Fundamental Issues of the Bank War

The Bank of the United States was not an issue in the Presidential campaigns of 1824 and 1828, and Andrew Jackson’s opinions about this institution had no part in causing his defeat in the first or his victory in the second. When he was inaugurated on March 4, 1829, the currency supplied by the bank, no matter where made payable, was received in most places at par, sometimes commanded a premium, and was never at a discount of more than a quarter of one per cent. Notes issued by local state banks circulated at par in the immediate vicinity of their issue and were redeemable in specie, and this mixed national currency was elastic, uniform, sound, and completely adequate for the needs of an expanding economy. The developing transportation system, which united the vast geographical regions of the nation and connected them with Europe, was paralleled by a system of domestic and foreign exchange, based upon the movement of agricultural produce and manufactured goods, which facilitated payments and increased the profits of trade.¹

The United States as a whole was satisfied with its currency and credit systems and with the operations of the national bank. Andrew Jackson himself, in November, 1829, was reported as saying that the bank “was a blessing to the country, administered as it was, diffusing a healthfull circulation, sustaining the general credit without partiallity of political bias,” and 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.”²

The bank performed a useful function for virtually every class and group in the nation by facilitating the exchange of goods and pay-

² Matthew Bevan to Nicholas Biddle, Oct. 21, 1829, in Biddle Manuscripts, Library of Congress (LC). Bevan told Biddle that he was quoting the President’s own words.
ments in a predominantly commercial society. The market was the aim of all economic activity in the United States from the smallest farm in the remotest cove of the hills of the West to the largest factory in the industrial regions of the East. The provision of a uniform currency and a regular system of exchanges reduced the costs of each transaction and increased the profits of the producers, whether farmer, manufacturer, laborer, artisan, or miner. The merchants, state bankers, and brokers found their compensation in the steadier course of trade and the resulting regularity of their profits.

In Nicholas Biddle's view, the bank which he headed was established for these public purposes and as an auxiliary in some of the highest powers of government. It was not created for the benefit of the private stockholders or for that of any particular group in the society. He came into its management as a government director in January, 1819, having refused an invitation from representatives of the stockholders. In accepting the appointment made by his close personal and political friend, President James Monroe, he wrote: "The truth is that 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." The corruption and mismanagement of its first administrators had aroused the hostility of the people and threatened to cause an annulment of the charter. Such a possible result seemed a national calamity to Biddle. "I think that experience has demonstrated," he said, "the vital importance of such an institution to the fiscal concerns of this country and that the government which is so jealous of the exclusive privilege of stamping its eagles on a few dollars, should be more tenacious of its rights over the more universal currency, and never again abandon its finances to the mercy of four or five hundred banks independent, irresponsible, & precarious."  

For three years as a public director, Biddle supported President Langdon Cheves in the arduous task of reorganization, reform, and recuperation, and then, as required by the charter, retired from the board. He was out of the bank for one year and returned as president in January, 1823, being acceptable to the government and the share-

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holders alike, but still serving as a director by Presidential appointment. Under Cheves the bank had followed a restrictive policy, limiting the issues of its notes, loans, and purchases of exchange. The new president felt that such a course was unwise and prevented the bank from accomplishing the purposes for which it was created. He immediately reversed this policy and during his administration the bank provided a national currency, controlled the rates of exchange, guided and influenced the state banks, and protected the economy from sudden dangers.\footnote{Biddle to P.P.F. DeGrand, Apr. 27, 1826; Biddle to Albert Gallatin, July 29, 1830, Biddle Manuscripts, LC; undated memorandum of Biddle's, "To exhibit the gradual development of the powers and uses of the Bank since the first day of January 1823 when NB assumed the Presidency of it," Dreer Collection, The Historical Society of Pennsylvania; Biddle to A. S. Clayton, Apr. 16, 1832, \textit{House Executive Documents}, 22nd Cong., 1st Sess., No. 460, 321–322; "The Money Market in the United States," \textit{P.P.F. DeGrand's Boston Weekly Report of Public Sales and Arrivals}, VIII (1826), 367.}

The method adopted was essentially simple and safe. The northeastern seaboard cities were the great markets of the nation. The current of exchanges moved from the South and West to the Northeast in payment for the manufactured products of that region and of Europe. Notes issued by the interior branches consequently found their way to Philadelphia, New York, and Baltimore, slowly but certainly, as they passed from hand to hand in the regular settlement of individual transactions. At the same time, the produce of the interior regions, the real means of payment, traveled the same general path to its markets in the East and in Europe, but more directly and rapidly. The southern and western offices of the bank purchased domestic and foreign bills of exchange, based on these shipments of produce, and sent them to the eastern branches where they built up a fund for the redemption of the notes which subsequently appeared.\footnote{Ibid.}

This control of the domestic exchanges was the key element in Biddle's system. In the producing regions the bank was the great purchaser of bills, and in the East the great seller, preventing too great a fall at one place, and, at the other, too great a rise. As a consequence, there was much less fluctuation, a desirable condition for the merchant, farmer, and manufacturer, and hurtful only to the brokers and speculators, to whose interest it was that exchange be
low in the interior where they purchased, and high at the seaboard where they sold.6

The bank, a public institution with strictly defined national responsibilities, was under constant restraint. "The State Banks," Biddle wrote to General Samuel Smith, "may make as much money as they can without looking to consequences. But the Bank of the United States, while it makes money 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."7

Great Britain was the financial center of the world, and it was from there that the greatest and most exacting pressures came. The Bank of the United States, by its control of foreign exchange and through its established credits with Baring Brothers and other great financial houses on the Continent, alone had power to guard against these pressures. Whenever the exchanges were adverse to the United States, thus forcing the rate higher than the expense of sending specie, there was an immediate shipment of coin. If this proceeded to a considerable extent, banks, to preserve their solvency, were obliged to diminish their issues and their loans. Such a restriction, if carried out rapidly, was a harsh corrective, because any great and sudden reduction of the circulating medium acted with inconvenient and oppressive force throughout the community. The purpose and function of the national bank were to lessen the force of these results by preparing for them, and by controlling the exchanges so that they would not long remain at a rate which induced large shipments of coin. Where a reduction of issues was necessary, the bank interposed to render it as gradual as possible and not greater than the occasion required.8

Biddle's purpose was to preserve a mild and gentle, but effective, control over the other financial institutions of the United States, so as to warn rather than coerce them into a scale of business commensurate with their real means. His aim was not to regulate the

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7 Biddle to Gen. Samuel Smith, Nov. 14, 1830; Roswell L. Colt to Biddle, Jan. 16, 1828, Biddle Manuscripts, LC.
8 Biddle to P.P.F. DeGrand, Apr. 27, 1826; Biddle to John White, Mar. 3, 1828, ibid.; House Executive Documents, 22nd Cong., 1st Sess., No. 460, 433–437.
domestic industry or the foreign trade of the country, nor was the power of the bank sufficient to accomplish this purpose. The forces of trade were permitted to generate their own effects and their own correctives, while the bank softened and cushioned the financial effects of these necessary adjustments.9

Unfortunately for the political welfare of the bank, these services to the national economy were largely hidden from the population as a whole. Its direct loans and dealings in exchange were confined almost exclusively to the mercantile and financial groups. Its decisions to expand or contract credit, the sole instrument of control in its power, were necessarily made privately and without publicity, and the effects were felt only after the passage of time and then indirectly. Very few men understood the role of the Bank of the United States in the complex phenomena of domestic and international trade. As a member of the Pennsylvania legislature in 1810, Biddle had seen that much of the opposition to the first Bank of the United States "was the result of a downright ignorance of its meaning and operation." As president of the second bank, he persuaded the ablest and best informed students and public men to write freely and frankly concerning the financial and banking system, but the results were not what he wished. The people ignored the lengthy, detailed, and profound analyses which explained the operations and functions of the bank, but listened with avidity to the briefer, more exciting charges of corruption and intrigue against the "Philadelphia Monster."10

The bank was safe only as long as it did not become an object of political debate. Once it became a party question, its destruction was inevitable. The fear of an oligarchy of wealth was a real and potent force in American thought and could easily be directed against the mammoth corporation. A party attacking it was almost bound to win popular support, while any party unwise enough to defend it was destined to lose. As Thurlow Weed, the New York Whig leader, wrote in November, 1834:

... 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

9 Ibid.
10 Biddle to Joseph Gales, Jr., Mar. 2, 1831, Biddle Manuscripts, LC.
from year to year with a doomed bank upon our shoulders, both the bank and our party are finally overwhelmed.\(^{11}\)

Anticipating this result, the complete exemption of the bank from the influence of, or concern with, political affairs was one of the chief aims of Biddle's administration. "This has been signally seen during the late Presidential contest," he boasted in April, 1826, "when the name even of the Bank was never mentioned during the greatest political excitement."\(^ {12}\)

The bank was completely neutral during the campaign of 1828, though Biddle himself voted for Jackson and desired his election.\(^ {13}\) Any officer engaging actively in political affairs was reprimanded, and every effort was made to include representatives of each political party or faction on the board of directors of the parent bank and of each of the branches. Members of the Jackson party after the election charged that the branches at Portsmouth, Lexington, Louisville, and New Orleans had denied loans for political reasons, but in each instance these accusations were decisively refuted by directors belonging to both political parties. Not once during the long years of controversy between the bank and the Jackson administration did anyone produce evidence to substantiate the oft-repeated charge that the bank had influenced state or national elections, and Biddle, in every way that he could, tried to keep the recharter of the national bank from becoming an issue between the political parties.\(^ {14}\)

The petition for the recharter and the defense of the bank's record were led by congressmen loyal to the President, and it was Jackson himself, not his party or any interested group, who made the recharter of the bank a political issue. He began the attack in his first annual message, but it was not until men read the forceful words of his veto of the recharter that they knew they must make a choice between the President and the Bank of the United States. The de-
cision was easily made. No prominent politician or important political group deserted the cause of Jackson for that of his opponents as a result of his attack upon the bank.\textsuperscript{15}

The reason for the President's opposition to the bank is not to be found in any act of commission or omission by the institution itself, or in any widespread discontent with the existing credit structure. As an uncritical Republican in the Jeffersonian tradition, Jackson feared and opposed all banks as the instruments through which a financial oligarchy dominated and exploited the country. On one occasion he wrote, "Every one that knows me, does know that I have been always opposed to the U. States Bank, nay all banks"; and he told Biddle, "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." He also thought that Congress had no power under the Constitution to charter a corporation which would operate outside the District of Columbia, even though this argument had been repudiated by James Madison, who had originally advanced it in 1791, and by the three branches of the Federal government, most of the states, and the people.\textsuperscript{16}

\textsuperscript{15} The bank was taken up as an issue by all those who were already in opposition to Jackson, but was not a cause for a political break with him. The removal of the deposits did cause some withdrawals from the party, but the most important cause of desertion from the Jackson party after 1832 was the selection of Van Buren as the President's successor.

\textsuperscript{16} Andrew Jackson to James K. Polk, Dec. 23, 1833, Correspondence, V, 236; undated memorandum by Biddle of a conversation with Jackson, November, 1829; Charles J. Ingersoll to Biddle, Feb. 2, 1832, Biddle Manuscripts, LC; James Madison to Charles J. Ingersoll, June 25, 1831, Niles' Register, XL (1831), 332. The most decisive refutation of Jackson's charge that the Bank of the United States was unconstitutional was made in 1830 in a report of the Committee on Ways and Means, a majority of whose members were politically aligned with the President: "It is to be remarked . . . that since the adoption of the Constitution, a bank has existed under the authority of the Federal Government, for thirty-three out of forty years. . . . In both the instances in which Congress has created a bank, it has been done under circumstances calculated to give the highest authority to the decision. . . . Mr. Madison, who was the leading opponent of the bank created in 1791, recommended and sanctioned the bank created in 1816; and Mr. Clay, who strenuously opposed the renewal of the charter in 1811, as strenuously supported the proposition to grant the charter in 1816. That may be said of the bank charter, which can be said of few contested questions of constitutional power. Both the great political parties . . . have solemnly pronounced it to be constitutional, and there are but very few of the prominent men of either party, who do not stand committed in its favor. When to this imposing array of authorities, the committee add the solemn and unanimous opinion of the Supreme Court, in a case which fully and distinctly submitted the constitutional question to their cognizance, may they not ask, in the language of Mr. Dallas, 'Can it be deemed a violation of the right of private opinion to consider the constitutionality of a national bank as a question forever settled and at rest.' " House Executive Documents, 21st Cong., 1st Sess., No. 358, 3-4.
Despite Jackson’s hostility and fear of “all banks,” he recommended the creation of a national bank which would be operated as a branch of the Treasury Department and which would provide for its expenses through the sales of bills of exchange. Such a bank, he said, would not be subject to the constitutional objections which were made to the existing bank, and “the States would be strengthened by having in their hands the means of furnishing the local paper currency through their own banks.” Many other statements for and against a national bank, state banks, paper money, and specie currency could be quoted from Jackson and his associates to demonstrate the wide fluctuations of their ideas and the different purposes which motivated them, but such a compilation would have little value. The true measure of any political leader—or group—is to be found in his understanding of the problems with which he is confronted, in the remedies which he proposes, and his accomplishments, not in his expressed intentions.

Albert Gallatin, who shared Jackson’s preference for specie, realized the practical impossibility of obtaining such a currency in the United States. “Can Congress,” he asked in December, 1830, “subvert the whole of the deep-rooted banking system, sustained as it is by almost every State in the Union, and revert at this day to a metallic currency?” He had no doubt as to the constitutional power, but he was equally certain that it would not be exercised. The elimination of paper money in the United States called for the prohibition of issues by the state banks, either through action by the state government, or by the exercise of the taxing power of the national government. Neither was proposed nor sought by the President. He attempted to prevent the circulation of notes of less than five dollars in value, but the coinage act of 1834, one of the most important measures of his second administration, overvalued gold and tended to drive out of circulation the silver which formed the necessary medium of change if small notes were to be eliminated. The actual result of Jackson’s financial policies was the replacement of a uniform and sound currency of virtually equal value in all

sections of the country by uncontrolled paper, fluctuating in value from place to place and from time to time, and by domestic and foreign exchanges which were subject to speculative manipulation.

Such could hardly have been the purpose which motivated President Jackson in the war upon the bank, but in his paper on the removal of the deposits which was read to the Cabinet on September 18, 1833, he said:

It is the desire of the President that the control of the banks and the currency shall, as far as possible, be entirely separated from the political power of the country. . . . In his opinion the action of the General Government on this subject ought not to extend beyond the grant in the Constitution, which only authorizes Congress "to coin money and regulate the value thereof;" all else belongs to the States and the people, and must be regulated by public opinion and the interests of trade. 19

In this statement lies the fundamental issue between Jackson and Biddle. It was not whether a great private monopoly should dominate government, or whether the currency of the country should be paper or specie. It was, stated in its simplest terms, whether the United States should have a controlled or uncontrolled financial and credit system.

No one recognized the dangers and inherent weaknesses of the American credit structure more clearly than the president of the Bank of the United States. But it was not his assigned task to create an ideal currency and banking system. Fundamental changes and reforms were the responsibility of the constitutional authorities, the Executive and the Congress, not of those who directed the affairs of the national bank. Biddle was certain that, in the economy as it existed, the only practicable safeguard against the evils of irresponsible banking and depreciated paper money was a national bank to keep state banks in order. He believed, as he wrote to Albert Gallatin, "that the surrender of the power of controlling the currency & delivering it over to the hands of the State Govts would more effectually weaken the national govt than the relinquishment of the

19 Richardson, III, 18. The ellipses indicate the omission of the following statement: "as well as wrested from an institution which has already attempted to subject the Government to its will."
power of making what is called internal improvements and the disbanding of the army & navy."  

The public importance of the Bank of the United States as the regulator of the state banks, the currency, and the exchanges was both the cause of its creation and the principal interest of Biddle. The reasons for its destruction were primarily the unchangeable hostility of President Jackson and his determination that it should not be rechartered. The effective charges against it, in addition to the assertion of its unconstitutionality, were that it was a private and irresponsible monopoly, a conspiracy by a financial oligarchy to dominate the political and economic life of the nation, and a device through which the wealth of the rich and the poverty of the poor were both increased. Such indictments, lacking precision, definition, or detail, are incapable of proof or disproof.

If the bank was guilty of these abuses of its admittedly great powers, remedies should have been provided, either by forced reforms of its management, as was done during the Monroe administration, or by the substitution of some other agency for the control of the currency and exchanges. Neither Jackson nor his advisers were interested in such measures or in a real and fundamental examination of the American credit system and its requirements. Acting from hostility to the Bank of the United States, Jackson first prevented its recharter, then placed the public deposits in the state banks, and finally, this experiment proving unsuccessful, talked of a specie currency without either taking or proposing the steps necessary to achieve his avowed purpose.

Jackson was bent upon the destruction of the bank. To gain popular support, he and the small but determined group around him denounced a wealthy aristocracy and paper money, but the people who supported Jackson and his friends were misled and deceived, because no effective attempt was made to limit the powers or profits of the state bankers, the brokers, or the speculators, or to create an adequate and sound substitute currency. Certainly, no one can examine the subsequent history of the United States and find that the influence of wealth was lessened by Jackson's financial policies, or that the opportunity for speculative profits was decreased. The

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20 Biddle to Albert Gallatin, Sept. 9, 1830, Biddle Manuscripts, LC.
sole accomplishment of this reform movement was the elimination of the public responsibilities and functions of the national bank. The state banks, the currency, and the credit structure were left without controls, guidance, or support, subject to the unrestrained effects of the "laws" of trade, speculative manipulation, and foreign influence. The effects of this policy are to be found not only in the financial crisis of 1837 and 1839 and during the prolonged and costly depression which followed, but also in the disordered and unsatisfactory currency which plagued the United States until once more the solution of a federally chartered banking system with mixed public and private obligations and control was adopted in 1913.\footnote{The substance of this paper was delivered at the December, 1946, meeting of the American Historical Association under the title "Jackson and the Credit System." The research was made possible through grants from the Julius Rosenwald Fund, the Social Science Research Council, and the Library of Congress.}

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