

## **Did the Bank War Cause the Panic of 1837?**

*On December 12, 1791, the first Bank of the United States opened for business in Philadelphia, Pennsylvania, chartered for 20 years as a private institution, the Bank of the United States was capitalized at \$10 million, with the government purchasing one-fifth of the stock.*

*The Bank of the United States more than fulfilled the expectations of its creator, the first secretary of the treasury, Alexander Hamilton. It effectively checked over speculation by state banks, handled the government's foreign exchange operations, helped importers pay their duties, and paid respectable dividends to its stockholders.*

*But from its inception, the bank was controversial. Secretary of State Thomas Jefferson and his congressional colleague James Madison rejected Hamilton's constitutional and economic viewpoints. Jefferson, who believed in strict construction of the Constitution, felt that the bank proposal was unconstitutional because it was not explicitly mentioned in the Constitution. Hamilton, however, argued that the Constitution granted the "implied" powers that were "necessary and proper" to set up a national bank.*

*More important than constitutional disagreements were the differing world views of the two men. Hamilton was a staunch nationalist who believed that the government should actively promote the economic development of the nation. He believed that America's wealth would depend on the development of trade and manufacturing. Jefferson and, to a lesser extent, Madison were basically southern agrarians who believed in limited government.*

*The Federalist party died as a nationalist party after 1800, but Hamilton's economic program continued. Presidents Jefferson and Madison allowed the Bank of the United States to run its business until its charter expired in 1811. Five years elapsed before a second Bank of the United States was created. In the interim President Madison discovered to his chagrin the difficulties of running a war without a centralized financial agency to help him to coordinate national policies and to rein in reckless expenditures by state banks.*

*The second Bank of the United States was similar in structure to its predecessor. It was capitalized with \$35 million and, again, the government furnished one-fifth of that capital. Although it enabled the country to resume specie payments (those made in coin) in 1817, which had been suspended during the War of 1812, the bank antagonized other state banks with its policies and was blamed somewhat unfairly for the Panic of 1819.*

*The bank's affairs were straightened out when one of its own directors, Nicholas Biddle, took charge in 1823. Biddle increased the number of branches to 29, checked overexpansion in the Southwest and in New York State, and imposed restraints on the national government's own activities.*

*Biddle was considered a great banker, but he and Andrew Jackson clashed over the affairs of the bank. The Biddle-Jackson controversy was a replay of the Hamilton-Jefferson struggle of the 1790s, only the result was different. Biddle, whose view was clearly Hamiltonian, believed that the aristocracy of wealth would run the country in the interest of developing a market economy. Jackson adopted Jefferson's agrarian outlook, objecting to the paper notes issued by the banks.*

*The struggle over the future of the Bank of the United States came to a head in 1832. Biddle tried to circumvent Jackson when he convinced Congress to re-charter the bank four years in advance of its expiration date. Knowing that this had become a major campaign issue in his bid for reelection, Jackson successfully vetoed the bank recharter bill; he then won reelection to the presidency by a wide margin. But the struggle between the two men persisted. Biddle created a deflation when he began to contract credit in August 1833. Jackson countered by ordering his secretary of the treasury to withdraw the government's deposits from all branches of the Bank of the United States. Was President Jackson responsible for the depression of 1837?*

## **ANDREW JACKSON AND THE RISE OF LIBERAL CAPITALISM**

From Richard Hofstadter, *The American Political Tradition and the Men Who Made It* (Vintage Books, 1948). Copyright © 1948 by Alfred A. Knopf, Inc; renewed 1976 by Beatrice Hofstadter. Reprinted by permission of Alfred A. Knopf, Inc. Notes omitted.

North Carolina, the scene of [Andrew] Jackson's childhood, had been a Jeffersonian stronghold, and Jackson was nurtured on Jeffersonian ideas. In 1796 and 1800 the young Tennessean voted for the sage of Monticello. Except for his nationalism, Jackson's politics chiefly resembled agrarian Republicanism of the old school, which was opposed to banks, public debts, paper money, high tariffs, and federal internal improvements. When the Burr trial and Jefferson's pacificism disillusioned him with Jefferson, Jackson did not become a convert to Federalism but rather adhered to the Randolph-Macon school in intransigent Republicans.

Jackson's personal affairs shed much light on his ambiguous political evolution from 1796 to 1828. An event of 1796 that had a disastrous effect on his fortunes may have sown in him the seeds of that keen dislike of the Eastern money power and "paper system" which flowered during his presidency. Jackson had gone to Philadelphia to sell several thousand acres of land to a rich merchant and speculator, David Allison; he accepted notes from Allison, which he endorsed and promptly used to pay for supplies he planned to use in opening a general-merchandise store in Nashville. Allison failed, and defaulted on his notes; Jackson became liable. In order to pay the notes as they fell due, he was forced to retrench, give up the estate on which he lived, move to a smaller one built of logs, and sell many of his slaves. Subsequently his store enterprise turned out badly and he was obliged to sell out to his partners. Jackson seems never to have whined about his misfortune, but he lived for nineteen years in its shadow, remaining in debt from 1796 to 1815, when at last his military pay and allowances brought him into the clear. In the fall of 1815 he had a cash balance of over twenty-two thousand dollars at the Nashville bank, was again heavily committed in land speculations, and was building the fine new estate that has become famous as the Hermitage. Just at this time, when he was so vulnerable, the panic of 1819 struck.

The general distress of Tennessee debtors led, as in many other places, to a movement for relief. Felix Grundy, elected to the state Senate on a "relief" platform, brought forth a proposal to establish a state loan office to help debtors out of the state treasury. Creditors who refused to accept notes of the loan bank in payment of debts would have their collections suspended for two years. Jackson's own obligations forced him to press his debtors hard, and he instituted a single lawsuit against one hundred and twenty-nine of them at once. One of the few men in middle

Tennessee to stand against Grundy's relief program, he sent a protest to the state legislature, which was rejected on the ground that its language was disrespectful. Having learned from the Allison episode to feel for the luckless entrepreneur, Jackson was now learning to see things from the standpoint of the local moneyed class. The emergence of class conflict in Tennessee found him squarely on the side of the haves....

Had Jackson's record on popular economic reform been a matter of primary importance, he might never have been President....

The election of 1828 was not an uprising of the West against the East nor a triumph of the frontier: outside of New England and its colonized areas in the West, Federalist Delaware, New Jersey, and Maryland, Jackson swept the country. Nor was his election a mandate for economic reform; no financial changes, no crusades against the national bank, were promised. The main themes of Jacksonian democracy thus far were militant nationalism and equal access to office. Jackson's election was more a result than a cause of the rise of democracy and the "revolution of 1828" more an overturn of personnel than of ideas or programs. Up to the time of his inauguration Jackson had contributed neither a thought nor a deed to the democratic movement, and he was elected without a platform. So far as he can be said to have had a popular mandate, it was to be different from what the people imagined Adams had been and to give expression to their unformulated wishes and aspirations. This mandate Jackson was prepared to obey. Democrat and aristocrat, failure and success, debtor and creditor, he had had a varied and uneven history, which made it possible for him to see public questions from more than one perspective. He was a simple, emotional, and unreflective man with a strong sense of loyalty to personal friends and political supporters; he swung to the democratic camp when the democratic camp swung to him.

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For those who have lived through the era of Franklin D. Roosevelt it is natural to see in Jacksonian democracy an earlier version of the New Deal, for the two periods have many superficial points in common. The Jacksonian movement and the New Deal were both struggles of large sections of the community against a business elite and its allies. There is a suggestive analogy between Nicholas Biddle's political associates and the "economic royalists" of the Liberty League, and, on the other side, between the two dynamic landed aristocrats who led the popular parties. Roosevelt himself did not fail to see the resemblance and exploit it.

But the two movements differed in a critical respect: the New Deal was frankly based upon the premise that economic expansion had come to an end and economic opportunities were disappearing; it attempted to cope with the situation by establishing governmental ascendancy over the affairs of business. The Jacksonian movement grew out of expanding opportunities and a common desire to enlarge these opportunities still further by removing restrictions and privileges that had their origin in acts of government; thus with some qualifications, it was essentially a movement of laissez-faire, an attempt to divorce government and business. It is commonly recognized in American historical folklore that the Jackson movement was a phase in the expansion of democracy, but it is too little appreciated that it was also a phase in the expansion of liberated capitalism. While in the New Deal the democratic reformers were driven to challenge many assumptions of traditional American capitalism, in the Jacksonian period the democratic upsurge was closely linked to the ambitions of the small capitalist.

To understand Jacksonian democracy it is necessary to recreate the social complexion of the United States in the 1830's. Although industrialism had begun to take root, this was still a nation of farms and small towns, which in 1830 found only one of every fifteen citizens living in cities of over 8,000. Outside the South, a sweeping majority of the people were independent property-owners. Factories had been growing in some areas, but industry was not yet concentrated in the factory system; much production was carried out in little units in which the employer was like a master craftsman supervising his apprentices. The development of transportation made it possible to extend trade over large areas, which resulted in a delay in collections and increased the dependence of business upon banks for credit facilities. The merchant capitalist found it easier to get the necessary credits than humbler masters and minor entrepreneurs, but the hope of growing more prosperous remained intensely alive in the breast of the small manufacturer and the skilled craftsman.

The flowering of manufacturing in the East, the rapid settlement of the West, gave to the spirit of enterprise a large measure of fulfillment. The typical American was an expectant capitalist, a hardworking, ambitious person for whom enterprise was a kind of religion, and everywhere he found conditions that encouraged him to extend himself. Francis J. Grund, an immigrant who described American social conditions in 1836, reported: Business is the very soul of an American: he pursues it, not as a means of procuring for himself and his family the necessary comforts of life, but as the fountain of all human felicity.... It is as if all America were but one gigantic workshop, over the entrance of which there is the blazing inscription, "No admission here, except on business."

More than one type of American, caught up in this surge of ambition, had reason to be dissatisfied with the United States Bank. Some farmers were more interested in the speculative values of their lands than in their agricultural yield. Operators of wildcat banks in the South and West and speculators who depended upon wildcat loans shared the farmers' dislike of Biddle's bank for restraining credit inflation. In the East some of the heads of strong, sound state banks were jealous of the privileged position of the national bank-particularly the bankers of New York City, who resented the financial supremacy that the bank brought to Philadelphia. In Eastern cities the bank was also widely disliked by workers, craftsmen, shopkeepers, and small business people. Labor was hard hit by the rising cost of living, and in many cases the workmen's agitation was directed not so much against their immediate employers as against the credit and currency system. Small business and working men felt that banks restricted competition and prevented new men from entering upon the avenues of enterprise.

The prevalent method of granting corporation charters in the states was a source of enormous resentment. The states did not have general laws governing incorporation. Since banks and other profit-making businesses that wished to incorporate had to apply to state legislatures for individual acts of incorporation, the way was left open for favoritism and corruption. Very often the corporation charters granted by the legislatures were, or were construed to be, monopolies. Men whose capital or influence was too small to gain charters from the lawmakers were barred from such profitable and strategic lines of corporate enterprise as banks, bridges, railroads, turnpikes, and ferries. The practice was looked upon as an artificial closure of opportunity: laborers often blamed it for the higher price of necessities. The practice of granting economic privileges was also considered a threat to popular government. Jackson, explaining in

one of his presidential messages why "the planter, the farmer, the mechanic, and the laborer" were "in constant danger of losing their fair interest in the Government," had a standard answer: "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."

Among all the exclusive privileged monopolies in the country the Bank of the United States was the largest, the best-known, and the most powerful. It became a symbol for all the others, and the burden of many grievances for which it was not really responsible fell upon it. As a national institution it was doubly vulnerable: it was blamed by Western inflationists for deflationary policies and by Eastern hard-money men for inflation. One certain accomplishment of Jackson's war on the bank was to discharge the aggressions of citizens who felt injured by economic privilege.

Jackson himself was by no means unfamiliar with the entrepreneurial impulse that gave Jacksonian democracy so much of its freshness and vitality. An enterpriser of middling success, he could spontaneously see things from the standpoint of the typical American who was eager for advancement in the democratic game of competition—the master mechanic who aspired to open his own shop, the planter or farmer who speculated in land, the lawyer who hoped to be a judge, the local politician who wanted to go to Congress, the grocer who would be a merchant. He had entered the scramble himself in a variety of lines, as a professional man, a merchant, a land speculator, a planter, an officeholder, and a military chieftain. He understood the old Jeffersonian's bias against overgrown government machinery, the Westerner's resentment of the entrenched East, the new politician's dislike of the old bureaucracy, and the aspiring citizen's hatred of privilege. Years before his presidency, he recalled, when a few Tennesseans proposed in 1817 to bring a branch of the bank to Nashville, he had opposed it on the ground that the bank "would drain the state of its specie to the amount of its profits for the support and prosperity of other places, and the Lords, Dukes, and Ladies of foreign countries who held the greater part of its stock, no individual but one in our state owning any of its stock." In 1827, when a branch of the bank was finally created at Nashville, and its agent, General Thomas Cadwalader, coyly hinted to Jackson that its patronage could be turned over to the Jackson party, he was rebuffed.

Looking at the bank from the White House, Jackson saw an instrument of great privilege and power ruled by a man of uncommon force and intelligence. As a fiscal agency it was comparable in magnitude to the government itself. It issued about one fourth of the country's bank paper; because of its power over the discounts of innumerable smaller banks, especially in the West and South, it was the only central instrument in the United States that could affect the volume of credit. A private agency performing a major public function, it was yet substantially free of government control. As Hezekiah Niles put it, the bank had "more power than we would grant to any set of men unless responsible to the people." Nicholas Biddle, boasting of the forbearance with which he ran the bank, once stated in a Congressional investigation that there were "very few banks which might not have been destroyed by an exertion of the powers of the Bank." "As to mere power," he wrote to Thomas Cooper in 1837, "I have been for years in the daily exercise of more personal authority than any President habitually enjoys." Understandably the bank's critics regarded it as a potential menace to democratic institutions.

As an economic instrument, there was a great deal to be said for the bank. Under Biddle it had done a creditable job in stabilizing the currency and holding in check inflationary pressure from the wildcatters. Before Jackson's election Biddle had also been concerned to keep the bank out of partisan politics and, as he wrote Webster, "bring it down to its true business character as a Counting House." But the bank inspired too many animosities to stay out of political life. After 1829 it had large loans outstanding to a great number of prominent politicians and influential newspaper editors, and Biddle was well aware how great its power would be if it should be employed directly in corruption. "I can remove all the constitutional scruples in the District of Columbia," he arrogantly informed a correspondent in 1833. "Half a dozen Presidencies a dozen Cashierships-fifty Clerkships a hundred Directorship to worthy friends who have no character and no money."

Since the bank's charter was to expire in 1836, and since a second term for Jackson was probable, it seemed necessary that a renewal of the charter be secured under Jackson. Biddle attempted at first to be conciliatory, made earnest efforts to answer Jackson's grievances against the bank, appointed Jacksonian politicians to several branch directorships, and sent the President a not ungenerous proposal for assistance in discharging the government's indebtedness in return for recharter. Yet in the fall or winter of 1829-30, when Biddle and Jackson had an amicable interview, the general frankly said: "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." By December 1830, when Jackson questioned the bank's expediency and constitutionality, it was clear that he would not consent to renew its life. Biddle, reluctantly, uncertainly, and under prodding from Whig politicians, decided in the summer of 1832 to ask Congress for recharter before the presidential election. "The bank," said Jackson to Van Buren, "is trying to kill me, but I will kill it!" To the frontier duelist the issue had instantly become personal.

Jackson lost no time in returning the recharter bill to Congress with his famous veto message, described by Biddle as "a manifesto of anarchy, such as Marat and Robespierre might have issued to the mob." The body of the message was an argument against the bank's constitutionality. The social indictment of the bank was inclusive: it was a monopoly, a grant of exclusive privilege; the whole American people were excluded from competition in the sale of the privilege, and the government thus received less than it was worth; a fourth of the bank's stock was held by foreigners, the rest by "a few hundred of our citizens, chiefly of the richest class"; it was a menace to the country's liberty and independence. At the end the President launched into a forthright statement of the social philosophy of the Jacksonian movement:

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 cannot be produced by human institutions. In the full enjoyment of the gifts of Heaven and the fruits of superior industry, 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 distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members 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. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing.

Certainly this is not the philosophy of a radical leveling movement that proposes to uproot property or to reconstruct society along drastically different lines. It proceeds upon no Utopian premises, full equality is impossible, "distinctions will always exist," and reward should rightly go to "superior industry, economy, and virtue." What is demanded is only the classic bourgeois ideal, equality before the law, the restriction of government to equal protection of its citizens. This is the philosophy of a rising middle class; its aim is not to throttle but to liberate business, to open every possible pathway for the creative enterprise of the people. Although the Jacksonian leaders were more aggressive than the Jeffersonians in their crusades against monopoly and "the paper system," it is evident that the core of their philosophy was the same: both aimed to take the grip of government-granted privileges off the natural economic order. It was no coincidence that Jacksonians like William Leggett and Thomas Hart Benton still venerated John Taylor, a thinker of what Jackson affectionately called "the old republican school."

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Pursuing the bank war to its conclusion, Jackson found defeat in victory. Re-elected overwhelmingly on the bank issue in 1832, he soon removed all United States funds from the bank. Biddle, in the course of a fight to get the federal deposits back, brought about a short-

While the state legislatures were writing Jacksonian ideals into the law of corporations, a Jacksonian Supreme Court under Chief Justice Taney was reading them into the clauses of the Constitution. Taney, appointed by Jackson in 1836, sat on the Court until his death in 1864, and during his long tenure the Court propagated the Jacksonian view of business without privilege. Professor Benjamin F Wright, in his study of The Contract Clause of the Constitution, has pointed out that as a result of the Court's work under Taney the contract clause "was a more secure and broader base for the defense of property rights in 1864 than it had been in 1835." Taney's most startling case, as symbolic of the fight against privilege in the juridical sphere as the bank war had been in politics, was the Charles River Bridge case. The majority decision, prepared by Taney, which represented a long forward step in detaching from the corporation the stigma of monopoly, stands as a classic statement of the Jacksonian faith.

The Charles River Bridge had been erected in the 1780's by Harvard College and prominent Bostonians under a Massachusetts charter. As the population of Boston and Cambridge grew, business flourished, traffic mounted, and par value of the bridge's stock shot upwards. A share bought in 1805 at \$444 was worth \$2,080 in 1814. Since a new bridge was badly needed, the state legislature in 1828 chartered another, the Warren Bridge, to be built very close to the original, and to be free after sufficient tolls were collected to pay for its construction. Anxious to prevent a development that would destroy the value of their stock, the proprietors of the older bridge attempted to restrain the new builders from erecting the Warren Bridge. When Taney began sitting as Chief Justice in 1837, the issue was still pending before the Supreme Court. The case clearly involved a conflict between vested rights on one side and new entrepreneurs and the rest of the community on the other. Four distinguished Massachusetts lawyers, including Daniel Webster, represented the promoters of the Charles River Bridge. They argued that the legislative grant to the original bridge company was a contract, and that implicit in such a ferry or bridge franchise was a promise on the part of the state not to break the contract by granting another competing franchise that would lower the value of the original.

The Court decided for the new bridge, five to two. Since the two dissenting justices, Story and Thompson, were holdovers from the pre-Jackson period and the five majority judges were all Jackson appointees, the decision may accurately be called a Jacksonian document. Story's dissent, which expressed horror at "speculative niceties or novelties" and invoked the interests of "every stockholder in every public enterprise of this sort throughout the country," was reasoned in the language of entrenched capital, of monopoly investors who abhorred risk. Taney's majority decision was a plea for the public interest, for technological progress and fresh enterprise.

The object of all government, Taney asserted, is to promote the happiness and prosperity of the community, and it could never be assumed that a government intended to curtail its own powers in this respect. "And in a country like ours, free, active, and enterprising, continually advancing in numbers and wealth," new channels of communication and travel are continually found necessary; an abandonment of the state's power to facilitate new developments should not be construed from contracts that do not contain an explicit statement of such intent.

What would happen, Taney asked, if the idea of an implied monopoly in charters should be sustained by the Court? What would become of the numerous railroads established on the same line of travel with old turnpike companies? He thought he knew: if these old corporations were given an "undefined property in a line of traveling," they would awaken from their sleep and call upon the Court to put down new improvements to protect their vested interests. The "millions of property" that had been invested in railroads and canals upon lines of travel once occupied by turnpike corporations would be endangered. Until obsolete claims were settled, the community would be deprived of the benefits of invention enjoyed by every other part of the civilized world. The rights of property, Taney conceded, should be "sacredly guarded," but "we must not forget that the community also have rights, and that the happiness and well being of every citizen depends upon their faithful preservation."

To the Whig press and conservative lawyers like Kent and Story this opinion appeared as another "manifesto of anarchy," comparable to Jackson's bank veto message. In fact, as Charles Warren observes in his history of the Court, it gave encouragement to "all business men who contemplated investments of capital in new corporate enterprise and who were relieved against claims of monopoly concealed in ambiguous clauses of old charters."

In the Congressional session of 1823-4, at the beginning of the Jackson era, Daniel Webster had observed: "Society is full of excitement: competition comes in place of monopoly; and intelligence and industry ask only for fair play and an open field." No friend of Jacksonian democracy expressed more accurately than this opponent the historic significance of the Jackson movement. With Old Hickory's election a fluid economic and social system broke the bonds of a fixed and stratified political order. Originally a fight against political privilege, the Jacksonian movement had broadened into a fight against economic privilege, rallying to its support a host of "rural capitalists and village entrepreneurs." When Jackson left office he was the hero of the lower and middling elements of American society who believed in expanding opportunity through equal rights, and by the time of his death in 1845 the "excitement" Webster had noticed had left a deep and lasting mark upon the nation. "This," exulted Calvin Colton, "is a country of self-made men, than which there can be no better in any state of society."