

Andrew Jackson and The Second Bank of the United States

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Introduction of Jackson's Presidency

Andrew Jackson was elected president for the first time in 1828 and then was reelected for a second term in 1832. However, the road to the presidency was a long and hard road for both Jackson and his family. Although presidential campaigns were not as long and drawn out as today's, there was still as much drama. Throughout his presidential campaign his opponent John Quincy Adams, slandered Jackson's marriage which brought great stress upon his wife. Shortly after Jackson was elected for his first term, his wife Rachel passed that December.

For his first term he had John C. Calhoun as his vice president and then made Martin Van Buren his vice president when he created his so-called Kitchen Cabinet. This was one of his notable points within his presidency of reviving the spoils system. His Kitchen cabinet was a group of individuals that were his unofficial cabinet that he consulted with on various issues. Jackson had restructured his entire cabinet by selectively having certain members resign and filling other positions. When it came time for Jackson to make a decision on the renewal of the charter of the Second Bank of the United States, "Jackson was again reduced to the necessity of depending for political advice upon the Kitchen Cabinet and the few department heads who supported his policies"(Somit 194). This Kitchen Cabinet was filled with people that were going to give him the responses that he wanted to hear. When Jackson became president, he quickly lost the All-American president mentality and was focused on achieving what he wanted.

Background on the National Bank

First proposed by Robert Morris and pushed by Alexander Hamilton, the National Bank of the United States was an entity that was created so that we could accrue debt as a nation to show other nations that they could lend us money and that we are able to pay it back. Many were opposed to his plan at first, but after the fiscal hit Congress took during the Revolutionary War, they quickly sided with Morris and Hamilton. In 1782, the Bank of North America began. The bank was open from “ten in the morning until one in the afternoon, and again from three in the afternoon until five”(Lewis 39). This first bank had a charter of twenty years. However, it was not renewed in 1811. Due to “constitutional scruples and actuated by bitter hostility to Secretary Gallatin, refused to renew it”(Catterall 1). It was re-chartered after the War of 1812. Since there had been no funds left over from the first national bank, it took some time for Congress to acquire funds. In order to get loans for the new national bank they used two methods: “the first was to increase the funded debt by the sale of bonds: the second, to issue treasury notes”(Catterall 2). The Second National Bank of the United States was established in 1816 and lasted until Jackson’s presidency. After Jackson completely emptied out the funds of the Second National Bank it established itself as a smaller commercial bank in Pennsylvania but shortly failed in 1841.

Jackson’s Veto Power and the Presidential Mandate

Jackson believed he had the ability to use the veto on the charter because “Congress now had to consider the president’s opinions about bills before enacting them or else risk a veto” (159 M&N). Jackson, in Congress’s view misused his veto power for his own personal vendetta

against the banking system. Then when he did not get what he wished for, he used other methods not necessarily within his power to achieve his goal of ending the National Bank.

Jackson's take on his powers directly correlates to his ideal of the presidential mandate. In Dahl's piece on the presidential mandate he uses this piece of Jackson's presidency within his origin and development section. Dahl says that, "Jackson's theory of the presidential mandate was less robust than it was to become in the hands of his successors"(139 Dahl). Jackson was the beginning of the ideal that the president can hold more power than the legislature. As Dahl points out, there was a reason for the founding fathers outlining the legislative branch before the executive in Article II. In Jackson's case he went overboard and did not consider the overall financial impact that dismantling the national bank would have on the economy of the country. After Jackson's second term ended is when the Panic of 1837 occurred. Jackson's veto of the renewal of the charter of the Second National Bank, raised some serious questions in terms of the president's powers. Jackson might have been one of the first presidents before the modern presidency that had as Davidson calls it, "the president's program"(P&D 274). He describes it as "major proposals are adopted and trumpeted by the president"(P&D 274). Jackson was attempting to use his presidential mandate from the "tremendous popular vote" he had (McGowan 800). However he blatantly dismissed the fact that his argument for the bank being unconstitutional had already been hashed out years prior when the first bank was created.

Presidential Powers

Due to the organization of the federal branches of government, the Congress utilized its checks and balances power to attempt to wrangle Jackson's plan and, "Because Congress refused Jackson's request to remove the bank's funds, the power to do so remained with the secretary of the Treasury"(160 M&N). However, since the Treasury Secretary, Louis McLane, also opposed Jackson's removal of funds he replaced him to have his goal achieved. However the replacement, William Duane also refused to do as Jackson asked and was replaced as well. Due to Jackson's repeated 'hire and fire' until he got what he wished from Roger Taney, the Senate for the first time in American history, passed a "censure resolution that accused the president of assuming 'authority and power not conferred by the Constitution and laws' (160 M&N) According to Congress at the time, Jackson had overstepped his presidential powers. This set a precedent in presidential power that we are witnessing now in the current presidency of the short lived office holders of people who disagree with the president. Jackson defended his actions by saying that "the president was responsible 'for the entire action of the executive department'" (161 M&N). April 15, 1834, Jackson responded to the senate's censure by saying he "*solemnly protest* against the aforementioned proceedings of the Senate as unauthorized by the Constitution,"(161 M&N). This back and forth poses the question of through firing an official is the president able to "dictate how a discretionary power that Congress has vested exclusively in the head of a department shall be exercised?"(161 M&N). What made what Jackson did so unique to the last time the charter was not renewed was that they just did not renew the charter. The Second Bank's charter was not set to expire until the end of his term in 1836.

He felt like the president of the average American, that by getting rid of the National Bank it would better off the agrarian Americans in the Midwest who supported him and harmed the elite New Yorkers. Based on his response to Congress he believes that these actions are within his purview as the president. Since Congress was not able to stop his actions, this sets future precedent for other presidents to take advantage of this argument.

Jackson's Impact on the Presidential Powers

Due to Jackson's precedent that he created by influencing the future of the National Bank. He showed the effect that a president can have on national and federal institutions with their veto power. Also Jackson was one of the first presidents to go through a series of fire and hire within his cabinet in order to have someone who agreed with his idea instead of doing what went with the constitution. Due to the Congress's response to Jackson's veto, he found another way around dissolving the bank instead of letting the charter expire like they did in 1811. He made people throughout the executive and legislative branches question not only if he was acting within his presidential power but if his actions were unconstitutional.

Jackson's Testing of the Checks and Balances

Jackson's constant replacement of his Secretary of the Treasury, was led to constant senate hearings on his picks for the position. "The Senate rejected Taney's nomination as Treasury Secretary based in part on disagreements with the legitimacy of his implementation of Jackson's

order”(778 Gerhardt). The Senate caught on to what Jackson was trying to do. He even tried to get Taney appointed to a court so he would have someone in his corner to fight getting rid of the bank. He could have used the branches of government properly, and fought their decision in court, but then he would have had to wait for his pick of Taney to be approved by Congress. Which was rejected because Congress knew why Jackson had appointed him in the first place. There are no rules within Article II on the unjust firing of executive branch cabinet staff since this had never been a problem. Still to this day there are no repercussions for a president that fires cabinet members without just cause. Simply because those in the executive branch serve at the pleasure of the president does not mean that they cannot have a difference of opinion with the president. Jackson continued to pressure the bounds of what was within his constitutional power by attempting to dissolve the bank before the charter expired.

Jackson’s Persistence to End the National Bank

At the start of his second term, he was determined to put an end to the National Bank. Jackson had succeeded in vetoing the renewal of the charter for the Second Bank of the United States. However, the bank would still finish out the duration of its current charter which expired at the end of Jackson’s second term. Jackson was determined to end the National Bank once and for all. He wanted to strip the bank of all of its funds to make it go away. Jackson claimed that his veto was warranted due to the fact “that the Bank was unconstitutional, despite the Supreme Court’s decision upholding the First Bank of the United States in *McCulloch v. Maryland*”(McGowan 800). Congress came back to the president with contempt at his decision

saying that it was “a direct challenge to the Supreme Court’s power to declare what the law is”(McGowan 801). Which one would think Jackson would understand this point that Congress is trying to make given Jackson said that, “the three branches of government were coequal to the task of assessing the constitutionality of government actions”(McGowan 800). Jackson’s true colors begin to show but sadly only the Washington insiders at the time truly knew what he was doing.

He then worked before the charter even ended to slowly drain the money out of the national bank and redistributed it through out state chartered banks. Jackson’s role in the bank veto led to the “subsequent lack of adequate governmental banking facilities”(Hyde 154).

Economic Effect of Bank Veto

After all of the money was redistributed to the local banks, an era of free banks emerged after Jackson’s final term. However, this had a ripple effect throughout the nation. At this point in time, many rural areas within America, there was, “a large gap between the supply of, and demand for, commercial banking services,”(Knodell 548.) There were not many small banks established throughout the county during this time. If there were not many were state sponsored like the ones that began to pop up after the closing of the National Bank.

Future critics of Jackson’s actions claim that “prior to the Federal Reserve System, believed that the Second Bank had provided the United States with the soundest currency it had ever had”(Hummel 152). Then when Jackson came in, he put this in jeopardy. The financial institutions of the United States were not as secure as they are in modern times. They were prone

to economic distress like the Panic of 1837 shortly after Jackson's second term. Within the first 50 years of the 20th century, America created a system to regulate the country's banking system and to collaborate with Congress of fiscal and monetary policies and a federal corporation that can save the country from a future run on the banks by insuring banks' customers up to \$250,000 in current day dollars.

In the work of Knodell, entitled *Rethinking the Jacksonian Democracy*, he notes three monetary effects of the Bank veto, "an entry effect...a credit policy effect...a reserve retention effect"(Knodell 548). The entry effect was the impact of being able to start commercial banking. The credit policy effect was an effect on the types of loans banks were now allowed to make.

The removal of a national chartered bank disrupted the mild regulation of America's banking system at this time. America's banking system before the redistribution of the national bank's funds was, "a dual commercial banking system, with state-chartered banks and one, large, federally chartered nationally branching bank, the Second Bank"(Knodell 549). This system allowed a somewhat hierarchical system of banking within the nation. With the closure of the national bank it led to issues with "relative access to a banking office, measured by the number of residents per banking office"(Knodell 551).

Some preferred having smaller chartered banks in their states because "the credit policies of the state-chartered banks were generally more liberal than those of the Second Bank."(Knodell 558). Since the local banks had the ability to do more than the national bank at the local level like, "notably land development and state public works projects"(Knodell 558). This made it easier for

those in the states to receive loans and also it was less liability because the banks reported to the state government instead of the federal government.

There was worry for the banks in the west since there were not many people living in this portion of the country at this time. Experts believed that, “excessive lending was at the root of the financial crisis” (Knodell 544). Also the fact that there was no standard of bank reserves made it difficult as well. Bank reserves are the “specie, specie funds, notes of other banks, and deposits held with other banks”(Knodell 545). They are used as liability in case the bank goes under they can dip into their reserve funds. Due to many people now relying on the smaller state chartered banks that were popping up, more people started to take out loans but with excess increase in loans, it is “exposing note holders, depositors, and shareholders to greater risk”(Knodell 547). This was possibly one of the many factors that led to the Panic of 1837. With banks being unable to balance out their assets with their liabilities it puts many of those who have deposited and invested their money with those banks liable to lose their money. There is even more increased risk because those monies won't be insured until the creation of the FDIC.

Jackson truly had no idea that his childish plan of getting rid of the national bank with no truly feasible plan to reform the national banking system would slowly lead to the partial demise of the system as a whole with the Panic of 1837.

Although Jackson was not in office any longer when the Panic of 1837 occurred, he still played a major role in its occurrence. He did just enough damage to the economic health of the banking system to then walk away with little to no repercussions for his role in the events that unfolded after he left office.

Conclusion

The Bank veto was a pivotal point within the American presidency. It tested the bounds of the checks and balances system and proved why we must have it in place. For when presidents attempt to over use their powers for their own agenda. Due to Jackson being successful in vetoing the renewal of the charter, it sets a precedent for other presidents to use the same slightly problematic tactics that he did to dismantle agencies and federal bodies, they do not agree with. Jackson was truly an expansionist president because he utilized the fact that, “the proper remedy was to impeach and remove him from office, something he knew that the Congress lacked the fortitude and votes to accomplish” (Gerhardt 778). This statement shows that certain interpretations of the president's powers, especially in situations where the votes can be very close can make a president like Jackson feel like he is getting away with something. Jackson became a very manipulative president into his second term. Jackson and the veto of the renewal of the charter of the Second Bank of the United States shows just how dangerous the veto power can be when it is used based on political power instead of the way it should be to protect the betterment of the nation and as a check on the Congress.

Andrew Jackson turned a simple point within his presidency into a look at the fundamental ways that the veto power can be abused. He made historians and political scientists take a second look. The question turned from whether or not the renewal of the bank was needed, but was the

way in which Jackson approached this issue problematic to the presidency. The Bank veto was just one of many questionable uses of authority Jackson portrayed during his presidency. It was also one of the greatest that he said himself he should have gotten impeached for.

Jackson not only caused a rift politically but also economically as well. There is no saying whether or not the Panic of 1837 would have happened if Jackson had renewed the charter. If he was that discontent with the banking system he could have used his presidency to fix the economic state of the country instead of possibly contributing to it worsening. Jackson was the point within the American presidency when looking back, economic historians possibly believed that we truly needed a systematic way to manage the country's banking system with regulated government intervention.

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