WAS THOMAS JEFFERSON WRONG?

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"Banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered."

President Thomas Jefferson, 1802

Does this prescient statement by Thomas Jefferson sound a bit like what we’ve recently endured courtesy of certain flamboyant financial titans of Wall Street? If it does, rest assured that you are not misjudging the situation. In fact, it shows just the opposite—that you have refused to be blinded by the massive propaganda disseminated by political parties, politicians, and the banking industry itself to persuade you that they perform a vital function that could be done in no other way. Actually, the threat of a financial system gone wild is far greater than that faced by Jefferson. Why? Because, unlike then, the tentacles of finance penetrate every nation and virtually every institution. There is no escaping the monster of finance, unless it is a primitive tribe utterly without contact with the outside world, of which there are precious few remaining. Even those few will escape only so long as some resource needed by the monster is not discovered in their lands or the giant wants something they have.

Fresh in President Jefferson’s memory when he made this comment was the recent colonial experience with the tyrannical and monopolistic British East India Company, chartered by the British crown for the purpose of bringing the wealth of the Far East to the Mother country. This monster later turned its attention to the upstart American colonies that had proved, to the dismay of British rulers, to be perfectly capable of developing their own economy without British interference. The idea was to economically strangle the unruly colonies with harsh, oppressive laws like the Navigation Acts (trade with the colonies could only be carried in British ships) and the Tea Act, or tax on tea that discriminated against colonial merchants. This rank oppression by the forerunner of the modern global corporation soon led to the Boston Tea Party, an early act of the American Revolution.

Jefferson did not like large corporations, banking or otherwise. He thought they represented the will of greedy upper class manipulators against the welfare of the common people, whom he held to be the supreme repositories of public virtue. His adversary on this issue was Alexander Hamilton, first Secretary of the Treasury and founder of the first "central" bank on American soil—the much-vilified Bank of the United States. The major duties of this bank were to hold government deposits, handle government finances, and expedite borrowing by both government and individuals. But, as Hamilton himself said, the notes issued by this bank would become part of the national debt, which "[if] properly funded, and an object of national confidence, [would] answer most of the purposes of money."

Hamilton was really saying that the bank notes issued by the Bank would come into being as debts owed and serviced by the public—just like today’s Federal Reserve Notes. Supposedly this "managed" currency would expand and contract based upon needs of the economy, but it did not always work that way. In theory the system ought to work; in practice it becomes prey to the overarching fear of the moneyed classes that inflation will make debts owed to them easily payable in inflated currency, thus reducing their hold on the economy.

If you know something of the history of central banks and their mismanagement of economic crises, then you might detect some truth in Jefferson’s comment. As Jefferson predicted, millions of families now find themselves homeless in the nation they worked to build. The simple solution to this problem would be for lenders to lighten terms of repayment (possibly with increased government aid and supervision) so borrowers facing default could remain in their homes. But in many cases this is not possible because nobody knows who owns the mortgage because they have been "securitized" into investment packages for sale to financial high rollers through hedge funds and private investment groups.

This unfortunate situation was helped along by the Alan Greenspan-led Federal Reserve System’s extreme loosening of credit markets following the recession associated with the dot-com bubble and the World Trade Center disaster. The trillions of dollars in loose money (held mainly by the super-rich) were funneled into hedge funds that were virtually unregulated because they were so new. So the Fed, rather than restraining the system in the interests of stability, again became the engine of financial instability.

So, was Jefferson wrong? Perhaps he did overstate the case a bit, but in his essential understanding of the threat to the entire nation of a banking industry gone mad he was quite correct, as we have now learned.