

In January 1817, the Second Bank of the U.S. Received its charter for twenty years. The paper notes of the bank were not declared a general legal tender but were acceptable for all government payments, including taxes. Remember this was the formula used by the privately owned Bank of England and by the First Bank of the U.S.. The conscious element among the bankers are aware that this is the essential defining characteristic of money. The bank would handle payments destined for the government and keep the government's accounts. The Second Bank of the US operated illegally from its beginning- although the first installment for shares was paid in gold, the second and third installment payments were accepted in IOUs from state chartered banks.

William Jones was appointed as the president of the Bank. He had previously been the Secretary of the Navy during the War of 1812 and was an ineffective Secretary of the Treasury during 1813 – 1814. “In his person helpless inefficiency was placed in control of government finances,” wrote Ralph Catterall. Perhaps the intention was to run the Bank from behind the scenes. The Bank immediately began a criminally insane monetary expansion. Beginning operations in 1817, by July it had 19 branch offices and had created \$52 million in loans on its books and an additional 9 million in circulating currency, based upon gold and silver reserves of \$2.5 million. This tremendous expansion of the available credit caused a wild speculative boom. Roughly 60% of the early loans were made in the Philadelphia-Baltimore area.

In August 1818, the Bank reversed abruptly and began a criminally insane contraction, causing the panic of 1819. It cut its outstanding

loans and advances from a high of \$52 million, down to \$12 million in 1819, reducing the debt based money in circulation. Its circulating notes dropped from \$10 million to \$3.5 million in 1820. A massive wave of bankruptcies swept the nation. The South and West were particularly hard hit. In the South, the Bank undermined the feeling of national unity and should be viewed as a major contributing cause of the civil war.

Real assets that had been pledged to the bank and its branches for the loans were seized, with sheriff's sales everywhere. Farmers and artisans, dispossessed of a lifetime's work, moved west. A public outrage arose throughout the nation. A Pennsylvania commission led by the economist Condry Raguet condemned the bankers as the cause of the problems. “...the incorporation of the monied interest, already sufficiently powerful of itself, was but the creation of odious aristocracies, hostile to the spirit of free government, and subversive of the rights and liberties of the people.”

Yet instead of a debate over whether a private company should be allowed to ravage the nation's money system as it had, the corporate banking interests managed to deflect the objections and stage managed the debate into arguments over whether an “inflationary” policy or a “sound money” policy should be followed. Because of the extreme nature of the expansion and contraction of debt based money in this period it has to be assumed that the overall net effects were intentionally in the interest of the bankers and adverse to the interests of the nation and its economic interests. Factor into this process the specific financial needs of agricultural production, and it can be understood why the effects of this expansion and contraction were damaging to the economies of the southern states and northern rural areas.

President Andrew Jackson and his vice president Martin Van Buren considered the Second Bank of the US to be the main threat to the US at that time. Jackson wanted to set up a government owned bank. In 1832 two events precipitated Jackson's confrontation with the bank. First, the Bank made an illegal arrangement with Baring Brothers, whereby instead of redeeming the 3% government bonds Baring was holding, the last of the Revolutionary War debt, the Bank instead held onto the government funds that were intended to repay the bonds. The arrangement allowed the bank to earn 7% on the government moneys and more by way of the fractional reserve leverage, while paying Barings 3%.

Then, when the French Government check (bill of exchange) to the US for \$961,240 had temporarily bounced, the bank demanded 15% of the bill as damages, even though the Treasury had returned the money and offered to pay the actual costs involved. The bank deducted the 15% from the governments accounts. The U.S. Government had to sue to get the money back and didn't collect until 1847.

Jackson had intended to let the Bank's charter expire in his second term, but the Bank's activity in purchasing congressional support alarmed him as his veto could be overridden. Once the privilege to create money has been given to a privately owned bank, it can use that power to protect itself through bribery. Jackson instructed Treasury Secretary Louis McLane to start removing government deposits, about \$7 million. McLane refused and had to be replaced by William Dunne who also refused and was replaced by Attorney General Roger Taney. Taney slowly drew down the government funds and deposited them in other banks.

Meanwhile the Senate refused to confirm

Jackson's new appointees to the Bank board in the grounds that they wanted too much information about the Bank's affairs. Nicholas Biddle, the then current president of the Bank had been contracting the nation's money supply, and the removal of government funds accentuated that process. However, Biddle went beyond anything required by policies of conservative banking. From August 1833 to February 1834 he called in over \$18 million in loans and thereby at least \$18 million in debt based money.

The irony of Andrew Jackson's battle against the Second Bank of the United States was that though at one level Jackson won, the period upto the US Civil War is known as the "Free Banking period." The Free Banking period had the legacy of having the highest level ever of banking fraud and mismanagement. The citizens won to the extent that they did not have to deal with one centralized and criminal banking institution. Instead the people had to contend with many smaller criminal banking operations. At the beginning of the US Civil War the US had 7,000 different currencies issued by state chartered banks.

A continuing assertion is that private bankers presume to understand how best to operate a banking system and thereby to manage a monetary system and a national economy. Nearly universally the result has been that the success of that process is measured by how well that privatization process benefits the bankers, not on the effects upon the nation and community.

President Jackson and President Van Buren removed the monetary power from the private centralized bankers but did not re-establish it in the hands of the nation. Instead, Van Buren organized the Independent Treasury System,

establishing 15 sub-branches of the Treasury to handle government moneys in 1840. From December 1836 the government moved toward making and receiving all payments in coinage, or truly convertible bank notes, starting with subscriptions for public lands. Once the state bank notes were no longer accepted by the government, their circulation was dramatically reduced.

This was the closest our nation ever came to implementing a real gold/silver standard. Operating under the commodity theory of money, Van Buren helped bring on the worst depression the Nation had seen, starting in 1837. It was reportedly worse than that caused by the Second Bank of the US in 1819. Bad as the state bank notes were, they had still been functioning as money.

Van Buren alleviated the problems caused by his commodity view of money by issuing paper money in 1837. It had been 22 years since the U.S. Had issued its own notes. Congress authorized the issue of \$10 million of them. These notes were not as convenient as the earlier notes of 1815. They were denominated over \$50, paid 0.1% to 5% interest, were transferable only by assigment, and were to be redeemed in a year. These notes functioned excellently, with 60% of government revenue being collected in them in 1837-38. Congress re-authorized their issuance every year upto 1843, in 1850, and then in 1857. Next the Greenbacks, the Civil War, and the US National Banking Act of 1863-64.

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The Second Bank of the United States, Andrew Jackson and the Free Banking Period

Re-Imagining Economics