934; reprinted, Indianapolis, Ind.: LibertyClassics, 1981); idem, *On the Manipulation of Money and Credit*, (Dobbs Ferry, N.Y.: Free Market Books, 1978); idem, *Human Action: A Treatise on Economics*, third revised edition (Chicago: Henry Regnery, 1966); Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles*, 2

- vols. (Los Angeles: Nash, 1970); idem, *America's Great Depression* (Kansas City: Sheed & Ward, 1963); idem, *What Has Government Done To Our Money?* (Novato, California: Libertarian Publishers, 1981); idem, *The Case For A 100 Percent Gold Dollar* (Meridan, Conn.: Cobden Press, 1984); idem, *The Mystery of Banking* (New York: Richardson & Synder, 1983).
2. Rothbard, *What Has Government Done To Our Money?* pp. 10-14.
 3. Mises, *Theory Of Money and Credit*, pp. 160-68.
 4. Rothbard, *America's Great Depression*, pp. 11-25.
 5. Rothbard, *The Case For A 100 Percent Gold Dollar*, pp. 20-27.
 6. Rothbard, *What Has Government Done To Our Money?* pp. 36-38.
 7. Rothbard, *Mystery of Banking*, pp. 127-40.
 8. For a biographical sketch of Gouge see Joseph Dorfman, "William M. Gouge and the Formation of Orthodox American Monetary Policy," in Gouge's *A Short History of Paper Money and Banking in the United States, to which is Prefixed an Inquiry into the Principles of the System* (Philadelphia: T.W. Ustick, 1833; reprinted, New York: Augustus M. Kelly, 1968), pp. 5-26.
 9. Gouge, *Short History of Paper Money and Banking*, p. 8.
 10. *Ibid.*, p. 52.
 11. *Ibid.*, p. 53.
 12. *Ibid.*, p. 55.
 13. *Ibid.*, pp. 40 and 45.
 14. *Ibid.*, pp. 63-64.
 15. *Ibid.*, p. 85.
 16. T.F. Gordan, *The War on the Bank of the United States* (Philadelphia: Key & Biddle, 1834; reprinted, New York: Augustus M. Kelly, 1968), pp. 83-84.
 17. *Ibid.*, p. 84.
 18. Gouge, *Short History of Paper Money and Banking*, p. 112.
 19. Bray Hammond, *Banks and Politics in America: From the Revolution to the Civil War* (Princeton, N.J.: Princeton University Press, 1957), p. 343.
 20. Condé Raguet, *A Treatise on Currency and Banking* (Philadelphia: Grigg & Elliot, 1840; reprinted, New York: Augustus M. Kelley, 1966), p. x.
 21. *Ibid.*, p. 37.
 22. *Ibid.*, p. 53.
 23. *Ibid.*, pp. 83-84.
 24. Rothbard, *Mystery of Banking*, p. 122.
 25. Raguet, *A Treatise on Currency and Banking*, pp. 101-02.
 26. *Ibid.*, p. 102.
 27. *Ibid.*, p. 103.
 28. Rothbard, *Mystery of Banking*, pp. 2-3.
 29. M. E. Bradford, "A Virginian Cato: John Taylor of Caroline and the Agrarian Republic," in *Arator, being a Series of Agricultural Essays, Practical and Political, in Sixty-Four Numbers* (Indianapolis, Ind.: LibertyClassics, 1977), pp. 12-14.
 30. *Ibid.*, p. 22.
 31. John Taylor, *Construction Construed and Constitutions Vindicated* (Richmond, Va.: Shepherd & Pollard, 1820; reprinted, New York: Da Capo Press, 1970), pp. 182-83.

32. *Ibid.*, p. 183–85.
33. *Ibid.*, p. 337.
34. *Ibid.*, p. 338.
35. Russell Kirk, *Randolph of Roanoke: A Study in Conservative Thought* (Chicago: University of Chicago Press, 1951), p. 100.
36. *Ibid.*, pp. 104–05.
37. William Cabell Bruce, *John Randolph of Roanoke 1773–1833*, 2 vols. (New York: Octagon Books, 1970), vol. 1, pp. 430–32.
38. *Ibid.*, p. 433.
39. William Nisbet Chambers, *Old Bullion Benton: Senator from the New West* (Boston: Little, Brown and Company, 1956), pp. 85–87.
40. *Ibid.*, pp. 223–24.
41. *Ibid.*, p. 224.
42. *Ibid.*, pp. 173 and 175.
43. *Ibid.*, p. 175.
44. *Ibid.*
45. Major L. Wilson, *The Presidency of Martin Van Buren* (Lawrence, Kans.: University Press of Kansas, 1984), pp. 72–73.
46. *Ibid.*
47. *Ibid.*, p. 136.