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Andrew Jackson’s Ghost at the Fed

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As politicians on both side thunder about ending, auditing or increasing the President’s authority over the Federal Reserve, it’s easy to forget we’ve fought this war before. Nearly two centuries ago, Andrew Jackson’s populist crusade against Nicholas Biddle’s Congressionally chartered “Second Bank of the United States” toppled our nation’s monetary backbone and set the stage for the Panic of 1837.

Back in high school, I wrote an essay about Jackson’s crusade and how a victory against imagined financial tyrants can become a long defeat for everyone else:

Andrew Jackson was a fighting man. It is said that as a young boy, Jackson was playing with a gun when it accidentally fired and knocked him to the ground. He immediately jumped to his feet and threatened to kill any of the other boys if they dared laugh at him. When Jackson first met Nicholas Biddle — the President of the Second National Bank — Jackson was already very well versed in tearing down those he disagreed with and getting what he wanted. When the dust of their colossal

battle over the Second Bank of the United States eventually settled, Biddle's life's work and a great asset to the country — the Second Bank of the United States—was destroyed and Biddle's reputation lay in ruin. Jackson the Populist thrived and the country didn't feel the repercussions of his decision to end the bank until after the conclusion of his second term. Historian Thomas Govan was right when he said that Jackson's destruction of the bank was an, "Act of spite by an ignorant frontiersman whose stubbornness gravely injured his country". Driven by archaic perceptions of banking and a determination to end the national bank for its political opposition, Andrew Jackson destroyed a valuable institution and gravely injured the economy of the United States.

An orphan at the age of fourteen, Andrew Jackson made his own way in life. Rising from a poor background, he worked hard and married well, which allowed him to scale Tennessee's social and economic ladder. Jackson's success as a general in the War of 1812 made him a hero and gave him recognition on the national stage allowing him to run for President on the Democratic ticket. Jackson was an unorthodox presidential candidate, and his opponents sought to publicize his love of dueling and his gambling habits. Nothing, however, could stop Jackson. Running on his popularity and status as a war hero, he decisively won the 1828 Presidential Election. At his inauguration, thousands of citizens rushing to shake his hand nearly crushed him, and forced him to flee for his safety. During his two terms as President, Jackson paid off the national debt, nearly started a war with France, and ignored a Supreme Court decision forcing thousands of Native Americans to march hundreds of miles from their homes to be resettled. Throughout his time as President, Jackson's stubbornness (he believed the world was flat for his entire life) was very visible and led his opponents in the 1828 election to nickname him "Jackass".

Appointed President of the National Bank on January 6th of 1823, Nicholas Biddle restored credibility and financial prosperity to the bank after mismanagement and political scandal. Biddle's financial success at the bank can certainly be seen in his generous dividend program that paid seven percent of the bank's profits to shareholders the entirety of his first six years at the bank. Under Biddle, the National Bank made credit more available — encouraging economic development — especially in the South and in the West.

Under Biddle, the currency issued by the bank stabilized, never varying more than a quarter of a percent below the stated value of the notes at any of the bank's twenty nine locations throughout United States. This stability was a sign of confidence in the bank's deposits of specie (precious metal like gold and silver) and the ease which notes could be exchanged for it. Biddle also reduced volatility in the state banks by preventing them from issuing more notes then they had deposits to back. As the National Bank accepted every state bank's currency, it built up reserves of currency that it used to procure specie, thus controlling the supply of money. The stable currency, fostered by the bank, allowed business to be conducted easily and safely. The bank also supported large transfers of money

by issuing deposit certificates for a nominal fee that allowed depositors to withdraw an amount from any one of the bank's locations. Another testament to the strength of the United States' currency during Biddle's first six years as bank president was that the currency was convertible to British pounds with almost no spread. Biddle and his bank enhanced the economy and fostered growth across the country.

Having nearly been put in debtor's jail for losing money speculating on land, Jackson was skeptical and suspicious of banks and their role in the economy, believing debt and speculation were inherently evil and "instruments of the swindler and the cheat". As President, Jackson believed it his duty to save the nation from these evils. Because banks enabled these practices, and irrationally skeptical of financial institutions, Jackson decried even paper money representing a claim for specie.

Publicly, the most contentious issue regarding the bank were the allegations that it — and Biddle by extension — was pro-Federalist. Ironically, Biddle had voted for Jackson in the 1828 election, though this was not known at the time. In an 1828 letter to Senator Samuel Smith of Maryland, Biddle denied accusations that the Portsmouth Branch of his bank had discriminated against Democrats by saying: "There is no one principle better understood by every officer of the bank than that he must abstain from politics, and I have not seen nor heard of any one of them in any part of the union who has been engaged in this controversy". Determined to keep the bank above politics, Biddle ordered an investigation and personally traveled to the Portsmouth branch. The investigation revealed that the accusations had no grounds, and the issue seemed to be resolved. However, even after the conclusion of this investigation, President Jackson held onto his belief that the bank was corrupt and politicized, despite several meetings with Biddle and reassurance from his entire cabinet.

Given a commendation by shareholders after his first six years, Biddle reveled in his success. Richard Rush, Secretary of the Treasury under John Quincy Adams and convert from an opponent to a strong supporter of the bank, commented that the bank was "an indispensable and permanent adjunct in our political and fiscal system". After six years, Biddle's wife was eager for him to resign his position and join her and their two children at home. Biddle however, relished the prestige of his position and wanted Congress recognized his success by re-chartering the bank before retiring.

During the 1828 Election neither Jackson nor any other Presidential Candidate mentioned the National Bank. Over 80% of citizens and Congress supported the bank but did so passively. Since Biddle had previously converted so many detractors, he believed Jackson too would soon support him. Biddle discovered how mistaken this was when Jackson spoke of his view on the bank in a meeting with him, saying bluntly: "I do not dislike your bank any more than all the (other) banks". Disappointed, Biddle remained vigilant in his efforts to convert Jackson. Unbeknownst to Biddle, Jackson had expressed an even more radical view of the bank in private letters, detailing how he believed the bank was compromising morals and destroying freedoms.

Biddle continued his push to convert Jackson to support the bank by appealing to one of Jackson's goals for his Presidency — paying off the national debt. Biddle sent Jackson a letter detailing how the government could entirely eliminate the country's debt by selling its twenty percent stake in the bank. Biddle had underestimated Jackson's disdain of the bank and was surprised when he received a matter-of-fact reply condemning the institution as unconstitutional. This issue had arisen before, but McCulloch v. Maryland and other Supreme Court decisions had all reaffirmed the bank's Constitutionality. It was after this that Biddle began to believe he could not convince Jackson to support the re-charter.

When Jackson ordered Congress to investigate the bank on the grounds that it had "failed in the great end of establishing a uniform and sound currency", Congress praised it for "almost completely succeed[ing] in the performance of this arduous, delicate, and painful duty". Recognizing that the Democratic Party was split in factions for and against the bank, Henry Clay — one of the bank's original supporters — sought to use this to increase his chances of being elected president. Clay went to Biddle and convinced him to re-charter the bank four years early in order to require Jackson to take a formal stance on the issue. At first, Biddle was reluctant to make the bank an issue in the election, but ultimately concluded that the re-charter would likely be vetoed and agreed to Clay's proposal. Biddle had been explicitly warned by Louis McLane, the Secretary of the Treasury, not to seek re-charter during the election because Jackson would veto it. McLane furthermore told Biddle that if he waited, he could persuade the President to pass a bill re-chartering the bank on the grounds that it was Congress' responsibility. Biddle would have none of it. Seeking to force Jackson to support the bank and acknowledge how well he had done, Biddle submitted an application to re-charter the bank on January 6th, 1832, four years early. The bill easily passed Congress and made its way to the White House. When Jackson's close friend Martin Van Buren visited him, Jackson reached for his hand and told him, "The bank, Mr. Van Buren, is trying to kill me." He squeezed his hand. "But I will kill it". Biddle's boldness in his efforts to renew the charter had doomed his bank. Jackson was fearful of the bank's significant appeal to the people but believed with fervor that he was acting in their common good and voters would recognize this. Acting on this belief, Jackson vetoed the bank's re-charter on July 10th, 1832. In his veto message, Jackson condemned the rulings of several Supreme Court cases and deemed the bank unconstitutional saying he was "deeply impressed with the belief that some of the powers and privileges possessed by the existing bank are unauthorized by Constitution, subversive of the rights of the state, and dangerous to the liberties of the people". An editorial in the wake of Jackson's veto called it "the most wholly radical… document that ever emanated from any Administration, in any country". Daniel Webster similarly decried the veto by predicting it to cause price drops, workers to be paid less, and great embarrassment for the United States. Unfortunately for Biddle, Clay, and the bank, Jackson's popularity had overpowered

the passive widespread support the bank had, despite Clay's attempt to make it an electoral issue. Jackson was overwhelmingly re-elected President.

Jackson's veto left the bank on uncertain ground. When he ordered his Secretary of Treasury, William Duane to remove the bank's federal deposits, Duane refused and Jackson forced him to resign. Jackson then appointed a new secretary who began the distribution of deposits to state banks. As the bank's accounts steadily drew down, the bank lost its power to effectively check the state banks and to keep a balanced currency as it had before. This triggered a reckless expansion in lending, which eventually contributed to bank failures, deflation and widespread unemployment during the Panic of 1837. When the Second Bank of United States' federal charter expired, Pennsylvania re-chartered it as its state bank, but three years later, the bank became insolvent and permanently closed.

Jackson's veto message had been successful. In the aftermath of the collapse of the bank, Biddle was sued by shareholders who had once given him a magnificent plate of gold in appreciation for his service. Congressman Charles Ingersoll — a longtime friend of Biddle — noted that the "dogs" that had once "licked his hands and fawned on his footsteps" were now tearing him apart. Jackson's destruction of Nicholas Biddle's character was all encompassing. Biddle died in February of 1844, his reputation tarnished, clinically depressed, and financially dependent on his wife's inheritance. Democrats jeered him as he was lowered into his grave. Jackson lived only another year before succumbing to the lead poisoning of two bullets he had received during duels in his twenties. Jackson was a fighting man and his ignorance in choosing to destroy the Second Bank of United States, prevented central banking efforts from resuming in American for over eighty years.