

THE SECOND BANK *of the United States*

A CHAPTER IN THE HISTORY OF CENTRAL BANKING





ACKNOWLEDGMENTS

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THE SECOND BANK OF THE UNITED STATES

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December 24, 1814. On that day, representatives of the U.S. government, meeting in Belgium, signed the *Treaty of Ghent*, which ended hostilities between the U.S. and Great Britain in the *War of 1812*.¹ However, given the lack of swift communications in those days, it would be several weeks before news of the treaty reached U.S. shores.

In the meantime, unaware that England and her former colonies were once again at peace, Major General Andrew Jackson led his troops against the British army just outside of New Orleans in January 1815. Jackson and his men defeated the British, and the *Battle of New Orleans* made the military man a national hero.² Later, as President of the United States, the general would figure prominently in another battle: the one over the second Bank of the United States.

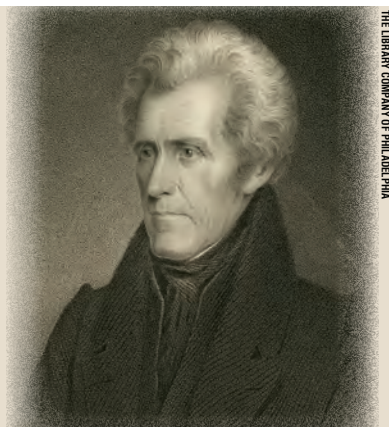
The conflict between the U.S. and England, which was often derided as “Mr. Madison’s War,” was not popular in many quarters.³ In fact, the New

England states had threatened to secede from the Union and had offered little financial support to pay for the war. In addition, Congress had failed to adequately address the question of financing the war and, consequently, had imposed no new taxes. It wasn’t until a year after the war started that Congress raised \$2 million by levying new taxes. Then the federal government assessed \$3 million in taxes on the states, but this revenue wasn’t collected until 1814. Ultimately, to pay for the war, the government sold short-term Treasury notes and long-term Treasury bonds.⁴ Nevertheless, the government’s credit had declined because the war, overall, had produced no decisive victories for the U.S. or England and because the New England states were reluctant to aid the federal government in this fight. But the government’s chief problem was a lack of tax revenue.⁵

In the years leading up to the war, which started in June 1812, the country’s economy was on an upswing. With Napoleon waging war across Europe, demand for U.S. goods had risen. America’s neutrality during the Napoleonic wars meant that U.S. ships could ferry supplies, especially manufactured goods

THE BANK, MR. VAN BUREN, IS TRYING TO KILL ME, BUT I WILL KILL IT.

—ANDREW JACKSON
TO MARTIN VAN BUREN, 1832



and agricultural products, to Europe. Although the Embargo Act of 1807 caused a “drastic decline” in trade in 1808, the economy managed a “substantial recovery” until 1812.⁶

Then war with Great Britain changed all that. America’s foreign trade all but ceased. Even ships that carried goods along the eastern seaboard were idled, and goods had to be sent over land, an expensive and time-consuming option. By 1814, exports had declined to \$7 million (compared with \$61 million in 1811) and imports to \$13 million (compared with \$53 million in 1811).⁷ The decrease in foreign trade had widespread implications, affecting other industries such as shipbuilding and agriculture and resulting in significant increases in the prices for many goods. The decline in imports also reduced the amount of *customs duties* collected, and therefore, the government couldn’t depend on these duties as a source of financing the war with Great Britain.⁸

Consequently, by early 1815, much like it had at the end of the Revolutionary War, the U.S. found itself heavily in debt after fighting a war with England and the economy was in a slump. With no national bank to help the federal government issue

debt and manage its revenues and pay its bills, the government could neither borrow money nor make payments very easily.

Proposing a Solution to the Country’s Economic Woes

When the country had found itself in a similar situation in 1783, Alexander Hamilton, the first Secretary of the Treasury, proposed a solution to the nation’s economic problems: establish a national bank. After much debate between opposing factions, Hamilton prevailed and the first Bank of the United States (often called the First Bank) was created.⁹

But the First Bank’s 20-year charter had expired in March 1811. So by January 1815, the country had been without a national bank for almost four years. Many people thought that another national bank would again provide relief for the country’s ailing economy and help in paying its war debt.

Six men figured prominently in establishing the second Bank of the United States (commonly called the Second Bank): financiers John Jacob Astor, David Parish, Stephen Girard, and Jacob Barker; Alexander Dallas, who would become Secretary of the Treasury in 1814; and Representative John C. Calhoun of South Carolina. These men thought that re-establishing a national bank would solve some of the country’s economic woes. In particular, Astor, Parish, Girard, and Barker felt that a national

bank would restore a stable currency, which would help to avoid bouts of inflation and which would be a boon to their business interests. Being lenders, financiers lost money and wealth when the country experienced periods of inflation.

Creating a Second National Bank

Despite general support for a bank, the road to creating one was not entirely smooth. In April 1813, Parish, Astor, Girard, and Dallas met



This bill of exchange is made out for 500 pounds. Merchants used bills of exchange to receive more timely payment for their goods. Banks helped merchants by issuing bills of exchange and in doing so provided short-term loans to merchants.

Courtesy, Independence National Historical Park

with Secretary of the Treasury Albert Gallatin, who “desperately needed funds to continue the war.” As a result of this meeting, Astor, Girard, and Parish agreed to buy \$9 million in government securities

(which was called stock at the time). By early 1814, these three men, as well as Barker, Dallas, and Calhoun, were convinced that re-establishing a national bank was the only way to raise war finances, stabilize the currency, and increase the value of government issues of debt.¹⁰

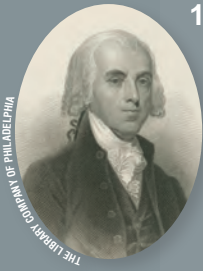
In January 1814, Congress received a petition signed by 150 businessmen from New York City, urging the legislative body to create a second national bank. In February 1814, Calhoun put forth a plan to create a bank that would be headquartered

in the District of Columbia. The bill didn’t pass.

In April 1814, President Madison, who had opposed the creation of the first Bank of the United States in 1791, reluctantly admitted to the

need for another national bank. That same month, a congressman from Tennessee proposed a motion in the House to establish a committee that would look into the issue of a national bank. But rumors that England wanted peace led Madison to withdraw his support for the bank. He believed that a bank was necessary only to finance the war, so the committee was dissolved. However, the government’s financial position continued to worsen.

Later that year, Dallas was named Secretary of



1816
In April President Madison signs the bill creating the second Bank of the United States

1817
In January, the Second Bank opens for business in Philadelphia



1824
The bank moves into its new building at 420 Chestnut Street in Philadelphia

1826
A bank branch opens in Mobile, Alabama

1828
A bank branch opens in Portland, Maine



1832
Request is submitted to Congress to renew the bank's charter—four years before it's set to expire. President Jackson vetoes the bill to re-charter.

1836
The Second Bank's charter expires and the bank closes its doors.

1816
In July, subscriptions to the Second Bank go on sale



1817
Eighteen branches of the bank also open for business

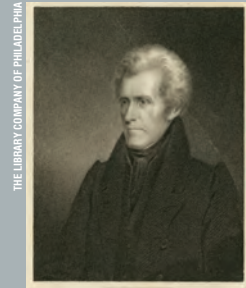


1823
Nicholas Biddle becomes president of the Second Bank.

1827
A branch opens in Nashville, Tennessee

1829
Branches open in Buffalo and St. Louis

1830
Branches open in Burlington, VT; Utica, NY, and Natchez, MS.



1833
President Jackson orders that all federal government deposits be removed from the Second Bank and deposited in state banks.

the Treasury. In October, a congressional committee sent Dallas a letter asking him about the condition of the country's credit. Dallas sent a lengthy reply that included an outline of a plan for a new national bank.¹¹ But Congress turned the plan down. In November, Calhoun introduced a new measure in the House of Representatives, but it also failed.¹²

Early the following year, both Houses of Congress agreed on a bill outlining a new national bank, but President Madison vetoed it. In February

Receipt for seven shares of stock in the Second Bank purchased by order of General Thos. Cadwalader, August 22, 1828, receipted by E. R. Biddle for Thos. & Jno. G Biddle.

Courtesy, Independence National Historical Park

1815, Congress came close to passing another bank bill, but that month, word of the peace treaty with England finally reached the American capital. Excited

by the news, Congress voted to indefinitely postpone a vote on the national bank and refused to consider the question for the rest of that session.¹³

When Congress reconvened in December 1815, Madison urged its members to tackle the question of a uniform currency. State banks had stopped redeeming their notes, mostly because of a lack of *specie*. Madison felt that the time had come for Congress to move the country toward a more uniform paper currency. Dallas agreed and in his annual report noted that "a national bank would be the best and perhaps the only adequate resource to relieve the country and the government from the present embarrassments."¹⁴

But at the end of January 1816, Madison vetoed yet another bank bill that had been passed by both chambers of Congress. Taking up the question once again in February, the House of Representatives considered still another bill to create a national

bank. Finally, after more debate, the measure passed. The Senate followed suit, passing the bill, but with amendments to which the House agreed. On April 10, 1816, Madison signed the bill into law.¹⁵

By this time, of course, financing the war was no longer a consideration. But the government still had to deal with such issues as establishing a stable currency, dealing with war debt, re-establishing trade, and pulling the economy out of its slump.

Bank Structure and Operations

The Second Bank opened for business in Philadelphia in January 1817. The bank had much in common with its forerunner. Like the First Bank, it was originally housed in Carpenters' Hall on Chestnut Street, moving into a new building up the block at 420 Chestnut Street in 1824.

Also, the bank's functions and structure were similar to those of the First Bank. It would act as *fiscal agent* for the government — holding its deposits, making its payments, and helping it issue debt to the public— and regulate the economy by issuing and redeeming *banknotes* and keeping state banks' issuance of notes in check.¹⁶ Also like its predecessor, the Second Bank had a 20-year charter; was a commercial bank that accepted deposits and made loans to the public, both businesses and individuals; and capped its loan

rate at 6 percent. Its board consisted of 25 directors, with five of its members appointed by the President and confirmed by the Senate.¹⁷

However, capitalization for the Second Bank was \$35 million, considerably higher than the \$10 million underwriting of the First Bank and a great deal of money at that time.¹⁸ But *subscriptions* (or *scrips*) would be sold in the same proportion: 20 percent would be held by the government and 80 percent by private investors. Furthermore, one-quarter of the share price would

be paid in specie and the rest in government bonds — again, similar to the setup with the First Bank. However, subscriptions to the Second Bank sold for \$100 each, not the \$400 per share of its predecessor.



A bill of exchange issued by the Second Bank in Philadelphia and signed by Nicholas Biddle.

Panics, Recessions, AND Banking Crises

1819 Often described as the first major financial crisis in the U.S., this panic was part of a worldwide crisis. In the U.S. the panic had its roots in the Second Bank's operations. The bank had extended a large number of loans shortly after it opened. But as an increasing trade deficit led to an outflow of specie, the bank had to contract its lending and extensions of credit. This credit contraction led, in turn, to bankruptcies. Foreclosures, bank failures, a drop in real estate prices, and a slump in agriculture and manufacturing ensued.

1825 This panic was triggered by a stock market crash due to speculative investments in Latin America. The crisis hit England particularly hard, but it also led to a decline in economic activity in the U.S.

1833–34 The U.S. underwent a brief recession during these years. An expansion fueled by land speculation followed.

1837 Banks had to suspend redeeming their notes for specie because of a lack of gold and silver. As a result, many banks were illiquid, and many banks failed. This crisis was fueled in part by a lack of confidence in the nation's paper currency.

1857 The collapse of the Ohio Life Insurance and Trust Company and a bank panic in the fall of 1857 led to an economic crisis. More than 5,000 businesses failed during the first year of the panic.

1873 The collapse of Jay Cooke and Co., the largest bank in the U.S. at that time, in September 1873 triggered a panic on the stock exchange. Cooke's bank was the exclusive agent for the sale of Northern Pacific Railroad bonds. When the firm could not sell a sufficient number of railroad bonds to investors to cover its obligations, the stock market reacted negatively, and runs on several other large financial institutions led to their failure. The

Coinage Act of 1873 depressed the price of silver, hurting the interests of U.S. silver mines and further contributing to the country's economic problems. This economic crisis led to a recession that lasted until 1879.

1882–85 The recession of these years was mostly due to the end of the railroad construction boom. The end of the boom affected other industries, particularly iron and steel.

1884 Coming in the midst of the 1882–85 recession, this panic occurred when European gold reserves were depleted and banks called in loans.

1893 The Sherman Silver Purchase Act, which was passed in 1890, increased the amount of silver the federal government had to purchase each month. The act was intended to lessen the fears of many farmers who were in debt and couldn't pay off those debts because of deflation. They wanted the government to, in effect, cause inflation so that

they could pay off their debts with cheaper dollars. The act also responded to mining interests; mining companies had extracted a large quantity of silver from mines in the West. Furthermore, the failure of a major railroad and the withdrawal of European investment led to a stock market crash, a banking collapse, and a run on the U.S. gold supply.

1907 The failure of the Knickerbocker Trust Company in New York led to runs on other trust companies. A general panic ensued. The panic triggered hundreds of bank failures, a significant decrease in the money supply, and a deep recession. Financier J.P. Morgan formed a syndicate with his fellow bankers, who were able to put sufficient liquidity into the economy to quell the panic. This panic led to the creation of a federal commission to study the economy and ways to reduce the number of crises and panics. The findings of this commission eventually led to the creation of the Federal Reserve System in 1913.

Sources: Kindleberger and Aliber; Glasner; Bordo and Haubrich

MAP OF SECOND BANK AND ITS BRANCHES



- ★ Philadelphia, Pennsylvania (1817)
- 1 Augusta, Georgia (1817)*
- 2 Baltimore, Maryland (1817)
- 3 Boston, Massachusetts (1817)
- 4 Charleston, South Carolina (1817)
- 5 Chillicothe, Ohio (1817)
- 6 Cincinnati, Ohio (1817)
- 7 Fayetteville, North Carolina (1817)
- 8 Lexington, Kentucky (1817)
- 9 Louisville, Kentucky (1817)
- 10 Middletown, Connecticut (1817)
- 11 New Orleans, Louisiana (1817)
- 12 New York City, New York (1817)
- 13 Norfolk, Virginia (1817)
- 14 Portsmouth, New Hampshire (1817)
- 15 Providence, Rhode Island (1817)
- 16 Richmond, Virginia (1817)
- 17 Savannah, Georgia (1817)
- 18 Washington, D.C. (1817)
- 19 Mobile, Alabama (1826)
- 20 Nashville, Tennessee (1827)
- 21 Portland, Maine (1828)
- 22 Buffalo, New York (1829)
- 23 St. Louis, Missouri (1829)
- 24 Burlington, Vermont (1830)
- 25 Utica, New York (1830)
- 26 Natchez, Mississippi (1830)

* Closed that same year

Subscriptions went on sale in July 1816, and the sale period was set at three weeks. To make it easier for investors to buy subscriptions, sales were held in 20 cities. However, when, after three weeks, \$3 million of scrips remained unsold, Stephen Girard bought them.¹⁹

Because the Second Bank also functioned as a commercial bank and made loans to individuals and companies, its banknotes (paper currency) most commonly entered circulation as part of the loan process rather than through the purchase of U.S. government securities. Many state banks envied the Second Bank because it received all of the government's deposits and therefore could make more loans. Although state banks issued their own banknotes when making loans, these banks did not have the size or geographic scope of the Second Bank.

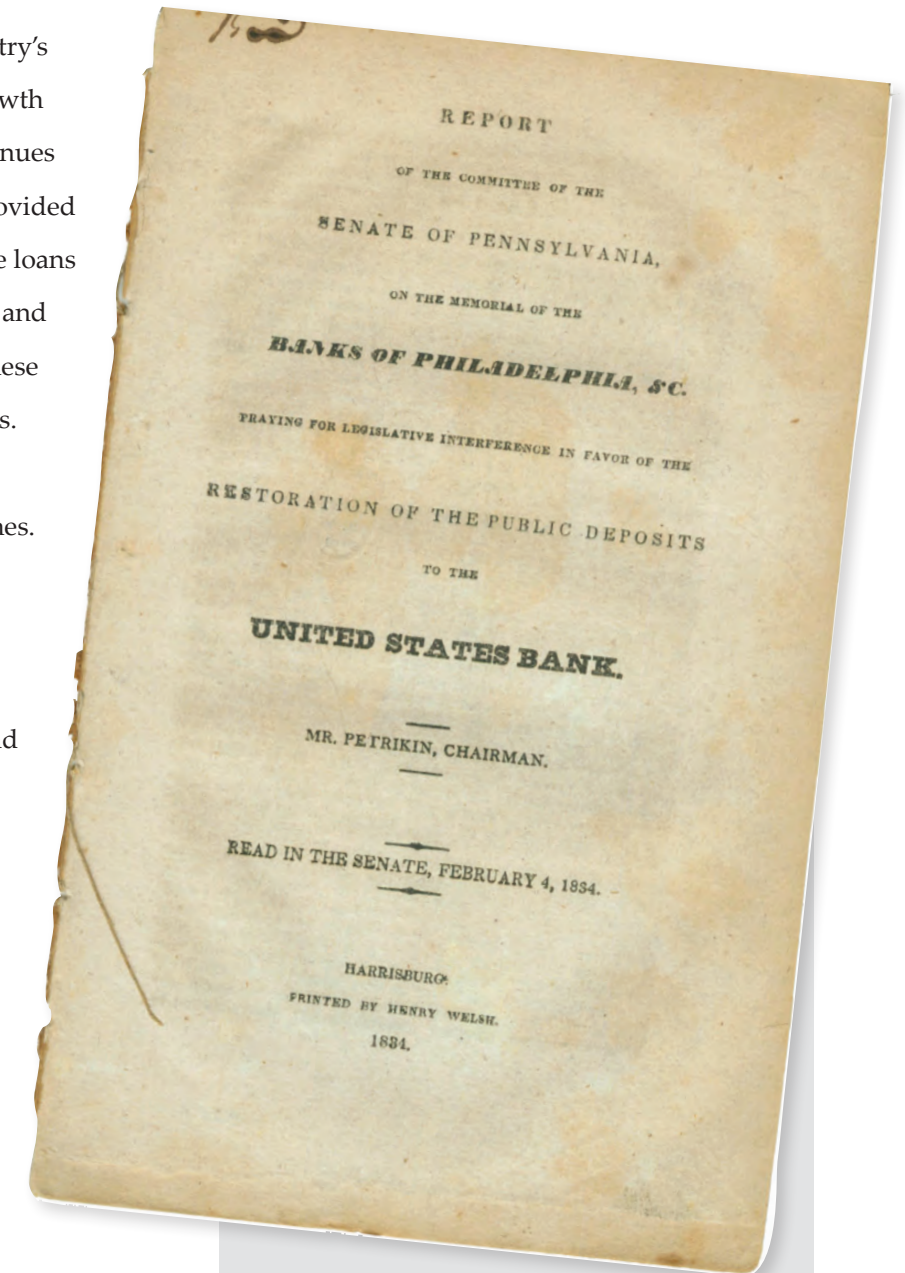
Indeed, the Second Bank's reach was far greater than that of its predecessor. Shortly after the bank opened, it had 18 branches and later added eight more. But one closed, so the bank ultimately ended up with 25 branch offices around the country (see the map).²⁰ The First Bank, in comparison, had only eight branches.

The extensive branch network

of the Second Bank greatly aided the country's westward expansion and its economic growth in several ways. The branches took in revenues from the sale of federal land. They also provided credit to businesses and farmers, and these loans helped to finance the production of goods and agricultural output and the shipment of these goods to domestic and foreign destinations. Customs duties collected as a result of foreign trade were deposited in the branches. Moreover, the network helped move the money deposited in the branches to other parts of the nation, facilitating both the government's ability to make payments and the branches' ability to supply credit.

Unlike modern *central banks*, the second Bank of the United States did not officially set monetary policy. Nor did it regulate other banks. Nonetheless, its prominence as one of the largest corporations in America and its branches' broad geographic position in the expanding American economy allowed it to conduct a rudimentary monetary policy. The bank's notes, backed by substantial gold reserves, gave the country a more stable national currency. By managing its lending policies and the flow of funds through its accounts, the bank could — and did — alter the supply of money and credit in the economy and hence the level of interest rates charged to borrowers.

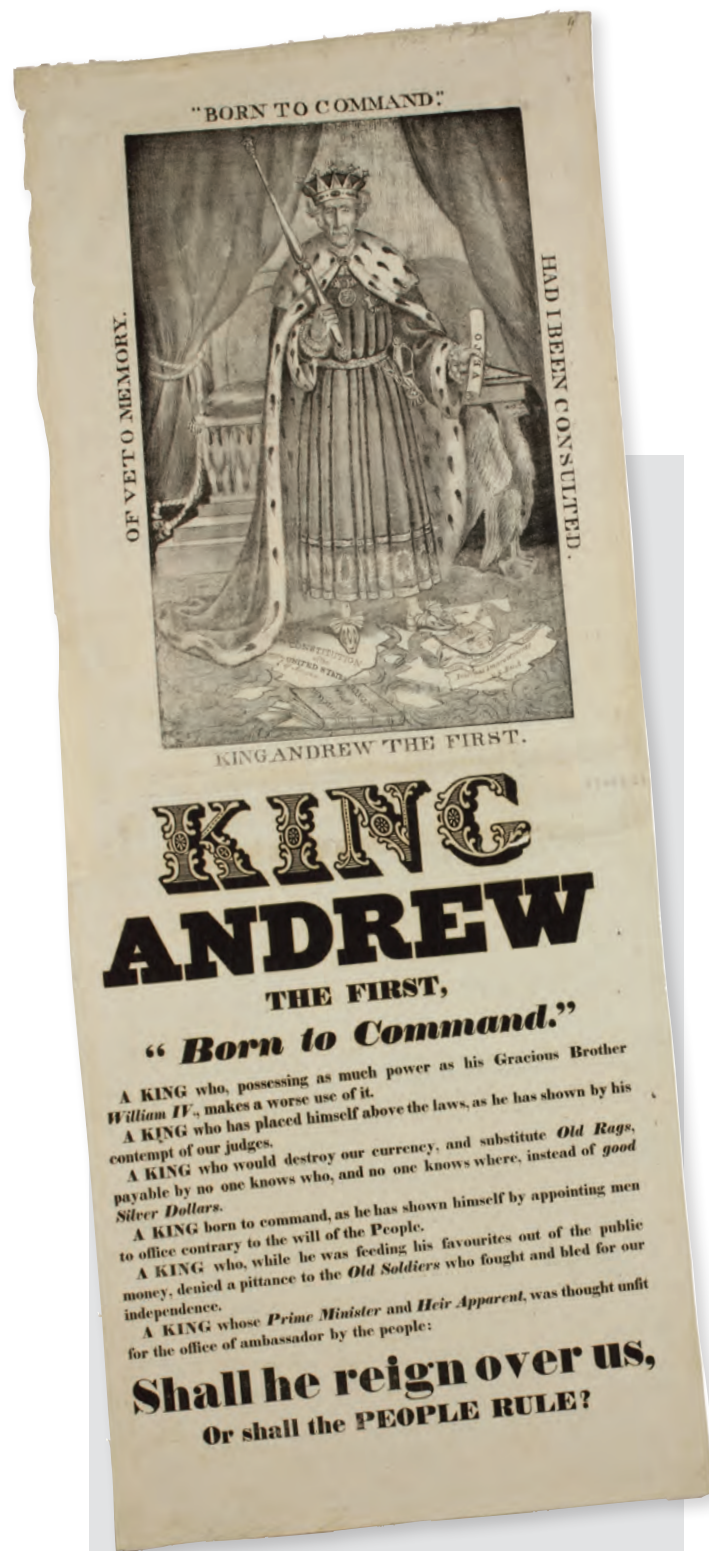
These actions, which had effects similar to today's monetary policy actions, can be seen most clearly in the Second Bank's interactions with state



Cover of a report submitted to the Senate of Pennsylvania, arguing in favor of having the government's deposits returned to the Second Bank.

Courtesy, Independence National Historical Park

banks. In the course of business, the Second Bank (again, similar to the First Bank) would accumulate the notes of the state banks and hold them in its vault. When it wanted to slow the growth of



Political cartoons depicting the battle over the Second Bank were quite common during Jackson's administration. Here Jackson is shown as "King Andrew"; many people felt that Jackson was acting like a monarch, taking too much power for himself.

Courtesy, The Library Company of Philadelphia

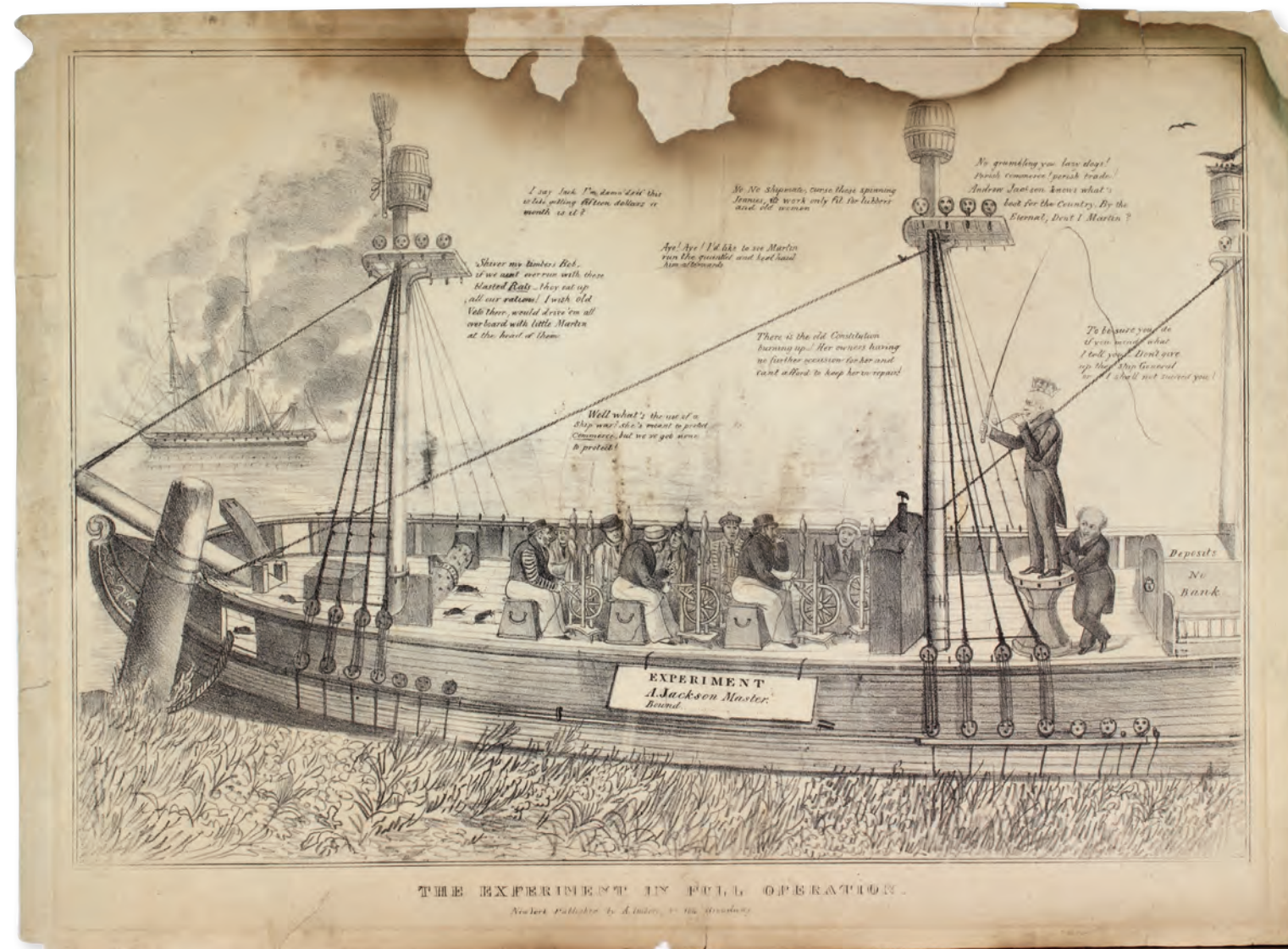
money and credit, it would present the notes for collection in gold or silver, thereby reducing state banks' reserves and putting the brakes on state banks' ability to circulate new banknotes (paper currency). To speed up the growth of money and credit, the bank would hold on to the state banks' notes, thereby increasing state banks' reserves and allowing those banks to issue more banknotes through their loan-making process.

In addition, banknotes issued by the Second Bank were widely accepted throughout the country. And unlike notes issued by state banks, Second Bank notes were the only ones accepted for payment of federal taxes.

Bank Leadership

The first president of the Second Bank was William Jones, a political appointee and a former Secretary of the Navy who had gone bankrupt. Under Jones's leadership, the bank "proceeded to run the economy into the ground by first extending far too much credit, then quickly restricting it. A financial panic ensued, followed by a steep recession that saw interest rates spike, farm produce prices plummet, and unemployment soar."²¹

When Jones resigned in 1819, shareholders elected Langdon Cheves, an attorney from South Carolina who had served as Speaker of the House of Representatives, as president of the bank. Cheves cut in half the number of notes in circulation, made fewer loans, foreclosed on mortgages, and exerted more control over the



This political cartoon, called "The Experiment in Full Operation," shows Andrew Jackson (on pedestal at right) as a king (note the crown) cracking the whip over the ship of state. Vice President Martin van Buren is leaning against the pedestal. Jackson (in the words above his head) is saying, "... Andrew Jackson knows what's best for the country... don't I, Martin?" Van Buren is urging Jackson not to give up the ship or "I shall not succeed you." Note that the chest to the right of Van Buren is marked "Deposits" and "No Bank." The "crew members" are grumbling among themselves about having no commerce and no trade to protect.

Courtesy, The Library Company of Philadelphia

branches.²² He presented state banknotes for specie, a request that sent many financial institutions into bankruptcy because they didn't have enough gold and silver on hand.²³ A depression soon followed the imposition of these harsh measures. (See *Panics, Recessions, and Banking Crises*.) Prices collapsed and unemployment was high. Although the economic slump was part of a worldwide downturn, the main

cause in the U.S. was the mismanagement of the Second Bank. This widely held view that the bank contributed to bad economic times helped turn public opinion against it.

In 1823, when Cheves withdrew his name from consideration for re-election to the top bank post, Nicholas Biddle, a member of a wealthy and prominent Philadelphia family, became head of the

bank. Biddle had previously served on the bank's board of directors and in the Pennsylvania legislature.

With Biddle's guidance, animosity toward the bank lessened somewhat. In fact, under Biddle, "the Bank became a valuable ally to business just as the country moved into a new period of expansion and economic thrust. Providing the necessary capital for this expansion, the bank helped to advance a decade of hitherto unparalleled prosperity."²⁴ After he took office, Biddle increased the number of notes issued by the Second Bank, and he

attempted to stem the flow of state banks' notes by pressing state banks to redeem their own notes in specie.²⁵

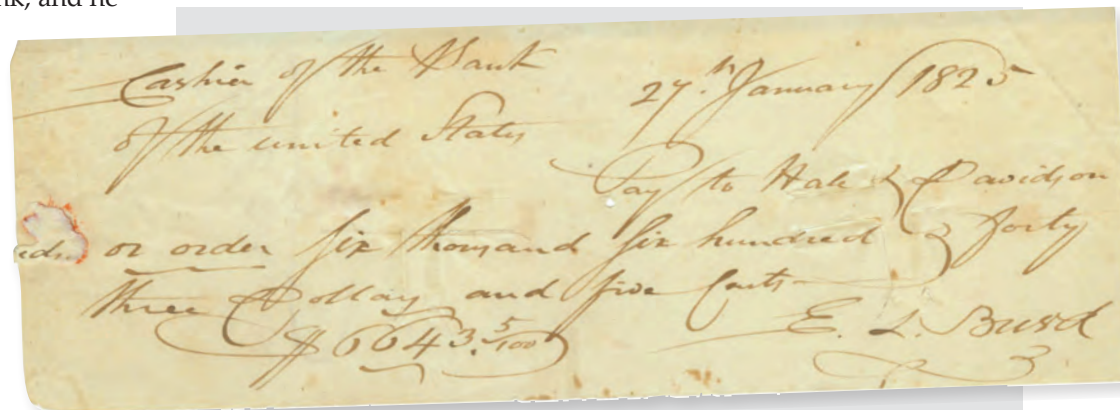
Then in 1828, Andrew Jackson, hero of the Battle of New Orleans and a determined foe of banks in general and the Second Bank in particular, was elected President of the United States. During this former soldier's time in the White House, he fought another battle — one that would ultimately defeat the Second Bank.

Battle over the Second Bank

The Second Bank wasn't an issue in the presidential campaign of 1828, the election that first swept Jackson into office. However, Jackson's dislike of the Second Bank may have been fueled by

rumors during the election campaign of 1828 that Henry Clay, a congressman from Kentucky, was manipulating the Second Bank to help Jackson's opponent, John Quincy Adams, win re-election to the presidency.²⁶ In addition, by the time of the election, the bank had become a "financial colossus" that could effectively drain specie from state banks and regulate currency according to its own perceptions of what was needed.²⁷

The bank did become an issue in the election

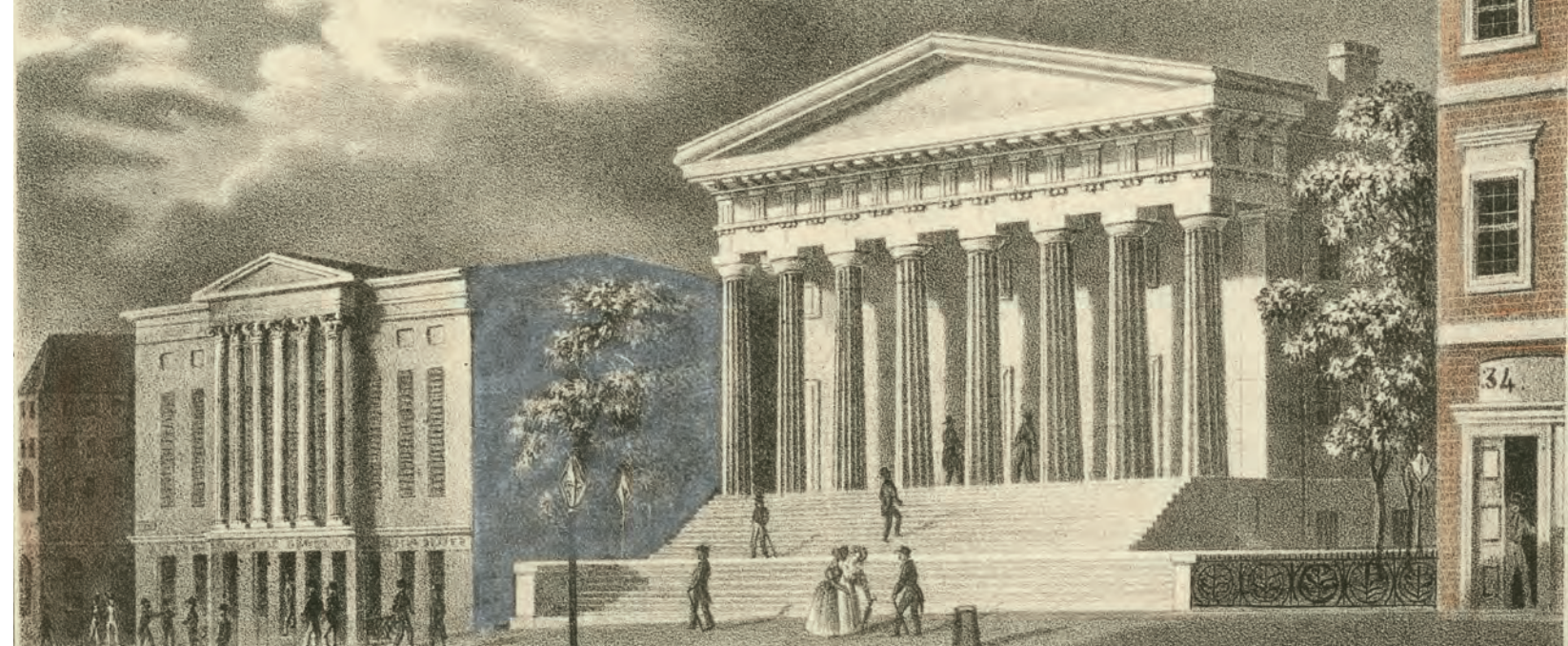


Check from the Second Bank, dated January 27, 1825, for \$6,643.05, signed by E.L. Burd, the bank's chief cashier.

Courtesy, Independence National Historical Park

of 1832, which sent Jackson back to the White House for a second term. A request to renew the bank's charter was sent to Congress in January 1832, four years before the charter was set to expire. A bill to renew the charter passed both the House and Senate, but Jackson vetoed it and there weren't enough votes to override the veto.

Why was Jackson so opposed to the Second Bank? On a personal level, Jackson brought with him to Washington a strong distrust of banks in general, stemming, at least in part, from a land deal that had gone sour more than two decades



The Second Bank Building: BANK, CUSTOMS HOUSE, AND PORTRAIT GALLERY*

The building that housed the second Bank of the United States still stands at 420 Chestnut Street in Philadelphia. The Greek revival structure, built between 1819 and 1824 and designed by architect William Strickland, was modeled on the Parthenon in Athens. Like its predecessor, the first Bank of the United States, the Second Bank opened for business in Carpenters' Hall, moving into the new building on Chestnut Street in 1824.



Carpenters' Hall at 320 Chestnut Street in Philadelphia

Constructed of Pennsylvania blue marble, the building cost half a million dollars. It contained a vestibule and a main lobby, which opened on to the central banking room, the largest space on the first floor.

After the Second Bank's charter

expired in 1836, the building continued in use as a bank until 1841, when Nicholas Biddle's state-chartered successor to the Second Bank went out of business. The structure sat vacant until the federal government bought it in 1845 to use as a Customs House for the port of Philadelphia.

In 1935, the Customs House moved to larger space, and in 1939, the Treasury Department sold the building to the National Park Service with the stipulation that the Park Service find a suitable tenant. That tenant turned out to be the Carl Schurz Foundation, which used the building for its national headquarters as well as a research library and exhibits.

Today, the building is home to a portrait gallery featuring paintings of many colonial leaders and other prominent figures in American history.

*This description of the Second Bank building draws heavily on "Historic Structures Report Part III: Architectural Data Section. The Interior of the Second Bank of the United States," prepared by Norman Souder (architect) for Independence National Historical Park.



Issued in October 1837, this stock certificate states that Francis Holladay of Bristol, England, is entitled to 40 shares of the capital stock of the Bank of the United States. By that time, the Second Bank had lost its national charter and was operating as a Pennsylvania state-chartered bank.

Courtesy, Independence National Historical Park

before. In that deal, Jackson had accepted paper notes — essentially paper money — in payment for some land that he sold. When the buyers who had issued the notes went bankrupt, leading to a series of problems for Jackson, the paper he held became worthless. Although Jackson managed to save himself from financial ruin, he never trusted paper notes again. In Jackson's opinion, only specie — silver or gold coins — qualified as an acceptable medium for transactions. And since banks issued paper notes, Jackson had “developed a deep suspicion about banking practices.” Jackson also distrusted credit — another function of banks — believing that people should not borrow money to pay for what they wanted.²⁸

Politically, Jackson believed that a federal institution such as the Second Bank trampled on

states' rights. In addition, he felt that the bank put too much power in the hands of too few private citizens, power that could be used to the detriment of the government. The bank also lacked an effective system of regulation. In other words, it was too far outside the jurisdiction of Congress, the President, and voters.²⁹

Nicholas Biddle, president of the Second Bank from 1823 until its demise in 1836, was the scion of an influential Philadelphia family. Biddle was 37 years old when he assumed the presidency of the Second Bank.

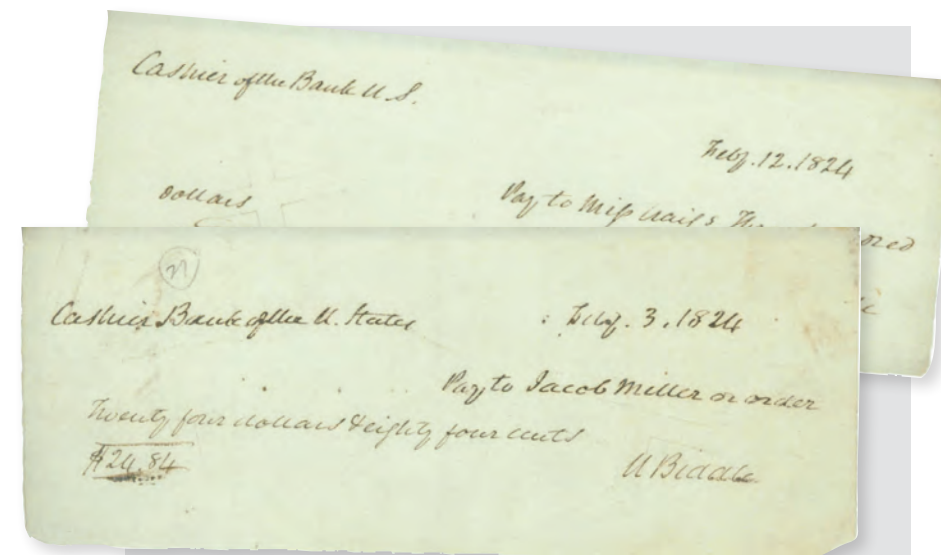
Although Biddle was smart and well-

educated (he graduated from Princeton at age 15), he was also vain and arrogant. Unfortunately, those traits wouldn't allow him to accept any criticism of the Second Bank's operations, especially claims about the mismanagement of some of the bank's branches. Biddle also wasn't above allowing the bank to make loans to his friends while denying loans to those who were deemed not so friendly. His actions subjected the bank to public criticism. However, despite Biddle's vanity, arrogance, and sometimes dubious loan decisions, he was an excellent administrator who understood banking.³⁰

Jackson saw his win in the election of 1832 as “proof” that people wanted him to get rid of the Second Bank. Shortly after the election, Jackson ordered that federal deposits be removed from the national bank and put into state banks. Although

Jackson's order met with heavy criticism from members of his administration, by the end of 1833, most of the government's money had been moved out of the Second Bank and into state banks. The loss of the federal government's deposits caused the bank to shrink in both size and influence.³¹

Meanwhile, in Philadelphia, Biddle responded to Jackson's action by calling a meeting at which he announced that he would limit credit and call in loans in the hopes of creating a backlash against Jackson. Biddle thought that putting pressure on financial markets might force Jackson to relent and re-deposit government funds in the Second Bank. He further hoped that Jackson would even consider renewing the bank's charter. But Biddle's move backfired: In the end, it helped to support Jackson's claim that the Second Bank was an institution created to serve the interests of the wealthy, not to meet the nation's financial needs.³²



Checks drawn on the Second Bank (note the words in the upper-left corner), dated February 12, 1824, for \$300, and February 3, 1824, for \$24.84, and signed by Nicholas Biddle.

Courtesy, Independence National Historical Park

Closing of the Second Bank of the United States

One event that foreshadowed the bank's demise was its supporters' inability to muster a two-thirds majority to override Jackson's veto in 1832. More damaging still, the removal of federal deposits resulted not only in a reduction in the bank's size but also in its ability to influence the nation's currency and credit. Then, in April 1834, the House of Representatives voted not to re-charter the bank and also confirmed that federal deposits should remain in the state banks. All of these factors, coupled with Jackson's determination to do away with the bank and the widespread defeat of the bank-favorable *Whig party* in the congressional elections held in the spring of 1834, heralded the bank's ultimate fate.³³

It would be more than 75 years before the United States made another attempt to establish

a central bank. During that time, the U.S. economy seemed to move from one financial crisis to another. (See *Panics, Recessions, and Banking Crises*.) But after the Panic of 1907, which resulted in numerous bank failures and a deep recession, Congress established a commission to look into ways to effectively smooth out the economy's ups and downs. Ultimately, the commission's findings would lead to the creation of the Federal Reserve System in 1913.

ENDNOTES

¹ Explanations of terms in bold italics can be found in the Glossary.

² Brief biographies of the people mentioned in the text can be found in the Biographical Sketches.

³ See the Glossary for more information about the War of 1812.

⁴ See Chester Wright, p. 225-27. Wright also says that Congress failed to bolster the U.S. naval fleet, which had 16 warships compared with England's 600. Historian Edward Kaplan notes that "many congressmen...remained unconcerned about the financing of the war because they believed it would be over within weeks" (Kaplan, p. 39).

⁵ See Chester Wright, p. 226.

⁶ See Chester Wright, pp. 201-02. In 1807, President Thomas Jefferson had urged Congress to pass the Embargo Act, which essentially banned all foreign trade with the United States. The act proved to be so unpopular that it was repealed in 1809.

⁷ These numbers come from Chester Wright, p. 227-28. Some economic historians give slightly different dollar estimates of imports and exports in these years. In 2009 dollars, \$7 million would be more than \$85 million; \$61 million more than \$990 million; \$13 million more than \$158 million; and \$53 million more than \$860 million.

⁸ See Kaplan, p. 39.

⁹ For more on the history of the First Bank, see the Federal Reserve Bank of Philadelphia's 2009 publication, *The First Bank of the United States: A Chapter in the History of Central Banking*.

¹⁰ See Walters, p. 118.

¹¹ See Clarke and Hall, pp. 481-84.

¹² See Hammond, p. 231.

¹³ This discussion is based on that in Hammond, pp. 231-32. Historian Robert Wright agrees that "by time word that the war was finally over reached the United States in early 1815, most Americans had rediscovered the need for a Hamiltonian central bank." See Robert Wright, p. 72.

¹⁴ See Hammond, pp. 232-33.

¹⁵ See Hammond, pp. 233-34. Hammond also points out that, unlike with the First Bank, the issue of whether a national bank

was unconstitutional was no longer an important consideration. He notes that although there were a few "die-hards" who still raised the issue of the bank's unconstitutionality, no one paid them much attention. Even James Madison, who, 25 years before, had ardently argued against the First Bank on the grounds of its unconstitutionality, had by this time come to see the necessity of such an institution. One congressman who opposed the bank was John Eppes of Virginia, Thomas Jefferson's son-in-law. Like his father-in-law's opposition to the First Bank, Eppes's opposition to the Second Bank was based on a belief that a national bank was unconstitutional. See Kaplan, p. 50. For more about Thomas Jefferson and the First Bank, see the Federal Reserve Bank of Philadelphia's 2009 publication *The First Bank of the United States: A Chapter in the History of Central Banking*.

¹⁶ The first Bank of the United States was in operation from 1791 until 1811. For more information, see the Federal Reserve Bank of Philadelphia's booklet, *The First Bank of the United States: A Chapter in the History of Central Banking*.

¹⁷ See Chester Wright, p. 368, and Kaplan, p. 55. The President did not appoint board members of the First Bank.

¹⁸ The sum of \$35 million would be approximately \$485 million today; \$10 million would be more than \$220 million today.

¹⁹ This description of the subscription sales is based on Kaplan, pp. 55-56. This sale stands in stark contrast to the *initial public offering* of subscriptions to the First Bank, during which scrips sold out so quickly that many investors were left out.

²¹ See Robert Wright, p. 72.

²² See Chester Wright, p. 368.

²³ See Remini, pp. 27-28.

²⁴ See Remini, p. 32.

²⁵ See Chester Wright, p. 369.

²⁶ See Meacham, p. 75.

²⁷ See Remini, p. 39.

²⁸ See Remini, pp. 18-20.

²⁹ See Remini, pp. 43-45.

³⁰ See Remini, p. 35.

³¹ See Meacham, pp. 267-71, and Remini, pp. 125-26.

³² See Meacham, pp. 267-271.

³³ See Hammond, p. 438 and Meacham, pp. 278-79. See Catterall, pp. 355-58, for more about the Whigs' defeat.

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GLOSSARY

BANKNOTE

A negotiable instrument; a promissory note (promise to pay) that is used as money.

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 governmental 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. Scrips 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.

TREATY OF GHENT

The peace treaty that ended the War of 1812. In December 1814, representatives of the American and British governments met in Ghent (in modern-day Belgium) to sign the treaty that ended the war between England and its former colonies.

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.

WHIG PARTY

A political party that existed in the United States roughly from the 1830s to the 1850s. Party members generally opposed Andrew Jackson's policies. The party took its name from an English political party that was opposed to the monarchy.

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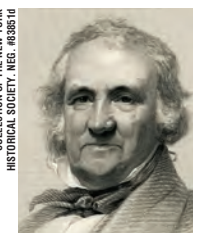
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Biographical Sketches



John Jacob Astor (1763-1848)

Born in Germany, John Jacob Astor came to the newly formed United States in early 1784. Over time, he built up a prosperous business in the fur trade, bought up real estate in New York City, and eventually amassed a fortune. He added to his wealth during the War of 1812 and worked with several of his affluent contemporaries to convince Congress to establish the second Bank of the United States. When Astor died in 1848, he was the wealthiest person in the United States.



Jacob Barker (1779-1871)

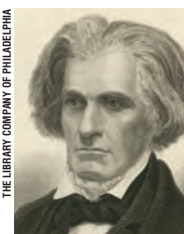
Born in Maine to Quaker parents, Jacob Barker made a fortune in trade while still a young man. He was also a lawyer and financier, who, along with several other wealthy men, pushed Congress to establish the second Bank of the United States. He eventually moved to New Orleans, where he practiced law. In 1826, Barker was accused of a conspiracy to defraud, involving the failure of a large insurance company. He was convicted of the crime, but the conviction was overturned. Barker declared bankruptcy in 1867 and spent his last few years living with his son in Philadelphia.



Nicholas Biddle (1786-1844)

Nicholas Biddle was the son of a wealthy and influential Philadelphia family. He graduated from Princeton at age 15, and while touring Europe as a young man, he became interested in Greek history and culture. He brought numerous pieces of art and sculpture from Greece for his estate, Andalusia, just outside Philadelphia. Biddle served in the Pennsylvania legislature and on the board of directors of the second

Bank of the United States. He was named president of the bank in 1823. Despite being vain and arrogant, Biddle proved to be an able administrator. However, this well-educated and scholarly Philadelphian clashed with the country-bred self-made man in the White House, Andrew Jackson. Ultimately, Biddle lost the battle over the Second Bank. He tried to keep the institution going as a commercial bank, but this venture was not a success and closed in 1841. Biddle died in Philadelphia in 1844.



John C. Calhoun (1782-1850)

A South Carolinian by birth, John C. Calhoun graduated from Yale, studied law, and eventually returned to his home state to practice. He served his state as both a representative and a senator and was vice president of the United States under John Quincy Adams. He died in Washington, D.C. in 1850.



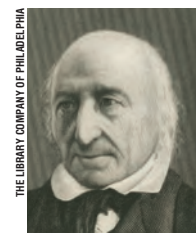
Langdon Cheves (1776-1857)

Born in a small town in South Carolina, Langdon Cheves eventually moved to Charleston, where he continued his education, studied law, and opened a practice. After holding various positions in the state government, Cheves represented his home state as a member of the House of Representatives. He succeeded Henry Clay as Speaker of the House, but he declined an offer from President James Madison to become Secretary of the Treasury. He became president of the second Bank of the United States in 1819 and resigned his post in 1823. He died in Columbia, South Carolina in 1857.



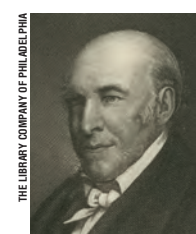
Alexander J. Dallas (1759-1817)

Born in Kingston, Jamaica, Alexander Dallas was sent to Great Britain by his English parents for an education. After completing his education, he went to the West Indies. After three years there, he moved to Philadelphia. In 1814 President James Madison named Dallas Secretary of the Treasury. In that post, he worked to get the government back on sound financial footing and to create a uniform currency for the United States. He also supported the establishment of a second national bank. After leaving Washington, he returned to Philadelphia to practice law. He died in New Jersey in 1817.



Albert Gallatin (1761-1849)

Born in Switzerland, Albert Gallatin came to the United States in 1780, landing in Boston. He served in Congress from 1795 until 1801 and often found himself at odds with Treasury secretary Alexander Hamilton, although he ultimately supported Hamilton's plan for a national bank. Gallatin was initially appointed Secretary of the Treasury by Thomas Jefferson in 1801, and reappointed to the post by James Madison in 1809, he continued as secretary until 1814, the longest tenure of any secretary in the Treasury's history. As secretary in 1813, Gallatin looked for ways to help the government finance the War of 1812. He prevailed upon several wealthy Americans to buy \$9 million in government securities (called stock back then), thus bolstering the government's revenues. Gallatin died in New York in 1849.



Stephen Girard (1750-1831)

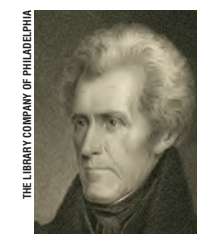
French by birth, Stephen Girard became a U.S. citizen and ended up being one of the wealthiest men

in his adopted country. In his early years, he spent time at sea, sailing to various ports, including some in the United States. He eventually made his home in Philadelphia. During the yellow fever epidemic in that city in 1793, as others fled, Girard stayed to help care for the sick. When the first Bank of the United States was dissolved in 1811, Girard bought many of its assets, including the building on Third Street. There, he started his own bank, which supplied credit to the U.S. government during the War of 1812. Girard Bank remained a Philadelphia financial institution until it merged with Mellon Bank in 1983. Along with several other wealthy businessmen, Girard supported the establishment of a second national bank. He died in Philadelphia in 1831.



Alexander Hamilton (1757-1804)

Alexander Hamilton was born on the island of Nevis in the British West Indies. When George Washington was elected the nation's first president in 1789, he appointed Hamilton the first Secretary of the Treasury. The following year, Hamilton wrote "Report on a National Bank," in which he laid out his plans to establish a single national bank. One year later, Hamilton's proposed financial institution materialized in the form of the Bank of the United States. Hamilton died in 1804, one day after being mortally wounded in a duel with Aaron Burr.



Andrew Jackson (1767-1845)

Andrew Jackson was born in 1767 on the border between North and South Carolina, the third son of Irish immigrants. Jackson's father died before he was born. Although Jackson's family was not wealthy, his mother had enough money to send Andrew to school. Jackson eventually became a licensed attorney and, at age 21, made his way to the territory that would become Tennessee, where he served as a

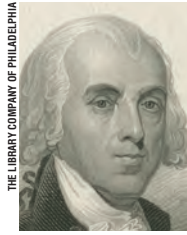
Biographical Sketches

district attorney and a judge. Jackson was the first man elected to the House of Representatives from Tennessee and also served in the Senate. He was a major general during the War of 1812, leading American troops against the British in a battle just outside New Orleans. The battle made the general a national hero. In 1828, Jackson was elected to the presidency. Often portrayed as “King Andrew” in political cartoons of the day (see page 10), Jackson freely used his veto power and often would not concede to Congress on matters of policy. Re-elected to a second term in 1832, Jackson began a battle to defeat the second Bank of the United States. “Old Hickory,” the country lawyer who had attained the presidency, clashed with the wealthy urbanite Nicholas Biddle over the bank’s fate. Through a series of maneuvers designed to destroy the bank, Jackson ultimately won the fight. Jackson died at his Tennessee home, the Hermitage, in June 1845.

William Jones

(1760-1831)

Born in Philadelphia, William Jones served in the Revolutionary War. He moved to Charleston, South Carolina, but eventually returned to his home state, which elected him to the House of Representatives. He was Secretary of the Navy in President James Madison’s administration. He was appointed the first president of the second Bank of the United States, holding that post from 1816 to 1819. He died in Bethlehem, Pennsylvania, in 1831.



James Madison

(1751-1836)

Often called the Father of the Constitution, James Madison became the fourth president of the United States in 1808. Before that, he served in the Virginia Assembly and was a delegate to the Continental Congress. He was one of the authors of the “Federalist Papers,” essays often credited with contributing to the ratification of the Constitution. He is also credited with helping to frame the Bill of Rights. Like his fellow Virginian Thomas Jefferson, Madison opposed the creation of the first Bank of the United States in 1791. In 1811, during Madison’s first administration, the bank’s charter expired. However, after the War of 1812, the government once again found itself with mounting debt and the country was in increasing economic distress. But there was no central bank to help ease these conditions. In 1816, Madison signed the bill chartering the second Bank of the United States. Madison died at his Virginia plantation, Montpelier, in June 1836.

David Parish

(1778-1826)

Like John Jacob Astor, David Parish was born in Germany, the son of an Englishman who had set up business there. Parish eventually made his way to the United States, settling in New York state, near the Canadian border. He died in 1826.



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