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Jackson, the Bank War, and the Legacy of the Second Bank of the United States

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Abstract

President Jackson vetoed the bill to re-charter the Second Bank of the United States on 10 July 1832. I describe events leading to the veto and through the Bank's dissolution in 1836 using private correspondence and official government documents. These sources reveal a political process through which charges against the Bank took hold, accomplices and back-up plans were lined up, and the Bank was ultimately destroyed with the assistance of chartered banks in New York City. Although the aggressive means by which the Bank was dismantled led to a system-wide financial failure and recession in the short term, the long-run outcome was likely a wider diffusion of banking services and a more efficient allocation of capital. The Federal Reserve benefited from applying a more rigorous regulatory structure onto the grid that the populists, free bankers, and National Banking System established.

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Jackson, the Bank War, and the Legacy of the Second Bank of the United States

By Peter L. Rousseau^a

Early in its history, the U.S. Congress twice authorized 20-year federal charters for quasi-public but privately-operated banks. The first came in 1791, shortly after ratification of the Constitution, and the second in 1816 in the wake of financial disarray related to the War of 1812. Both charters went unrenewed. The banks, now known as the “First” and “Second” Banks of the United States (BUS), served as fiscal agents to the federal government, establishing branches throughout the nation to receive, transfer, and distribute funds on behalf of the Treasury. In this sense they were public banks, but might be better viewed as private banks serving the public interest. Effectiveness in achieving that mission, however, seemed always at the center of controversies surrounding their existence. A relatively mild confrontation in Congress ended the First BUS in 1811, and most consider this to have been premature. But a more aggressive “Bank War” in the early 1830s ended the Second in a manner that allowed large numbers of poorly monitored banks, new and old, to form and expand, setting events into motion that led to the second largest recession in the nation’s history (1837-43). This article describes the political path through which President Jackson and his allies destroyed the Bank, and the impact of that destruction on the course of U.S. financial history.

I. The Bank Veto

The same Democratic-Republicans who allowed the First Bank’s charter to expire in 1811 were strong supporters of starting the Second BUS in 1816. Yet that support eroded rapidly as the new Bank made large and often non-performing loans to insiders, bringing it to the brink of

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bankruptcy within two years under its first President, William Jones. His replacement, Langdon Cheves, was more capable, but contracted loans sharply as a financial panic took hold in 1819. Critics claimed the Bank had saved shareholders at the public's expense. The situation seemed to turn around when Nicholas Biddle took over in 1823. Biddle took pride in the Bank's ability to process federal receipts and payments efficiently, monitor and react to excessive note issues by banks, and lend out the government's surplus balances to provide robust dividends of 7 percent. By most accounts, the early days under Biddle's leadership were good ones for the Bank.

Jackson's election in 1828 represented a sea change. Although Jackson had not spoken ill of the Bank publicly before the election, accusations about politicization of loans at branches in Portsmouth, N.H. and New Orleans attracted his attention in mid-1829. Confiding in friend John Overton on keeping an ally on the Supreme Court, Jackson reveals an early opinion, stating that any judge he selected would be

“better calculated to aid [former Tennessee] Judge White and myself in the change of the present incorporated Bank to that of a National Bank—This being the only way that a re-charter to the present U.S. Bank can be prevented, and which I believe is the only thing that can prevent our liberties to be crushed by the Bank and its influence” (Jackson to Overton, 8 Jun 1829, Feller et al., Vol. VII, p. 271).

Jackson delivered the opening salvo in his First Annual Message to Congress, stating that

“The charter of the Bank of the United States expires in 1836, and its stock holders will most probably apply for a renewal of their privileges. In order to avoid the evils resulting from precipitancy in a measure involving such important principles and such deep pecuniary interests, I feel that I cannot, in justice to the parties interested, too soon present it to the deliberate consideration of the Legislature and the people. Both the constitutionality and the expediency of the law creating this bank are well questioned by a large portion of our fellow citizens, and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency” (8 Dec 1829).

With more than six years remaining in the charter, Biddle was surprised Jackson would express a view on the Bank so early, especially since the President had informed him only days earlier at the White House that the Annual Message would praise the Bank for its efforts in paying down the federal debt. Biddle believed that the President simply lacked information about

the services the Bank did and could provide.¹ And Jackson, though more explicit in his next Annual Message in 1830, still seemed to leave the door open to negotiation, stating that

“In the spirit of improvement and compromise which distinguishes our country and its institutions it becomes us to inquire whether it not be possible to secure the advantages afforded by the present bank through the agency of a bank of the United States so modified in its principles and structure as to obviate constitutional and other objections” (6 Dec 1830).

Biddle once again took this statement in earnest, setting out to craft terms for re-charter that would be acceptable to the Bank, to Congress, and most importantly to Jackson. It even seemed that negotiations were going well when Biddle wrote to attorney Charles Ingersoll that

“In truth I believe there is no change desired by the President which would not be immediately assented to. And this it is which gives me so much regret, to find the President and the Bank apparently estranged while there is really no difference between them, and to see the President’s friends lose the present opportunity of settling the question so well, and so advantageously for them” (Biddle to Ingersoll, 26 Feb 1832, McGrane 1919, p. 187).

Negotiations quickly took a turn, however, when Rep. Clayton of Georgia proposed that Congress inquire into mismanagement at the Bank and violations of the charter. It took six weeks from the resolution’s passage on 14 March 1832 for the select committee to issue a scathing 33-page report with multiple allegations against the Bank, the most serious involving loans to insiders and public officials. By the time discussion re-opened on May 22, there was little time to take a re-charter bill forward before Congress adjourned in mid-July.

Biddle had to decide. Under advisement of House Speaker Henry Clay, both men chose to steer an act to re-charter the Bank for fifteen additional years (from 1836 to 1851) through both chambers on 3 July 1832. The decision, in the midst of Jackson’s re-election bid, turned the Bank into a political issue. Jackson vetoed the bill on July 10 and then won a landslide victory over Clay in the general election. Biddle and Clay had badly underestimated Jackson’s populist

¹ Biddle writes Alexander Hamilton Jr. on 12 Dec 1829 that “my impression is that these opinions expressed by the President are entirely and exclusively his own and that they should be treated as the honest though erroneous notions of one who intends well” (McGrane 1919, p. 91).

support and played directly into his hands, for it was Jackson who had consistently stated his preference for considering the Bank issue earlier than later. By effectively ending the matter in his first term, Jackson gained four years to dismantle the Bank's federal role. He did not take nearly that long.²

II. Destruction of the Bank

Jackson objected to using the government's temporary balances for the benefit of private shareholders, but also viewed the Bank as wielding excessive private control over the nation's monetary affairs. He did not articulate the latter sentiment directly, however, leaving it to surface in statements about the Bank's dividends, share of foreign owners, lack of accountability, and tendency to make loans along party lines. Biddle contended that the Bank had paid a \$1.5 billion bonus to the government when chartered in 1816, and that this entitled the equity holders to use of the government's surplus balances. The standoff persisted until Jackson took the decisive step in mid-1833 of not replacing public deposits distributed in the normal course of payments. This so-called "removal of the deposits" changed the character of the Bank War.

Jackson's key weapon was section 20 of the Bank's Act of Incorporation, which stated

The deposits of the money of the United States in places in which the said Bank and Branches thereof may be established, shall be made in said Bank or Branches thereof, unless the Secretary of the Treasury shall otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the session, the reasons of such order and direction.

Biddle interpreted these words as permitting the Secretary to remove the deposits in the event of

² The veto was unsurprising given Biddle (and Clay) made no concessions in the final bill. Biddle was slow to absorb defeat, writing to Clay that "as to the Veto message I am delighted with it. It has all the fury of a chained panther biting the bars of his cage. It is really a manifesto of anarchy – such as Marat or Robespierre might have issued to the mob of the faubourg St. Antoine: and my hope is that it will contribute to relieve the country from the dominion of these miserable people. You are destined to be the instrument of that deliverance, and at no point of your life has the country ever had a deeper stake in you." (McGrane 1919, p. 196).

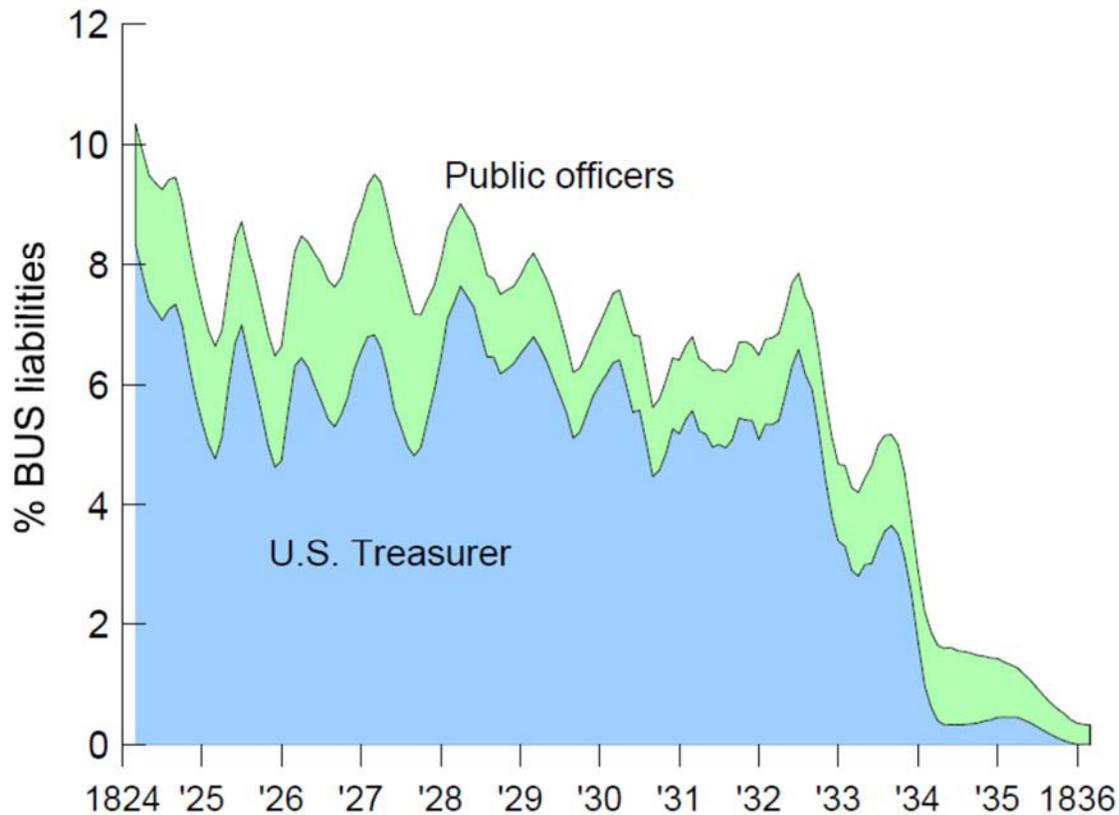


Figure 1. Deposits of the U.S. Treasurer and Public Officers in the BUS, February 1824 to March 1836.

mismanagement or other threat, and contended that this was unjustified, yet Congress formed a committee in late 1832 to investigate exactly that charge. The inquiry concluded the deposits were safe, but Jackson then dismissed two Treasury secretaries before appointing (future Chief Justice) Roger Taney, who ordered the removal effective 1 October 1833 citing “reason to believe that the charter had been violated.”

Figure 1 shows a six-month centered moving average of federal deposits in the Bank as a percent of total assets from the start of the Biddle years through the charter’s end in March 1836, with deposits from the U.S. Treasurer and from other public officers separated.³ Deposits fell

³ Figures are from dates closest to the first of each month. Federal deposits and total BUS assets are from: *House Document* No. 105, 19th Congress, 1st Session (24 Feb 1826) for Feb 1825 through Jan 1826; *House Document* No. 52, 19th Congress, 2d Session (9 Jan 1827) for Feb 1826 through Jan 1827; *House Document* No. 13, 21st Congress, 1st Session (28 Dec 1829)

sharply after the veto with the final attack commencing in October 1833. Biddle then acted as if released from the responsibilities of monitoring other banks and indirectly managing the money supply, summarizing this position in an early 1834 letter to Judge Hopkinson of the U.S. Court in the Eastern District of Pennsylvania:

“You may rely upon it that the Bank has taken its final course and that it will be neither base would forge an alliance with elites on Wall Street and in other northeastern cities, but the record indicates that the Bank’s standing in the City and State of New York deteriorated from the frightened nor cajoled from its duty by any small driveling about relief to the country. All that you have heard on that subject from New York is wholly without foundation. The relief, to be useful of permanent, must come from Congress and from Congress alone. If that body will do its duty, relief will come – if not, the Bank feels no vocation to redress the wrongs inflicted by these miserable people. Rely upon that. This worthy President thinks that because he has scalped Indians and imprisoned Judges, he is to have his way with the Bank. He is mistaken...” (Biddle to Hopkinson, 21 Feb 1834, McGrane 1919, p. 222).

Figure 2 shows the ratio of BUS loans to assets, and suggests a link from the political cycle to the provision of credit. As the charter became an issue, Biddle increased loans by nearly 50 percent over the ratio’s historical average from 1824 to 1831. Yet from the veto to the end of 1834, the data suggest some plausibility for the claim that “Biddle’s Contraction” was harming business conditions. Loans fell from a high of 53 percent of assets at the start of 1832 to 44 percent by year’s end, and the removals in October 1833 were followed by a second round bringing the ratio back to near its historical average. It was only after Biddle had “lost” the Bank War that credit began to increase again in 1835. The sharp fluctuations in the Bank’s loan portfolio suggest that Biddle was not acting in the best interests of the public.

III. The Role of New York

It would seem unlikely that the agrarian and anti-banking interests at the core of Jackson’s

for Feb through Dec 1829; *House Document* No. 63, 21st Congress, 2d Session (22 Jan 1831) for Jan 1830 through Jan 1831; *House Document* No. 523, 23d Congress, 1st Session (28 Jun 1834, pp. 13-247) for Mar 1831 through Jun 1834; *Senate Document* No. 8, 23d Congress, 2d Session (9 Dec 1834) for Jul 1834 through Dec 1834; *Senate Document* No. 128, 25th Congress, 2d Session (15 Jan 1838) for Jan 1835 through Oct 1835; *Senate Document* No. 312, 24th Congress, 1st Session (14 Jan 1836) for Nov 1835 through Jan 1836, *House Document* No. 204, 24th Congress, 2d Session (11 Apr 1836) for Feb and Mar 1836.

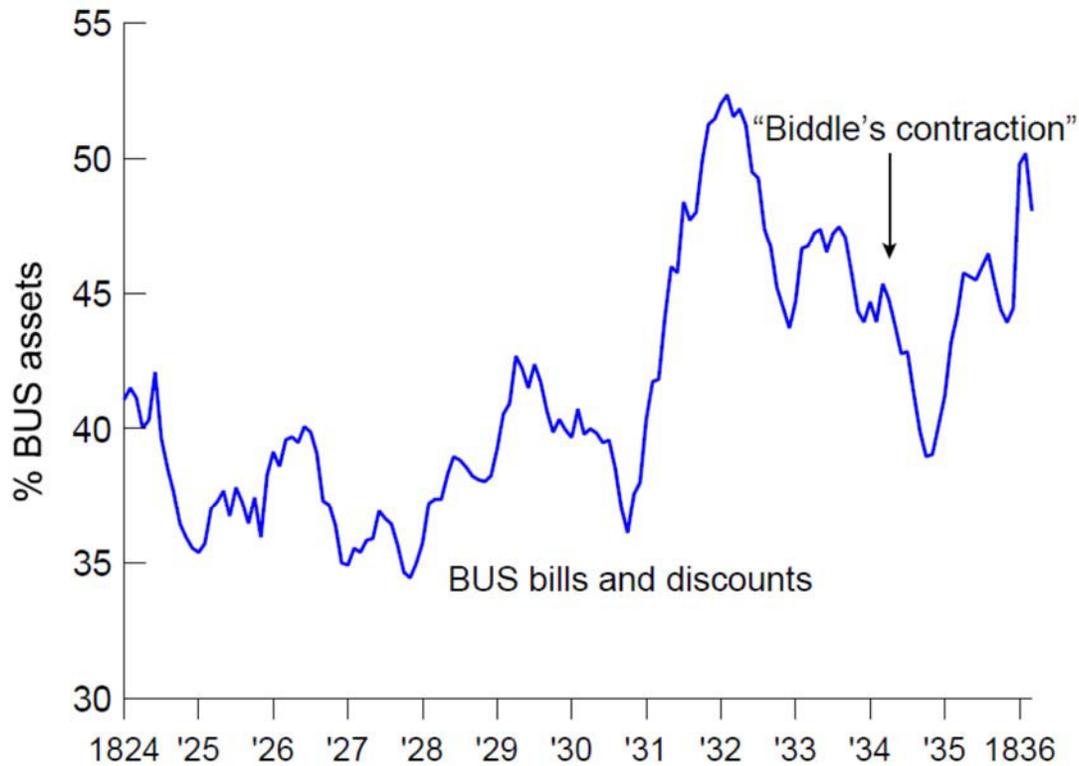


Figure 2. Bills and Discounts of the BUS, 1824-36.

base would forge an alliance with elites on Wall Street and in other northeastern cities, but the record indicates that the Bank's standing in the City and State of New York deteriorated from the early days of the Bank War through the removal of the deposits. The earliest indications appear in resolutions taken up by the State Assembly on 6 April and 9 April 1831. Both asked whether it be "resolved, that it is the sentiment of this legislature, that the charter of the Bank of the United States ought not be renewed," and suggest that anti-Bank forces were already organizing support for ending the Bank. The first resolution was defeated by a vote of 55-55 with New York City voting 8-1 in favor of the Bank (Wilburn 1967, 20-23). But when a second vote was called three days later, four of the positive legislators from the City did not vote, and two anti-Bank members not present on 6 April did appear, ending in a 4-3 vote in the Bank's favor. In the meantime, some counties in the eastern part of the state saw complete reversals and together delivered a statewide vote of 71-35 against the Bank (Wilburn, 1967, 20-23). It is suspected that future

President Martin Van Buren's forces put pressure on legislators to change votes or abstain. The State Senate then moved against the Bank on 12 April by a vote of 12-17. When the re-charter bill was brought to successful votes in the U.S. Congress on July 3, 1832, the NY delegation voted 12-19 against in the House and 0-2 against in the Senate even though the Northeast and Middle Atlantic states were generally quite supportive.

Following the veto, the key questions facing Jackson in the months leading up to the removal of deposits were where they would be lodged and which state banks would act as fiscal agents for the federal government. Failure to solve these problems would grind the payments system to a standstill, and the political and economic fallout would be severe given the deposits had been removed without prior approval of Congress. The key was to enlist major banks in the Eastern cities as new depositories, and New York was the lynchpin of Jackson's plan.

Shortly after Congress adjourned for the summer in 1833, Jackson sent Postmaster General Amos Kendall on a mission through Baltimore, Philadelphia, New York, and Boston with instructions to inquire among the larger State Banks whether they might be interested in assisting the government in its business were the need to arise. Kendall was under orders not to inform these bankers about the possible removal of BUS deposits as this would reveal Jackson's hand prematurely. He received little positive news from the New York banks on the outbound trip, with many fearing retaliation from Biddle, but was received favorably at the Bank of America, in which every director was a member of the opposition Whig party! In Kendall's own words:

The president, George Newbold, was a gentleman of comprehensive views, who did not accept the dogma of his party that a national bank was a necessary fiscal agent of the government, and he fully appreciated the wrong done to New York in depriving her of her natural advantages by the legislation of Congress, which undertook to make Philadelphia the financial centre of the Union. He also was sagacious enough to see that the gratuitous transfer of the public monies, which was a bugbear to other banks, could be made a source of profit (Kendall 1872, p. 381).

Resentment of the power amassed by the Philadelphia institution was apparently stronger than political ties could keep in check. When calling upon the Democrat-controlled Mechanics' Bank

of New York on his return trip, Kendall recalls expressing regret that

“a bank on which the administration had relied in this emergency as one controlled by his friends, should reject the benefits to be derived from the government agency, particularly as the Bank of America had already acceded to the terms proposed.” He (i.e., Kendall) appealed to the president to call his board together and reconsider the subject. That official did so, and twenty-four hours afterwards handed in another document acceding fully to the terms proposed. The Manhattan Company, which had thus far held back, now came forward and accepted in full the proposed terms (Kendall 1872, p. 381).

Kendall knew well the mixture of self-interest and opposition to the Bank he would ignite during the Northeastern trip. Once the Manhattan and Mechanics’ Banks agreed to assist, Kendall had further success in Philadelphia and Baltimore upon his return.

It is striking how readily the New York banks took up their new role as federal depositories, and how this facilitated the removal of deposits. Figure 3 shows the amount of federal deposits held by the BUS and the seven largest receiving banks from November 1833 to December 1834.⁴ Federal deposits in the BUS fell from \$7.5 mil. in November 1833 to less than \$2 mil. by March, with nearly all gains taken by the three New York banks. The deposits banks in Baltimore (Union), Boston (Merchants), Philadelphia (Girard), and Washington DC (Metropolis) also received deposits, but not to the same extent. Cooperating with Jackson had its advantages.

IV. Jackson’s Legacy

The federal government made the final payment on its debt in January 1835, and a large surplus accumulated in 1835 and 1836. Federal deposits grew to \$9 mil. in Bank of America and in the Manhattan and Mechanics’ banks by the end of 1835, for example, representing a 70 percent increase from a year earlier. Sales of public lands and the associated revenues, especially in the Midwest and “Southwest” (e.g., Louisiana, Mississippi, etc.) grew to unprecedented levels,

⁴ See fn. 3 for sources of federal BUS deposits. Deposits for other banks are from: *Senate Document* No. 16, 23d Congress, 1st Session (1 Dec 1833); *Senate Document* No. 86, 23d Congress, 1st Session (11 Feb 1834); *Senate Document* No. 373, 23d Congress, 1st Session (16 May 1834); *Senate Document* No. 8, 23d Congress, 2d Session (9 Dec 1834).

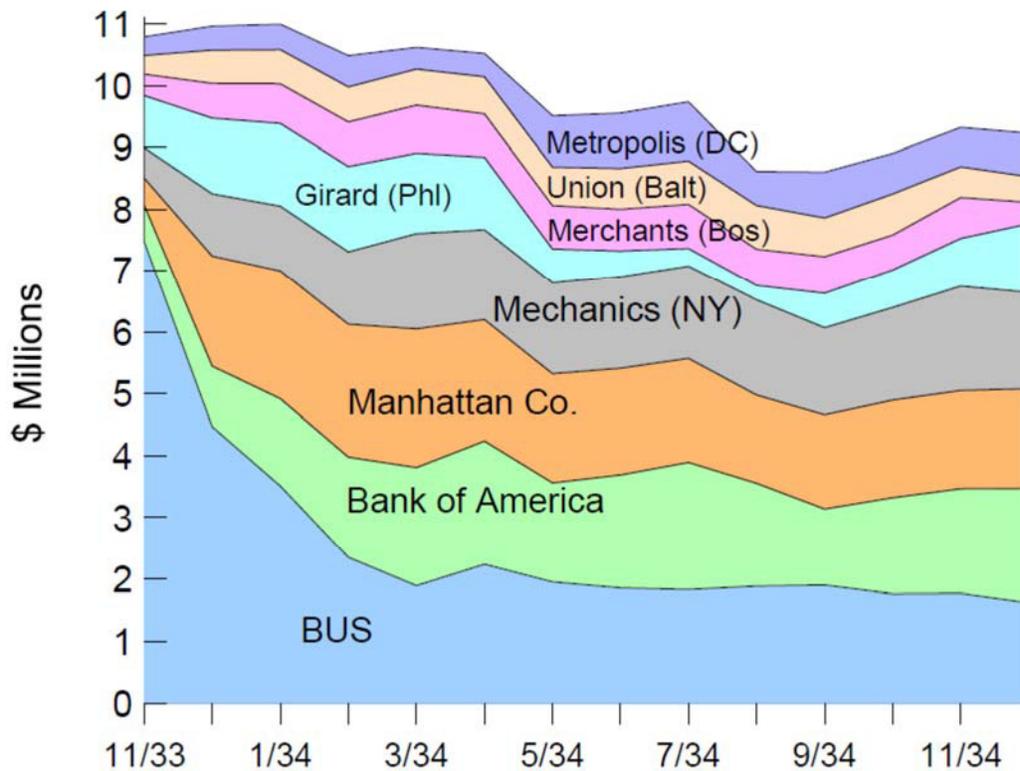


Figure 3. Federal Deposits in the BUS and Largest Other Receiving Banks, November 1833 to December 1834.

even at the statutory price of \$1.25 per acre. Customs receipts were also robust, with much of them accumulating in New York. By June of 1836 the total surplus had reached \$34 mil.

The burgeoning surplus led Congress to pass the “Deposit Act” on 23 June 1836 calling for its distribution to the states in proportion to population in four equal installments beginning in January 1837, and requiring appointment of at least one deposit bank in each state that chartered banks. In preparation, the Treasury Secretary proceeded in the latter half of 1836 to transfer federal deposits from Northeastern cities (and especially New York) into the 36 existing and 45 newly selected “pet banks” throughout the country, and these banks multiplied their newly-acquired base money, much of which originated from the removal of the deposits and specie flows from Mexico and points south. This intensified an inflationary trend already in motion.

To slow the land boom, Jackson enacted an executive order (the “Specie Circular) in 11 July 1836 requiring all public lands be paid for with gold or silver coins after 15 August, in effect

prohibiting the use of bank notes to curb their proliferation. This did not slow land sales, but rather drained gold and silver reserves from eastern banks to the west to fund land purchases.

Rousseau (2002, table 2, pp. 467-8, table 4, p. 475) shows how these measures drained the deposit banks in New York City of specie, which fell from \$7.2 mil. on 1 September 1836 to \$2.8 mil. on 1 March 1837 and less than \$1.5 mil. by May 1. This combined with balance of payments deficits caused by a decline in cotton prices to engender public fear and launch bank runs in New York City on 10 May 1837. In a weakened condition, the New York banks suspended convertibility of their notes into coin, and this propagated into the nation's first general suspension. A recession ensued for the next six years, and the nation would go without a federal bank until December 1913, when the Federal Reserve Act was passed, despite an ill-fated attempt to charter a third BUS in 1841.

What, then, can be learned from the Second BUS and what was Jackson's legacy? It seems what Jackson really sought was more public accountability and oversight for a privately-controlled federal bank. The Treasury Secretary could provide some of this, but was not directly involved in the Bank's governance. Biddle saw himself as a benevolent manager of the nation's monetary affairs, yet shareholders always seemed to take priority. The Federal Reserve Act retained many of the BUS principles, but corrected some deficiencies through a Board of Governors appointed by the President and confirmed by Congress. In turn that Board's chair is accountable through periodic Congressional testimony. Jackson was not the first to notice the deficiency, but the one who acted most strongly upon it.

Although the short-term effects of the Bank War were negative and severe, it is possible to take a more positive long-run view of Jackson's decisions. The free banking movement allowed banking to expand, and the National Banking System furthered this, while also demonstrating the dangers of a system fully administered by the public sector (i.e., through the Comptroller of the

Currency). In a sense, the legacy of the Second BUS is the principle that a central bank should be independent but not excessively so, and must stand ready to monitor its members. Biddle had no such formal responsibility, and defaulted on his implicit one after the federal deposits were removed. The Second BUS also illustrates how concentration of monetary interests can constrict a banking system. Figure 4 shows the extent and density of banking in 1832, the year the Bank War culminated, and in 1859, on the eve of the Civil War. In contrast to a dominating cluster of Northeastern banks in 1832, by 1859 banks had spread throughout the Midwest, Upper Midwest, and Mid-South, bringing more widely-diffused banking services with them and likely furthering integration in the early capital market.

The continued growth of banks under the National Banking System and a resurgence of state banks rounded out the map inherited by the Federal Reserve. Perhaps banking would have expanded without the veto, but the free banking era that followed can be seen as an extension of Jacksonian democracy, and the National Banking System was in many ways free banking under a national aegis. Even Bray Hammond, author of the classic book *Banks and Politics in America* and a sharp critic of Jackson's policies, concedes that

“Free banking is a direct heritage of Jacksonian democracy. The interest of Jackson himself in banking was mainly destructive, but the people who gave him his following – the mass of rugged individualists imbued with what Gallatin called with dismay the fierce spirit of enterprise -- wanted not to stop with the destruction of the Bank of the United States, but beginning with that to erect thousands of local banks owned by local capitalists. They wanted to destroy the monopoly and make banking open to all (Hammond 1936, p. 184).”

The greater geographic reach of both charter and free banks was consistent with promoting a monetary union, something that the United States did not have until after the Civil War and perhaps not truly until the founding of the Federal Reserve. And though the expansion in some respects represented a step backward due to the multiplicity of bank notes it encouraged, over time uniformity of the currency was achieved. Indeed, the U.S. banking system as we know it represents a hybrid of features from both the Federalist, Second Bank, free banking and

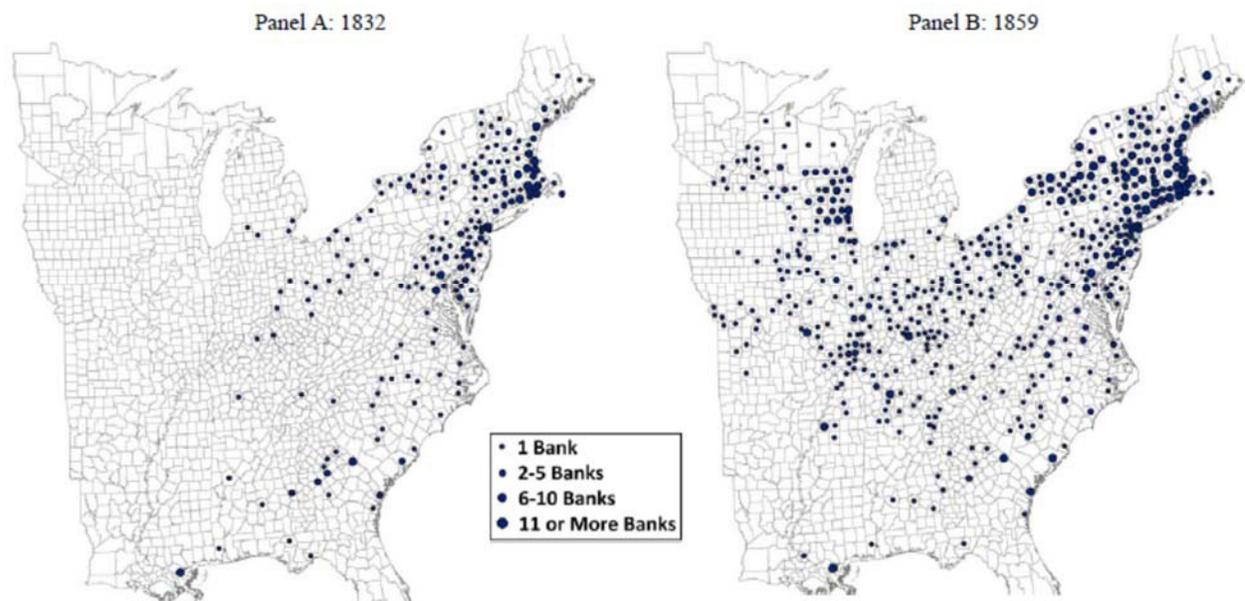


Figure 4. The geographic distribution of banks, 1832 and 1859.

Note: The figure maps the locations of banks east of the Mississippi River. The size of the circular markers represents the number of banks in the county. County boundaries are from the National Historical Geographic Information System, and the numbers of banks are from Weber (2006). The author thanks Matthew Jaremski for assistance in generating this illustration.

National Banking periods. How much more slowly would the U.S. financial system have developed and looked today had the Second BUS been re-chartered in 1832 and then again in 1852 for another twenty years under the final Whig President, Millard Fillmore?

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