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ALEXANDER HAMILTON, ANDREW JACKSON, AND THE WAR OF AMERICAN FINANCE

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ABSTRACT

In the midst of the Revolutionary War and a fight for a new nation, Alexander Hamilton began writing about public finance and the need for the rebelling colonies to establish a national bank. Hamilton's plans included selling stock in the bank to private investors as well as offering Congress oversight over the bank, policies which he believed would help align the public and private desires. Unfortunately for the bank – in its second iteration as the Second Bank of the United States – political rivalries and Andrew Jackson's personal scruples put the institution at the center of a battle that ultimately ended in its destruction. Ultimately, Hamilton was driven by the desire for the American political experiment to survive in an era of uncertainty regarding the future of the republic. Jackson, on the other hand, had little to fear when it came to the survival of the United States and hoped to check the power of his ideological and political enemies.

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INTRODUCTION

Questions of money and power have occupied the minds of Americans since the dawn of the nation. Examples of such preoccupation with the distribution of wealth and power come early and often in the country's history. The Articles of Confederation, ratified in 1781, set up a federal government that did not have the power to tax the states, fearing a repeat of the British monarchy's repressive taxes. Theodore Roosevelt, over a century later, famously referred to some of the country's richest individuals as "malefactors of great wealth."[1] Perhaps the most public debate linked to this topic, however, came in the form of Andrew Jackson's "war" on the Second Bank of the United States.

Today, United States citizens still grapple with the interplay between money and power. Take the rise of Bitcoin. Part of its appeal is explained by the fact that no centralized agency or government has control of the cryptocurrency.[2] Central to this cryptocurrency's relative success is the absence of a government authority to have any control over it. President Andrew Jackson himself was especially concerned with centralized power and federal influence on money and wealth in the young nation.

But Jackson was complicated. On September 26, 2018, Bloomberg columnist and businessman Barry Ritholtz had Peter Conti-Brown, an assistant professor of legal studies and business ethics at the Wharton School of the University of Pennsylvania, on his podcast *Masters in Business*. The Wharton professor spoke extensively about Jackson's role and political beliefs in regards to the Second Bank of the United States. Conti-Brown explains that, on the one hand,

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[1] Arnold Beichman. "Malefactor of Great Wealth," *Wall Street Journal,* March 31, 2004, https://www.wsj.com/articles/SB108070076358069911.
[2] Emily Stewart. *Bitcoin's 'Ultimate Experiment in Capitalism,' Explained*. Vox.com. January 3, 2018. https://www.vox.com/business-and-finance/2018/1/3/16797618/bitcoin-what-is-happening

some believe Jackson was "a fierce, pugilistic populist. He wanted to take power and tear it down, and push it down to the states from the federal government." At the time, though, Dr. Conti-Brown argues that Jackson "didn't like to have other power bases that threatened his control."[3]

What makes Andrew Jackson worth talking about today? Jackson has made something of a comeback to the collective memory of Americans today for obvious reasons: President Donald Trump repeatedly compared his own presidential campaign to that of Andrew Jackson, even visiting his home and grave while on the campaign trail.[4] Dr. Conti-Brown argues that Trump, like Jackson, views himself as the sole source of power, meaning that a plain ideology simply does not fit the man in office. Hopefully, the content of this paper will provide some insight into what motivated Jackson's actions toward the Second Bank of the United States and how the fate of the Second Bank is emblematic of a clash of ideals that is still relevant today.

The "Bank War," as the dispute between hard-money Democrats like Jackson and pro-bank National Republicans and financiers was called, began in the run-up to the election of 1832. The National Republicans attempted to push through a renewal of the Bank charter well before the charter ran out in 1836. Jackson, whose personal convictions led him to oppose banks of all sorts from a young age, began to stand firmly against the Second Bank, angered by Clay's attempt to use it as a political weapon. On July 10, 1832, the Jackson cemented himself in American lore as the president most staunchly opposed to a national bank in the country's history. His *Veto Message of the Re-authorization of Bank of the United States* sent the bill,

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[3] Barry Ritholtz. *Peter Conti-Brown Discusses U.S. Financial History*. *Masters in Business*. Podcast audio, September 26, 2018.

[4] Amy Greenberg et al. *Historians: Trump Gets Andrew Jackson and Civil War Totally Wrong*. CNN.com. May 3, 2017. www.cnn.com/2017/05/02/opinions/trump-civil-war-comments-opinion-roundup/index.html.

which would have extended the charter of the Second Bank of the United States, back to Congress where it ultimately died.

Jackson had his fair share of political opponents during his career, famously Clay and Daniel Webster, but perhaps no figure in early United States history stands so clearly in contrast to Jackson as Alexander Hamilton. Although the two never directly squared off in the political sphere, their vastly different partisan alignments and guiding principles reflected the divide that defined politics in the early republic. On one side, Hamilton was a proponent of federal authority whose loose interpretation of the Constitution guided the Federalist framework of understanding for the nation's governing document. Across the aisle stood Jackson, whose constructionist take on the Constitution reflected the Jeffersonian Democratic political model of resistance against the threat of a new aristocracy and corruption, as well as support for the American yeoman. Naturally, these differences in opinion extended into the sphere of public finance.

If the two did not have much in common politically, they did at least have similarly modest backgrounds. Alexander Hamilton was a lowly migrant from the Caribbean, where he was eventually orphaned and gained prominence through his military service and brilliant mind. Hamilton served as aide-de-camp to George Washington after proving himself as part of a New York volunteer militia comprised of King's College students.[5] Hamilton's desire for glory and his hardworking, perfectionist personality allowed the him to rise up the ranks of the Continental Army rapidly. Jackson also came from a unexceptional family and, indeed, had a storied career in the military. Jackson was born in the Waxhaws region of the Carolinas, although the exact location of his birth is unknown. Jackson's Scotch-Irish parents immigrated to the colonies in

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[5] Alexander DeConde. *Alexander Hamilton*. Encyclopaedia Britannica. July 8, 2018. https://www.britannica.com/biography/Alexander-Hamilton-United-States-statesman

1765, and his father was killed in a logging accident just weeks before Andrew was born in 1767. As a boy, he served as a militia courier during the Revolutionary War. During that conflict, he was scarred after a British officer slashed Jackson with a sword for refusing to shine his shoes.[6] Jackson harbored a hatred of the British for the rest of his life, and would get back at his imperial foe during the War of 1812 in which "Old Hickory," as he was known, trounced British forces at the Battle of New Orleans.

They shared one more similarity: Both Hamilton and Jackson helped shape the economic trajectory of the nation. There are, perhaps, no two figures with such towering reputations in the early financial history of the United States. Ironically, the two individuals – who never actually met – won this renown with entirely opposing views.

The First and Second Banks of the United States have been items of intrigue in economic history for over a century. Historians have explored how the First Bank fit into Alexander Hamilton's plans to revolutionize finance in the first decade of the United States' existence. Ron Chernow presents Hamilton's system of public finance as a natural extension of his desire to create an innovative economy that would support upward mobility. Hamilton, after all, is the posterchild of upward mobility in early American history.[7] Others have explored the political nature of the Bank War between Andrew Jackson and Henry Clay. Thomas Govan, for example, argues that Jackson was so staunchly opposed to the Second Bank that he would stop at nothing to destroy it despite its obvious success.[8] Both of those arguments are reasonable and supported

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[6] Harold Whitman Bradley. "Andrew Jackson." *Encyclopaedia Britannica*. October 12, 2018. https://www.britannica.com/biography/Andrew-Jackson

[7] Ron Chernow. *Alexander Hamilton* (New York: Penguin Books, 2005), 413.

[8] Thomas P. Govan, "Fundamental Issues of the Bank War," *The Pennsylvania Magazine of History and Biography* 82, no. 3, (1958): 311, http://www.jstor.org.ezaccess.libraries.psu.edu/stable/20089097.

by facts, but they fail to address the change in political atmosphere between Hamilton's time as Treasury Secretary and Jackson's service as President. This paper argues that the bank itself acts as a link between two distinct stages in American politics, underscoring the changing political concerns over the course of a few decades. The First Bank of the United States was created out of the atmosphere of the Revolutionary War and the fragility of the early American republic, reflecting a need for survival. The Second Bank of the United States was destroyed in a political atmosphere in which the nation had already asserted its international power and survival was no longer a poignant concern.

The contents of this paper explore the origins of the First and Second Banks of the United States, as well as the political and ideological forces that ultimately led to the destruction of the Second Bank. Alexander Hamilton developed and eventually implemented plans for a national bank that included publicly-held stock, understanding that the young republic needed access to the funds of wealthy Americans. The partially public nature of the bank, however, was the principal issue in Andrew Jackson's veto of the re-charter of the Second Bank of the United States. Jackson cited various abuses stemming from stockholder privileges in his strike against the bank, ranging from unfair monopoly advantages to the concentration of power among bank directors.

The creation of the First and Second Banks of the United States, followed by Jackson's bank veto, underscore the fading fear of an existential threat to the United States. Despite his association with the Federalists, Alexander Hamilton financial plans were not so much driven by an ideological belief in more federal power as they were guided by his desire to promote financial stability for the survival of the American rebellion and, later, the United States. His Federalist political alignment acted as the means by which he could address the necessity of a national bank through a loose interpretation of the Constitution. Andrew Jackson, on the other hand, guided by a desire to check the power of institutions and political opponents that he found threatening. Jackson's anger towards the National Republicans and his Jeffersonian Democratic ideology worked in tandem to drive his decision to veto the Second Bank of the United States despite its obvious value to the economy, underscoring a growing confidence in the resilience of the nation. In other words, Hamilton viewed the bank as an necessity, whereas Jackson viewed the bank through an political lens without regard for its pragmatism.

Hamilton began wading into the waters of public finance during the Revolutionary War as the Continental Congress was completely unable to finance the military effort because states refused to voluntarily pay the federal government under the Articles of Confederation. A number of problems followed, most striking of which was the rapid inflation of the Continental currency. The young lieutenant colonel, as early as the winter of 1779-1780, hoped to establish a bank that would have the ability to lend to congress. In an interesting move, Hamilton sought to make most of the bank held by the public in an effort to attract the wealth of Americans who were hoarding their capital. Hoping to keep the Confederation currency from collapsing in 1780, Hamilton argued that, "The only plan that can preserve the currency is one that will make it the immediate interest of the monied men to cooperate with government in its support."[9] In other words, the government was short on funds and would *need* capital from wealthy individuals in order to avoid financial collapse. The access to bank profits provided the incentive that "monied men" needed to supply funds to Congress.

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[9] Alexander Hamilton and Richard Sylla. *Alexander Hamilton on Finance, Credit, and Debt* (New York: Columbia University Press, 2018), 15.

Unfortunately for the bank, the public nature of the institution opened it up for criticism and helped inform Jackson’s decision to veto the re-charter. Jackson and his supporters rallied around the idea that only a select few benefitted from the existence of the Second Bank of the United States – the select few were, of course, the shareholders who owned public stock. Despite the popularity of the Second Bank and its success in every respect, Jackson would win his war on the bank, although the American people would pay the price with a financial panic that hit the country just one year after the bank was officially closed down.

Chapter 1

Hamilton on the Necessity and Structure of the Bank

Alexander Hamilton deserves ample credit for putting the United States on the trajectory to having the world's most robust economy in the modern era. The brilliant Revolutionary War veteran orchestrated the U.S. financial revolution within a few years in the 1790s. As Secretary of the Treasury, Hamilton was able to set up the mechanisms and institutions that make up a modern financial system.[10] Hamilton understood that financial institutions were crucial for the survival of the United States.

The numbers back up Hamilton's importance as Secretary of the Treasury. Financial historian Richard Sylla argues that it was around the 1790s when the United States reached modern economic growth, as defined by "sustained increases in economic output (or income) per person of 1 percent or more a year on average." Estimates show that growth rates in this range began in the last decade of the eighteenth century and eventually reached two percent per year on average in the mid-twentieth century. In fact, the United States appears to have been the first country in the world to hit the threshold for modern economic growth – the young nation even outpaced Britain and the Netherlands in this arena, which is remarkable given the financial sophistication of those European nations. Albert Einstein called compound interest "…the most powerful force in the universe," and centuries of economic growth of at least one percent certainly adds up over time. Not only did the United States quadruple its territory from the country's inception to the present day with the help of sound financial management, but the inflation-adjusted income of the average American has increased about fifty times over. The economy is approximately 4,000 times the size it was in 1790, which represents growth that is

[10] Hamilton and Sylla, 2.

unparalleled in history.[11] Hamilton holds the position in American memory as a fervent Federalist with a desire to increase the role of the federal government, but this Federalist ideology was born from his hopes to put the United States on firm financial footing. Hamilton played a remarkably important role in setting up the financial institutions that would spur economic strength for centuries to come, using a loose interpretation of the Constitution to establish the groundwork for further growth.

Hamilton, like many other national political figures in the early republic, was motivated by a desire to make sure the American political experiment did not fail.[12] Although many of his ideas differed from those of his contemporaries, he supported financial reform as something that would allow the rebellion to survive. Hamilton deemed it a necessity not only to create a central bank, but also to make the Bank of the United States at least partially held by the public in the form of stock.

From a modern perspective, having a central banking institution owned by the public seems strange and somewhat contradictory – how can such an entity serve both the shareholders and remain a vehicle of public interest with a profit motive? Today, the Federal Reserve does not make any sort of revenue or profit. Instead, the Federal Reserve simply intervenes in financial markets to adjust the overnight interest rates that banks charge to each other. In other words, there is no profit mechanism for the central bank of the United States today.

One could argue that it is sensible to make sure that a government entity is not chasing profits. A central bank tasked with holding inflation in check, establishing a reliable currency, tampering the economy during an expansion, or spurring economic growth during a recession by

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[11] Hamilton and Sylla, 2.
[12] Freeman, Joanne B. *Affairs of Honor: National Politics in the New Republic*. New Haven: Yale University Press, 2001.

controlling interest rates has the United States' financial markets in its best interest. A bank chasing profits, however, may lose sight of its original goals.

Why would Hamilton decide to structure the First Bank of the United States so that it had stockholders who were paid dividends based on bank profits? Luckily, Hamilton laid out his logic in a number of letters detailing the plans he would like to have implemented to give the rebelling states a much stronger financial standing.

A Young Hamilton

Hamilton's upbringing and experiences throughout his childhood helped shape his future beliefs about finance and economic growth in the United States. Alexander was born to James Hamilton, a drifting trader from Scotland, and Rachel Fawcett, the daughter of a French Huguenot physician. Myth asserts that Rachel, the sixth of seven children born to John Faucette and Mary Uppington, was partially black, which would make Alexander himself one-fourth or one-eighth black. Yet, Rachel was always listed as white on the tax rolls in Nevis. Still, because of his status as an illegitimate son and the simple truth that many if not most illegitimate children in the West Indies were mixed-race, Alexander would have those claims follow him around for the rest of his life. Hamilton claimed the island of Nevis to be his birthplace, although historians have yet to find records to substantiate that claim. Even in his adulthood, Alexander's early years were something of a sore subject. Hamilton called his birth the subject of "most humiliating criticism" and had been taunted as a bastard in his youth.

Rachel Faucette met James Hamilton in the early 1750s while on the island of St. Kitts. James Hamilton had grown up in a Scottish castle as part of a long aristocratic line, but as the fourth son in his family, he was expected to make his own lot in life. Alexander was likely born on Rachel's inherited property on the main street in the capital of Nevis.[13] During his time on Nevis as a young child, Hamilton likely did not receive any formal education, although he did receive private tutoring. At some point soon after the move to St. Croix, Alexander's father left his family for no apparent reason, leaving Rachel poor and in need of work. The young Hamilton grew up in St. Croix of the Danish West Indies where he spent the formative years of his childhood. As Rachel created work for herself, Alexander began work – as an eleven-year-old child – as a clerk in the countinghouse of two merchants from New York. Hamilton's mother passed away 1768 when Alexander was just 14, leaving him as the ward of his mother's relatives. He and his brother James were taken under the guardianship of their 32-year-old cousin Peter Lytton, who was a horrible guardian for the boys and committed suicide on July 16, 1769. Over the span of just a few years, the Hamilton boys lost their parents and their cousin (not to mention an aunt, uncle, and grandmother).[14] Luckily, his hard-working nature and ability to get along with others saw him get promoted to manager at the countinghouse before long.[15]

While James Hamilton went off to train to become a carpenter, Alexander was sent to live with Thomas Stevens, a respected businessman, and his wife Ann in what biographer Ron Chernow calls "a dreamlike transition worthy of a Dickens novel." Edward Stevens, who was one year Alexander's elder, became Hamilton's closest friend. The two were very smart, disciplined, and hardworking young men, "fluent in French, versed in classical history, outraged by slavery, and mesmerized by medicine." Hamilton continued on at the mercantile business

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[13] Chernow, 14-23.
[14] Chernow, 24-35.
[15] Alexander DeConde. "Alexander Hamilton." *Encyclopaedia Britannica*. July 8, 2018. https://www.britannica.com/biography/Alexander-Hamilton-United-States-statesman

Beekman & Cruger while living with the Stevens, noticing that business was often slowed down by a lack of cash, credit, or uniform currency.[16]

After a particularly harsh storm struck St. Croix, Hamilton wrote a letter to his father describing the incident in lofty, verbose detail. Hugh Knox, a minister and academic who had studied at the College of New Jersey, saw the letter and convinced Hamilton to send it to the Royal Danish American Gazette for publication. The letter became something of a hit on the island following the disaster, and the governor of St. Croix began to search for the identity of this young writer. After Hamilton was revealed as the author, businessmen on the island decided to create a scholarship fund for Hamilton in order to send the orphan to North America for a proper university education. At some point in 1773, Hamilton boarded a ship headed to Boston. Hamilton would enroll in the Elizabethtown Academy in New Jersey before heading to King's College in New York, which would later become Columbia University.[17]

While at King's, Hamilton became increasingly infatuated with the patriotic cause. The Battle of Lexington and Concord took place on April 18, 1775, and news of the fighting reached New York within just four days. Immediately, Hamilton took to arms and joined a militia unit comprised of King's students outraged by what they perceived to be British tyranny. Hamilton – ever the perfectionist – worked hard to master drills, understand military tactics, and learn the basics of "gunnery and pyrotechnics" from a veteran in the militia. By February of 1776, Hamilton had already distinguished himself as being ready to lead a group of his own. On March 14, 1776, Hamilton received an assignment to become a Captain of an artillery company, eventually leading 68 men.[18] After a string of successful and bold actions in the field and after

[16] Chernow, 36-40.
[17] Chernow, 47-59.
[18] Chernow, 76-88.

displaying his ability to organize and mobilize his men, Hamilton became aide-de-camp for General George Washington. Hamilton would serve in that role as a lieutenant colonel until February 1781, before becoming a field commander and eventually playing a crucial role at the Battle of Yorktown.[19]

Hamilton's background was incredibly influential on his vision for the future of the United States. Despite his modest and in some ways tragic childhood, his hardworking nature allowed him to climb his way up to a managerial role in the countinghouse in St. Croix. There, he saw the importance of sound and accessible currency. His intelligence and drive provided him a path to success in the United States, making him the most poignant example of upward mobility in early American history. At King's, Hamilton adopted the rebel cause and worked tirelessly to expel the British. As a figure in the early development of the United States, Hamilton worked to create an framework in which hardworking individuals could thrive and his political dream could live on.

Hamilton On Finance

Well before the creation of the Constitution – or the First Bank of the United States – Hamilton was considering how a national bank might be a worthwhile venture for the colonies. His interest in a central bank is somewhat surprising given the fact that organized banking institutions did not exist in colonial America. Before the Revolutionary War, individuals seeking loans for any reasons would borrow from the people in their immediate vicinity such as friends, family, or wealthy neighbors. In fact, merchants in North America faced a chain of credit that

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[19] Forrest McDonald. "Hamilton, Alexander (11 January 1757?–12 July 1804), statesman and first secretary of the treasury," *American National Biography* (2000), https://doi.org/10.1093/anb/9780198606697.article.0200154

extended all the way back to London. It was common for merchants or storeowners to extend lines of credit to farmers and allow them to take goods, expecting that these farmers would pay them back after the harvest.

There were, however, examples of institutions that operated in a vaguely similar manner to banks as we think about them today. Certain colonial legislatures created governmental loan offices that would become known as "land banks" in the eighteenth century. These loan offices did not accept deposits as banks do today, but they did provide mortgage loans that typically lasted between five and twelve years. The first chartered financial services institutions that resembled the commercial banks of the present in any meaningful way were founded after the establishment of the Confederation government, though. The Bank of North America, for example, received a charter from the government in 1784, operating out of Philadelphia and creating a precedent for the banking expansion that would follow.[20]

Hamilton's first venture into the topic of finance came at some point between December of 1779 and March of 1780. In a letter to an unknown recipient and without an exact known date, Hamilton first makes mention of a Bank of the United States. In this letter, which is believed to have been sent to Robert Morris, John Sullivan, or Philip Schuyler, Hamilton focuses on the inflation that the Continental Congress' currency faced during the War of Independence, as well as state currencies that had been issued. In early 1780, the currency was bordering on hyperinflation, and Hamilton, who had spent most of the war as a soldier, began to engage in "some reading on the subjects of commerce and finance."[21]

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[20] Simon Bronner. "Banks and Banking," *Encyclopedia of American Studies* (2018), http://eas-ref.press.jhu.edu/view?aid=246.
[21] Hamilton and Sylla, 9.

Hamilton's interest in finance came at an important time. The Continental Congress convened in May of 1775, passing measures that created a Continental Army and allowed the government to buy the necessary goods to fight a war. Although the colonial representatives agreed to spend money, Congress did not have much luck when it came to collecting revenues in the form of taxes. Not only did the soon-to-be rebels lack a governmental structure to collect taxes efficiently (or at all), they also faced political resistance from the states.

"America having never been much taxed for a continued Length of Time...and the Contest being on the very Question of Taxation, laying of Imposts unless from the last Necessity would have been Madness," wrote Robert Morris, a key American banker who would was known as the "Financier of the Revolution." The colonies had been protesting against British taxes for years. As Morris states, taxing the colonies from this new central authority was essentially impossible. The Articles of Confederation, which were drafted up soon after independence was declared, gave Congress the ability to print money but did not allow it to tax the states. Instead, states were expected to make voluntary contributions to keep the federal government running, which legalized the ability for states to free-ride without paying anything.[22]

[22] Ben Baack. "America's First Monetary Policy: Inflation and Seigniorage during the Revolutionary War." *Financial History Review* 15, no. 2 (October 2008): 107-109, http://dx.doi.org/10.1017/S0968565008000127.

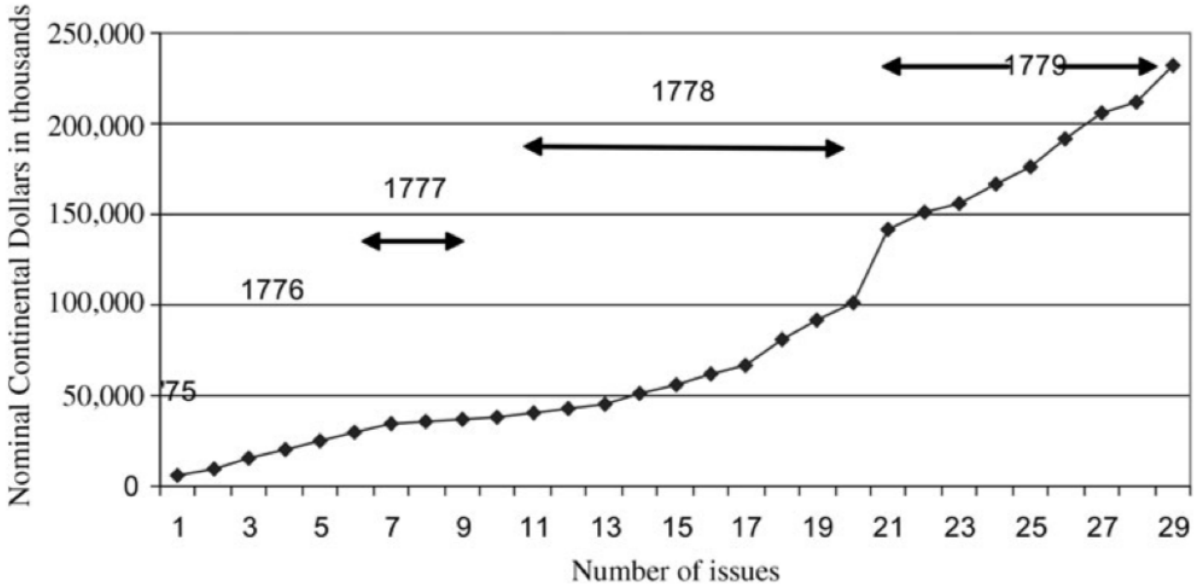

Figure 1. *Total supply of nominal Continental Dollars (thousands)*
Source: Charles Bullock, 'The finances of the United States from 1775 to 1789', *Bulletin of the University of Wisconsin: Economic, Political Science, and History Series,* 1.2 (June 1895), p. 135. The above issues per year are not the same as the number of authorisations made by the Continental Congress per year. The issues are the outcome of a two-month lag suggested by Bullock between the authorisation of an emission and the actual delivery of the printed currency.

Naturally, Congress relied heavily on printing currency to make up for the lack of funds for the war effort against the British, as shown in the figure above. The Continental Congress issued currency twenty-nine times in just a few years, flooding financial markets with depreciated currency. Although the issuance of more and more currency was problematic for the value of the currency itself, printing money was an important instrument in side-stepping the simple fact that states were unwilling to pay for the war effort. The problem was only exacerbated by states *also* relying on currency emissions for revenue, as states generally refused to pass taxation policies in 1775 or 1776. State currencies increased more than eleven times over between 1775 and 1779 as state governments competed with Congress for resources by simply printing money.[23] From this perspective, it is easy to understand why Hamilton would become such an opponent of the Articles of Confederation and an ardent Federalist as the 1780s wore on. The states proved that they were unwilling to chip in when it was absolutely necessary, and the country suffered as a result.

Paper money still had an important role to play in the early American economy in Hamilton's mind. He was a champion of bank notes under the right circumstances. Paper money plays a crucial role in any economy because it allows citizens to work around the inefficiencies of a barter system. For example, a pig farmer may want to buy grain from his neighbor, but his neighbor may have no need or desire for pigs. There would simply be no deal in this instance because there is no "double coincidence of wants." The pig farmer would have to take part in several trades to finally get the grain he or she desired. In an economy with paper money, however, each farmer can sell their respective goods on the market and receive cash. This cash can then be used to buy grain directly at the market price. Paper currency exchange also allows individuals to specialize in certain activities. That pig farmer, for example, may decide to start growing some grain in order to avoid bartering excessively despite the fact that his neighbor is more skilled at growing grain. Paper money protects the pig farmer from needing to grow grain, thus allowing him or her to continue raising pigs. Here, paper currency is allowing this individual to specialize in the area where they have a comparative advantage.

The paper money supply can also expand or contract in order to help control financial conditions and facilitate economic activity. Unlike specie, which exists in a finite amount unless new gold or silver deposits are found, paper money can grow as the economy grows, allowing for more transactions to take place. In this sense, bank paper acts as the lubricant for economic

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[23] Baack, 109.

activity as long as the money supply grows at a reasonable rate. At this particular time, however, the government was printing money for the wrong reasons.

Around the turn of the decade and in the colonial struggle against the British, the newly formed government was struggling to keep up with the financial strain of war. Given the structure of the Articles of Confederation, it is not surprising that the problem was not self-correcting. In the midst of war with a very real chance of losing to the British, Hamilton was interested in policies that would allow the rebels to defeat their imperial enemies. Writing from New Jersey, Hamilton reasoned that – despite arguments from politicians that proper planning at the beginning of the war could have made foreign aid unnecessary – an immediate foreign loan was necessary. The public spending needs of the colonies became "greater in proportion than in other countries and much beyond any revenues which the best concerted scheme of finance could have extracted from the natural funds of the state," Hamilton argued.[24] Other countries, far richer than the American colonies, had found themselves in similar situations and reached out for loans. Hamilton wondered why colonial politicians should be so opposed to following in the financial footsteps of developed European nations.

Hamilton assessed the financial problems facing the rebelling colonies with militaristic precision. The complete failure of the government to collect the funds it needed to carry on a successful war effort represented a fundamental threat to the fight for independence. Hamilton's diagnosis of American finance was based on the facts of the situation, and the facts were worrisome. In his mind, reforming the financial system was a necessity. As a result, Hamilton began brainstorming ways in which government action could alleviate the situation.

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[24] Hamilton and Sylla, 11.

Hamilton saw a few potential solutions to the lack of funding that faced the colonies, all of which required a foreign loan. First, the colonies could secure a loan in order to buy up much of the depreciated colonial paper and retire it in an attempt to restore some value to the currency. He notes, however, that the colonists have already lost confidence in the currency, leading them to spend it as quickly as possible. For the economists keeping score at home, Hamilton's argument closely resembles what the economics community today calls the quantity theory of money.[25] The velocity of money, or how often each dollar was spent, played an especially important role at this time. Inflation can be thought of as a tax on money, and lowering inflationary expectations would lead to a decrease in the velocity of money. As a result, people would feel less of a need to spend their money right away. If citizens spent their money less quickly, inflation would fall as prices stabilized. Alternatively, if negative events were believed to increase the length of the war and increase the amount of paper money that Congress printed, expectations of rising prices would lead to higher velocity would further decrease the value of each Continental. Americans would spend their money more quickly if they believed the value of each dollar would continue to fall in order to avoid a loss of spending power in the future. Hamilton believed that resetting inflation expectations was of fundamental importance in order to avoid inflation that became more rapid as time passed.

The second solution that Hamilton proposed involved using a loan to buy goods and commodities that would be helpful for the war effort. Although the policy would surely be advantageous in the short term, Hamilton doubted that it would do much to restore any type of faith in the colonial currency.[26] At the moment, the young military leader was more interested in

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[25] Hamilton and Sylla, 9.
[26] Hamilton and Sylla, 10.

restoring faith in the public financial institutions of the rebelling colonial Congress than simply providing hiding the problem for the time being. Hamilton hoped to anchor expectations of the future state of American finances by creating a strong basis for a system of financial reform.

Hamilton's assessment of possible options was thorough. With the issues at hand in the states in mind, Alexander Hamilton put together a framework by which he believed a national bank could stabilize the economy. The bank represented the means by which the rebels could achieve financial stability, which he believed was more important than what happened on the battlefield.

Hamilton looked to establish the Bank of the United States under a ten-year charter based on a foreign loan of two million British pounds. Bank stock would be auctioned off in the form of subscriptions, ultimately establishing its own currency. This bank would make annual loans to Congress at a four-percent interest rate, and could make private loans at a six-percent interest rate with the approval of Congress. Congress would take in half of the bank's profits, and could inspect the company and its trustees whenever necessary.[27]

Given the nature of the loan that Hamilton proposed in this letter, the United States would be able to carry on the war for three years, incurring a debt of just £420,000 over that time frame. He conceded that abstract questions of finance are not always easily applied to the real world, but he still had faith in the plan. "But when I consider on the other hand, that this scheme stands on the firm footing of public and private faith, that it links the interest of the state in an intimate connection with those of the rich individuals belonging to it, that it turns the wealth and influence of both into a commercial channel for mutual benefit," Hamilton argued, the bank

[27] Hamilton and Sylla, 15.

could become a useful instrument of public finance.[28] Hamilton hoped that creating a bank would align the interests private investors – who had the means to dig the colonies out of their messy situation – with those of the government. In other words, a successful public bank needed the support of both the state that supported its functioning and the powerful, wealthy individuals in the nation. This explanation of the marriage of private and public interests help answer the question of why Hamilton would ever structure the bank to have stockholders.

In those twelve initial points about the Bank of the United States, Hamilton threw in possible political concessions that he believed would help garner the support of Congress. Congress would be able to receive loans from the bank, could approve or deny private loans, would take half of the profits of the bank, and could inspect and examine the banks "state of affairs." Congressional support for the bank was crucial for an obvious reason: Congress would have to approve the existence of any such bank, especially in the face of anti-federal forces. These concessions to Congress also help underscore the realistic nature of Hamilton's thought process. He understood that the idea of a central bank may not appeal to most Americans, but he was willing to make concessions in order to realize an idea that he believed was crucial to the country's survival.

Why was the combination of government oversight and private stockholders necessary? Well, the support of rich citizens was necessary through fairly straightforward reasoning. Given the precarious financial situation that the colonial government faced in 1780, there was simply no way that the colonies could scrape together any money for such a venture, even with the support afforded by a foreign loan. The "monied men" of the colonies thus became strategically important, and Hamilton looked to give them incentives to invest in the bank – accessing funds

[28] Hamilton and Sylla, 15.

from wealthy Americans in exchange for stock directly gave the bank the money it needed. Yet, Hamilton was against giving the bank exclusive privileges in the financial space – privileges that Jackson would later claim gave the bank monopoly power – believing that such advantages would "fetter that spirit of enterprise and competition on which the prosperity of commerce depends." Here, Hamilton displayed his belief that a private banking sector could still flourish alongside a national bank.

Despite criticisms that would arise both during his tenure as Secretary of the Treasury and decades after his death, Hamilton saw the creation of the Bank of the United States as an institution in the public interest. He argued that, "There is no doubt the establishment proposed would be very serviceable at this juncture merely in a commercial view" because private banks could not be successful given the state of financial affairs at the time.[29] Hamilton simply had no interest in creating the bank strictly for the benefit of private investors. Instead, he wanted the bank to benefit both the government and the private sector, but knew that he had to entice wealthy individuals to invest their money.

Hamilton's earliest-known letter focused on finance and the need for a national bank gives tremendous insight into his reasoning for allowing investors to buy stock in the bank. When Hamilton laid out his original proposal for the Bank of the United States, he did so with recent financial history in mind. At a time when he deemed confidence in the colonial financial system and Congress' financial instruments very low, Hamilton looked to rebuild trust between American citizens and the government's finances. Using precedents set by European banks such as the Bank of England, he tried to create an institution with proper congressional oversight, allowing Congress any and all access to the bank's books. Hamilton even proposed that the

[29] Hamilton and Sylla, 17.

federal government would receive fifty-percent of the profits raked in by the bank, attempting to keep the desires of the government aligned with those of stockholders.

The first Secretary of the Treasury in United States history – before he served in Washington's cabinet – also believed that a publicly-held portion of the bank would be crucial for the project to work. Wealthy colonists held the key to stabilizing the economy in the eyes of Hamilton, as they provided capital for the bank and would help restore belief in the government and its currency. Hamilton wanted to attract money to capitalize the bank by offering stock in the institution so that stockholders could share profits proportional to the shares they owned. Financial support from the public was like the crutch that the bank needed to operate sufficiently.

Hamilton laid out this plan in an attempt to pay for an increasingly expensive war, foster normalcy in the financial markets, and allow commerce to flourish for years to come. He stated time and again his desires to keep the bank from winning any exclusive rights, believing that free enterprise was an essential aspect of a bourgeoning economy. Still, Washington's aide-de-camp saw Congress as unwilling to secure a foreign loan despite the steep battle it faced. A public-private partnership was Hamilton's solution to two problems: private banks could not weather the financial storm that had been created by runaway inflation, and a public venture would not be able to raise the capital on its own given the lack of access to money in the colonies.

On September 3, 1780, Alexander Hamilton sent a letter to James Duane, a member of Congress from New York. Throughout the piece, Hamilton lays out an argument for a strong federal government that, in many ways, mirrors the urgings he would put forth through his contributions to the Federalist Papers. Alexander Hamilton famously argued for increased federal power throughout the era leading up to the adoption of the Constitution, and the creation of the bank that he proposed was certainly only admissible through a loose reading of the country's new governing document.

Hamilton wrote to Duane complaining that Congress had made itself a "shadow of power" by making concessions to the states that were totally unnecessary, that Congress had been timid and indecisive in its decisions, and that Congress had developed a reliance on states with regards to procuring men and supplies for war. Despite arguments from states, which Hamilton believes had an "excess spirit of liberty which has made the particular states show a jealousy of all power not in their own hands," Congress had significant powers that it was not making proper use of. Not only was the legislative body vested with the power to preserve the republic from harm, it had already declared war, raised an army and navy, emitted money, and made alliances with foreign nations. He also argued, of course, that Congress should hold complete power of the purse, "for without certain revenues a government can have no power." In this letter, Hamilton became the first American leader to call for a "Convention" to address what he perceived to the be disorders of the current governmental system.[30] Unfortunately for the future New York delegate to the Constitutional Convention, Hamilton would have to wait seven years for the country to finally heed his call.

Hamilton was already showing his Federalist colors. Behind that support of Federalist ideology, however, was a realistic view of the country and the steps in needed to take. Hamilton could not have been more accurate in his appraisal that the federal government had no power without certain revenues. Congress was already flooding the financial markets with Continentals to disastrous effect, and the states had no interest in paying for the war. Hamilton believed that it

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[30] Hamilton and Sylla, 23-26.

was utterly necessary for the federal government to assert its power because the results could be otherwise disastrous.

As one might imagine, the contents of this letter were focused quite heavily on the financial situation in the colonies. Four policies would need to be employed by the government in order to sustain the war effort: pecuniary taxation, taxation in the form of goods or commodities, a foreign loan, and, of course, the establishment of a bank.[31] In this letter to Duane, Alexander Hamilton further lays out the political and financial arguments that he believed made a bank, with stockholders, necessary and proper.

In making the case for a national bank, Hamilton states that paper money had not been supported for an extended period of time by institution that did not have a "joint basis of public and private credit." Paper money needed the support of both the government and wealthy individuals. Paper money in America had seen significant depreciation by this stage in the war effort because, by Hamilton's calculations, it failed to incorporate the funds that were being held in various states. But, since the wealthy individuals had no "immediate interest to uphold its credit," the paper money continued to depreciate in value. Hamilton believed that the only way to obtain paper credit permanently was to make the wealthy individuals contribute at least part of the stock of a bank and give them some of the profits in return.[32]

Hamilton believed that making sure the richest Americans did not sit on their wealth was, perhaps, the most important aspect of setting up a national bank. "The first step to establishing the bank," Hamilton argues, "will be to engage a number of monied men of influence to relish the project and make it a business." The support of wealthy Americans would give the plan the

[31] Hamilton and Sylla, 28.
[32] Hamilton and Sylla, 29.

support it needed to be put into practice. This particular letter to James Duane makes it very clear that the decision to have a publicly-held portion of the bank was no afterthought for Hamilton. The idea was grounded in practicality given the state of finances in the colonies.

In 1781, Alexander Hamilton wrote to Robert Morris, who had been nominated to take a position as the nation's minister of finance. Hamilton wrote to Morris regarding some of Hamilton's own ideas for the financial security of the rebelling country. "Tis by introducing order into our finances – by restoring public credit – not by gaining battles," Hamilton argued, "that we are finally to gain our objective." Hamilton truly believed that cleaning up the financial state of the colonies was more important than what happened on the battlefield. Hamilton stated that Morris was the "man best capable of performing" the work necessary to get the American financial situation straightened out in the midst of war.[33] Of course, Hamilton did not fear sharing his own ideas for fixing the government's funding with Morris.

Hamilton's belief that the stability of Congress' financial situation was more important than winning the war gives tremendous insight into his motivations. He viewed the establishment of a bank to be necessary to the survival of the rebellion. Without making sure that Congress could properly fund the war effort, Hamilton feared that winning battles would not mean much in the end.

Again, the future of Secretary of the Treasury laid out the importance of the "monied men" in America in his letter to Morris. Regarding obtaining funds from abroad, Hamilton saw "little chance of obtaining a sufficiency" that would be enough to allow the war effort to continue. The young nation was suffering from poor credit, as already discussed, as a result of a lack of revenues from the states. This poor credit, he reasoned, would keep almost any country

[33] Hamilton and Sylla, 23.

from trusting the colonies to pay back the loan. When it came to internal loans, Hamilton believed that the states possessed enough wealthy individuals to meet the need for funds. He also knew, however, that the monied men of the states were lacking the confidence in a reasonable return from the faltering government. The future Secretary of the Treasury hoped to give wealthy investors "ability and inclination" to lend to the government through a national bank. In this sense, Hamilton made clear his idea of the importance of a national bank with publicly-held stock to Robert Morris, the single-most important financier during the war.

Hamilton viewed the Bank of England as an example to both persuade and warn Americans. On the one hand, he argued, the Bank of England is what allowed Britain to hold such power for an extended period of time. He argued that the country was "indebted" to the bank for providing the credit necessary to take on as many war efforts as the British had. "Tis by this alone she now menaces our independence," Hamilton argued. Hamilton seemed to understand the limits of a successful bank, however, noting that banks could be abused by maleficent actors – but so could "all other good things." The Bank of England had "abused the advantage" of its power. Still, Hamilton saw no reason to wait around before establishing a bank, stating that a nation fighting for its existence could not afford to lack both revenues and access to credit.[34]

Again, Hamilton points to the Bank of England as the key to the success of Britain. The Bank of England was able to further both public and private credit, thereby giving the government ample financial support for national defense, while allowing the commercial sector to flourish. Hamilton viewed a strong national bank as the foundation for national protection international power.

[34] Hamilton and Sylla, 39-41.

In fact, Hamilton argued, the Bank of England had come to the aid of England when King William had drained the country of specie, leading businesses to falter and tax revenues to fall.[35] Hamilton called opponents of paper money "chimerical" because they believed the country would be able to rely entirely on specie for any business involving money. Giving up paper money entirely would be "fatal" according to Hamilton because the states did not have enough specie for circulation in trade or as a "basis of revenue." On the contrary, enough cash determined the health of a state, just as the health of an animal depended on "the due quantity and regular circulation of the blood. The depreciation of the Continental, in the judgment of Hamilton, occurred because "it had no funds for its support and was not upheld by private credit."[36] Again, Hamilton argued that no paper credit can survive without the proper funds and the "interest and influence of the monied men."

If anything, Hamilton's guiding ideology in establishing the framework for a bank was practicality. Hamilton saw the financial problems plaguing Congress and developed an idea for a central bank that would alleviate the issues at hand. Hamilton wanted to support a sound currency and stable financial markets through the marriage of governmental interests and the interests of wealthy Americans. His support for a central bank came not from some love for federal power, but rather from a desire to implement smart and effective policy to help the war effort.

The decision to have a publicly-held portion of the bank may seem strange today, but there was logical reasoning behind it, as well as precedence. When Hamilton wrote his first letter

[35] Hamilton and Sylla, 41.
[36] Hamilton and Sylla, 42.

about public finance in the winter of 1779-1780, Congress was in financial chaos as states simply refused to pay for just about anything. As a result, the government under the Articles of Confederation printed money to make up for the deficit spending. Hamilton believed that the only way out of the mess was for Congress to procure a loan, and he also believed that loan would best put to use by establishing a national bank.

Hamilton argued that the key to establishing a successful bank was aligning the interests of wealthy Americans with the state. To do so, he laid out a plan to offer stock in the bank that private citizens could buy, while also adding various means by which Congress could exert some control over the bank. In his letter to James Duane in early 1780, Hamilton argued that for the rebelling nation's paper money supply to function properly, it needed the support of both public and private credit. Hamilton would never back away from his belief that paper money was of vital importance, eventually equating it to the lifeblood of the economy.

Finally, in his letter to Robert Morris in 1781, Hamilton argued that the Bank of England, despite all of the faults of the British, had propelled the country into a world power with an unmatched ability to finance war efforts. If the rebelling colonies ultimately wanted to win the war, it would come down to getting finances in order – even more so than winning individual battles. To fix the financial situation of the states, Hamilton sought the alignment of public and private desires. The Bank of the United States was made public out of the necessity of the situation.

One of the most striking aspects of Hamilton's argument for a bank is his intense focus on expediency and sensibility. Hamilton spelled out the financial problems that he saw plaguing the Confederation government and offered a number of possible solutions. These solutions varied greatly, but he ultimately settled on a plan to establish a bank because it would do exactly what the government needed it to do: access the funds of wealthy Americans and provide Congress with the funds it desperately needed. With the view that financial strength, not battles, would win the war, Hamilton made clear his belief that the bank was of the utmost importance. Hamilton's plans were in no way motivated by political ideology calling for more central government, despite his arguments to extend federal power. Instead, Hamilton simply viewed the federal government as an instrument with the power to implement policy that would improve the Confederation's chances of winning the war and furthering the American political vision.

Chapter 2

The Bank War

The period between the establishment of the Constitution and Andrew Jackson's bank veto was one of immense change in the United States. Alexander Hamilton successfully established the First Bank of the United States, but its charter ended in 1811 – just before the War of 1812. The war with the British underscored the importance of a bank within the American financial system, and President James Madison signed the Second Bank of the United States into law in 1816. When Andrew Jackson took office in 1832, however, the idea that the bank was a necessity fell by the wayside. The nation had grown drastically both in terms of geography and population, it had a burgeoning industrial base, and cotton exports were booming. The rapid development of the United States created an atmosphere of perceived security in which the National Republicans were willing to sacrifice the re-charter of the Second Bank in the form of a veto by Jackson in order to spark a war over the bank.

Establishing the First Bank

When George Washington began serving his first term as president, Alexander Hamilton was no longer simply writing about finance to the politicians with the ability to actually act on his recommendations. Hamilton had been named Secretary of the Treasury by Washington, ascending to the most important position in public finance within the infant nation. Hamilton was not afraid to make a splash in his cabinet position. In fact, he would use the "Necessary and Proper" clause of the Constitution in ways that many of his political contemporaries disdained. Using a mixture of brute force and political cunning, however, Hamilton established the First

Bank of the United States and altered the economic trajectory of the United States and its financial system forever.

Hamilton was part of the crop of politicians in the early republic who feared that the American political experiment might fail unless certain crucial steps were taken. He believed that a robust system of public credit was essential. A decade before his famous public finance report to Congress, Hamilton argued that the Bank of England was the key to Britain's success due to its ability to support commerce and finance defense. Even after the Revolutionary War concluded, Hamilton was on a mission to ensure the safety and security of the United States with his financial revolution.

In his *Report on Public Credit* in 1790, Hamilton laid out his vision for the government's role in the financial system. The Treasury Secretary took on $54 million in national debt and $25 million in state debt as a result of the war – what Hamilton referred to as "the price of liberty."[37] Hamilton restated his desire to restore confidence in government bonds in this report, reflecting the ideas that he held during his earliest forays into the subject of public finance. But, in this report, he was forced to take on highly political issues which immediately drew opposition.

Throughout the Revolutionary War, soldiers had often been paid with IOUs issued by Congress, and many of these soldiers lost faith that they would ever be repaid. As a result, veterans often sold these IOUs to speculators for pennies on the dollar.[38] Hamilton hoped to pay back the IOUs at face value in an attempt to instill confidence in government securities. This meant that he would have to choose whether he wanted the speculators who had purchased the promises of payment to reap the benefits of bond appreciation, or if the veterans should be

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[37] Chernow, 355.
[38] Chernow, 356.

tracked down to receive full payment. In an important move for the future of financial markets in America, Hamilton decided that the speculators who had purchased the bonds, and assumed the greatest risk, deserved the rewards that accompanied such risk. In other words, the veterans who sold their securities at huge discounts would not be paid in full. This decision helped create a sense of "security of transfer" in which the government would not be able to interfere in financial transactions after they had taken place. Hamilton saw this idea as crucial enough that he was willing to "reward mercenary scoundrels and penalize patriotic citizens."[39] Again, Hamilton showed his clear inclination to back policies that would benefit the country and establish sound financial markets, even if the political ramifications were clear. Hamilton was guided by a belief that establishing these clear financial guidelines would ultimately lead to economic stability which meant international power.

Hamilton faced opposition in his introduction of a bill to charter a central bank of the United States. Even after the war, the establishment of a central bank was important to Hamilton. During the war, Hamilton believed a bank was the key to sustaining the war effort and ultimately defeating the British. He also believed, however, that the British rose to such global prominence because of the power of the bank, equating international power with financial strength. If the United States wanted to reach such prominence, it would need an equally efficient, robust, and resilient financial system anchored by a national bank. Towering political intellectuals of the era – such as James Madison, Thomas Jefferson, and even John Adams – all opposed the proliferation of banking. "Our whole banking system I ever abhorred," Adams once said, "I continue to abhor and shall die abhorring…every bank by which interest is to be paid or profit of any kind made by the deponent." Hamilton knew he had to approach the topic of a national bank

[39] Chernow, 356.

properly given the political disdain for banking that was pervasive in the early American republic. The Treasury Secretary wanted the First Bank of the United States to have the power to print money, believing, of course, that paper money would allow for ease of exchange when individuals were trading goods and services, as well as support economic growth. Hamilton proposed that such a bank would make paper notes directly redeemable for gold or silver coins, forcing the bank to adjust the supply of paper currency so the currency would not lose its value.[40]

The partially public nature of the bank made the undertaking especially difficult. Hamilton set up the mandatory rotation of board members, but still put the bank in the hands of private individuals. Washington's right-hand man also hoped to curb the influence of Congress when setting monetary policy. "To attach full confidence to an institution of this nature," Hamilton wrote, "it appears to be an essential ingredient in its structure that it shall be under a private not a public direction, under the guidance of individual interest, not of public policy."[41] Preventing Congress from having too much control would keep the government from endorsing expansionary policies that would improve the likelihood of short-term economic success at the cost of long-term stability. On the flip side of the issue, Hamilton wanted the bank to reflect public interest to some degree in order to ensure that it would work for the benefit of the nation. To accomplish this balance, the United States government was permitted to buy two million dollars in bank stock of the ten million in total equity.

Hamilton thoroughly understood and anticipated the political arguments that would arise against his bank. He carefully calculated his options, backing policy decisions that would allow the bank to succeed in stabilizing and strengthening the financial system. At the same time, he

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[40] Chernow, 414-417.
[41] Chernow, 417.

made concessions to Congress that were meant to limit the power of the bank and ensure that it never strayed far from the public interest. Hamilton wanted the bank to succeed as a vehicle of economic growth that was closely tied to the interest of the public.

The bank bill passed easily in the Senate, despite some Republican dissent. In the House, the debate over the bill was split between the economic value of the bank and its political consequences. Decades before Andrew Jackson's bank veto, opponents of the bank argued that it would simply benefit financiers and speculators, effectively acting as a tax on ordinary citizens (and this argument was later adopted by Andrew Jackson). James Jackson of Georgia believed that a national bank would "benefit a small part of the United States, the mercantile class only; the farmers, the yeomanry will derive no advantages from it." Unlike Hamilton, who believed that Britain's economic power had been largely derived from its national bank and financial system, James Jackson thought the bank had little to do with the dominance of England. Jackson viewed Hamilton's comparisons between the situation of the young nation and that of the British following William III's costly wars as inherently incomparable because the United States had broken from Britain's historical path.[42] How could the United States follow in the footsteps of the British if it had just broken from the British empire?

James Madison was the most prominent member of the House opposed to the creation of the bank. "But the proposed bank could not even be called necessary to the Government; at most it could be but convenient," Madison argued.[43] The Virginia representative also believed that the

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[42] H. W. Morgan. "The Origins and Establishment of the First Bank of the United States." Business History Review (Pre-1986) 30, no. 4 (December 1956): 481-483. http://ezaccess.libraries.psu.edu/login?url=https://search.proquest.com/docview/205497290?accountid=13158.

[43] Bradford P. Wilson. *The Supreme Court and American Constitutionalism* (Lanham, Maryland: Rowman & Littlefield, 1998), 163.

bank would inhibit the ability of state banks to do business throughout the country. It is interesting to note that Madison's reasoning behind opposing the bank was at odds with his own past actions. For example, the doctrine of implied powers had arisen from Madison's report to Congress in 1781, and he was behind a resolution during the Constitutional Convention that would allow Congress to incorporate organizations if it were in the public interest – although this resolution was never accepted.[44] In that sense, Madison should have supported a bank based on his own previous arguments as an ardent Federalist. His opposition to the bank, however, helped define the political division in the decades to come as he adopted a constructionist take of the Constitution.

Fisher Ames came to the support of Hamilton's bank in debates, going as far as to say that Congress "[had] scarcely made a law in which we have not exercised our discretion with regard to the true intent of the Constitution." Madison saw the bank as unconstitutional because the ability to establish such an institution was not defined in the Constitution, whereas Ames believed that Congress had been making similar judgements on numerous occasions for its entire existence. Perhaps unsurprisingly, this debate helped cement the Federalist-Republican divide that would define the early decades of partisanship in the republic. Ultimately, Ames' view won out and the House passed the bank bill 39-20.[45]

The First Bank of the United States was officially established with George Washington's signature in 1791. The structure of the bank remained basically unchanged to what Hamilton laid out in the original bill.

1. The entire stock totaled $10 million and $2 million was to be owned by the government.

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[44] Morgan, 484-485.
[45] Morgan, 486.

2. The bank acted as a governmental depository of funds and needed congressional approval to make any loan greater than $100,000.
3. The Secretary of the Treasury had access to bank records other than those of private investors.
4. The directors could establish branch offices of the bank.

The new national bank was, somewhat ironically, very similar to the Bank of England. Like the Bank of England, the First Bank required a one-fourth down payment on stock in the form of gold or silver, it could not transact in land or goods, and it had a limited charter. The First Bank also shared some restrictive policies with its source of inspiration, including limits on the size of loans and a provision that liabilities could not exceed assets.[46]

Hamilton's plan to align the desires of private investors with the state had succeeded. Not only had Congress passed the bank bill, but private investors were keen to buy shares of the bank. Investors bought the entirety of the subscriptions offered in Philadelphia within an hour. Merchants from urban areas bought most of the stock, but even institutions like Harvard College and governmental entities like the State of New York and the Bank of Massachusetts purchased shares.[47] The First Bank of the United States was officially in business on December 12, 1791.

The First Bank was very successful in addressing the issues that had plagued the country. The bank established a currency that was liquid and elastic, meaning that the money supply was not fixed and could expand or contract when necessary. Hamilton's bank offered services that were much needed to help expand commerce, and even helped tamper any excess issuance of

[46] Morgan, 491.
[47] Morgan, 492.

state bank notes by redeeming these notes. Fiscally, the bank succeeded in safely storing government revenues and had loaned a total of $6.2 million to the government by 1795.[48]

Hamilton's vision was a success. His arguments were grounded in necessity and pragmatism – Hamilton was legitimately fearful for the future of the nation. His loose, Federalist interpretation of the Constitution proved to be the means by which he could argue that the bank fit within the legal framework of the young United States. Hamilton's arguments did not originate from some belief that governments were most efficient when power was concentrated at the federal level. Rather, he held the conviction that the bank would be tremendously beneficial in terms of funding governmental expenditures, strengthening the economy, supporting national defense. The doctrine of implied powers allowed Congress to establish the bank, thanks to Hamilton's federalist vision. In other words, his equation of financial power with both economic progress and international influence drove him to adopt the Federalist ideology.

Despite the success of the First Bank, its charter was not renewed in 1811. Opponents argued that the bank was a "money trust" in the hands of foreigners, that it benefitted the Federalist agenda, and was unconstitutional in the first place. On March 3, 1811, the First Bank of the United States was no more.[49] Despite succeeding by every measure, the bank could not survive past one twenty-year charter.

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[48] B. H. Beckhart. "Outline of Banking History: From the First Bank of the United States Through the Panic of 1907." *The Annals of the American Academy of Political and Social Science*, 99, no. 1, (January 1922): 1, doi:10.1177/000271622209900102.
[49] Beckhart, 1.

Establishing the Second Bank

It would not take long for Congress to correct its mistake. The War of 1812 was important in the context of finance in the United States in that it led Congress to push through legislation to create the Second Bank of the United States while also allowing for the meteoric rise to the bank's biggest foe, Andrew Jackson. In January of 1815, General Andrew Jackson defeated the British at the Battle of New Orleans, and although the battle took place after the war was technically over after the Treaty of Ghent was signed, Jackson became a national hero nonetheless.[50]

The American effort during War of 1812 lacked financing in a number of ways. Most of New England threatened to secede from the Union in opposition to the war, giving little in the way of financial support to the effort as a result. Congress failed, in general, to finance the war effort from the beginning. It took until 1813 for the government to raise just $2 million in taxes, and assessed another $3 million on the states. The poor planning meant, however, the revenue wasn't actually collected until 1814. The credit rating of the United States suffered and the government was forced to sell Treasury notes without a solid source of revenue, threatening its ability to actually pay off this newly-issued debt.[51]

The war with the British crippled the American economy. In 1811, the United States exported $53 million in goods, but by 1814 declined to just $7 million. Not only was the British navy extremely effective in damaging the economy, but it was also effective in decreasing the revenue that the government brought in through customs duties.[52] The United States government

[50] Federal Reserve Bank of Philadelphia. "The Second Bank of the United States: A Chapter in the History of Central Banking," (2010): 1. https://www.philadelphiafed.org/-/media/publications/economic-education/second-bank.pdf
[51] Federal Reserve Bank of Philadelphia, 1.
[52] Federal Reserve Bank of Philadelphia, 2.

suddenly found itself struggling to make ends meet, and lacked a plan or the willingness to dig its way out of the problem.

The ultimate result of the lack of planning and British naval power was that the government found itself in a similar situation during the War of 1812 that it was in during the Revolutionary War. The United States had faced a similar debt crisis about twenty years earlier, especially in the sense that Congress was unable to raise sufficient taxes – but the rebels had Alexander Hamilton to see the restructuring of the government's public finances. Unfortunately for Madison's government, the twenty-year charter of the First Bank of the United States had, of course, been allowed to expire in 1811. Without Hamilton around, six figures played important roles in pushing for the Second Bank of the United States. Financiers John Jacob Astor, David Parish, Stephen Girard, and Jacob Barker all lobbied for a new national bank, while future Secretary of the Treasury Alexander Dallas and South Carolina congressman John C. Calhoun also backed the venture.[53]

Parish, Astor, Girard, and Dallas got together with Treasury Secretary Albert Gallatin in April of 1813, as Gallatin was hoping to secure funds to continue the war effort. Astor, Girard, and Parish, decided to buy $9 million worth of government securities in order to ease the financial pressure on Gallatin, although it was clear that the nation needed a new institution to take care of the American financial system. These financiers were joined by 150 New York businessmen who signed a petition for the creation of a new national bank in January of 1814 and sent it to Congress, and John C. Calhoun brought a plan for a new bank before Congress the next month. Congress, however, did not pass the bill.[54]

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[53] Raymond Walters. "The Origins of the Second Bank of the United States." *Journal of Political Economy* 53, no. 2 (1945): 116. http://www.jstor.org.ezaccess.libraries.psu.edu/stable/1825049.
[54] Federal Reserve Bank of Philadelphia, 2.

In April of the same year, James Madison began to believe that a bank would be necessary to take care of the finances during wartime, but when word came that the British were seeking peace, he felt the need for a bank was less pressing.[55] Of course, Madison's support of a new bank is especially interesting given his opposition to the First Bank, not to mention seemingly every idea that Hamilton put forth as Secretary of the Treasury. Throughout the rest of 1814, however, two bills for a new bank didn't make it out of Congress. Early in 1815, Madison vetoed a bill that had made it through Congress, and the legislatures decided to put the issue off until 1816 when news of a peace treaty with the British made its way to the states. After vetoing yet another bank bill in January of 1816, Madison finally signed into law a bill that would create the Second Bank of the United States.[56]

Perhaps no single action in the entire story of banking in the early republic is as telling as Madison's support of the Second Bank. Madison had stood firmly opposed to the First Bank, describing it as convenient, but not Constitutional. When the importance and practicality of the bank became abundantly clear during the War of 1812, Madison changed course completely and backed the bank. The inability of both Congress and the states to plan well and make difficult decisions forced Madison's hand. Threatened by the invasion of the British, the he understood the bank's role in the survival of the United States. As president, Madison clearly had viewed the issue of the bank differently, opting to see the institution for its essential role in the nation's future.

This brand new bank operated in a very similar fashion to its predecessor. Like the First Bank, the Second Bank held the deposits of the government, as well as made payments on behalf

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[55] Walters, 120.
[56] Federal Reserve Bank of Philadelphia, 5.

of the government and issued credit to the public. Madison called for the stability of a national currency, and the bank was tasked with issuing – and therefore redeeming – bank notes while also controlling the issuance of bank notes in the states. Finally, the bank served a commercial function, making loans to the government and to businesses. Five of the bank's twenty-five board members were chosen by the President and confirmed by the Senate. The Second Bank, just like the First Bank, sold its stock in the form of "subscriptions" to both the public and the United States government. 80 percent of the bank was to be held by private investors while the government would hold the remaining 20 percent.[57]

Soon after the bank was set up, it sprung to prominence and power in the financial sector. The Second Bank's paper currency made its way into the financial system usually through the commercial loans it made. With the government's deposits on its balance sheet, this new bank could make a substantial number of sizable loans – and this fact was a point of contention with state banks who did not have access to as much capital. The reach of the bank had also been increased as it totaled twenty-five branches compared to the First Bank's eight branches. These branches were not laid out for the sole reason of expanding the power and reach of the Second Bank. From a logistical standpoint, the branches were important in spreading funds throughout the states which allowed the bank to make both payments and loans more easily. New branches toward the frontier were critical in aiding the development of western lands. As the government sold off plots of land in the west, the branches brought in these revenues which were used to give loans to local farmers and businesses – the branches helped finance the shipment of different goods and agricultural products both within the United States and abroad.[58]

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[57] Federal Reserve Bank of Philadelphia, 6.
[58] Federal Reserve Bank of Philadelphia, 8-9.

Unlike now when central banks move financial markets so rapidly meeting notes alone, the Second Bank could not directly influence monetary policy in the form of interest rates. For example, the Federal Reserve kept its 10-year interest rate at zero during the Great Recession in an attempt to stimulate economic activity with incredibly cheap credit, directly influencing rates by offering banks interest their reserves. The Second Bank had no such power, but still took certain steps to influence the flow of credit in the economy. On its own balance sheet, the Second Bank would alter the amount of both paper money and credit in the economy, which would increase or decrease the rates charged to borrowers. Like the First Bank, this national bank also restricted the loans that state banks could make. To increase the flow of credit, the Second Bank would hold onto the state bank notes that it had amassed in the course of typical financial transactions, thereby leaving the state banks with more specie reserves. The opposite could also hold true, as the Second Bank might redeem state bank notes for gold and silver, restricting the state banking system's ability to make more loans.[59] The Second Bank played an important role in making sure loans in the financial markets were safe and under control.

The Operations of the Second Bank

The Second Bank's operations were fairly straightforward and very similar to those of its predecessor. Unfortunately for the future of the bank, however, the institution would be pulled into one of the most notable political debates regarding the financial system in American history. Despite the wishes of Nicholas Biddle and despite its popularity, the bank was drawn into a battle between the National Republicans and Jackson as the two sides vied for the presidency. In one of the defining episodes of Andrew Jackson's political career, Old Hickory waged war

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[59] Federal Reserve Bank of Philadelphia, 9-10.

against the Second Bank and struck the ultimate blow with his *Veto of the Re-Charter of the Second Bank of the United States*.

The Second Bank of the United States was not an issue on the minds of the national electorate when Andrew Jackson lost his presidential bid in 1824, nor when he won the presidency in 1828. The currency situation in the country was functioning well by the time he entered office, as the dollar was received either at its par value or even commanded a premium when exchanged for other notes or specie. Local currencies helped create a monetary supply that Thomas P. Govan called, "elastic, uniform, sound, and completely adequate for the needs of an expanding economy."[60] As the international trade of agricultural and manufactured goods flourished, the dollar became increasingly important as a store of value that other nations could rely on. Andrew Jackson was even reported to have told stated that the bank "was a blessing to the country, administered as it was, diffusing a healthful circulation, sustaining the general credit without partiality of political bias."[61] He went as far as to say that he "entertained a high regard for its excellent President…who with the Board of the Parent Bank possessed his entire confidence and indeed his thanks for the readiness and cordiality with which they seemed to meet the views of the government."[62]

The American economy relied so heavily on markets for goods that the uniform currency supplied by the Second Bank was helpful to every part of society: The costs of transactions were reduced for small farmers and large industrialists alike thanks to the dollar. Even bankers, brokers, and international merchants saw the currency as a way to help generate income that did

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[60] Govan, 305.
[61] Ralph Charles Henry Catterall. *The Second Bank of the United States*. (Chicago: University of Chicago Press, 1902), 188.
[62] Govan, 305.

not fluctuate dramatically based on the value of the dollar. Nicholas Biddle, who served as the president of the Second Bank of the United States, believed that the bank was providing a public service in this very respect.

Biddle subscribed to the idea that the bank served the average American, rather than only the stockholders who had access to the profits of the bank. Biddle took a position as a government director in 1819, accepting an appointment from President James Monroe. “The truth is that,” Biddle wrote to Monroe, “with all its faults the bank is of vital importance to the finances of the govt and an object of great interest to the community.” Despite the management issues of the Second Bank’s early years, Biddle believed that the institution was simply too important to allow to be destroyed. He believed that the bank’s detractors in government, who were “so jealous of the exclusive privilege of stamping its eagles on a few dollars,” should “never again abandon its finances to the mercy of four or five hundred banks independent, irresponsible, & precarious.”[63]

In many ways, Biddle’s view of the bank reflected Hamilton’s own assessment of its importance without much regard for its political implications. Biddle was on a mission to reshape the bank into an apolitical institution operated with efficiency and integrity. He believed the financial stability and economic prosperity of the nation was of the utmost importance, reflected in his belief that the bank’s operations were so important that keeping the bank apolitical was a top priority.

Biddle served as a government appointee for three years, helping then-President Langdon Cheves reform and restructure the bank until he was forced to step down as required by law.

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[63] Jeffrey Sklansky. *Sovereign of the Market: The Money Question in Early America* (University of Chicago Press: 2017), 134.

Biddle would, however, return to the bank as its president less than a year later in January of 1823. Biddle quickly reversed Cheves' policy of limiting the issue of notes, limiting loans, and limiting the purchase of other currencies, believing that these moves had kept the bank from achieving its actual goals. The Second Bank, under Biddle, returned to providing enough paper to be considered a true national currency, it began controlling exchange rates, and was able to provide stability to the economy at large.[64] By all accounts, the bank was operating just as it should have been under Biddle's direction.

Bank notes issued by the branches of the Second Bank within the central portions of the country moved from rural areas of the nation into the industrial centers, such as Philadelphia, New York, and Baltimore as payments were made for manufactured goods. On the flip side, money flowed from these industrial centers to the farming regions of the United States, and even from Europe. The branches of the bank in the South and West bought bills of exchange for both foreign and domestic transactions, eventually sending these bills back to eastern branches. This movement of financial instruments helped create a fund comprised of these exchange bills.

Domestic exchanges played a key role in Biddle's public financing plan. As the rural branches bought up domestic bills of exchange, the branches in industrial cities sold them off. In this sense, Biddle was able to create a balance between the vastly different regions of the country. The fluctuation of the currency was kept at a minimum, which was important for most major players in the economy. Only speculators or brokers, who hoped to buy low in rural areas and sell high on the eastern seaboard, were hurt by such stability.[65]

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[64] Govan, 307.
[65] Govan, 307.

The Second Bank of the United States, in the eyes of Biddle, had a much more difficult task than the state banks. Whereas the state banks could print off money without much in the way of regard for potential consequences, the Second Bank, "must take care always to keep itself in such an attitude that at a moment's warning, it may interpose to preserve the State Banks and the country from sudden dangers."[66] In essence, Biddle saw the Second Bank as having the fundamental duty to guard against risky banking practices that could be undertaken by state banks. This belief is especially interesting looking forward, as part of Andrew Jackson's bank policy following his veto of the bank was to transfer funds from the central bank to different state banks, especially along the American frontier, to disastrous effect.

The president of the Second Bank worked hard to allow his institution to keep the economy and money supply relatively steady. The control of foreign exchange proved to be immensely important, especially when reacting to fluctuations coming from London, the financial capital of the world at the time. When the rates of foreign exchange were higher than the cost of actually sending specie, the Second Bank would send specie overseas. Biddle's bank was able to do this through extensive credit relations with important clearinghouses in the United States, which were responsible for buying and selling different financial assets. Essentially, as the Second Bank sent more and more specie overseas due to adverse prices of foreign exchange, banks were forced to remain solvent by reducing their outstanding loans and their paper money issuance. If the Second Bank sent too many reserves overseas too quickly, however, the banks around the country would have been forced to rapidly reduce the specie in circulation.[67]

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[66] Govan, 308.
[67] Govan, 308.

The Second Bank was set up to protect against such changes in foreign exchange rates, and Biddle set up the bank to prepare for fluctuations in prices. The Second Bank worked to make any pressures from London as gradual as possible. In this sense, Biddle controlled the banks throughout the country in a hands-off approach. The brilliance of the system is that it helped quell his fears of local banks simply printing money or making excessive loans by forcing them to operate with a sense of potential danger. Here, Biddle was able to avoid forcing banks to follow specific guidelines for responsible business practice. The bank simply did not have the power to force specific regulations on the local banks throughout the community, but manipulating trade exchanges allowed these local banks to feel the forces of changing rates. Meanwhile, the Second Bank was able to soften the blow of any such changes.

One difficulty of the Second Bank of the United States came in the form of an inability to translate these sound financial practices to popularity in the political sphere. The decisions that the bank made affected the financial markets and mercantile groups most directly. Biddle's bank could manipulate the amount of credit in the economy, but these decisions were carried out privately. Even the effects of more or less credit were difficult to fully ascertain as a member of the general public, as these policies were gradual over extended periods of time.[68]

It also probably did not help that legislators generally did not understand the purpose of the bank, and that Nicholas Biddle himself was a fiery figure at times. Biddle spent time in the Pennsylvania legislature, writing in 1810 that the opposition to the First Bank of the United States "was the result of a downright ignorance of its meaning and operation." The bank's operations were surely complex and Hamilton's ideas regarding finance were well ahead of his time. Even as the bank president, Biddle realized that the public writings on the institution under

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[68] Govan, 309.

his control were largely under-informed. Most politicians failed to actually read the lengthy and potentially confusing documents explaining exactly what the bank was attempting to do with its manipulation of exchanges.[69] Instead, writers on the topic liked to write about the possibility of corruption at the bank.

Still, Biddle carried on Hamilton's legacy of viewing the bank as something beyond the political realm. For the bank president, the Second Bank was an arm of the government meant to carry out financial policies that would allow business and commerce to thrive without the threat of out-of-control risk in the financial sector. The bank was viewed as a necessity by Biddle, plain and simple. Its policies were grounded in practicality and were extremely successful, thanks to both Hamilton and Biddle.

The Second Bank Becomes Political

Jackson's ability to point the American fear of a wealthy oligarchy towards a massive corporation spelled trouble for the National Republicans. New York Whig leader Thurlow Weed, after the election of 1832, stated that, "But we have gone with our friends through three campaigns, under a strong and settled conviction that, in every issue to be tried by the people to which the bank was a party, we must be beaten. After staggering along from year to year with a doomed bank upon our shoulders, both the bank and our party are finally overwhelmed."[70] Weed could not have been more correct in his connection between the state of the bank and the political disaster of the National Republicans.

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[69] Govan, 309.

[70] Albany Evening Journal, November 15, 1834, quoted in Harriet A. Weed, ed., *Autobiography of Thurlow Weed* (Boston, 1884), 431.

Andrew Jackson stood opposed to central banks for his entire political career. In 1817, Jackson opposed branches of the Second Bank into the state of Tennessee. He would go on to approve a law that instituted a $50,000 tax on any bank branch in the state.[71] Jackson's opposition to the bank was grounded in ideology, as he favored specie over paper money, worried about an elite class forming from the bank's shareholders, and distrusted federal power. At the same time, however, Jackson was not keen to make any threatening moves toward the bank. He seemed to understand the benefits of the keeping the bank around – both politically and economically – even if he feared the potential for its power to grow and its shareholders to reap the financial benefits. It would take a political spark to anger Jackson enough to veto the bank's re-charter.

Biddle hoped to avoid the exact situation that eventually led to the fall of the Second Bank. In 1826, he stated that, "This has been signally seen during the late Presidential contest when the name even of the Bank was never mentioned during the greatest political excitement."[72] In fact, Biddle himself voted for Andrew Jackson in 1828. There is, perhaps, no greater indication of the rapid change in the bank as a political object than the simple fact that Nicholas Biddle, who would come to stand firmly against Jackson during the bank war, hoped that Jackson would win the presidency.

Biddle made every possible effort to reduce any political influences over the bank and reprimanded members of the bank who were actively political. He also made sure that the Second Bank's board was comprised of supporters of both political parties. Biddle's moves

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[71] Harold J. Plous, "Jackson, the Bank War, and Liberalism." Southwestern Social Science Quarterly 38, (1957): 101, http://ezaccess.libraries.psu.edu/login?url=https://search.proquest.com/docview/1291567300?accountid=13158.
[72] Govan, 310.

proved to be so strong that when Jackson's supporters claimed that bank branches refused to make certain loans for political reasons, board members from both parties rejected the claims following the election. In fact, in the Bank War that would stretch throughout Jackson's presidency, there was never any proof of any claims that the bank worked to influence elections or acted in any overtly political way.[73] Meanwhile, Biddle would simply work to keep the bank apolitical – but he simply could not overcome the forces that existed in the political sphere.

In November of 1829, Nicholas Biddle and Andrew Jackson met on very friendly terms. According to Biddle's notes from the meeting, Jackson thanked Biddle for working to pay off the national debt. Still, Jackson made his qualms regarding the bank clear. "I do not dislike your bank any more than all banks, but ever since I read the history of the South Sea bubble I have been afraid of banks," Jackson explained. Despite this, the meeting went well in Biddle's eyes. So well, in fact, that he did not believe a warning from Alexander Hamilton, Jr. explaining that Jackson would speak against the bank in his first State of the Union address.[74]

If nothing else, Jackson's fear of a potential bubble helps explain his preference for specie. Unlike bank notes, specie payments force economic participants to pay with the money that they already have given the difficulty of loans. Without access to paper credit, specie payments make it less likely for financial bubbles to form. Coupled with this preference for hard money, Jackson's fear of a new financial elite and his disdain for federal authority make his opposition to the bank quite clear.

The Second Bank first became an object of political intrigue later 1829, although the bank war was still yet to come. Initially, the re-charter of the Second Bank of the United States

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[73] Govan, 310.
[74] Bray Hammond. *Banks and Politics in America from the Revolution to the Civil War*. (Princeton University Press, 1957), 373.

was an effort led by Democrats in Congress who sided with President Jackson, but the president made his stance known in his first State of the Union address to Congress, just as Alexander Hamilton, Jr. had warned. Jackson shared a fear of an American oligarchy and exploitative financial elite with many of his constituents, and that alone was enough for the president to oppose the re-charter. In his address, he argued that the bank's constitutionality was unclear and that it had failed to establish a uniform and sound currency.[75]

Jackson's claim that the bank had failed to establish a uniform and sound currency was altogether wrong. When pressed on the issue by his Treasury Secretary Albert Gallatin, the president had no real response.[76] The question of whether the bank was constitutional or not had been settled both by the Supreme Court, and by James Madison who signed the Second Bank into existence. Supreme Court Chief Justice John Marshall and his fellow justices unanimously ruled the bank to be constitutional in 1819. John Marshall was a Federalist to the core, thoug, along with the bank's counsel in *McCulloch v. Maryland*, Daniel Webster.[77] Marshall's ruling was an important decision in the support of the implied powers doctrine, which Jackson stood opposed to as a constructionist and proponent of states' rights.

As a westerner, Jackson also distrusted the concentration of bank stock in the eastern states, as well as outside of the country. Many of his supporters in the West had a disdain for the bank, however, because of the way it was operating under Biddle. The Second Bank redeemed state bank notes in the West in the form of specie, effectively limiting the amount of bank notes

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[75] Maurice G. Baxter, "Henry Clay and the American System," *Southwestern Social Science Quarterly*, no. 38 (1995): 87, https://search.proquest.com/docview/1291567300?accountid=13158.
[76] Hammond, 374.
[77] Plous, 101.

that these state banks could issue. Westerners, who were often farmers and debtors, wanted more access to credit – they did not fear the power of the bank and its shareholders like Jackson did.[78]

Jackson's stance as a hard-money advocate is therefore ironic because his support in the West came from citizens who wanted *more* banks and *more* note issuance. Jackson believed that only hard money could be trusted to maintain its value – his supporters in the West and South did not agree with his hard-money views, but decided to ignore them. Even in the East some workers turned against the Second Bank. Employers took up the practice of paying their employees with state bank notes which were typically highly depreciated and therefore not particularly valuable (or costly for the employers). Despite the fact that the Second Bank had nothing to do with these notes or this practice, many workers started to oppose all banks.

Despite his numerous objections to the bank, Jackson never truly threatened its existence in the first few years of his presidency. The bank was generally popular on both sides of the political spectrum, and even Jackson seemed to understand how well it was functioning. In the summer of 1831, Jackson made a number of changes to his cabinet, and Roger Taney emerged as the only member outwardly against the bank. Bank proponents in Congress and within the bank worked with Jackson's cabinet to strike some kind of deal that would allow for a new bank charter that fit Jackson's vision more closely. What was Jackson's vision exactly? In his 1830 State of the Union address, Jackson explained that he would like the central bank to stop issuing currency, instead acting as a branch of the Treasury that would take state bank notes for deposit and act as a medium of exchange between notes.[79] This bank would be constitutional in the eyes of Jackson as it would not be operated for profit, nor would it operate outside of the confines of

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[78] Plous, 102.
[79] Plous, 103.

Washington DC. Jackson hoped this bank would provide its expenses by selling bills of exchange and stated that the “States would be strengthened by having in their hands the means of furnishing the local paper currency through their own banks.”[80]

Henry Clay’s presidential nomination by the National Republicans cemented the Second Bank as a political issue for Jackson. The National Republicans coalesced as a group in opposition to Jackson and his policies.[81] It appears as though Clay looked to make the re-charter of the Second Bank a major issue for a few reasons. Clay needed a central issue that could win him the support he needed to unseat Jackson. With Biddle’s team and Jackson’s cabinet seemingly coming closer to an agreement about the future of the bank, Clay could be running without a major campaign issue. The National Republican nominee seemed to understand that the National Republicans would not be able to override a veto from Jackson, and he hoped that an angry veto message might stir the nation to his side.

Clay’s decision to potentially sacrifice the bank for political gain shows how far the nation had come from Hamilton’s time as Treasury Secretary. The political atmosphere was no longer one motivated by survival, as the nation seemed to be on strong economic footing. The Louisiana Purchase in 1803 had expanded the size of the United States dramatically. The War of 1812 had not only shown that the United States could hold its own with the British, but also forced the nation to build up its own industrial base. The population had boomed, growing from 5.3 million people in 1800 to 17,069,000 in 1840.[82] Cotton became the nation’s top export and the American System of government-backed infrastructure spending helped build the means of

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[80] United States. President. *Presidential Messages and State Papers: Being the Epoch-Marking National Documents of All the Presidents from George Washington to Woodrow Wilson* (The Review of Reviews Company, 1917), 967.
[81] Hammond, 385.
[82] George Rogers Taylor, *The Transportation revolution, 1815–1860* (Rinehart, 1951), 15–73.

transportation across the country.[83] These facts all point to a new prevailing sentiment that the United States would no longer be trampled by some imperial foe. Clay, a proponent of the bank, was willing to see its re-charter vetoed by Jackson for a shot at the presidency, and Jackson was more than willing to destroy the bank. The nation was no longer fighting for survival.

On February 22, 1832, Jackson's Secretary of State Edward Livingston met with Nicholas Biddle in what was likely a presentation of the terms that Jackson would be willing to approve for a re-charter of the bank. Jackson, in hopes of avoiding the bank as an issue in the upcoming election, hoped that the re-charter bill could be pushed back. At the same time, anti-bank politician Thomas Benton helped introduce a resolution in the House to investigate possible breaches of the bank's charter. Benton understood that Jackson would be more likely to postpone a decision on the re-charter if the bank was under investigation, helping the president avoid an issue that could win Clay support. With this resolution in the House, Livingston realized that pushing forward for a re-charter would make the National Republicans look like they were afraid of what the investigation might uncover, feeding into Jackson's distrust of the bank. In order to get a deal done, Livingston asked Biddle to postpone the vote on the re-charter.[84]

Biddle was suddenly in quite the precarious situation. He could either accept the Livingston's request and leave the bank in limbo, or he could push forward and risk angering Jackson. Believing that the investigation would not be fairly conducted and would ultimately lead Jackson to oppose the bank, Biddle pushed forward with the re-charter, likely to the delight of both Henry Clay and Daniel Webster, two political foes of Jackson.[85]

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[83] Carter Goodrich, ed. *The Government and the economy, 1783–1861* (Indianapolis: Bobbs-Merrill, 1967).
[84] Plous, 104.
[85] Plous, 105.

Before Clay's adoption of the bank as an issue in the upcoming election, Jackson understood that opposing the bank directly was not politically advantageous. He was clearly opposed to the bank in an ideological sense, but was willing to work with the advocates of the bank to come to some sort of agreement for an eventual re-charter. The political maneuvering from Clay and Webster provided the impetus for Jackson to throw all of that out of the window. Angered by Clay's bold move, Jackson was ready to strike a blow to his most bitter political opponent. Suddenly, the bank became an issue of ideology that would help define the election, and Jackson was eager to unleash his long-held opposition to the bank.

The re-charter bill made its way through the House on June 11, 1832, and through the Senate less than a month later. The Second Bank was established much like the First Bank – out of necessity. The government faced adverse financial conditions in the midst of the War of 1812, and even traditional opponents of the bank eventually supported a new charter. The second iteration of America's central bank was very similar to its predecessor, and the bank was particularly effective under the leadership of Nicholas Biddle.

Andrew Jackson's political principles led him to oppose the bank from a young age. He voted against the expansion of the bank into Tennessee early in his political career and told Biddle himself that he had been opposed to banks for his entire political career. Still, Jackson conceded that the bank had been successful in many respects despite his own concerns about eastern influence and the concentration of wealth. As a hard-money Democrat, Jackson feared the bank's proliferation of paper money and wanted to change the structure of the bank, but still was open to approving a re-charter bill under the right circumstances.

Henry Clay's presidential campaign, however, cemented the re-charter of the Second Bank as an issue that Jackson stood firmly against. Jackson's fiercely political nature led to veto the re-charter of the Second Bank. He played right into the National Republican plan to force him to veto the re-charter bill. In the process, the president clearly was not worried about the survival of the nation. Whereas Hamilton created the bank for the survival of the United States, Jackson vetoed the bank for political reasons and ignored the role of the bank as a positive force in the economy. The National Republican decision to use the bank as a central issue in the election of 1832 was a miscalculation that not only cost them the election, but also allowed Jackson to issue the defining ideological treatise of his presidency.

Chapter 3

Jackson's Veto

On July 10, 1832, Andrew Jackson struck what would be the final blow to the Second Bank of the United States. In his *Veto Message Regarding the Bank of the United States*, Jackson – or at least a handful of close political allies – not only spelled out his reservations about the Second Bank, but also created his defining political dissertation. Jackson had always opposed the Second Bank, but the political landscape coupled with the success of the bank made his opposition unlikely to manifest itself in any clear policy – that is, until Henry Clay adopted the bank as the central issue in his presidential campaign. Sparked by anger and led by his fear of a new aristocracy, federal power, and foreign influence, Jackson attacked the bank with all of his might. Most specifically, Jackson took aim at anything and everything to do with the publicly-held nature of the bank. Unlike Hamilton, Jackson had no worries about the bank veto on the future of the country. His argument ignored the bank as a necessary institution and focused, instead, on its political ramifications.

Beyond arguing that the bank was fundamentally unfair because it was designed to pay out the rich and the expense of the poor, Jackson took the stance that the executive branch of the government was not beholden to the decisions of the Supreme Court. Instead, he argued, “the Congress, the Executive and the Court must each for itself be guided by its own opinion of the Constitution.” Perhaps this notion would not surprise those familiar with Jackson’s removal of the Cherokee Nation from the southeast United States despite a Supreme Court ruling that the Indian Removal Act was unconstitutional, but it is still an undeniably important feature of this veto message.

Andrew Jackson was not blessed with the same ability to write as, say, Thomas Jefferson, even if Jackson seemed to embody the Jeffersonian Democratic values to a tee. In fact, Lynn L.

Marshall wrote that, “When the message first appeared, on July 10, 1832, its polished style immediately suggested that Andrew Jackson could not have composed it without help.”[86]

Jackson’s personal and political motivations to kill the bank were clear and obvious, as he felt threatened by Clay’s decision to make the bank a central issue in the 1832 election. Jackson had to rely on political philosophy in his veto, though. Jackson’s entire argument for the destruction of the bank hinges on the fact that the bank *has* stockholders, thus making Hamilton’s structuring of the bank of the utmost importance. The message lays out an argument describing the public nature of the Second Bank of the United States as fundamentally dangerous to the American Republic and as an agent of inequality in the young nation. In fact, the president goes as far as to say that the government should auction off the bank’s market share to the highest bidder because the bank’s “monopoly” should not simply benefit the “opulent.”

Jackson’s bank veto is a clear example of the degree to which his decisions were driven by ideology without regard for the potential consequences. He was led by his Jeffersonian Democratic ideals, focusing on what he believed represented abuses and dangers stemming from the Second Bank. The decision to veto the bank epitomized a desire to fight against inequality, joined with his constructionist view of the Constitution. Jackson could not see the bigger picture like even James Madison eventually did, ignoring the pragmatic nature of the bank for entirely political reasons.

Jackson was not gripped by the same fear for the survival of the nation that Hamilton and Hamilton’s contemporaries were. Perhaps emboldened by the expansion of the United States, the outcome of the War of 1812, and the economic growth that followed, Jackson’s political mindset

[86] Marshall, Lynn L. "The Authorship of Jackson's Bank Veto Message." *The Mississippi Valley Historical Review* 50, no. 3 (1963): 466. doi:10.2307/1902607.

was far removed from questions of necessity or survival. Instead, Jackson was much more interested in tearing down the power of the bank, promoting his brand of equality, and landing a blow to the National Republicans.

The seventh president came out swinging in his veto message. Jackson saw no changes in the bill "to make it compatible with justice, with sound policy, or with the Constitution of our country." This first shot at the bank is very much in line with Jackson's beliefs that not only was the bank threatening to the equality of the country, but that it represented a Constitutional threat.

In the eyes of the president, Biddle's bank existed with market power that simply should not have been allowed under the Constitution. Jackson argued that the bank operated as a monopoly that artificially inflated the actual value of the bank for the benefit of its investors. Jackson states, "The powers, privileges, and favors bestowed upon [the Second Bank] in the original charter, by increasing the value of the stock far above its par value, operated as a gratuity of many millions to the stockholders."[87]

What made matters worse was the fact that foreigners held a significant portion of the bank stock. "More than eight millions of the stock of this bank are held by foreigners," Jackson decries, arguing that the "bounty" of the United States government is not falling to its average citizens. Jackson believed that the charter failed to include ordinary citizens in the success of the bank, stating, "For these gratuities to foreigners and to some of our own opulent citizens the act secures no equivalent whatever."[88] Rather than viewing foreign investors as enabling the United

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[87] United States. President. *The addresses and messages of the presidents of the United States, inaugural, annual, and special, from 1789 to 1846 : with a memoir of each of the presidents and a history of their administrations; also the Constitution of the United States, and a selection of important documents and statistical information. Comp. from official sources*. (Edwin Walker, 1846-1848), 418.

[88] United States. President, 418.

States government to carry out actions important to both basic financing and economic development, the Jackson White House viewed the mostly-British investors as making the United States a debtor nation. "It will make the American people debtors to aliens in nearly the whole amount due to this bank," Jackson argues, "and send across the Atlantic from two to five millions of specie every year to pay the bank dividends."[89]

In the fifth paragraph of the veto message, Jackson argues that, "Every monopoly and all exclusive privileges are granted at the expense of the public, which ought to receive a fair equivalent. The many millions which this act proposes to bestow on the stockholders of the existing bank must come directly or indirectly out of the earnings of the American people" [Paragraph 5]. Jackson argues that the worth of the monopoly was $17 million, stating that the $28 million in bank stock would sell for $1.50 on the dollar, commanding a market price of $42 million. Jackson argues that the government would be better off selling $28 million worth of bank stock on the open market for a premium and sending the profits to the Treasury.[90]

The benefits of this monopoly play a major role in the legalistic argument against the bank in Jackson's veto. For example, Jackson argues that the bank itself is "predicated on the erroneous idea" that the shareholders deserve access to this monopoly. Since only a "few hundred" Americans actually own stock in the bank, the charter would only benefit the richest citizens at the cost of ordinary Americans.[91] Essentially, the Second Bank was symbolic of a wedge dividing the rich from the rest of America in the eyes of the president. The monopoly represented the means by which an elite group of Americans profited at the expense of the rest.

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[89] United States. President, 420.
[90] United States. President, 419.
[91] United States. President, 419.

Besides, Jackson wondered, shouldn't the bank should be able to get out of its loans if it has been well-managed? Some proponents of re-chartering the bank warned that failing to do so could cause "distress" within the bank's balance sheet. Jackson believed that calling in existing loans would only be problematic if the bank's "management has been bad." If the bank would be unable to get out of those loans without causing different sorts of pressure, the power of the bank has clearly been "abused" and the institution itself would be inherently dangerous. Failing to destroy the bank because of the financial burden it could create, the logic goes, would be to accept the "perpetual" nature of the bank, thus guaranteeing the current stockholders with eternal benefits – such as "great political power" and "immense pecuniary advantages."[92]

One section of the re-charter bill offered something of a concession to state banks, but Jackson still viewed the structure of the bill as fundamentally unfair. If a state bank in Philadelphia, for example, owed money to the Second Bank, it could pay off its debts using bank notes issued by a branch bank, like the one in St. Louis. An ordinary citizen, however, would have to either sell the bank notes at a discount in Philadelphia, or send the notes to St. Louis to be cashed at their full value. This concession to state banks was not unjust to the banks, Jackson believed, but for the average citizen this policy was an injustice. Jackson stated that the idea was "most odious because it does not measure out equal justice to the high and the low, the rich and the poor." He believed that the Second Bank of the United States and the various state banks were creating an "interest separate from that of the people."[93] Jackson spelled out his objections to the bank, in terms of its role in increasing inequality, with clarity. No matter the benefits of the bank, its structure was a clear threat.

[92] United States. President, 420.
[93] United States. President, 420.

Jackson took exception to the manner in which capital gains would be taxed for shareholders, even if the taxation provision included in the bill was meant to benefit the states. The ninth section of the re-charter would allow the treasurer in each state to have access to the names of the owners of stock in the Second Bank, along with how much of the stock they owned. This provision was another concession to states, meant to assuage the blow that resulted from the Supreme Court's *McCulloch v. Maryland* decision. The ninth section of the re-charter would allow states to levy a one-percent tax on the stocks held by citizens of their own state since they were not legally able to levy taxes on the Second Bank itself. Jackson argued that foreign stockholders would be "exempt from this burden" of taxation. As a result, foreign investors would see higher returns compared to their counterparts in the United States.[94]

Concerns about sectionalism also informed Jackson's argument. For example, the president feared that the East benefitted at the expense of the West as stockholders were generally easterners. Jackson states:

> As little stock is held in the West, it is obvious that the debt of the people in that section to the bank is principally a debt to the Eastern and foreign stockholders; that the interest they pay upon it is carried into the Eastern States and into Europe, and that it is a burden upon their industry and a drain of their currency, which no country can bear without inconvenience and occasional distress.

As of January 1, 1832, $13,522,000 of the bank's $28 million in public stock was held in the "Middle and Eastern States." The stock held in the nine western and southwestern states, however, amounted to just $140,200. Yet, the profits accrued from the western and southwestern

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[94] United States. President, 421.

states in 1831 made up over 47 percent of the bank's profits for the year.[95] Jackson believed that the situation was made even worse by the fact that the states themselves were unable to hold onto profits that were generated in branch locations.

To make matters worse, the higher returns abroad compared to within the United States made it the case, in Jackson's mind, that most of the stock "will inevitably leave the country." He estimated that the foreigners would receive ten to fifteen percent higher returns because they did not need to pay the same tax as American stockholders. The higher returns abroad necessarily meant that "most of [the stock]" would leave the United States.[96] Although the idea of elites along the eastern seaboard reaping outsized benefits from owning bank stock was corrupt in Jackson's eyes, the idea of foreigners benefitting even more than elite Americans was even worse.

The very composition of the bank's board of directors was "fraught with danger" according to the veto message. Twenty of the twenty-five directors were chosen by stockholders, but foreign stockholders were not allowed to vote. Jackson warned that, as more stock went overseas due to better rates of return, the voting rights would fall into the hands of an increasingly small group of American investors. The message warns that there would exist a temptation among these stockholders to "secure that control in their own hands by monopolizing the remaining stock." Jackson warned that, with more centralized control of the bank, the bank's president and directors could elect themselves repeatedly and manage the bank with unparalleled autonomy. "It is easy to conceive," Jackson stated, "that great evils to our country and its institutions millet flow from such a concentration of power in the hands of a few men

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[95] United States. President, 421.
[96] United States. President, 421.

irresponsible to the people."[97] The potential for a small group of private individuals to have unbridled control over the bank was a primary fear of Jackson and illustrates just how important the publicly-held nature of the bank was to the argument laid out in his veto message.

Jackson went on to ask a number of provocative questions about the impact that a bank, so disconnected to the will of the pubic, could have on the country. The president asked if there were "no danger to our liberty and independence" in the Second Bank given its supposed potential for corruption and its removed nature from the common man. Jackson reminded readers that Nicholas Biddle had remarked that the state banks only existed by the "forbearance" of the Second Bank – in other words, Biddle and his associates could destroy the state banks if they really wanted to. With a concentrated group of stockholders with interests aligned with foreign stockholders, "will there not be cause to tremble for the purity of our elections in peace and for the independence of our country in war?" Jackson asked.[98] These questions seem to be included for rhetorical effect, although they did summarize the main concerns that Jackson and his inner circle had regarding the bank. Such power was problematic in the hands of any individuals.

If most of the bank stock fell into the hands of foreign investors concentrated in one country, Jackson wondered what "our condition" would be if war were to break out between the United States and said foreign nation. Jackson posited that "there can be no doubt" that the bank, owned by foreign investors, would be managed by directors whose interests fell in line with the foreigners. "All its operations within would be in aid of the hostile fleets and armies without," Jackson argued. The bank itself would be even more powerful and threatening than the military of the enemy since it could control the nation's finances. Therefore, having national bank with

[97] United States. President, 422.
[98] United States. President, 422.

private stockholders required more political sensibility – the stockholders should all be American citizens. The bank should be "*purely American*." Jackson reasoned that American citizens would be much more likely to support the government in times of war, and he believed that the funds would be easily found among the country's citizens.[99]

The veto message then vaults into a series of passages that have helped to define the Jackson presidency. In essence, Jackson argues that just because the Supreme Court had ruled the bank's existence Constitutional, the executive does not have to "assent" to that decision. Jackson argues that, on its own, "Mere precedent is a dangerous source of authority." In fact, he argues, different Congresses have been for or against the bank at different times. "The Congress, the Executive, and the Court must each for itself be guided by its own opinion of the Constitution," Jackson argued. Jackson's disregard of the Supreme Court decision that ruled the Indian Removal Act unconstitutional is, perhaps, the clearest example of this belief in action. Simply put, Jackson did not believe that the president was beholden to the decisions of the Supreme Court or Congress. "The authority of the Supreme Court must not, therefore, be permitted to control the Congress or the Executive when acting in their legislative capacities," Jackson stated, "but to have only such influence as the force of their reasoning may deserve." This is where Jackson strays somewhat from Jeffersonian Democratic values. Not only did Jackson fear any area of the government that he believed held too much power, but he feared power that was not in his own hands.[100]

Jackson argued that the Supreme Court ruled that the bank was Constitutionally permitted, but that the necessity of the bank was still a legal question. Taking aim at the

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[99] United States. President, 422.
[100] United States. President, 423.

necessity of a bank, Jackson argues that Congress is bartering away its control over the District of Columbia. The Constitution gives the legislative branch complete control over Washington D.C., while this act this act "declares that Congress shall not increase the capital of existing banks, nor create other banks with capitals exceeding in the whole $6,000,000." Returning back to the topic of whether the bank was Constitutional, Jackson pointed out that the Constitution only gives Congress the express ability to "grant exclusive privileges or monopolies" in the case of promoting the progress of science or useful arts. This ability was manifested in the form of patents and copyright laws.[101]

Jackson concluded his message with a final appeal to review the principles of the foundations of the United States. He called on country to fight against the "prostitution of our Government" by the few at the cost of the masses:

> Experience should teach us wisdom. Most of the difficulties our Government now encounters and most of the dangers which impend over our Union have sprung from an abandonment of the legitimate objects of Government by our national legislation, and the adoption of such principles as are embodied in this act. Many of our rich men have not been content with equal protection and equal benefits, but have besought us to make them richer by act of Congress. By attempting to gratify their desires we have in the results of our legislation arrayed section against section, interest against interest, and man against man, in a fearful commotion which threatens to shake the foundations of our Union.

[101] United States. President, 423-425.

Despite the political rivalries and personal feelings that played an important part in sparking Jackson's decision to veto the bank's re-charter bill, the veto message itself relies heavily on legalistic arguments about the bank's necessity with an underpinning that the bank was un-American and unfair to most citizens.

Congress unfairly allowed the Second Bank to operate as a monopoly that inflated the value of the bank for its stockholders. This inflated value was especially problematic given the foreign investment in the bank. With over $8 million in stock held outside of the United States, Jackson saw the foreign investment as proof that the bank did not simply exist to benefit ordinary Americans. Instead, the bank would benefit the stockholders abroad while average citizens paid for the bank's monopoly privileges. In the meantime, Jackson believed the United States would become a debtor nation as more and more bank stock flowed overseas due to a provision in the re-charter bill – states could impose a one percent tax on capital gains realized on stock held within their respective states. Since foreign investors were not subject to this tax, however, Jackson believed stock would naturally flow abroad where taxes were lower.

The dangers of foreign investment extended to the Second Bank's board of directors. As stock went to foreign investors, the stock held in the United States would concentrate in fewer hands. Directors, now representing a less diverse group, would be able to elect themselves repeatedly in an effort to essentially maintain reach autonomy. Jackson warned that these directors would come to align themselves with the wishes of the foreign investors. In times of war, the bank would likely side against the United States in favor of foreigners where investors were located. Jackson wanted the bank stock to be held exclusively by American citizens.

The failure to shut down the Second Bank, in the president's estimation, would be equivalent to acknowledging that the bank was perpetual. While some believed that vetoing the bill and forcing the bank to close out its loans would be detrimental to the stability of the bank, Jackson viewed any potential disruption in the financial markets as proof that the bank was poorly managed.

Jackson's veto, however, was possible thanks to Henry Clay's decision to make the Second Bank the primary issue in the election of 1832. Jackson, angered by the decisions of Clay and Biddle to force through a re-charter bill, vetoed the bill without regard for the pragmatic nature of the bank. Unlike Hamilton, Jackson was not worried that the bank's absence would threaten the future of the United States. Of course, even Clay seemed to believe that the potential destruction of the bank could be weathered by the country.

Andrew Jackson held beliefs about the bank that were diametrically opposed to Alexander Hamilton's when Hamilton set out to create the First Bank. Alexander Hamilton believed that establishing a strong financial system was the only path that could allow the United States to become an economic superpower like Britain. For Hamilton, financial strength meant survival. Andrew Jackson saw the bank as playing no such role. In fact, the bank represented a threat to American values, enterprise, and even national security.

Hamilton's objections to Jackson's veto would likely have been plentiful from the lens of financial sensibility and economic growth. Luckily, given Hamilton's writings on public finance, Hamilton's theoretical protestations can be inferred. On a fundamental level, Hamilton would argue that it was not the individuals who owned stock in the bank that were benefitting from the existence of the bank. The early American government needed access to the wealth of certain "opulent" individuals, as well as that of foreign investors, in order to facilitate economic activity and provide a reliable source of funding to Congress. That fact was not only abundantly clear during the Revolutionary War, but also during the War of 1812, as the government simply failed to take care of its finances in a manner that was conducive to any sort of financial stability.

Hamilton would doubtless argue that the wealthy investors, both domestic and international, were simply rewarded with the profits of the Second Bank of the United States because they took on financial risk. Investors knew that they would lose their capital if the government failed to meet its financial obligations, which would have seemed, at the very least, plausible during the Revolutionary War and the War of 1812. Although the profits of the bank flowed towards wealthy investors, the real winners of a stable financial system and a stable currency were Americans *everywhere*.

In terms of Jackson's argument that the bank has been a "burden" on the western states, Hamilton would likely argue that Jackson and his anti-bank associates were missing the fundamental importance of the bank – and loans – in general. The loans that the bank made to individuals and businesses allowed them to operate beyond their financial means in the short term in exchange for interest payments over an extended period. Loans financed in large part by easterners and foreigners were operating exactly as they should in an efficient capital market: Individuals with money, but no pressing need for cash, were financing the ventures of individuals or businesses in the west who were in need of funds in the present but had little saved. It just so happened to be that wealth was concentrated in the east or abroad, but the transaction was mutually beneficial nonetheless.

The bank promoted consumption smoothing, meaning that individuals could spend more money than they had in the present, paying off that deficit in the future when funds were readily available. The government benefitted from the same principle, receiving loans from the bank to help fund operations that could be paid off at a later date. In any case, consumption smoothing helps both individuals and nations optimize standards of living by trading future payments for current increases in consumption. Although Hamilton did not make this argument so directly, he clearly understood the positive impact that the principle of consumption smoothing would have on a young nation with plenty of opportunities for economic expansion.

Times had changed. Politicians were no longer making decisions to keep the American political experiment alive. Emboldened by Clay and Biddle, Jackson spelled out his ideological opposition to the bank in his veto. All Jackson could focus on was the danger of keeping the bank around. He argued that the bank benefitted only a select group, but he was completely blind to all of the positive aspects of the bank. Unlike his political predecessors, Jackson was not motivated by a desire to make sure the American political experiment did not fail. Instead, he was motivated by anger and long-held ideological convictions.

Panic and Recession

Andrew Jackson and his staff clearly worked hard to lay out a legalistic argument against the Second Bank of the United States. Jackson took aim at the publicly-held nature of the bank throughout the veto message. From the unfair privileges that he believed stockholders were given due to the "monopoly" that the bank operated to the fear of foreign investors, Jackson saw the structure of the bank littered with issues that threatened the country. The fact of the matter, though, is that the bank served a number critical economic functions. Jackson's own convictions as both a hard-money advocate and a strict constructionist clouded his ability to see the bank as a positive force in the expansion of the American economy. Unfortunately for the people that Jackson thought he was protecting with his veto, the Panic of 1837 struck the United States shortly after the Tennessee native left office. Although the destruction of the bank perhaps no longer threatened the survival of the United States, it quickly led to two financial panics and a prolonged recession. Without the Second Bank, there was no central authority to help resolve the situation.

Jackson's economic policies were not the only contributing factors to the financial downturn – economies are too complex for legislation to have such an immediate impact. Jackson's policies did, however, have direct effects on the financial system that undoubtedly led to a financial crisis followed by a prolonged recession. The Panic of 1837 refers to the credit crisis that caused many banks to default on their loans and suspend payments ultimately leading to a prolonged recession in the United States. Jackson's contemporaries blamed him for unhinging the dangerous lending activities of state banks by vetoing the charter of the Second Bank of the United States after the Second Bank's charter officially ran out in 1836.[102] Then, his Specie Circular in 1836 required payments for land in gold or silver in frontier areas, which ultimately drained major banking centers like Philadelphia and New York of their specie reserves.

The Deposit Act of June 23, 1836 created the framework by which the federal surplus, which had been held by the Second Bank, would be deposited throughout the states. The law also required that each state had a federal repository, more frequently known as "pet" banks. The Secretary of the Treasury, Levi Woodbury, chose 45 new deposit banks to increase the number of pet banks from 36 to 81 as a result of the Deposit Act. After Congress approved Woodbury's plan on July 4, 1836, the Treasury Secretary began moving over $38 million to the pet banks throughout the country. By the end of the year, $26.4 million had been distributed to these

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[102] Roberts, Alasdair. *America's First Great Depression: Economic Crisis and Political Disorder after the Panic of 1837* (Cornell University Press, 2012), 34, https://ebookcentral.proquest.com/lib/pensu/detail.action?docID=3138306.

depository banks – 57 percent of which crossed state lines. The remaining surplus money – 79 percent of which crossed state lines – was distributed in the first quarter of 1837.[103]

The veto of the Second Bank's charter had three major effects on the American economy: the entry effect, the credit effect, and the reserve retention effect. The removal of the Second Bank of the United States expanded the banking system as states decided to charter their own banks in the absence of federal financing. At the same time, investors were pouring money into these banks which they believed would have a substantial return on investment. Both of these responses were especially pronounced in regions where the Second Bank had dominated the financial sector – mainly the Southwest and Northwest.[104] So, the regions of the country that were opposed to the Second Bank were taking part in land speculation, the expansion of the banking system, and were even printing money that was practically worthless.

State-chartered banks had more liberal investment policies than the branch offices of the Second Bank, which gave way to the credit effect of Jackson's veto. As state banks owned obligations to the states that chartered them and, notably, investors who contributed substantially to the capitalization of the state bank, they were much more likely to finance land development projects and state public works project. These two areas of finance had been avoided by the Second Bank, as they carried inherent hazards that made the loans of these state banks riskier than those their federal predecessors. These state banks would also borrow much more heavily

[103] Peter L. Rousseau "Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837." *The Journal of Economic History*, 62, no. 2 (2002): 467, www.jstor.org/stable/2698187.

[104] Jane Knodell. "Rethinking the Jacksonian Economy: The Impact of the 1832 Bank Veto on Commercial Banking." *The Journal of Economic History*, 66, no. 3, (2006): 548–551, https://www.cambridge.org/core/journals/journal-of-economic-history/article/rethinking-the-jacksonian-economy-the-impact-of-the-1832-bank-veto-on-commercial-banking/9E47E6777C343B3C98E34263A4A40492.

than the branch offices of the Second Bank in order to grow at a rate that pleased their investors. Reserves in the banking system increased as banking system grew generally, and each bank's share of those reserves grew as well.[105]

The Specie Circular, passed as an executive order on July 11, 1836, deepened the issues in the financial sector. Specie demand increased in frontier lands due to Jackson's executive order, as the Specie Circular was unable to halt purchases of frontier lands quickly enough. The reserves in the West grew as the total number of frontier banks increased and increases in the nation's specie supply brought more gold and silver into circulation. The disproportionate increase in specie in these frontier banks ironically fueled a land boom that accelerated the issues in the American economy. Before long, major banking centers were losing reserves, as the Specie Circular drained the reserves of the New York banks. Jackson meant to end the boom of sales in the West with his Specie Circular, but, in the end, it drew money away from the commercial center of New York and put a vulnerable system in a precarious situation. The destruction of the Second Bank removed the lender of last resort and left New York's banking system, where 42 percent of the nation's reserves had been, in tatters.[106]

On May 10, 1837, New York banks suspended their payments, leading to financial panic. In the following five years, 194 out of 729 chartered banks in the United States would fail. Bank assets fell by 45 percent, and from 1839 to 1843, per capita economic output fell by an average of 1.4 percent per year. The Panic of 1837 and the "Hard Times" that followed represented one of the most severe economic depressions in the history of the United States.

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[105] Jane Knodell, 558–565.
[106] Rousseau, 458–487.

Andrew Jackson's veto of the Second Bank, sparked by a political rivalry with Henry Clay, relied almost entirely on the perceived threats stemming from the bank's stock. In Jackson's eyes, the bank's investors had access to a monopoly granted by the government that inflated the value of the bank far above its reasonable market value. The investors themselves posed a threat to the nation, as $8 million in bank stock was held abroad and would likely go abroad due to tax disparities introduced in the bill. Jackson argued that, with most stock abroad, the bank may side with foreign powers in times of war and could allow stock to concentrate among fewer American investors. These investors would be able to perpetually elect themselves as directors without any regard for the interests of the nation they were meant to serve. Jackson recommended that the bank be "*purely American*," but even that was not enough.

This veto message served as a platform for Jackson to emphasize his own political theory. Jackson argued that both the executive and legislative branches of the government had an important role to play in determining whether legislation was constitutional. In the case of the bank, despite the *McColluch v. Maryland* ruling, Jackson believed it to be unconstitutional and vetoed the bill as such. Jackson's veto message was fiery and full of the political rhetoric used to rally his supporters in the upcoming election. And it worked.

Jackson's veto was driven by his political ideology. Finally given the chance to destroy the bank, he did just that, relying on the typical Jeffersonian Democratic rhetoric to do so. The president completely ignored the vital role of the bank in the economy, trading pragmatism for a political victory. Unlike Hamilton, who established the bank in order to spur economic growth using a loose interpretation of the Constitution, Jackson vetoed the Second Bank entirely from the standpoint of his strict and suffocating political ideology.

It worked to get Jackson reelected, at least. The veto did not work in other respects, as stable banking practices fell by the wayside along the frontier and paper credit flooded markets across the country. Banks failed in places like New York before the economy plunged into a severe recession for six years. Andrew Jackson's personal persuasions about the Second Bank led him to veto the re-charter bill, but that decision had deeply negative effects on the American economy.

CONCLUSION

Drawing a straight, clear line from Alexander Hamilton's time as Secretary of the Treasury to the United States current economic might is extraordinarily difficult. What is not difficult, however, is understanding Hamilton's incredible importance in establishing a financial system that put the United States on course to become the world's preeminent economic power. Like Hamilton suspected, the nation's economic strength has been translated into political power and military supremacy.

Hamilton's plans for the future of the nation and his convictions about the importance of a healthy, diverse economy were born from his own experiences. Ron Chernow sums up Hamilton's beliefs quite nicely, stating, "His own life offered an extraordinary object lesson in social mobility, and his unstinting energy illustrated his devout belief in the salutary power of work to develop people's minds and bodies."[107] As part of Washington's cabinet, Hamilton wanted to create an economy that supported progress and growth.

More pressing than the vision of a strong economy, however, was the need for the American vision to survive. Hamilton believed that the key to winning the Revolutionary War was financial stability. He equated the success of the Bank of England with the power of the British empire, arguing that the key to developing and maintaining international authority was a robust system of public finance.

Hamilton set out plans to establish a bank owned by both the government and private investors, believing that this partnership was the only way to navigate the precarious financial conditions that plagued the government throughout the Articles of Confederation. Andrew Jackson was not so fond of this partnership, though, vetoing the re-charter of the Second Bank of

[107] Chernow, 413.

the United States on the basis that the bank and its monopoly advantage represented a fundamental threat to equality and national security.

By the time Jackson took office, the United States was not in a fight for survival. As a result, Jackson's guiding principles surrounding finance were not so much about promoting survival and stable financial conditions as they were about checking the power of groups or institutions he perceived to be threatening. Jackson had always distrusted paper money and stood firmly opposed to the wealthy easterners who seemed to benefit excessively from the bank in the form of capital gains. As soon as Jackson detected that the Second Bank re-charter was being used as a political threat to his presidency, he employed his long-standing opposition to the bank to destroy it.

Of course, Jackson's war on the bank was costly for a few reasons. The destruction of the Second Bank was detrimental to the financial sector. "To students of this era there is little doubt that, excepting in the East, whatever monetary stability existed or whatever hope there was for greater stability in the future was due to the Bank of the United States," wrote Harold J. Plous. Long before it became an object of political intrigue, the bank was tremendously successful in establishing the financial conditions that it had set out to establish – mainly, a stable currency and safe credit markets. The veto led to an influx of paper notes from state banks, many of which were printed with almost nothing to support their value – an ironic development given his support of specie. As the Specie Circular took effect, banks in the northeast seized up and the nation was sent into a six-year recession.

Recessions occupy the minds of many Americans today, as the United States is still feeling the effects of the financial crisis that struck in 2007-2008 in a number of ways that are beyond the scope of this paper. As the economy has slowly recovered over the past decade, Donald Trump has taken over as President of the United States. President Trump repeatedly compared his own presidential campaign to that of Andrew Jackson, even visiting his home and grave while on the campaign trail.[108] Like Jackson, Trump presented himself as a man of the people who would fight against political corruption in an effort to restore economic equality. 183 years after Andrew Jackson's final year as president, the United States is still grappling with fears of economic disparity and the concentration of wealth. Perhaps the competing visions of Alexander Hamilton and Andrew Jackson represent the economic story of America.

[108] Amy Greenberg et al. "Historians: Trump Gets Andrew Jackson and Civil War Totally Wrong." *CNN.com* (May 2017), www.cnn.com/2017/05/02/opinions/trump-civil-war-comments-opinion-roundup/index.html.

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ACADEMIC VITA – DEREK BANNISTER

The Pennsylvania State University, University Park, PA Graduation: May 2019
Schreyer Honors College, Phi Beta Kappa
Bachelor of Arts in History
Bachelor of Science in Economics

Paterno Fellows Program, College of the Liberal Arts
- Awarded a Paterno Fellows Program full-tuition scholarship for all 8 semesters

University of Oxford Summer Courses, Oxford, UK July 2017 – August 2017
- Completed an economics course concentrating on both microeconomics and macroeconomics, focused specifically on the real-world applications and ethical challenges of these disciplines

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LEADERSHIP & ON-CAMPUS INVOLVEMENT

Editor, Onward State, *State College, PA* September 2016 – Present
- Served as Sports Editor for Onward State, an independent, alternative Penn State news website that is the most-followed student news organization in the world
- Edit stories on a daily basis, write breaking news, cover athletic events, and use social media to disseminate stories
- Moderate discussion with ~45 other students to determine with weekly content that the Penn State community would find most helpful or enlightening and lead football, men's hockey, and men's soccer
- Wrote 192 stories in two years on staff

Mentor, Penn State Undergraduate Speaking Center January 2017 – Present
- Assist ~35 students per semester in every step of the process of speech construction and presentation for classes, organizations, and more
- Nominated by Rhetoric and Civic Life freshman seminar professor to mentor students looking for assistance in the speech writing process through a paid, university position
- Completed a class dedicated entirely to speech-writing, public speaking, and mentoring

Teaching Assistant, Penn State Economics Department August 2016 – December 2018
- Invited to serve as an assistant for Introductory Macroeconomic Analysis and Policy during sophomore year
- Served in paid position as the assistant for Advanced International Finance after completing the course
- Assisted with grading homework, grading exams, and proctoring exams
- Collaborated with other TAs to standardize and split up grading

Analyst, Penn State Asset Management Group January 2018 – December 2018
- Completed semester-long educational programs in a variety of financial fields from equities to fixed-income
- Presented weekly reports on the Real Estate sector to other group members and program leaders, providing analysis for Penn State's Leveraged Lion Capital

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PROFESSIONAL EXPERIENCE

Management Rotation Program Intern, Capital One, *Richmond, VA* June 2018 – August 2018
- Served as Scrum Master for two technology teams within Capital One's commercial banking line of business, managing the daily progress and routines for groups building and maintaining treasury management features
- Supported the line of business by providing and documenting metrics regarding team performances including analysis on business value delivered to customers, incident reporting, and team satisfaction scores
- Responsible for delivering project-related communications and status updates to senior-level management

Communications Intern, Penn State Sustainability Institute/IEE June 2017 – September 2017
- Created website content using Drupal, scheduled weekly social media content on Twitter, updated and refined databases, worked on marketing campaigns and annual reports, and wrote stories for Penn State News
- Wrote three stories published by Penn State News and improved website layout and structure