

BIDDLE VS. JACKSON

THE 2ND BANK OF THE UNITED STATES (1816 – 1836)

Lesson by

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Subject

Economic and Financial History of America and the United States

Academic Level

Secondary/Collegiate

Bloom Level

Knowledge

Comprehension

Unit

The Art of Political Finance, Volume I, Part I—Chapter 7

Lesson Number within Unit: 6**Lesson Description**

This lesson, which covers the period after the War of 1812 to when the Second Bank of the United States' charter was vetoed by Andrew Jackson. Prior to the Panic of 1837, it will introduce the establishment of the Second Bank of the United States, identify proponents and opponents of each side of central banking, key events during this period, and the effects of free or "wildcat" banking.

Time Required

Two/Three 60-minute classes

Objectives

Students will be able to:

1. Identify The Second Bank of the United States as virtually the country's third national and central bank from 1816 to 1836
2. Understand the need for federal revenue
3. Understand the animus between state and national banks
4. Understand the monetary policy employed by the central bank over state banks and the greater national economy
5. Identify opponents and proponents of the Second Bank
6. Understand the effects of banking on slavery

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Relative Topics & Terms

War of 1812

A war between the United States and Great Britain that started in June 1812. The United States declared war on Great Britain because Britain tried to curtail trade between the United States and France, England's long-standing foe. In addition, British naval ships were stopping American vessels on the seas searching for experienced English sailors who had left or deserted from the British navy, also sometimes pressing British born American sailors into service in the British navy as well. The Americans also saw the war as an opportunity to make Canada part of the United States, thereby removing British influence from the North American continent. However, the U.S. failed in its attempt to take Canada from the British.

Battle of New Orleans

The final battle of the War of 1812. Andrew Jackson and his troops engaged the British in New Orleans in December 1814 and defeated them in January 1815. The battle was fought after the peace treaty (see Treaty of Ghent) was signed. But because it took a long time for information to travel in those days, word about the treaty didn't reach the United States until February 1815. The battle made Jackson a national hero.

Central Bank

A private institution responsible for issuing currency and monetary policy, which involves the overall growth of money and credit and the level of short-term interest rates. The Federal Reserve is now the central bank of the United States.

Customs Duties

A form of tax levied on goods traded internationally.

Fiscal Agent

An organization that handles finances for another organization. The Second Bank (like the First Bank) acted as the government's fiscal agent. Today the Federal Reserve fills the role of fiscal agent for the U.S. government.

Initial Public Offering (IPO)

A company issues common stock or shares to the public for the first time.

Subscriptions (OR SCRIPS)

Down payments on the purchase of new shares of stock in a company or bank; an initial partial payment of the full amount required to purchase a share of stock, with the remainder paid in installments over a period of time. Scraps were tradable and could be purchased after their initial issuance by others seeking to acquire the company's or bank's stock.

Specie

Money in the form of gold or silver. In the colonial period and in the early years of the United States, specie often referred to gold or silver coins.

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Materials/Equipment

Computer, Video Projector, Copies of “Second Bank of US” by Phila Fed.pdf, Biddle vs. Jackson Presentation

Procedures and Pupil Activity

Day 1

1. Open Slide 1 of corresponding presentation

Describe Picture in Slide 1

Calls to Daniel Webster, Henry Clay, the Newspapers, Biddle running

2. Reading Activity - The Second Bank of the United States – A Chapter in the History of Central Banking

Access document from link below:

<http://philadelphiafed.org/publications/economic-education/second-bank.pdf>

Page 8: At the section which shows the branch locations of the Second Bank of the United States, show the locations of the First Bank of the United States.

What are the common cities? What do the new cities have in common with the old cities? (*Ports*)

What are the differences? (*Expansion shows River Ports are now hubs as compared to Sea Ports*).

Branches of the First Bank of the United States:

Philadelphia (HQ), Boston, Baltimore, Charleston, New Orleans, New York, Norfolk, Savannah, and Washington, D.C.

The branches were established in these cities because they were all port cities and were the largest cities in the United States at the time.

Page 10: Look at the cartoon of King Andrew and point out the possible irony of the bank and the controlled press calling President Jackson a king.

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Day 2

Teacher's lead in:

An article by Michael Kirsch written in 2012 for the Executive Intelligence Review, "How Andrew Jackson Destroyed the United States" pits Jackson and his political machine against the bank. But the article does not mention the bank's financial machine. The tier of conflict looked like this:

Elite Extents:	The Agrarian Aristocracy/Slave-owning Plantation Owners vs. The Industrial and Financial Aristocracy
Factions:	The Jackson Political Machine vs. The Banking Financial Machine
Popular Extents:	The Farmer vs. The Merchant
Vocational Conflicts:	Slave Labor vs. Immigrant Labor

The plantation owners did not want industrial expansion, which the bank enabled by way of loans and subsidies, nor did they want to lose their political power to a faction of industrialists, merchants, and financiers.

1. Reading Activity

Enslavers with access to bank credit could borrow money on slaves at 8 percent. The margin between anticipated returns on borrowed capital and its cost to borrow thus huge. And the direct risk appeared to be negligible. *State-guaranteed slave mortgage bonds dispersed much of the immediate risk of borrowing to others – to bondholders, to taxpayers, and above all, to the enslaved. In addition, entrepreneurs themselves – including judges, politicians, and state officials, controlled debt collection in their states, making it less likely that the elite borrowers would be foreclosed, even if they fell behind on payments. Banking elites had the recourse of socializing the losses – making the whole population pay off the debts of failed enterprises. So as the enslavers multiplied their leverage, they multiplied their revenue without increasing their individual risk.*ⁱⁱ

Securitization removed the risk to the immediate lender. Teacher needs to explain the redundancy here "history repeating itself," as manifested in the 2008 Great Recession with the sub-prime mortgage security scheme.

The biggest boom yet seen in the history of slavery's expansion began to swell as money from the new southwestern banks seeded the region with enslaved hands ready to meet a sudden increase in European demand.ⁱⁱⁱ

"People here are run mad with speculation," wrote one visitor to the former Chicksaw; and in northeastern Mississippi. "They do business in...a kind of phrenzy[sic]. [Gold] is scarce but credit is plenty."^{iv}

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Landowners, plantation owners, want more and more land and can get credit easily with little risk to buy it. In 1835 more land had been sold in Mississippi than in the entire country in 1832.^v

Because fractional reserve banking is inflating a currency, the states agreed to curtail fractional reserve banking engaged in by the "wildcat" banks by tying the amount of currency these banks could issue to the amount of gold and silver coin they held. When the charter for the Second Bank of the United States expired in 1836, "wildcat" banks resumed unsound and unregulated lending. As Americans began to head west, these institutions began to issue more and more currency as a means of facilitating land speculation. This at-will adjustment of the money supply caused all forms of currency to fluctuate wildly in value. The issuance of currency by multiple banks also led to a nationwide counterfeiting problem that left the public wondering not only how much their money was worth but whether it was real. To solve the problem, the Jackson administration passed an order that voided paper currency in the eyes of the national government: agents of the government were allowed to accept gold or silver alone as a means of payment for land. Note holders ran to banks to redeem their currency only to find that banks' stocks of gold and silver were depleted and banks were no longer extending credit.^{vi}

When the American congress voted to renew the charter of The Second Bank of The United States, Jackson responded by using his veto to prevent the renewal bill from passing. His response gives us an interesting insight.

"It is not our own citizens only who are to receive the bounty of our government. More than eight millions of the stock of this bank are held by foreigners... 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?"

Controlling our currency, receiving our public moneys, and holding thousands of our citizens in dependence... would be more formidable and dangerous than a military power of the enemy. If government would confine itself to equal protection, and, as Heaven does its rains, shower its favor alike on the high and the low, the rich and the poor, it would be an unqualified blessing. In the act before me there seems to be a wide and unnecessary departure from these just principles."

In 1832 Jackson ordered the withdrawal of government deposits from the Second bank and instead had them put into safe banks. The Second Bank's head, Nicholas Biddle was quite candid about the power and intention of the bank when he openly threatened to cause a depression if the bank was not re-chartered, we quote. "Nothing but widespread suffering will produce any effect on Congress... Our only safety is in pursuing a steady course of firm restriction - and I have no doubt that such a course will ultimately lead to restoration of the currency and the re-charter of the bank."

Nicholas Biddle in 1836 by calling in existing loans and refusing to issue new loans did cause a massive depression, but in 1836 when the charter ran out, the Second Bank ceased to function. It was then Jackson made these two famous statements: "The Bank is trying to kill me - but I will kill it!" and "If the American people only understood the rank injustice of our money and banking system - there would be a revolution before morning..."^{vii}

Currency notes could be redeemed for only a fraction of their nominal value and land investors began to rely on loans from abroad. A wave of bank failures ensued, eventually leading to the Financial Panic of 1837, which included a six-year depression. Some banks remained open and continued to issue notes, signaling no distinct end to the paper currency problem.^{viii}

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Quotes:

Congress have established a mint to coin money and passed laws to regulate the value thereof. The money so coined, with its value so regulated, and such foreign coins as Congress may adopt are the only currency known to the Constitution. But if they have other power to regulate the currency, it was conferred to be exercised by themselves, and not to be transferred to a corporation.^{ix}

"If congress has the right under the Constitution to issue paper money, it was given them to use themselves, not to be delegated to individuals or corporations."

Andrew Jackson

"The mischief springs from the power which the moneyed interest derives from a paper currency which they are able to control, from the multitude of corporations with exclusive privileges which they have succeeded in obtaining in the different States, and which are employed altogether for their benefit; and unless you become more watchful in your States and check this spirit of monopoly and thirst for exclusive privileges you will in the end find that the most important powers of Government have been given or bartered away, and the control over your dearest interests has passed into the hands of these corporations."

Andrew Jackson – excerpt from his farewell address

Closure

Although Jackson defeated the Second Bank of the United States, it has been a bedrock precept of our constitutional law for more than 180 years, since the Supreme Court decision in *McCulloch v. Maryland* in 1819, that states cannot constitutionally control the powers of entities created under federal law.^x

According to the Treasury, on January 30, 1835 - Richard Lawrence, an unemployed painter who suffered from severe mental illness, attempted to kill President Andrew Jackson in front of the Capitol. Lawrence had two pistols misfire at point blank range before Jackson helped subdue his attacker by beating him with his cane. Had Jackson been killed, the Second Bank of the United States may never have closed. Having a central bank may have decreased the severity of the Panic of 1837. In the 1930s, the Smithsonian test fired the two pistols used by Lawrence and both fired on the first attempt. The odds of both guns misfiring during the attempt were estimated to be 1 in 125,000.^{xi}

Andrew Jackson, when asked what he felt was the greatest achievement of his career Andrew Jackson replied without hesitation, "I killed the bank"!

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Discussion

Was this all in vain? *Elicit Divergent Responses*

Students may not be able to answer this question until they've completed the unit on History of Money, Banking and Economics in America

Have students write a paragraph to predict what will happen with money and banking in the next era. (Divergent).

The future would reveal that the industrial factories and plants could oppress labor as much or more than an agrarian plantation and provide much more risk of death and dismemberment. Further more, the industrial titans and robber barons proved to be just as criminal in the treatment of their "human resources." The corruption that was enabled by spurious government contracts and subsidies, like the Credit Mobilier scandal dwarfs the fiendish but simple exploitations by the plantation. The diabolical schemes that heinously evolved from the nexus between the government, big industry and Wall Street require not only an exceptionally astute citizen to recognize them, but also one who actually has the time and unending energy to analyze and expose them.

Suggested Reading/Other Sources

<http://philadelphiafed.org/publications/economic-education/second-bank.pdf>

ⁱ Libertarian Review, Vol. 4 (August 1975), pp. 8–9

ⁱⁱ The Half Has Never Been Told: Slavery and the Making of American Capitalism, page 257
By Edward Baptist

ⁱⁱⁱ The Half Has Never Been Told: Slavery and the Making of American Capitalism, page 258
By Edward Baptist

^{iv} The Half Has Never Been Told: Slavery and the Making of American Capitalism, page 258
By Edward Baptist

^v The Half Has Never Been Told: Slavery and the Making of American Capitalism, page 258
By Edward Baptist

^{vi} http://en.wikipedia.org/wiki/National_Bank_Act

^{vii} "Avalon Project - President Jackson's Veto Message Regarding the Bank of the United States; July 10, 1832." July 10, 1832. Lillian Goldman Law Library, 2008. Web. 24 Mar. 2016.

^{viii} http://en.wikipedia.org/wiki/National_Bank_Act

^{ix} "Avalon Project - President Jackson's Veto Message Regarding the Bank of the United States; July 10, 1832." July 10, 1832. Lillian Goldman Law Library, 2008. Web. 24 Mar. 2016.

^x National Banks and The Dual Banking System, September 2003, pg 1

^{xi} <http://www.treasury.gov/about/history/Pages/1800-1899.aspx>