

## Chapter 6

# Andrew Jackson's War with the Bank of the United States

*The bank, Mr. Van Buren, is trying to kill me, but I will kill it!* <sup>27</sup>

-Andrew Jackson

*This worthy President [Andrew Jackson] thinks that because he has scalped Indians and imprisoned judges, he is to have his way with the Bank. He is mistaken.* <sup>28</sup>  
Nicholas Biddle

The Jackson-Biddle test of strength and will pitted the President of the United States against the head of the nation's largest corporation. Jackson, the ex-frontier brawler turned national hero, claimed to speak for Americans who hated monopoly and privilege. Biddle, the sophisticated man of letters turned banker, was said to be championing the vested interests of America's privileged few. More than the future of the government chartered Bank of the United States was at stake in this contest. At issue was the growth of the American economy, the future of money and credit, and the meaning of democratic principles.

### The Second Bank of the United States

The Andrew Jackson-Nicholas Biddle clash was the last chapter in the turbulent history of the Bank originally proposed by Alexander Hamilton. It will be recalled that the Second Bank was chartered five years after the First was allowed to die. The first three years of the second B.U.S.'s existence were a near disaster. Guided by the expansionist policies of William Jones, the Bank issued too many loans of flimsy credit. When these errors were discovered under a new leadership, the Bank hastily called in its loans. This sudden contraction of credit helped trigger the Panic of 1819. Among the many victims of this credit contraction was none other than Andrew Jackson. It has been said that his distaste for banks stemmed from this experience as well as an earlier incident in which he had been held liable for notes on which a business partner had defaulted.

When Nicholas Biddle became president of the Bank in 1822, he began a policy of cautious credit expansion. In the next nine years, the Bank increased its loans from 28 to 44 million dollars. During this period, the Bank once again assumed the central role in the economy which Hamilton had envisioned. It established a total of 9 branches, served as a depository for government money (on which it paid no interest) and smoothly and efficiently handled government accounts. The notes it issued against its deposits served the nation as a valuable and universally accepted form of money. About one-third of all



**Contemporary cartoon of greedy banker lusting after gold coin**

<sup>27</sup> Quoted in Arthur Schlesinger, Jr., *The Age of Jackson*, Little, Brown and Company, Boston, 1959), p. 89.

<sup>28</sup> Quoted in John Blum, et. al., *The National Experience*, Harcourt, Brace, and World, Inc., New York, 1963 p. 229.

the nation's bank deposits were held in its vaults. Its gross revenue were twelve times that of the state of Massachusetts, and its loans far exceeded Federal expenditures.

## The Power of the Bank of the United States

The very size of the B.U.S enabled it to fill an important role that no other institution could accomplish. The Bank could buy up notes issued by the less powerful state banks. By demanding that banks meet their obligations by paying off the notes with gold or silver currency, the bank was able to prevent state banks from issuing more bank notes than was prudent. The National bank's ability to restrict credit expansion by other banks actually served to regulate the amount of currency in circulation. This, in turn, prevented an unwarranted expansion of credit and gave the notes issued by state banks more credibility and wider acceptance. This power, however, generated jealousy and fear on the part of other banks. Biddle did not help his cause when he foolishly admitted under questioning that he could crush any of the state banks:

*Q: Has the bank at any time oppressed any of the State Banks?*

*A: Never. There are very few banks which might not have been destroyed by an exertion of the powers of the bank. None have ever been injured.* <sup>29</sup>

In exercising the Bank's power, Biddle would tolerate for no interference by any officer of the Government, from the President downwards:

*[T]he officers of the bank should regard only the rights of the bank and the instructions of those who govern it, and should be at all times prepared to execute the orders of the board, in direct opposition, if need be, to the personal interests and wishes of the President and every officer of the Government.* <sup>30</sup>

*By means of proxy, or stand-in votes of absentee stockholders, Biddle controlled the selection of 20 of the 25 Bank Directors. Although he did not possess the legal power, Biddle wouldn't allow the federally appointed directors to inspect the Bank's books. Thus, the tremendous influence that the Bank had on the economy was in effect wielded by one man, Nicholas Biddle. As to mere power, he boasted to a confidant in 1837, "I have been for years in the daily exercise of more personal authority than any President habitually enjoys."* <sup>31</sup>

As so often happens, economic power can also become political power. Under Biddle's direction in 1831 and 1832, the Bank spent tens of thousands of dollars to distribute information favorable to the Bank. It paid authors to write articles praising it, distributed copies of speeches on the Bank, and paid newspapers to publish favorable stories. In addition, the Bank also lent large sums to politicians and to newspapers. at least one newspaper, the New York Courier and Inquirer, changed its editorial policies in favor of its creditor after receiving loans totaling \$52,000. Furthermore, fifty-nine Congressmen borrowed various amounts from the Bank, often to finance their political campaigns, and regularly received their

<sup>29</sup> Quoted in Arthur M. Schlesinger, *op. cit.*, p. 75.

<sup>30</sup> *ibid.*, p. 76.

<sup>31</sup> Quoted in Richard Hofstadter, *The American Political Tradition*, Vintage Books, New York, 1948, p. 60.

checks before payday. It must be noted, however, that many of the Congressmen who owed the Bank money voted against re-chartering.

## Andrew Jackson's Veto

To Andrew Jackson, the Bank (which he referred to as "that monster of Chestnut Street") represented a dangerous corrupting influence to America's democratic heritage. Claiming he did not dislike the Bank any more than he disliked all banks, Jackson believed their influence was corrupting and thought of them as artificial engines that transferred wealth from the laboring to the leisure classes. For Jackson, the only honest money was either gold or silver currency. The Bank, as a symbol of the corrupting influence of wealth, had to be destroyed.

The B.U.S. became a political issue in the election of 1832 partially because Henry Clay wanted it to be. Nominated by the Whigs to oppose Jackson in 1832, Clay prevailed upon Biddle to apply for a new charter. The old bank charter would not run out for four years, but Clay hoped he could make an election issue out of the Bank and it would carry him into the White House.

The bill to re-charter the Bank sailed through both Houses of Congress. It arrived on the Presidents desk on July 4, 1832. Jackson wasted no time. Under relentless supervision, Jackson's most trusted advisors spent three solid days furiously preparing a veto message. Jackson's thundering indictment of the Bank was delivered to Congress on July 10th. It served as the opening salvo for the presidential campaign, and still stands as one of the most stirring vetoes in American history. Below, sections from this message are quoted along with the able rebuttal Daniel Webster delivered the next day.

### President Jackson

Is there no danger to our liberty and independence in a bank that in its nature has so little to bind it to our country? The president of the bank has told us that most of the State banks exist by its forbearance. Should its influence become concentrated, as it may under the operation of such an act as this, in the hands of a self-elected directory whose interests are identified with those of the 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?

...

It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purposes. Distinctions in society will always exist under every just government. Equality of talents, of education, or of wealth, can not be produced by human institutions. In the full enjoyment of the gifts of heaven and the fruits of superior industry

### Senator Webster

A great majority of the people are satisfied with the bank as it is, and desirous that it should be continued. They will heed no change. The strength of this public sentiment has carried the bill through Congress, against all the influence of the administration, and all the power of organized party.

Mr. President, it is not the local interest of the West, nor the particular interest of Pennsylvania, or any other State, which has influenced Congress in passing this bill. It has been governed by a wise foresight, and by a desire to avoid embarrassment in the pecuniary concerns of the country, to secure the safe collection and convenient transmission of public moneys, to maintain the circulation of the country, sound and safe as now it happily is, against the possible effects of a wild spirit of speculation. Finding the bank highly useful, Congress has thought fit to provide for its continuance.

## President Jackson

economy, and virtue, every man is equally entitled to protection by law; but when the laws undertake to add to these natural and just advantages artificial distinction, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble member of society—the farmers, mechanics, and laborers—who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their Government. . . . In the act before me there seems to be a wide and unnecessary departure from these just principles. . . .

If we can not at once, in justice to interests vested under improvident legislation, make our Government what it ought to be, we can at least take a stand against all new grants of monopolies and exclusive privileges, against any prostitution of our Government to the advancement of the few at the expense of many, and in favor of compromise and gradual reform in our code of laws and system of political economy. . . .<sup>32</sup>

## Senator Webster

Mr. President, we have arrived at a new epoch. We are entering on experiments, with the government and the Constitution of the country, hitherto untried, and of fearful and appalling aspect. This message calls us to the contemplation of a future which little resembles the past. Its principles are at war with all that public opinion has sustained, and all which the experience of the government has sanctioned. It appeals to every prejudice which may betray men into a mistaken view of their own interests and to every passion which may lead them to disobey the impulses of their understanding. . . . It sows, in an unsparing manner, the seeds of jealousy and ill-will against that government of which its author (Jackson) is the official head. It raises a cry, that liberty is in danger, at the very moment when it puts forth claims to powers heretofore unknown and unheard of. . . . It . . . seeks to inflame the poor against the rich; it wantonly attacks whole classes of the people, for the purpose of turning them against the prejudices and resentments of other classes. It is a state paper which finds no topic too exciting for its use, no passion too inflammable . . .

. . .<sup>33</sup>

### Suggested Student Exercises:

- Based upon your understanding of the Bank issue, prepare a speech advocating that fellow Congressmen either support or override President Jackson's veto. Your speech should cover the following issues:
  - Did the U.S. need a National bank?
  - Did the Bank, as operated by Biddle, have too much political and economic power?
- Come to class thoroughly prepared to discuss the issues raised in this chapter.

### Epilogue: Conclusion of the Bank War

As Henry Clay had anticipated, the B.U.S. became an election issue but with an outcome that was quite different from his expectations. Jackson overwhelmed Clay in the electoral vote column, 219 to 49. Interpreting his victory as vindication of his anti-bank position, Jackson began to deprive the Bank of government deposits. He ordered the government's money to be deposited in vaults of state banks (called 'pet banks' by people noting their directors had generally supported Jackson.) Jackson had to fire two Secretaries of the Treasury before he found one, Roger Taney, who was willing to comply with his wishes. Originally seven state banks were selected. Since they feared reprisals by the B.U.S., Taney gave

<sup>32</sup> Quoted in George R. Taylor, ed., *Jackson vs. Biddle*, D.C. Heath and Company, Boston, 1949), pp. 11 and 19-20.

<sup>33</sup> Quoted in *op. cit.*, pp. 24 and 29-30.

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these pet banks secret drafts drawn on government funds at the B.U.S. If Biddle tried to buy up their notes for redemption in gold and silver, these banks were to use these drafts. Much to the administration's embarrassment, the drafts were used even though there was no need. As government withdrawals from the B.U.S. depleted reserves, Biddle began to recall loans. Biddle hoped that this policy could demonstrate the need for his bank and cause Jackson to re-charter it. Biddle's bold gamble backfired as businessmen realized that they were being forced into bankruptcy to help Biddle accomplish purely political objectives. The resulting pressure fell on the Bank's president, compelled Biddle, after 13 months, to reverse his policy and extend the Bank's loans.

Meanwhile, government funds were deposited in an ever larger number of pet banks, eventually totaling 89. With the B.U.S. unable to act as a restraining influence on them, the state banks began to sharply expand their lending and recklessly printed paper money. They paid scant attention to maintaining sufficient reserves or obtaining adequate collateral. High cotton prices as well as numerous foreign loans to American businessmen caused a wave of speculation, focusing upon the purchase of government lands. Speculators bought them up so quickly that land sales increased five-fold.

Jackson and his advisors observed this spectacle with increasing anguish. They had not curtailed operations of the National bank in order to allow hundreds of state banks to indulge in reckless banking practices. To halt this speculation, Jackson issued an executive order called the Specie Circular that required that all purchases of government land be paid for in dollars made of gold or silver.

The circular worked much too effectively: it sharply curtailed the sale of government lands. Speculators who had bought Federal land at highly inflated prices now could find no buyers and were unable to pay their debts. Banks, dependent on these borrowers, had to recall loans and ultimately were forced to suspend specie (gold and silver) payments. In 1837 banks and businesses folded like so much wheat before the wind, and the country suffered a depression more severe than the Panic of 1819. Jackson was fortunate to leave the White House before the full effects of his policies were felt. His Vice-President and hand picked successor, Martin Van Buren, was left with the unenviable task of trying to restore prosperity. It was eight years before the country fully recovered.

In 1840 the U.S. government established the Independent Treasury System whereby government funds were deposited in government vaults where they could not be lent out to federal, state, or local banks. Not until the Federal Reserve Banks were created some seventy two years later did the U.S. have anything like the Banking system which Hamilton had envisioned and Biddle had administered.

Meanwhile, Nicholas Biddle secured a bank charter from Pennsylvania two weeks before the B.U.S.'s federal charter expired. Thus the Bank continue for several years under Biddle's increasingly irresponsible leadership. Biddle, too, was caught up in the depression. He over committed his bank to buying cotton futures in a misguided attempt at holding up their sagging market price. He tied up large amounts of his working capital in the purchase of bank stocks. Shortly after other banks began resuming specie payments and six months after Biddle gave up his directorship, the B.U.S. of Pennsylvania was forced to suspend payments. The Bank never recovered. Declaring bankruptcy in 1841, Biddle spent many of his last years in court answering various charges of fraud and mismanagement. He died in 1844 with charges still pending against him.

## **Suggested Student Exercises:**

Does the remainder of this story support Jackson's, Webster's or both positions on the Bank?