Jackson's Fight With The 'Money Power'

Bray Hammond June 1956 | Volume 7, Issue 4

Editor's Note: *Bray Hammond wrote this essay for American Heritage in 1956 and developed it into* Banks and Politics in America from the Revolution to the Civil War, *for which he won the Pulitzer Prize for history in 1958.*

"Relief, sir!" interrupted the President. "Come not to me, sir! Go to the monster. It is folly, sir, to talk to Andrew Jackson. The government will not bow to the monster. … Andrew Jackson yet lives to put his foot upon the head of the monster and crush him to the dust."

The monster, "a hydra of corruption," was known also as the Second Bank of the United States, chartered by Congress in 1816 as depository of the federal government, which was its principal stockholder and customer. The words were reported by a committee which called on President Jackson in the spring of 1834 to complain because he and Secretary of the Treasury Roger Taney had removed the federal deposits from the federal depository into what the Jacksonians called "selected banks" and others called "pet banks." The President was disgusted with the committee.

"Andrew Jackson," he exclaimed in the third person as before, "would never recharter that monster of corruption. Sooner than live in a country where such a power prevailed, he would seek an asylum in the wilds of Arabia."

In effect, he had already put his foot on the monster and crushed him in the dust. He had done so by vetoing a new charter for the Bank and removing the federal accounts from its books. So long as the federal Bank had the federal accounts, it had been regulator of the currency and of credit in general. Its power to regulate had derived from the fact that the federal Treasury was the largest single transactor in the economy and the largest bank depositor. Receiving the checks and notes of local banks deposited with it by government collectors of revenue, it had had constantly to come back on the local banks for settlements of the amounts which the checks and notes called for. It had had to do so because it made those amounts immediately available to the Treasury, wherever desired. Since settlement by the local banks was in specie, i.e. silver and gold coin, the pressure for settlement automatically regulated local bank lending; for the more the local banks lent, the larger the amount of their notes and checks in use and the larger the sums they had to settle in specie. This loss of specie reduced their power to lend.

All this had made the federal Bank the regulator not alone of the currency but of bank lending in general, the restraint it had exerted being fully as effective as that of the twelve Federal Reserve Banks at present, though by a different process. With its life now limited to two more years and the government accounts removed from its books, it was already crushed but still writhing.

The Jacksonian attack on the Bank is an affair respecting which posterity seems to have come to an opinion that is half hero worship and half discernment. In the words of Professor William G. Sumner, the affair was a struggle "between the democracy and the money power." Viewed in that light. Jackson's victory was a grand thing. But Sumner also observed—this was three-quarters of a century ago—that since Jackson's victory the currency, which previously had owned no superior in the world, had never again been so good. More recently Professor Lester V. Chandler, granting the Bank's imperfections, has said that its abolition without replacement by something

to take over its functions was a “major blunder” which “ushered in a generation of banking anarchy and monetary disorder.” So the affair stands, a triumph and a blunder.

During Andrew Jackson’s lifetime three things had begun to alter prodigiously the economic life of Americans. These were steam, credit, and natural resources.

Steam had been lifting the lids of pots for thousands of years, and for a century or so it had been lifting water from coal mines. But only in recent years had it been turning spindles, propelling ships, drawing trains of cars, and multiplying incredibly the productive powers of man. For thousands of years money had been lent, but in most people’s minds debt had signified distress—as it still did in Andrew Jackson’s. Only now was its productive power, long known to merchants as a means of making one sum of money do the work of several, becoming popularly recognized by enterprising men for projects which required large; sums than could be assembled in coin, for three centuries or more America’s resources had been crudely surmised, but only now were their variety, abundance, and accessibility becoming practical realities. And it was the union of these three, steam, credit, and natural resources, that was now turning Anglo-Saxon America from the modest agrarian interests that had preoccupied her for two centuries of European settlement to the dazzling possibilities of industrial exploitation.

In the presence of these possibilities, the democracy was becoming transformed from one that was Jeffersonian and agrarian to one that was financial and industrial. But it was still a democracy: its recruits were still men born and reared on farms, its vocabulary was still Jeffersonian, and its basic conceptions changed insensibly from the libertarianism of agrarians to that of laissez faire . When Andrew Jackson became President in 1829, boys born in log cabins were already becoming businessmen but with no notion of surrendering as bankers and manufacturers the freedom they might have enjoyed as farmers.

There followed a century of exploitation from which America emerged with the most wealthy and powerful economy there is, with her people the best fed, the best housed, the best clothed, and the best equipped on earth. But the loss and waste have long been apparent. The battle was only for the strong, and millions who lived in the midst of wealth never got to touch it. The age of the Robber Barons was scarcely a golden age. It was scarcely what Thomas Jefferson desired.

It could scarcely have been what Andrew Jackson desired either, for his ideals were more or less Jeffersonian by common inheritance, and the abuse of credit was one of the things he abominated. Yet no man ever did more to encourage the abuse of credit than he. For the one agency able to exert some restraint on credit was the federal Bank. In destroying it, he let speculation loose. Though a hard-money devotee who hated banks and wanted no money but coin, he fostered the formation of swarms of banks and endowed the country with a filthy and depreciated paper currency which he believed to be unsound and unconstitutional and from which the Civil War delivered it in the Administration of Abraham Lincoln thirty years later.

This, of course, was not Andrew Jackson’s fault, unless one believes he would have done what he did had his advisers been different. Though a resolute and decisive person, he also relied on his friends. He had his official cabinet, largely selected for political expediency, and he had his “kitchen cabinet” for informal counsel. Of those advisers most influential with him, all but two were either businessmen or closely associated with the business world. The two exceptions were

Major William B. Lewis, a planter and neighbor from Tennessee who came to live with him in the White House; and James K. Polk, also of Tennessee, later President of the United States. These two, with Jackson himself, constituted the agrarian element in the Jacksonian Administration. Several of the others, however, were agrarian in the sense that they had started as poor farm boys.

Martin Van Buren, probably the ablest of Jackson's political associates, was a lawyer whose investments had made him rich. Amos Kendall, the ablest in a business and administrative sense, later made the telegraph one of the greatest of American business enterprises and himself a man of wealth. He provided the Jacksonians their watchword, "The world is governed too much." He said "our countrymen are beginning to demand" that the government be content with "protecting their persons and property, leaving them to direct their labor and capital as they please, within the moral law; getting rich or remaining poor as may result from their own management or fortune." Kendall's views may be sound, but they are not what one expects to hear from the democracy when struggling with the money power.

Roger Taney, later Chief Justice, never got rich, but he liked banks and was a modest investor in bank stock. "There is perhaps no business," he said as Jackson's secretary of the treasury, "which yields a profit so certain and liberal as the business of banking and exchange; and it is proper that it should be open as far as practicable to the most free competition and its advantages shared by all classes of society." His own bank in Baltimore was one of the first of the pets in which he deposited government money.

David Henshaw, Jacksonian boss of Massachussetts, was a banker and industrialist whose advice in practical matters had direct influence in Washington. Henshaw projected a Jacksonian bank to take the place of the existing institution but to be bigger. (A similar project was got up by friends of Van Buren in New York and one of the two was mentioned favorably by Jackson in his veto message as a possible alternative to the existing United States Bank.) Samuel Ingham, Jackson's first secretary of the treasury, was a paper manufacturer in Pennsylvania and later a banker in New Jersey. Churchill C. Cambreleng, congressional leader of the attack on the Bank, was a New York businessman and former agent of John Jacob Astor. These are not all of the Jacksonians who were intent on the federal Bank's destruction, but they are typical.

There was a very cogent reason why these businessmen and their class generally wanted to kill the Bank of the United States. It interfered with easy money; it kept the state banks from lending as freely as they might otherwise and businessmen from borrowing.

New York, for example, was now the financial and commercial center of the country and its largest city, which Philadelphia formerly had been. The customs duties collected at its wharves and paid by its businessmen were far the largest of any American port, and customs duties were then the principal source of federal income. These duties were paid by New York businessmen with checks on New York banks. These checks were deposited by the federal collectors in the New York office of the Bank of the United States, whose headquarters were in Philadelphia and a majority of whose directors were Philadelphia businessmen. This, Amos Kendall observed, was a "wrong done to New York in depriving her of her natural advantages."

It was not merely a matter of prestige. As already noted, the United States Bank, receiving the checks of the New York businessmen, made the funds at once available to the secretary of the treasury. The Bank had therefore to call on the New York banks for the funds the checks represented. This meant that the New York banks, in order to pay the federal Bank, had to draw down their reserves; which meant that they had less money to lend; which meant that the New York businessmen could not borrow as freely and cheaply as they might otherwise. All this because their money had gone to Philadelphia.

Actually the situation was not so bad as my simplified account makes it appear. For one thing, the goods imported at New York were sold elsewhere in the country, and more money came to New York in payment for them than went out of the city in duties paid the government. But I have described it in the bald, one-sided terms that appealed to the local politicians and to the businessmen prone to grumbling because money was not so easy as they would like. There was truth in what they said, but it amounted to less than they made out.

New York's grievance was special because her customs receipts were so large and went to a vanquished rival. Otherwise the federal Bank's pressure on the local banks—all of which were state banks—was felt in some degree through the country at large. Wherever money was paid to a federal agency—for postage, for fines, for lands, for excise, for import duties—money was drawn from the local banks into the federal Bank. The flow of funds did not drain the local banks empty and leave them nothing to do, though they and the states' rights politicians talked as if that were the case. The federal Bank was simply their principal single creditor.

And though private business brought more money to New York and other commercial centers than it took away, the federal government took more away than it brought. For its largest payments were made elsewhere—to naval stations, army posts, Indian agents, owners of the public debt, largely foreign, and civilians in the government service throughout the country. In the normal flow of money payments from hand to hand in the economy, those to the federal government and consequently to the federal Bank were so large and conspicuous that the state banks involved in making them were disagreeably conscious of their size and frequency.

These banks, of course, were mostly eastern and urban rather than western and rural, because it was in eastern cities that the federal government received most of its income. Accordingly, it was in the eastern business centers, Boston, New York, Baltimore, and Charleston, that resentment against Philadelphia and the federal Bank was strongest. This resentment was intensified by the fact that the federal Bank's branch offices were also competitors for private business in these and other cities, which the present Federal Reserve Banks, very wisely, are not.

General Jackson's accession to the presidency afforded an opportunity to put an end to the federal Bank. Its charter would expire in seven years. The question of renewal was to be settled in that interval. Jackson was popular and politically powerful. His background and principles were agrarian. An attack on the Bank by him would be an attack "by the democracy on the money power." It would have, therefore, every political advantage.

The realities behind these words, however, were not what the words implied. The democracy till very recently had been agrarian because most of the population was agricultural. But the

promoters of the assault on the Bank were neither agrarian in their current interests nor representative of what democracy implied.

In the western and rural regions, which were the most democratic in a traditional sense, dislike of the federal Bank persisted, though by 1829 it had less to feed on than formerly. Years before, under incompetent managers, the Bank had lent unwisely in the West, had been forced to harsh measures of self-preservation, and had made itself hated, with the help, as usual, of the state banks and states' rights politicians. But the West needed money, and though the Bank never provided enough it did provide some, and in the absence of new offenses disfavor had palpably subsided by the time Jackson became President.

There were also, in the same regions, vestiges or more of the traditional agrarian conviction that all banks were evil. This principle was still staunchly held by Andrew Jackson. He hated all banks, did so through a long life, and said so time after time. He thought they all violated the Constitution. But he was led by the men around him to focus his aversion on the federal Bank, which being the biggest must be the worst and whose regulatory pressure on the state banks must obviously be the oppression to be expected from a great, soulless corporation.

However, not all agrarian leaders went along with him. For many years the more intelligent had discriminated in favor of the federal Bank, recognizing that its operations reduced the tendency to inflation which, as a hard-money party, the agrarians deplored. Altogether, it was no longer to be expected that the agrarian democracy would initiate a vigorous attack on the federal Bank, though it was certainly to be expected that such an attack would receive very general agrarian support.ne

It was in the cities and within the business world that both the attack on the Bank and its defense would be principally conducted. For there the Bank had its strongest enemies and its strongest friends. Its friends were the more conservative houses that had dominated the old business world but had only a minor part in the new. It was a distinguished part, however, and influential. This influence, which arose from prestige and substantial wealth, combined with the strength which the federal Bank derived from the federal accounts to constitute what may tritely be called a "money power." But it was a disciplined, conservative money power and just what the economy needed.

But it was no longer the money power. It was rivaled, as Philadelphia was by New York, by the newer, more vigorous, more aggressive, and more democratic part of the business world.

The businessmen comprising the latter were a quite different lot from the old. The Industrial Revolution required more men to finance, to man, and manage its railways, factories, and other enterprises than the old business world, comprising a few rich merchants, could possibly provide. The Industrial Revolution was set to absorb the greater part of the population.

Yet when the new recruits, who yesterday were mechanics and farmers, offered themselves not only as laborers but as managers, owners, and entrepreneurs requiring capital, they met a response that was not always respectful. There was still the smell of the barnyard on their boots, and their hands were better adapted to hammer and nails than to quills and ink. The aristocrats were amused. They were also chary of lending to such borrowers; whereupon farmers' and

mechanics' banks began to be set up. These banks found themselves hindered by the older banks and by the federal Bank. They and their borrowers were furious. They resisted the federal Bank in suits, encouraged by sympathetic states' rights politicians, and found themselves blocked by the federal courts.

Nor were their grievances merely material. They disliked being snubbed. Even when they became wealthy themselves, they still railed at "the capitalists" and "the aristocrats," as David Henshaw of Massachusetts did, meaning the old families, the Appletons and Lawrences whom he named, the business counterparts of the political figures that the Jacksonian revolution had replaced. Henshaw and his fellow Jacksonian leaders were full of virtue, rancor, and democracy. Their struggle was not merely to make money but to demonstrate what they already asserted, that they were as good as anyone, or more so. In their denunciation of the federal Bank, one finds them calling it again and again "an aristocracy" and its proprietors, other than the federal government, "aristocrats."

The Jacksonians, as distinct from Jackson himself, wanted a world where laissez faire prevailed; where, as Amos Kendall said, everyone would be free to get rich; where, as Roger Taney said, the benefits of banks would be open to all classes; where, as the enterprising exploiters of the land unanimously demanded, credit would be easy. To be sure, relatively few would be rich, and a good many already settling into an urban industrial class were beginning to realize it. But that consideration did not count with the Jacksonian leaders. They wanted a new order. But what they achieved was the age of the Robber Barons.

The attack on the old order took the form of an attack on the federal Bank for a number of reasons which may be summed up in political expediency. A factor in the success of the attack was that the president of the Bank, Nicholas Biddle, was the pampered scion of capitalists and aristocrats. He was born to wealth and prominence. He was elegant, literary, intellectual, witty, and conscious of his own merits. When at the age of 37 he became head of the largest moneyed corporation in the world he was wholly without practical experience. In his new duties he had to rely on brains, self-confidence, and hard work.

With these he did extraordinarily well. He had a remarkable grasp of productive and financial interrelations in the economy. The policies he formulated were sound. His management of the Bank, despite his inexperience, was efficient. His great weakness was naïveté, born of his ignorance of strife.

This characterization, I know, is quite contrary to the conventional one, which makes Biddle out a master of intrigue and craft such as only the purity of Andrew Jackson could overcome. But the evidence of his being a Machiavelli is wholly the assertion of his opponents, whose victory over him was enhanced by a magnification of his prowess. One of these, however, the suave Martin Van Buren, who knew him well and was a judge of such matters, ascribed no such qualities to him but instead spoke of the frankness and openness of his nature; it was in Daniel Webster that Van Buren saw wiliness.

Nicholas Biddle's response to the Jacksonian attack was inept. He was slow in recognizing that an attack was being made and ignored the warnings of his more astute friends. He expected the public to be moved by careful and learned explanations of what the Bank did. He broadcast copies of Jackson's veto message, one of the most popular and effective documents in American political history, with the expectation that people in general would agree with him that it was a piece of hollow demagogy. He entered a match for which he had no aptitude, impelled by a quixotic sense of duty and an inability to let his work be derogated. He engaged in a knock-down-drag-out fight with a group of experts as relentless as any American politics has ever known. The picture he presents is that of Little Lord Fauntleroy, lace on his shirt and good in his heart, running into those rough boys down the alley.

In his proper technical responsibilities Nicholas Biddle was a competent central banker performing a highly useful and beneficial task. It is a pity he had to be interrupted, both for him and for the economy. For him it meant demoralization. He lost track of what was going on in the Bank, he made blundering mistakes, he talked big. These things his opponents used tellingly against him. He turned from able direction of the central banking process to the hazardous business of making money, of which he knew nothing and for which his only knack lay in an enthusiastic appraisal of America's great economic future. In the end his Bank of the United States broke, he lost his fortune, he was tried on criminal charges (but released on a technicality), and he died a broken man.

This was personal misfortune, undeserved and severe. The more important victim was the American people. For with destruction of the United States Bank there was removed from an overexcitable economy the influence most effective in moderating its booms and depressions.

Andrew Jackson had vetoed recharter in 1832 and transferred the federal accounts to the pet banks in 1833 and 1834. The Bank's federal charter expired in 1836, though Nicholas Biddle obtained a charter from Pennsylvania and continued the organization as a state bank. The period was one of boom. Then in 1837 there was panic, all the banks in the country suspended, prices fell, and business collapsed. It was all Andrew Jackson's fault, his opponents declared, for killing the federal Bank. This was too generous. Jackson was not to blame for everything. The crisis was world-wide and induced by many forces. It would have happened anyway. Yet certainly Jackson's destruction of the Bank did not help. Instead it worsened the collapse. Had the Bank been allowed to continue the salutary performance of the years immediately preceding the attack upon it, and had it been supported rather than undermined by the Administration, the wild inflation which culminated in the collapse would have been curbed and the disaster diminished. Such a course would have been consistent with Jackson's convictions and professions. Instead he smote the Bank fatally at the moment of its best performance and in the course of trends against which it was needed most. Thereby he gave unhindered play to the speculation and inflation that he was always denouncing.

To a susceptible people the prospect was intoxicating. A continent abounding in varied resources and favorable to the maintenance of an immense population in the utmost comfort spread before the gaze of an energetic, ambitious, and clever race of men, who to exploit its wealth had two new instruments of miraculous potency: steam and credit. They rushed forward into the bright prospect, trampling, suffering, succeeding, failing. There was nothing to restrain them. For about

a century the big rush lasted. Now it is over. And in a more critical mood we note that a number of things are missing or have gone wrong. To be sure, we are on top of the world still, but it is not very good bookkeeping to omit one's losses and count only one's gains.

That critical mood was known to others than Jackson. Emerson, Hawthorne, and Thoreau felt it. So did an older and more experienced contemporary of theirs, Albert Gallatin, friend and aide in the past to Thomas Jefferson, and now president of a New York bank but loyal to Jeffersonian ideals.

"The energy of this nation," he wrote to an old friend toward the end of Andrew Jackson's Administration, "is not to be controlled; it is at present exclusively applied to the acquisition of wealth and to improvements of stupendous magnitude. Whatever has that tendency, and of course an immoderate expansion of credit, receives favor. The apparent prosperity and the progress of cultivation, population, commerce, and improvement are beyond expectation. But it seems to me as if general demoralization was the consequence; I doubt whether general happiness is increased; and I would have preferred a gradual, slower, and more secure progress. I am, however, an old man, and the young generation has a right to govern itself. …"

In these last words, Mr. Gallatin was echoing the remark of Thomas Jefferson that "the world belongs to the living." Neither Gallatin nor Jefferson, however, thought it should be stripped by the living. Yet nothing but the inadequacy of their powers seems to have kept those Nineteenth-Century generations from stripping it. And perhaps nothing else could.

But to the extent that credit multiplies man's economic powers, curbs upon credit extension are a means of conservation, and an important means. The Bank of the United States was such a means. Its career was short and it had imperfections. Nevertheless it worked. The evidence is in the protest of the bankers and entrepreneurs, the lenders and the borrowers, against its restraints. Their outcry against the oppressor was heard, and Andrew Jackson hurried to their rescue. Had he not, some other way of stopping its conservative and steadying influence could doubtless have been found. The appetite for credit is avid, as Andrew Jackson knew in his day and might have foretold for ours. But because he never meant to serve it, the credit for what happened goes rather to the clever advisers who led the old hero to the monster's lair and dutifully held his hat while he stamped on its head and crushed it in the dust.

Meanwhile, the new money power had curled up securely in Wall Street, where it has been at home ever since.