

The Bank War: Jackson's Veto and Webster's Reply, 1832

Background

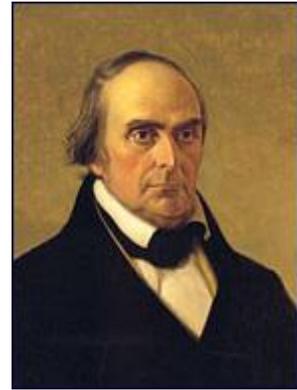
Alexander Hamilton, the first secretary of the treasury, proposed that Congress charter a national bank which would have branches around the country. Such a bank, he argued, could assist the federal government by providing a safe place to deposit tax money and other revenue, allowing the government to make payments throughout the country, and to market government bonds. Hamilton also believed the bank could play a central role in the economy by printing banknotes which could serve as currency, encouraging trade among the various regions of the nation, and making loans to fledgling industries. In 1791, in response to Hamilton's recommendation, Congress chartered the Bank of the United States, later known as the First Bank of the United States.



Andrew Jackson.



The Second Bank of the United States.



Daniel Webster

Thomas Jefferson and members of his Democratic-Republican party opposed the Bank for numerous reasons, including a suspicion that it was unconstitutional. The Democratic-Republicans were strict constructionists, arguing that the federal government only had the powers specifically granted to it in the Constitution. Since the Constitution did not specifically state that Congress can charter a bank, the Democratic-Republicans considered the Bank unconstitutional. In 1811, when the Bank's charter was about to expire, the Democratic-Republicans controlled both Congress and the presidency. They decided to allow the Bank's charter to lapse, and the Bank went out of business.

The very next year, the nation became embroiled in the War of 1812. The U.S. government had a hard time selling war bonds and paying military suppliers and soldiers in an orderly fashion. By the end of the war, President James Madison had concluded that a national bank might not be such a bad thing after all. At his urging, Congress in 1816 chartered another Bank of the United States, commonly called the Second Bank of the United States. In the case of *McCulloch v. Maryland*, the Supreme Court in 1819 affirmed the Bank's constitutionality; Congress, proclaimed the Court, did indeed have the authority to charter a national bank, even though it was not explicitly given that power in the Constitution.

That same year, the country's economic troubles came to a head in the depression known as the Panic of 1819. Economic historians mostly agree that the Second Bank did not play a major role in causing the crisis, but many people at the time blamed the Bank. During the Panic, the Bank called in many loans to protect its own stability, and the financial hardship it caused led to further resentment of the Bank.

Among those who bitterly hated the Bank was Andrew Jackson. He considered it the very embodiment of elite privilege and power. And Jackson was by no means the Bank's only enemy. Those who opposed the bank came from two groups--those favoring "soft money" and those favoring "hard money." The "soft money" advocates disliked the Bank, because it informally regulated the state banks by tightly controlling the money supply, which limited financial opportunity. People in the West, who needed loans for new farms and businesses, particularly resented the Second Bank for this practice, as did investors and other supporters of state banks.

"Hard money" advocates also criticized the Second Bank but for a different reason. They believed that specie--gold and silver coins--was the only safe currency. They thought that no bank, regardless of how well run it might be, should be able to issue bank notes. This was Jackson's position. He had once speculated in a land deal with paper credit, and his business had been ruined. The experience left him suspicious of all banks.

In 1823, as the economy rebounded from the Panic, Nicholas Biddle, an aristocratic Philadelphian, became president of the Second Bank of the United States. He won wide recognition as an excellent and responsible leader for what was, by far, the nation's most important financial institution. At first, Biddle tried to stay out of politics. However, when he saw popular opposition to the Second Bank rising during Jackson's first term as president of the United States, he decided to become active politically to defend the Bank's interests. In particular, he formed an alliance with two powerful senators, Henry Clay and Daniel Webster. Clay and Webster were nationalists who strongly supported the national bank and believed the federal government should be very active in economic matters, even if the Constitution did not specifically grant it that power.

With encouragement from Clay and Webster, Biddle applied for a renewal of the Bank's charter in 1832, although the original charter was not going to expire until 1836. The three men believed the institution enjoyed public support. Since Jackson was running for re-election as president, they reasoned, he might not want to make the Bank an issue and thus would sign the renewal. On the other hand, if Jackson chose to veto it, he would lose support in key states such as Pennsylvania, where the Bank had its headquarters. That would benefit his opponent who happened to be Henry Clay.

Clay, Webster, and Biddle badly misjudged Jackson's reaction. When word got out that Congress was considering re-chartering the Bank, Attorney General Roger B. Taney laid out the situation as he saw it: "Now, as I understand the application at the present time, it means in plain English this--the Bank says to the President, your next election is at hand--if you charter us, well--if not, beware of your power." To Jackson, it sounded like a threat to his presidency and a challenge to his integrity. It was bad enough that the Bank had so much economic influence in the country, but now Biddle was trying to manipulate the presidency for the Bank's benefit. The Bank, said Jackson, was an "undemocratic, hydra monster" that was out of control. As the people's president, Jackson believed he had the responsibility to destroy it. After Congress passed a bill re-chartering the Bank, Jackson exercised his power as president and vetoed it.

Document 1:

Andrew Jackson's Veto Message Against Re-chartering of the Bank of the United States



[1] To the Senate: The bill "to modify and continue" the act entitled "An act to incorporate the subscribers to the Bank of the United States" was presented to me on the 4th July instant. Having considered it with that solemn regard to the principles of the Constitution which the day was calculated to inspire, and come to the conclusion that it ought not to become a law, I herewith return it to the Senate, . . . with my objections.

[2] . . . It [the Bank] enjoys an exclusive privilege of banking under the authority of the General Government, a monopoly of its favor and support, and, as a necessary consequence, almost a monopoly of the foreign and domestic exchange. . . .

[3] . . . It appears that more than a fourth part of the stock is held by foreigners and the residue is held by a few hundred of our citizens, chiefly of the richest class. . . .

[4] . . . Of the twenty-five directors of this bank five are chosen by the Government and twenty by the citizen stockholders. From all voice in these elections the foreign stockholders are excluded by the charter. In proportion, therefore, as the stock is transferred to foreign holders the extent of suffrage in the choice of directors is curtailed. . . . The entire control . . . would necessarily fall into the hands of a few citizen stockholders. . . . There is danger that a president and directors would then be able to elect themselves from year to year, and without responsibility or control manage the whole concerns of the bank It is easy to conceive that great evils to our country and its institutions might flow from such a concentration of power in the hands of a few men irresponsible to the people.

[5] Is there no danger to our liberty and independence in a bank that in its nature has so little to bind it to our country? The president of the bank has told us that most of the State banks exist by its forbearance. Should its influence become centered, as it may under . . . such an act as this, in the hands of a self-elected directory whose interest are identified with foreign stockholders, will there not be cause to tremble for the purity of our elections in peace and for the independence of our country in war? . . . But if any private citizen or public functionary should interpose to curtail its powers . . . it can not be doubted that he would be made to feel its influence.

[6] . . . If we must have a bank with private stockholders, every consideration of sound policy and every impulse of American feeling admonishes that it should be purely American. Its stockholders should be composed exclusively of our own citizens, who at least ought to be friendly to our Government and willing to support it in times of difficulty and danger. . . .

[7] . . . It is maintained by the advocates of the bank that its constitutionality in all its features ought to be considered as settled by precedent and by the decision of the Supreme Court. To this conclusion I can not assent. . .

[8] . . . The Congress, the Executive, and the Court must each for itself be guided by its own opinion of the Constitution. Each public officer who takes an oath to support the Constitution swears that he will support it as he understands it, and not as it is understood by others. It is as much the duty of the House of Representatives, of the Senate, and of the President to decide upon the constitutionality of any bill or resolution which may be presented to them for passage or approval as it is of the supreme judges when it may be brought before them for judicial decision. The opinion of the judges has no more authority over Congress than the opinion of Congress has over the judges, and on that point the President is independent of both. . . .

[9] . . . There is nothing in its [the Bank's] legitimate functions which makes it necessary or proper. . . .

[10] . . . 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 can not 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. In the act before me there seems to be a wide and unnecessary departure from these just principles. . . .

From: James D. Richardson, ed., *A Compilation of the Messages and Papers of the Presidents, 1789-1908* (Washington, DC: Government Printing Office, 1908), II: 576-591.

Document 2: The Reply of Senator Daniel Webster, July 11, 1832

[1] Before proceeding to the constitutional question, there are some other topics, treated in the message, which ought to be noticed. . . . Now, sir, the truth is, that the powers conferred on the bank are such, and no other, as are usually conferred on similar institutions. They constitute no monopoly, although some of them are, of necessity, and with propriety, exclusive privileges. . . .

[2] . . . Congress passed the bill, not as a bounty or a favor to the present stockholders, not to comply with any demand of right on their part, but to promote great public interest, for great public objects. Every bank must have some stockholders, . . . and if the stockholders, whoever they may be, conduct the affairs of the bank prudently, the expectation is always, of course, that they will make it profitable to themselves, as well as useful to the public. If a bank charter is not to be granted because it may be profitable, either in a small or great degree, to the stockholders, no charter can be granted. The objection lies against all banks. . . .

[3] . . . From the commencement of the Government it has been thought desirable to invite, rather than to repel, the introduction of foreign capital. Our stocks have all been open to foreign subscriptions, and the State banks, in like manner, are free to foreign ownership. Whatever State has created a debt, has been willing that foreigners should become purchasers, and desirous of it It is easy to say that there is danger to liberty, . . . in a bank open to foreign stockholders. . . . But neither reason nor experience proves any such danger. The foreign stockholder cannot be a director. He has no voice even in the choice of directors. His money is placed entirely in the management of the directors appointed by the President and Senate, and by the American stockholders. So far as there is dependence, or influence, either way, it is to the disadvantage of the foreign stockholder.

[4] . . . But if the President thinks lightly of the authority of Congress, in construing the constitution, he thinks still more lightly of the authority of the Supreme Court. He asserts a right of individual judgment on constitutional questions, which is totally inconsistent with any proper administration of the Government, or any regular execution of the laws. Social disorder, entire uncertainty in regard to individual rights and individual duties, the cessation of legal authority, confusion, the dissolution of free Government -all these are the inevitable consequences of the principles adopted by the message, whenever they shall be carried to their full extent.

[5] Hitherto it has been thought that the final decision of constitutional questions belonged to the supreme judicial tribunal. The very nature of free Government, it has been supposed, enjoins this: and our constitution, moreover, has been understood so to provide, clearly and expressly.

[6] . . . [W]hen a law has been passed by Congress, and approved by the President, it is now no longer in the power, either of the same President or his successors, to say whether the law is constitutional or not. He is not at liberty to disregard it; he is not at liberty to feel or to affect "constitutional scruples," and to sit in judgment himself on the validity of a statute of the Government, and to nullify it if he so chooses. After a law has passed through all the requisite forms; after it has received the requisite legislative sanction and the Executive approval, the question of its constitutionality then becomes a judicial question In the courts, that question may be raised, argued, and adjudged; it can be adjudged nowhere else. . . .

[7] It is to be remembered, sir, that it is the present law, it is the Act of 1816, it is the present charter of the bank, which the President pronounces to be unconstitutional. It is no bank to be created, it is no law proposed to be passed; which he denounces; it is the law now existing, passed by Congress, approved by President Madison, and sanctioned by a solemn judgment of the Supreme Court which he

now declares unconstitutional, and which, of course, so far as it may depend on him, cannot be executed.

[8] If these opinions of the President be maintained, there is an end of all law and all judicial authority. Statutes are but recommendations, judgments no more than opinions. Both are equally destitute of binding force. Such a universal power as is now claimed for him, a power of judging over the laws, and over the decisions of the tribunal, is nothing else but pure despotism. If conceded to him, it makes him, at once, what Louis the Fourteenth proclaimed himself to be, when he said, "I am the State."

[9] . . . If that which Congress has enacted be not the law of the land, then the reign of law has ceased, and the reign of individual opinion has already begun

From: *Register of Debates in Congress, 22nd Cong., 1st sess., 1221-1240.*

Afterword

Clay, Webster, and Biddle miscalculated. Not only were they unable to muster the votes in Congress to override Jackson's veto, but the Bank veto did not cost Jackson as much popular support as they expected. Despite the immense funding which Biddle poured into Clay's campaign for the presidency, Jackson won reelection, although he received fewer popular votes than in 1828. After his reelection, the president declared war on the Bank. He believed the Bank was too dangerous to tolerate its continued existence, even for the four years remaining on its original charter. On his own authority, without congressional approval, he ordered the secretary of the treasury to stop depositing the federal government's money in the Second Bank and place it instead in selected state banks. The secretary of the treasury refused, and Jackson removed him, appointing a new secretary of the treasury. He also refused, and Jackson removed him, too, appointing yet another secretary of the treasury. This third secretary, Roger Taney, did as Jackson ordered. He placed the money in 89 state banks, mostly run by Jackson supporters. Since the Bank's original charter, passed by Congress in 1816, required the federal government to put its deposits in the Second Bank, Congress considered Jackson's order illegal. Congress eventually censured Jackson, the first time it ever censured a president. Congress also refused to confirm Taney's appointment as secretary of the treasury; Jackson later appointed him as chief justice of the Supreme Court as a reward for his loyalty.

Nicholas Biddle reacted badly to Jackson's attack. He ordered the Bank to stop making many loans, deliberately causing a brief economic slowdown in 1834, in hopes of forcing Jackson to change his mind. Biddle's willingness to use the Bank's power, even at the cost of hurting many innocent people, only made Jackson more determined. "I have it chained," he observed, "the Monster must perish." And, indeed, without the federal deposits, the power of the Second Bank of the United States began to wane. Its banknotes no longer enjoyed such a strong reputation, and its ability and desire to regulate state banks weakened. The now-unregulated state banks irresponsibly printed large quantities of bank notes, one of many factors which contributed to another, more serious financial depression known as the Panic of 1837. By that time, the Second Bank of the United States no longer existed; it had become a state bank in Pennsylvania.