

THE BANK OF NORTH AMERICA

Lesson by

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Subject

Economic and Financial History of America and the United States

Academic Level

Secondary/Collegiate

Bloom Level

Knowledge

Comprehension

Evaluation

Unit

The Art of Political Finance, Volume I, Part I—Chapter 3

Lesson Description

This lesson will introduce students to the Bank of North America as the first de facto national and central bank of the United States as well as the principal, Governor Robert Morris. It will also point out that the country did not yet have its Constitution and was being governed under the Articles of Confederation; though the Declaration of Independence was drawn in 1776, twelve years prior to the ratification of our Constitution.

Time Required

One 60-minute classes

Lesson Number within Unit: 3**Objectives**

Students will be able to:

1. Identify The Bank of North America as the country's first national and de facto central bank from 1781 to 1785
2. Define loose money and tight or hard money
3. Define fractional reserve banking
4. Calculate the value of the British Pound Sterling and compare it to its original value

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Concepts & Terms

Charter

A grant of authority or rights, stating that the granter formally recognizes the prerogative of the recipient to exercise the rights specified.

Central Bank

An institution responsible for issuing currency and monetary policy, usually for a state or a nation. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the monetary base in the state, and usually also prints the national currency, which usually serves as the legal tender. The Federal Reserve is now the central bank of the United States and has been since 1913.

Initial Public Offering (IPO)

The first sale of stock by a private company to the public.

Loose Money

Refers to money or credit easily obtained.

Tight/Hard Money

Refers to money or credit not so easily obtained. Sometimes referred to as “austerity” today.

Fractional Reserve Banking

Had its beginnings when Goldsmith's noticed that only a small percentage of their depositor's ever came in to demand their gold or metal at any one time. Goldsmith's made out receipts for gold which didn't truly exist, and then loaned it out to earn interest. The concept is still used today as banks are only legally required to have in reserve in the bank a portion of monies in the market or on loan.

De Facto

Latin expression that means “in fact, in reality.”

De Jure

Latin expression that means "of right, by right, according to law.”

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Materials/Equipment

Computers, calculators or computers with calculators, Internet Connection, Video Screen

Procedures and Pupil Activity

1. Review: The Berth of Public Debt – What countries did we borrow money from to finance the war? *France and Netherlands*
2. Motivational Techniques.
 - A) Questions – Has anyone heard the phrase, “Time is Money”? What do you think that means? *Elicit divergent/convergent responses. If we borrow money why do we have to pay interest?*
3. Model the lending method using any piece of paper and issue as script, banknote, or legal tender to the borrower (student) based on the clearing house or bank’s assessment of the borrower’s credit/reputation.
4. Reading Activity of content below.

The Bank of North America was founded by [congressman and financier] Robert Morris, [our nation’s Superintendent of Finance], in 1781, [during the Revolutionary War] when the Continental Congress asked him for help with the country’s finances. Morris declared that the bank would help the treasury by making loans from its reserves and from issuing notes on the credit of stock. The bank was granted a charter by both the Continental Congress and the state of Pennsylvania.ⁱ

In addition to helping the war effort, Morris’ goal was to satisfy the financial needs of our national government, the Commonwealth of Pennsylvania, and Philadelphia merchants.ⁱⁱ

[Morris] was also "leader of the powerful Nationalist forces" in the new country. The main objective of the Nationalists, who were also known as Federalists, was essentially to establish an American version of the British mercantilist system, the very system that the Revolution had been fought against. 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.ⁱⁱⁱ

The Philadelphia businessman Morris had been a defense contractor during the Revolutionary War who "siphoned off millions from the public treasury into contracts to his own ... firm and to those of his associates."^{iv}

When shares in the bank were sold to the public, Bank of North America became the country's first initial public offering.^v

While raising \$400,000 of capital to fund the new enterprise, Morris received subscriptions from a wide swath of present period leaders. Names of founding stockholders read like a list of our Founding

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Fathers: Thomas Jefferson, Benjamin Franklin, Alexander Hamilton, James Monroe, John Jay, and John Paul Jones. ^{vi}

An important part of the "Morris scheme," as [Murray] Rothbard called it, was "to organize and head a central bank, to provide cheap credit and expanded money for himself and his allies. The ... Bank of North America was deliberately modeled after the Bank of England." The Bank was given a monopoly privilege of its notes being receivable in all tax payments to state and federal government, and no other banks were permitted to operate in the country. It "graciously agreed to lend most of its newly created money to the federal government," wrote Rothbard, and "the hapless taxpayers would have to pay the Bank principal and interest." Despite these monopolistic privileges, a lack of public confidence in the Bank's inflated notes led to their depreciation and the Bank was privatized by the end of 1783. ^{vii}

The bank lasted five years until in 1785, with the **value of American money dropping and** as previously mentioned, its charter didn't get renewed as a national bank. Morris would serve time in debtor's prison in the last part of the century and died in 1806.

Note about Fiat Currency

According Chris Mack who performed a study of 775 fiat currencies by DollarDaze.org, there is no historical precedence for a fiat currency that has succeeded in holding its value. Twenty percent failed through hyperinflation, 21% were destroyed by war, 12% destroyed by independence, 24% were monetarily reformed, and 23% are still in circulation approaching one of the other outcomes.

The average life expectancy for a fiat currency is 27 years, with the shortest life span being one month. Founded in 1694, the British pound Sterling is the oldest fiat currency in existence. At a ripe old age of 317 years it must be considered a highly successful fiat currency. However, success is relative.

The British pound was defined as 12 ounces of silver. The most successful long standing currency in existence has lost 99.5% of its value. Given the undeniable track record of currencies, it is clear that on a long enough timeline the survival rate of all fiat currencies drops to zero. ^{viii}

Is this true?

5. Math Activity

As of 3/4/2015 the British Pound Sterling was worth \$1.53 and an ounce of Silver is selling for \$16.18. If it maintained its original value what would it be worth?

*\$16.18*12 ounces, so the British Pound Sterling should be worth \$194.16.*

In terms of percentage, how much value did it lose?

$1-(\$1.53/\$194.16)=99.99\%$

You can also have students research the current values of the British Pound Sterling and an ounce of silver to determine the calculation.

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Quotes

I remember a German farmer expressing as much in a few words as the whole subject requires; “money is money, and paper is paper.”—All the invention of man cannot make them otherwise. The alchymist may cease his labours, and the hunter after the philosopher’s stone go to rest, if paper can be metamorphosed into gold and silver, or made to answer the same purpose in all cases.^{ix}

Thomas Paine

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Closure

With the apparent shortcomings of the Articles of Confederation and issues around money, congress created our country's constitution and within it a specific provision for monetary policy.

Read the following section of the constitution to identify our forefathers' efforts to address taxes, banking and said monetary policy.

The US Constitution
Created September 17, 1787
Ratified June 21, 1788

Article One of the United States Constitution

Section 8: Powers of Congress
Enumerated powers

Main article: Enumerated powers

Congress's legislative powers are enumerated in Section Eight:

The Congress shall have power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

To borrow Money on the credit of the United States;
To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;

To establish a uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;

To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;

This is Congress's authority for taxing citizens, spending money, and printing currency. Let's see what happens.

Suggested Reading

Legislative and Documentary History of the United States Bank, Matthew Saint Clair Clarke, 1832

The Mystery of Banking, Murray Rothbard, 1983

History of Money and Banking in the United States, Murray Rothbard, 2002

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ⁱ Wilson, Janet. *The Bank of North America and Pennsylvania Politics: 1781-1787*. 1st ed. Vol. 66. Philadelphia: Pennsylvania Magazine of History and Biography, 1942. Print. page 3

ⁱⁱ Baum, Ryan. "Bank of North America: America's First Bank." Web log post. N.p., 16 Apr. 2010. Web. 14 Jan. 2016

ⁱⁱⁱ DiLorenzo, Thomas J. "The Corrupt Origins of Central Banking." Mises Institute. N.p., 5 Nov. 2008. Web. 14 Jan. 2016.

^{iv} DiLorenzo, Thomas J. "The Corrupt Origins of Central Banking." *Mises Institute*. N.p., 5 Nov. 2008. Web. 14 Jan. 2016.

^v "America's First IPO." *Exhibits*. N.p., 15 Sept. 2010. Web. 15 Jan. 2016.

^{vi} Baum, Ryan. "Bank of North America: America's First Bank." Web log post. N.p., 16 Apr. 2010. Web. 14 Jan. 2016.

^{vii} DiLorenzo, Thomas J. "The Corrupt Origins of Central Banking." *Mises Institute*. N.p., 5 Nov. 2008. Web. 14 Jan. 2016

^{viii} Mack, Chris. "The Average Life Expectancy For A Fiat Currency Is 27 Years ... Every 30 To 40 Years The Reigning Monetary System Fails And Has To Be Retooled." Web log post. N.p., 31 Aug. 2011. Web. 14 Jan. 2016.

^{ix} Conway, Moncure Daniel. "The Writings of Thomas Paine." *Thomas Paine. 1906. The Writings of Thomas Paine: Bibliographic Record*. New York and London: G. P. Putnam's Sons, 1906., May 2013. Web. 26 Jan. 2016.