Jackson, Biddle, and the Bank of the United States

MORE than forty years have passed since Catterall's monograph on the second Bank of the United States was published, and, though that account has never been superseded, it antedates all recent literature on central banking and therefore presents inadequately the public purposes of the bank. Furthermore, it includes nothing about the bank's Pennsylvania successor, which failed, and thus omits the denouement of Biddle's conflict with Jackson. The inevitable effect of the failure, in the rough justice of history, was to make Jackson seem right and Biddle wrong; and this impression, especially in the absence of attention to the purpose and functions of the bank, seems in recent years to have been strengthened. I think it needs correction.

The Bank of the United States—the B.U.S. as Biddle and others often called it—was a national institution of complex beginnings, for its establishment in 1816 derived from the extreme fiscal needs of the federal government, the disorder of an unregulated currency, and the promotional ambitions of businessmen. The bank had an immense amount of private business—as all central banks then had and as many still have—yet it was even more definitely a government bank than was the Bank of England, the Bank of France, or any other similar institution at the time. The federal government owned one fifth of its capital and was its largest single stockholder, whereas the capital of other central banks was wholly private. Government ownership of central-bank stock has become common only in very recent years. Five of the bank's twenty-five directors, under the terms of


2 The Bank of England and the Bank of France came under government ownership in 1945. The modern term "central bank" was not used till nearly a century after Biddle's death. Hamilton used the term "public bank," and the nineteenth-century equivalent was "bank of issue."
its charter, were appointed by the President of the United States, and no one of these five might be a director of any other bank. Two of its three successive presidents—William Jones and Nicholas Biddle—were chosen from among these government directors. The charter made the bank depository of the government and accountable to Congress and the Secretary of the Treasury.

On this depository relation hinged control over the extension of credit by banks in general, which is the essential function of a central bank. The government's receipts arose principally from taxes paid by importers to customs collectors; these tax payments were in bank notes, the use of checks not then being the rule; the bank notes were mostly those of private banks, which were numerous and provided the bulk of the money in circulation; the B.U.S. received these notes on deposit from the customs collectors and, becoming thereby creditor of the private banks that issued them, presented them to the latter for payment. Banks that extended credit properly and maintained adequate gold and silver reserves were able to pay their obligations promptly on demand. Those that overextended themselves were not. The pressure of the central bank upon the private banks was constant, and its effect was to restrict their lending and their issue of notes. In this fashion, it curbed the tendency of the banks to lend too much and so depreciate their circulation. Its regulatory powers were dependent on the private banks' falling currently into debt to it. The regulatory powers now in effect under the Federal Reserve Act depend upon the opposite relation—that is, upon the private banks' maintaining balances with the Federal Reserve Banks. The private banks were then debtors to the central bank; they are now creditors. The regulatory powers of the United States Bank were simpler, more direct, and perhaps more effective than those of the Federal Reserve Banks, though they would not be so under present-day conditions.

It was notorious that large and influential numbers of the private banks and official state banks resented this regulation of their lending power. All but the more conservative found it intolerable to be let and

---


4 I use the term "private banks" in preference to the common term "state banks" because it brings out the essential differences between the central bank and the units of the banking system regulated by it. I therefore include as private those "state banks" proper owned in whole or part by state governments; for functionally these "state banks" proper differed little if any from the private banks.
hindered by the dunning of the B.U.S. and forced to reduce their debts instead of enlarging their loans. Many of them had the effrontery to insist as a matter of right that they be allowed to pay the central bank if and when they pleased. The effort of various states, especially Maryland and Ohio, to levy prohibitory taxes on the United States Bank's branches reflects this desire of the private banks to escape regulation quite as much as it reflects the states' jealousy of their "invaded" sovereignty; the efforts were economic as well as political.

In 1831, Gallatin commended the bank for its conduct during the twenties; it had "effectually checked excessive issues" by the state banks; "that very purpose" for which it had been established had been fulfilled. On the regulatory operation of the bank, "which requires particular attention and vigilance and must be carried on with great firmness and due forbearance, depends almost exclusively the stability of the currency . . . ." The country's "reliance for a sound currency and, therefore, for a just performance of contracts rests on that institution." In 1833 he wrote to Horsley Palmer, of the Bank of England; that "the Bank of the United States must not be considered as affording a complete remedy," for the ills of overexpansion, "but as the best and most practicable which can be applied"; and its action "had been irreproachable" in maintaining a proper reserve position "as late as November 1830." Though Gallatin did not say so, this was in effect praise of Nicholas Biddle's administration of the bank.

The powerful expansion of the economy in the nineteenth century made it necessary for the regulatory action of the bank to be mostly one of restraint, but there was occasion also for it to afford ease as holder of the ultimate reserves and lender of last resort. One of the first things it did was to end the general suspension that the country had been enduring for more than two years; and a crucial factor in the willingness and ability of the private banks to resume payment of their obligations was the pledge of the United States Bank that it would support them. This, Vera Smith writes, was "a very early

---

6 McCulloch v. Maryland (1819), 4 Wheaton, p. 315; Osborn v. Bank of the United States (1824), 9 Wheaton, p. 737. The arguments in these cases were constitutional, not economic.
8 Ibid., II, 461. See also Niles' Weekly Register, XXXV (1828-29), 37.
declaration of the view that it is the duty of the central bank to act as lender of last resort."  

The regulatory functions of the bank were not always well performed. Its first president, William Jones, was a politician who extended credit recklessly, rendered the bank impotent to keep the private banks in line, and nearly bankrupted it—all in a matter of three years. Langdon Cheves put the bank back in a sound condition by stern procedures that were unavoidably unpopular. When Nicholas Biddle succeeded Cheves in 1823, the bank was strong in every respect but good will. Biddle repressed the desires of the stockholders for larger dividends, keeping the rate down and accumulating reserves. The art of central banking was not so clearly recognized then as it has since become, but Biddle advanced it, and with better luck he might well be memorable for having developed means of mitigating the tendency to disastrous, periodic crises characteristic of the nineteenth century in the United States.  

But Biddle, with all his superior talents, was not very discreet. He had an airy way of speaking that shocked his more credulous enemies and did him irreparable harm; and, when he described the functions of the bank, he contrived to give a livelier impression of its power than of its usefulness. Once when asked by a Senate committee if the B.U.S. ever oppressed the state banks, he said, “never”: although nearly all of them might have been destroyed, many had been saved and still more had been relieved. This was ineffable in a man of Biddle's exceptional abilities. It put a normal situation in a sinister and uncouth light. A wanton abuse of regulatory powers is always possible, and abstention from it is not to be boasted of—any more than a decent man would boast of not choosing to be a burglar. By talking so, Biddle made his opponents feel sure he had let the cat out of the bag. For Thomas Hart Benton he had proved entirely too much that he had a dangerous power “over the business and fortunes of nearly all the people.”  

Jackson referred in his veto to Biddle's remark, and Roger Taney was still shuddering at the disclosure many years later. He believed then and he believed still, he wrote, that

11 Statements on Biddle's central-bank policy will be found in Reginald C. McGrane, Correspondence of Nicholas Biddle (Boston: Houghton Mifflin Company, 1919), pp. 34–36, 51, 56–58. Catterall discusses the subject admirably in his chapter v, with the limitation that central banking was no better understood in his day than in Biddle's—if as well. See also J. S. Bassett, Andrew Jackson, pp. 585–86. 
there was a scheme to close every state bank in the Union. He believed “that the matter had been thought of, and that the manner in which it could be done was well understood.”  

That people believed such things, Biddle had his own jauntiness, naïveté, and political ineptitude to thank.

II

When Jackson became president in 1829, the B.U.S. had survived what then seemed its most crucial difficulties. The Supreme Court had affirmed and reaffirmed its constitutionality and ended the attempts of unfriendly states to interfere with it. The Treasury had long recognized its efficient services as official depository. The currency was in excellent condition. Yet in his first annual message, Jackson told Congress that “both the constitutionality and the expediency of the law creating the bank were well questioned by a large portion of our fellow-citizens, and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency.”

There is nothing remarkable about Jackson's doubts of the bank's constitutionality, for he did not defer his own judgment to John Marshall's nor, in general, had the Supreme Court's opinions attained their later prestige. His statement that the bank had failed in establishing a good currency is more difficult to understand, for it was plainly untrue in the usual sense of the words. But he was evidently using the words in the special sense of locofoco hard-money doctrine, according to which the only good money was gold and silver; the Constitution authorized Congress to coin it and regulate its value; the states were forbidden to issue paper and the federal government was not empowered to do so. Jackson, wrote C. J. Ingersoll, “considers all the state banks unconstitutional and impolitic and thinks that there should be no currency but coin . . . .”

There were practical considerations no less important than the legal. It was evident to the antibank people that banking was a means by which a relatively small number of persons enjoyed the privilege of creating money to be lent, for the money obtained by borrowers at banks was in the form of

---

14 Even Gallatin in 1831 took pains to defend the bank's constitutionality without a reference to the court's decisions, of which he remarked in a footnote he had not known. Gallatin, *Writings*, III, 327. He was in Europe when *McCulloch v. Maryland* was decided, but not *Osborn v. Bank of the United States*. It is notable that he would discuss constitutionality without learning till he was through that the Supreme Court had said something on the subject.
15 R. C. McGrane, *Correspondence of Biddle*, 172. For Benton’s ideas, see his *Thirty Years' View*, I, 436.
the banks' own notes. The fruits of the abuse were obvious: notes were overissued, their redemption was evaded, they lost their value, and the innocent husbandman and mechanic who were paid in them were cheated and pauperized. "It is absurd," wrote Taney, "to talk about a sound and stable paper currency." 16 There was no such thing. So, in Jackson's opinion, if the United States Bank was not establishing a metallic currency, it was not establishing a constitutional or sound and uniform one. His words might seem wild to the contaminated, like Gallatin and Biddle, but they were plain gospel truth to his sturdy antibank, hard-money agrarians. 17

Hard money was a cardinal tenet of the left wing of the Democratic party. It belonged with an idealism in which America was still a land of refuge and freedom rather than a place to make money. Its aim was to clip the wings of commerce and finance by restricting the credit that paper money enabled them to obtain. There would then be no vast debt, no inflation, no demoralizing price changes; there would be no fluctuant or disappearing values, no swollen fortunes, and no grinding poverty. The precious metals would impose an automatic and uncompromising limit on the volatile tendencies of trade. "When there was a gold and silver circulation," said an agrarian in the Iowa constitutional convention of 1844, "there were no fluctuations; everything moved on smoothly and harmoniously." 18 The Jacksonians were even more devoted to the discipline of gold than the monetary conservatives of the present century.

There was also a pro-bank, "paper-money wing," which harbored the Democratic party's less spiritual virtues. 10 Its strength lay with free enterprise, that is, with the new generation of businessmen, promoters, and speculators, who found the old Hamiltonian order of the Federalists too stodgy and confining. These were "Democrats by trade," as distinguished from "Democrats in principle"; one of the latter wrote sarcastically in the Democratic Review in 1838, "Being a good Democrat, that is to say, a Democrat by trade (Heaven forefend that any son of mine should be a Democrat in principle)—being a

16 J. S. Bassett, Correspondence of Andrew Jackson (Washington, D.C.: Carnegie Institution, 1931), V, 491; Benton, Thirty Years' View, I, 436.

17 The principal argument against the bank's constitutionality was not this, of course, but that Congress had no power to charter a bank outside the District of Columbia.

18 Benjamin F. Shambaugh, Fragments of the Debates of the Iowa Constitutional Conventions of 1844 and 1846 (Iowa City: State Historical Society of Iowa, 1900), pp. 69, 70, 71.

good Democrat by trade, he got a snug slice of the public deposits.”

Fifty years before, business had fostered the erection of a strong federal government and inclined toward monopoly; in the early nineteenth century it began to appreciate the advantages offered by laissez faire and to feel that it had more to gain and less to fear from the states than from the federal government. This led it to take on the coloration and vocabulary of Jacksonian democracy and to exalt the rugged individualism of the entrepreneur and speculator along with that of the pioneer.

The private banks and their friends had helped to kill the first Bank of the United States twenty years before, but the strength they could muster against the second was much greater. Herein lies the principal difference between the situation of the old bank when Jefferson became president in 1801 and the situation of the second when Jackson became president in 1829. Both men disapproved of the national bank and yet were inhibited by its being accepted in their own party and performing well its evidently important functions. There were also the differences that Jefferson was more amenable to reason than Jackson, that he had in Gallatin a better adviser than any Jackson had, and that the bank was under a more passive management in his day than in Jackson’s. But of most importance was the greater pressure the private banks were able to exert in Jackson’s time than in Jefferson’s. Between 1801 and 1829 their number had greatly increased, as had the volume of their business and the demand for credit. The records indicate that in 1801 there were 31 banks, in 1829 there were 329, and in 1837 there were 788—an increase of 140 per cent during Jackson’s administration alone.21 These banks were associated to a marked extent with the Democratic party, especially in New York. Their opposition to federal regulation was therefore far greater in 1829 than in 1801, and it did more for Jackson’s victory over the national bank than did the zeal of his hard-money locofocos. De Tocqueville wrote that “the slightest observation” enabled one to see the advantages of the B.U.S. to the country and mentioned as most striking the uniform value of the currency it furnished. But the private banks, he said, submitted with impatience to “this salutary control” exercised by the B.U.S. They bought over newspapers. “They

20 The United States Magazine and Democratic Review (Washington: Langtree and O’Sullivan, December 1838), III, 368. Alexander Hamilton’s son, James A. Hamilton, a friend of Jackson and a speculator in New York real estate, seems to have been a Democrat by trade.

roused the local passions and the blind democratic instinct of the country to aid their cause . . . .” 22 Without them, it is doubtful if the Jacksonians could have destroyed the B.U.S.

The Jacksonian effort to realize the hard-money ideals was admirable, viewed as Quixotism. For however much good one may find in these ideals, nothing could have been more unsuited than they were to the American setting. In an austere land or among a contemplative and self-denying people they might have survived but not in one so amply endowed as the United States and so much dominated by an energetic and acquisitive European stock. Nowhere on earth was the spirit of enterprise to be more fierce, the urge for exploitation more restless, or the demand for credit more importunate. The rise of these reprobated forces spurred the agrarians, and as business itself grew they came to seek nothing less than complete prohibition of banking.23 Yet they chose to destroy first the institution which was curbing the ills they disapproved, and to that end they leagued with the perpetrators of those ills.24 Jackson made himself, as de Tocqueville observed, the instrument of the private banks.25 He took the government’s funds out of the central bank, where they were less liable to speculative use and put them in the private banks, where they were fuel to the fire.26 He pressed the retirement of the public debt, and he acquiesced in distribution of the federal surplus.27 These things fomented the very evils he deplored and made the Jacksonian inflation one of the worst in American history. They quite outweighed the Maysville veto, which checked federal expenditures on internal improvements, and the specie circular, which crudely and belatedly paralyzed bank credit.

As a result, Jackson’s presidency escaped by only two months from

23 In a number of western states and territories they achieved prohibition: in Arkansas, Illinois, Iowa, Wisconsin, California, and Oregon—though in the last two the impetus was more than agrarian.
24 T. H. Benton, Thirty Years’ View, I, 158.
25 Alexis de Tocqueville, Democracy in America, I, 409.
26 Taney made himself ridiculous: he told the pet banks the government funds would enable them to lend more, he gave them checks on the B.U.S. to protect them from the monster, and then he helplessly asked them not to use the checks.—R. C. H. Catterall, Second Bank, pp. 302–5. United States Secretary of the Treasury, Annual Reports (1833), III, 369; 23d Congress, 1st Session, Senate Document No. 16, 321 ff.
27 Retirement of the public debt was inflationary in that it spread a feeling of elate satisfaction and closed a field for conservative investment. Gallatin had thought the retirement would be a good thing but later found to his dismay that it was “a signal for an astonishing increase in the indebtedness of the community at large.”—Henry Adams, Life of Albert Gallatin (Philadelphia: J. B. Lippincott and Company, 1879), p. 656.
ending like Hoover's in 1933. Far from reaching the happy point where the private banks could be extirpated and the hands of the exploiters and speculators could be tied, Jackson succeeded only in leaving the house swept and garnished for them; and the last state of the economy was worse than the first. He professed to be the deliverer of his people from the oppressions of the mammoth—but instead he delivered the private banks from federal control and his people to speculation. No more striking example could be found of a leader fostering the very evil he was angrily wishing out of the way.  

But this was the inevitable result of the agrarian effort to ride two horses bound in opposite directions: one being monetary policy and the other states' rights. Monetary policy must be national, as the Constitution doubly provides. The agrarians wanted the policy to be national, but they eschewed the practicable way of making it that, and, instead of strengthening the national authority over the monetary system, they destroyed it. Where they were unencumbered by this fatal aversion to centralized power, they accomplished considerable. In Indiana they set up an official State Bank, with branches, which from 1834 to 1853 was the only source of bank credit permitted and yet was ample for all but the most aggressive money-makers, who finally ended its monopoly. In Missouri, they established the Bank of Missouri, with branches, a state monopoly which lasted from 1837 to 1857, when it too succumbed to free enterprise. And in Iowa, another monopoly, the Bank of Iowa, with branches, was in operation from 1858 till 1865, when free banking penetrated the state under authority of the National Bank Act. These instances indicate that if the hard-money agrarians had had a conception of national government less incompatible with their social purposes, they might have tempered rather than worsened the rampant excesses of nineteenth-century expansion that so offended them.  

But as it was, they helped an acquisitive democracy take over the conservative system of bank credit introduced by Hamilton and by

28 See a contemporary English observer, “Causes and Consequences of the Crisis in the American Trade,” Edinburgh Review, LXV (July 1837), 227–28. The impetus given new banks by the prospect of closing the B.U.S. was observed everywhere. Benton exclaimed that he had not joined in putting it down in order “to put up a wilderness of local banks.”—24th Congress, 2d Session, January 1837, Register of Debates, p. 610. See also Jabez Hammond, History of Political Parties in New York (Cooperstown: H. and E. Phinney, 1846), II, 434, 489.

the merchants of Philadelphia and New York and limber it up to suit the popular wish to get rich quick. Wringing their hands, they let bank credit become the convenient key to wealth—the means of making capital accessible in abundance to millions of go-getting Americans who otherwise could not have exploited their natural resources with such whirlwind energy. The excesses of that energy have forced the Jacksonian hard-money hercules to be slowly undone: the federal government’s authority over money, the Treasury’s close operating contact with the banking system, and the central-bank controls over credit have been haltingly restored. Credit itself, in the surviving American tradition, is not the virus the agrarians held it to be but the lifeblood of business and agriculture, and the Jacksonian hard-money philosophy has been completely forgotten, especially by Jackson’s own political posterity.

III

Jackson had not committed himself against the bank during the early part of his first term but worried both those who wanted him to support recharter and those who wanted him to prevent it. In November 1829 he was friendly to Biddle and assured him that he had no more against the B.U.S. than against “all banks.” The next month he slurred the bank in his message to Congress. In 1831 when the cabinet was changed, two important portfolios went to friends of Biddle: Livingston became Secretary of State and McLane Secretary of the Treasury. Both wanted the bank continued and hoped to influence Jackson. Biddle deferred to their hopes, but the tension was evidently too severe for him. The bank’s enemies were growing more provocative, and in the summer of 1831 his brother, a director of the bank’s St. Louis branch, was killed in a duel, more than usually shocking, which arose from the controversy over recharter. What- ever the reasons, he let impatience get the upper hand and decided that the bank, without further temporizing, should ask Congress that the charter be renewed.

Jackson was offended by this direct action, and notwithstanding improvements in the new charter and concessions to his views, he vetoed the bill of renewal. The economic reasoning of the veto message was, in Catterall’s language, “beneath contempt,” and the most

30 St. Louis Beacon, September 1, 1831, September 22, 1831; Niles’ Weekly Register, September 17, 1831, p. 37. The duel was fought with pistols at five feet, Major Biddle being nearsighted, and each man killed the other.

appealing allegations in it were “demonstrably and grossly false.”32 Biddle was deluded enough to have 30,000 copies printed and distributed in the bank’s own interest. One may regard this as evidence of contempt for Jackson or of a faith in the democracy as sincere as Jackson’s own; but it is also evidence of the limitations on Biddle’s political sense. In the election that fall the bank was the leading issue, and hopes for recharter went to nothing with Jackson’s overwhelming majority. Jackson’s purpose now was to stop using the bank as government depository. How firmly accepted it was in Washington as the peculiar agency of the government is indicated by the resistance he encountered. He had to get rid of two Treasury heads successively before he found a third who would execute his wishes, the law giving only the Secretary of the Treasury the power to remove the government’s deposits from the bank; and he had also to disregard a House resolution declaring that the government deposits were safe as they were.

With loss of the deposits, the bank lost the means of regulating the private banks’ extension of credit. Biddle had made enough mistakes already, but he now made the fatal one of failing to resign and let the bank be liquidated; there is a limit beyond which the head of a central bank cannot decently go against the head of the government, even when he is right and the head of the government is wrong. Moreover, although a central bank is a very useful institution, it never possesses the kind of virtues that count in conflict against an intensely popular leader. By resigning, Biddle would have stultified Jackson and justified himself, as it turned out; for when the panic came in 1837, Jackson would have got the blame, with considerable justice. Furthermore, Biddle would have spared himself a tragic end. The bank was in a better condition than it came to be later, and conditions were much more favorable for liquidation, in spite of the recession of 1833–1834. Incidentally, this recession was produced, it was averred, by a vindictive curtailment of the bank’s loans. There certainly was resentment mixed into the bank’s policy, but on the other hand, the bank could not go out of existence, as its enemies desired, without curtailing its credit, and curtailment is always unpopular, scarcely less in a period of general expansion than in one of depression.

Instead of going out of existence the bank became a private corporation under Pennsylvania charter in February 1836, a fortnight

32 Ibid., p. 239.
before its federal charter expired. A little more than a year later the panic of 1837 broke. It began May 10 and involved all the banks in the country, about 800 in number, with an aggregate circulation of $150,000,000 and deposits of $125,000,000. It precipitated three distinct monetary programs—one of hard money by the anti-bank administration in Washington, one of easy money by Biddle in Philadelphia, and one of convertibility by the banks of Wall Street under the sage but incongruous leadership of the venerable Jeffersonian, Albert Gallatin.

The administration, with Van Buren now president, took the opportunity to urge an independent Treasury system, with complete "divorce of bank and state." Its course was that urged by Jackson, who wrote, July 9, 1837:

Now is the time to separate the Government from all banks, receive and disburse the revenue in nothing but gold and silver coin, and the circulation of our coin through all public disbursements will regulate the currency forever hereafter. Keep the Government free from all embarrassments, whilst it leaves the commercial community to trade upon its own capital, and the banks to accommodate it with such exchange and credit as best suits their own interests—both being money making concerns, devoid of patriotism, looking alone to their own interests—regardless of all others. It has been, and ever will be a curse to the Government to have any entanglement or interest with either, more than a general superintending care of all.

Wall Street paid little attention to this program but set about preparations to resume specie payments as soon as possible, getting its own house in order and urging the banks elsewhere to send delegates to a convention "for the purpose," in Gallatin's words, "of agreeing on a uniform course of measures and on the time when the resumption should take place."

Nicholas Biddle took a course opposed to that of both Wall Street and the administration. He demanded that the Treasury scheme be abandoned and the specie circular repealed. He contended that Jackson's policies were responsible for the financial distress and that the basic condition of recovery was their repudiation by Congress. Till these things were done, the banks should not resume redemption

33 The authorized capital of the bank under Pennsylvania charter was $35,000,000, as it had been under national charter. It appears, however, that the shares ($7,000,000 par) held by the government under the national charter were not reissued to new owners and that the actual paid-in capital of the Pennsylvania corporation was only $28,000,000.—John J. Knox, History of Banking (New York: Bradford, Rhodes, and Company, 1903), pp. 78–79.

34 J. S. Bassett, Correspondence of Jackson, V, 495, 498, 500, 504 ff.; Condy Raguet, Financial Register, II (Philadelphia: Adam Waldie, 1838), 58.

35 Albert Gallatin, Writings, III, 398.
of their notes. Wall Street's program he denounced as premature and sacrificial. He advocated instead an active and flexible policy that should be remedial for the prostrate economy—that should check the credit contraction and the fall of prices. His own objects during the past eighteen months, he wrote James Gordon Bennett, October 1838, had been "to sustain the national character abroad by paying our debts and at the same time to protect the securities and the staples of the country from the ruinous depreciation to which they were inevitably sinking." It was evident to him, he wrote John Quincy Adams in December, "that if resort was had to rigid curtailments, the ability to pay would be proportionally diminished; . . . . the only true system was to keep the country as much at ease as consisted with its safety, so as to enable the debtors to collect their resources for the discharge of their debts." Lenity for the banks would mean lenity for their debtors, foreclosures and bankruptcies would be avoided, and values protected from collapse. Suspension, he had already said, was "wholly conventional between the banks and the community" and arose from "their mutual conviction that it is for their mutual benefit."

The situation was one in which the more conservative settled back to let deflation, as it came to be called a century later, run its bitter course; and the hard-money agrarians sardonically joined them in hoping for the worst. But both the agrarians and Wall Street testified to the popularity of Biddle's ideas. Governor Ford of Illinois observed, with the sarcasm of a hard-money Democrat, that although the banks owed more than they could pay and although the people owed each other and the banks more than they could pay, "yet if the whole people could be persuaded to believe the incredible falsehood that all were able to pay, this was 'confidence.' " In Wall Street it was said that suspension made lawbreakers of every one. "Instead of the permanent and uniform standard of value provided by the Constitution, and by which all contracts were intended to be regulated, we have at once fifty different and fluctuating standards, agreeing only in one respect, that of impairing the sanctity of contracts." The believers in Biddle were themselves eloquent in the new faith. Following the later

---

38 Condy Raguet, Financial Register, I, 342–46.
40 Report of delegates to the Bank Convention, New York, November 1837; Condy Raguet, Financial Register, I, 229.
debacle of the B.U.S., the Philadelphia Gazette said: “The immediate effect of the suspension will be an ease in the money market, a cessation of those cares and disquietudes with which the business men of our community have been annoyed. . . . The great error . . . . to which all subsequent errors are in a measure to be traced was in the premature resumption in August 1838. . . . The banks are just as good, and better and more solid, under a season of suspension as under its opposite.”

Meanwhile, the New York banks had succeeded in resuming payment of their obligations, May 10, 1838, the anniversary of the suspension. This was a real hard-money achievement, due largely to Gallatin and the Bank of England, in which the professedly hard-money administration had little if any part. Instead it had to violate with its eyes open the professions that Jackson had violated without knowing what he was doing. While still trying to distribute a federal “surplus” which had turned into a deficit, it had to resort to issues of Treasury notes, which its hard-money zealots believed unconstitutional. It had to go still further and tolerate what Biddle had demanded: the specie circular was repealed in May 1838, the subtreasury bill was defeated in June, and in July the Treasury had to accept—to its substantial relief—a credit of four to five million dollars on the books of the Bank of the United States in anticipated payment of amounts due the government in liquidation of its shares. This last transaction made the bank a depository of the government some five years after Jackson had ordered that its predecessor, a better institution, cease to be used as depository.

By the fall of 1838, banks everywhere were back on a specie basis, and, although this was mainly due to the efforts of Wall Street and Albert Gallatin, it was Biddle who had the prestige. He was riding on the crest: “All that it was designed to do has been done,” he wrote John Quincy Adams in December 1838; and he was about to retire.

Two months later, February 1839, he was Van Buren’s guest of honor.
at the White House. "This dinner went off very well," according to James A. Hamilton, "Biddle evidently feeling as the conqueror. He was facetious and in intimate converse with the President." A month later Biddle retired from the bank, its affairs being, he said, in a state of great prosperity and in able hands. The same day the directors were unanimous in describing him as one who had "performed so much and so faithfully" and was leaving the bank "prosperous in all its relations . . . and secure in the respect and esteem of all who are connected with it in foreign or domestic intercourse."

Six months later, in the fall of 1839, the bank suspended payment of its obligations. It resumed and then suspended again. In 1841, after two years of dismayed inquiry and recrimination, it was assigned to trustees for liquidation.

The stockholders were stunned, and then they turned on Biddle. In the summer of 1840 he was told that he owed the bank an "over-advance" of about $320,000 on an old account. This he denied. Nevertheless, "though he did not recognize the claim" and although "neither law or equity made it necessary to pay," he did so—mostly in Texas bonds which were accepted at more than market value. The stockholders next turned to litigation and thereafter seem to have kept Biddle continuously in the courts. In January 1842, he and former associates in the bank were arrested on charges of criminal conspiracy and put on $10,000 bail each. The charge was that they had conspired "to cheat and defraud the bank by obtaining therefrom large advances upon shipments of cotton to Europe," and "by the unlawful receipt and expenditure of large sums of money, the application of which is not specified upon the books." The court of General Sessions was occupied two weeks with habeas corpus hearings, twenty witnesses being examined and "all the books and papers of the bank brought into court, where they underwent a most searching investigation." Biddle's attorneys let his case stand on the evidence of the prosecutors. "As soon as the testimony for the prosecution was finished, the counsel for Mr. Biddle offered to leave the matter to the court without argument." The court found evidence lacking that the acts charged

45 Niles' Weekly Register, LVI (April 6, 1839), p. 84.
48 Philadelphia Public Ledger, April 11, 1842.
involved fraud; for they were known to the directors and approved by them. Of any fraudulent coalition it found nothing to justify even a reasonable suspicion.\textsuperscript{49} Two judges concurred in this decision; one dissented.

A few weeks later another suit was instituted. The stockholders filed a bill of equity in which they asked that Biddle and one of his former associates be required to account for $400,000 of the bank's funds. The bill was dismissed December 1844, the court holding that information which might incriminate the defendants could not be required of them.\textsuperscript{50} But Biddle was no longer living. He had died ten months before, February 27, 1844, aged fifty-eight.

IV

The failure of the B.U.S. leaves two questions one would like to have answered: What was the actual condition of the bank? How responsible was Biddle for it? The Jacksonians had easy answers, of course, and jeered triumphantly; matters had proved to be even worse than they had said, Biddle had known the bank was rotten, and having enriched himself he had striven to leap clear in time but had been caught. The Democratic press was hot with invective and ribald ridicule of the great Regulator, the old Nick, the prestidigitatorial wizard who had crowned a career of astounding performances by consummately destroying everything he had done, and himself with it.\textsuperscript{51}

To say with Biddle's political enemies that the bank was "rotten" is putting it both vigorously and vaguely. No one can be precise in such a matter, for in a long and complicated liquidation involving suits and technical decisions respecting the admissibility of claims, the completeness of the settlement must be subject to interpretation. But, according to a trustee quoted by Knox, the creditors were paid in full, principal and interest, though the bank's capital was entirely absorbed, and the stockholders got nothing.\textsuperscript{52} This would mean a shrinkage of about one fourth of the value of the bank's assets, roughly speaking. The 7,000 bank failures in the United States in the ten years, 1921–1930, entailed estimated losses of about one third of the total deposit

\textsuperscript{49} \textit{Philadelphia Public Ledger}, April 30, 1842. The court had much to say of "the singularly loose method" by which the directors had conducted the business of the corporation.

\textsuperscript{50} \textit{Bank of the United States v. Biddle}, Parsons' Select Cases in Equity (Philadelphia, 1888), II, 33 ff.

\textsuperscript{51} \textit{Democratic Review}, III (December 1838), 372–73.

\textsuperscript{52} John J. Knox, \textit{History of Banking}, p. 79.
The comparison is crude, but I think it warrants the opinion that the condition of the B.U.S. was rotten only in a hyperbolical sense. Moreover, it is to be borne in mind that values usually diminish in liquidation, that the portfolio to be liquidated was the country’s largest, and that the process, which ran to 1856, had to be undertaken in a period when buyers were not eager nor prices buoyant. The stockholders in 1841 insisted to the legislature that the bank could pay all its creditors and requested lenity so that losses might be minimized. These things make me think that the bank in 1839 may have been in a situation little if any worse than that which Jones had got its predecessor into twenty years before and from which Cheves rescued it.

As for the second question—Biddle’s responsibility—it seems to me clear that policies put into effect by him led to the bank’s failure but that he had no realization or suspicion of what was developing. The policies included prodigal loans on stocks, especially to officers and directors of the bank, heavy investments in corporate stocks and speculative bonds, and purchases of cotton and other agricultural commodities for export. The cotton transactions were undertaken in the emergency of 1837 as a means of sustaining domestic commodity prices and providing European exchange. They succeeded initially, but once begun they were hard to stop, and they produced loss, litigation, and recrimination that was probably more damaging to Biddle himself than to the bank. The loan and investment policy was begun as early as 1835 when it looked as if the bank would have to liquidate: the active assets were converted into loans on stocks in preparation for a long period of liquidation. But when the Pennsylvania charter was obtained, the policy was not abandoned. Instead it was adapted to the vaster prospects of manifest destiny and empire building. Loans were made with a lax grandiosity. “It seems to have been sufficient,” according to a stockholders’ committee report later, “to obtain money on loan, to pledge the stock of ‘an incorporated company’, however remote its operations or uncertain its prospects.” Partly from choice and partly from the extortionate requirements of its charter—which Biddle should never have accepted—the bank also became the owner of such stocks outright; in 1840 it had shares in more than twenty other banks, some of which it wholly controlled, and great holdings in railways, toll bridges, turnpikes, and canals, besides

---

speculative bonds issued to finance "public improvements." These investments immobilized the bank's funds so that it was without active means to repay the government for its stock, to honor its $20,000,000 of circulating notes, which soon began to be rapidly presented for redemption, and to meet its charter obligations, which in five years made it divert more than a third of its capital "to purposes of the state." To meet these requirements, the bank was driven into the market as borrower, both at home and abroad. These borrowings were begun by Biddle, and his successors turned to them more and more. Hence the bank came to be progressively incurring new obligations harder to meet than the old. The pressure mounted swiftly, so that a situation of apparent comfort in the spring of 1839 had passed into one of agony in the fall. These were the six months between Biddle's retirement and the bank's suspension. The bank had for years been growing more and more illiquid, but the condition had remained concealed by confidence. Once the illiquidity was suspected, however, the bank's creditors woke up with a start, and its obligations became instantly menacing. The suddenness of the change depended not on existence of the condition but on recognition of it.

According to one view, Biddle cannot be blamed for the bank's failure—it happened six months after he had retired. Well, granted that Biddle was gone, the bank was in the hands of successors who besides being heirs to his policies had been trained in his school. And this school, according to the evidence of stockholders' reports and court records, was one of extreme administrative inefficiency. The directors, dazzled by Biddle, knew nothing and approved everything. There were special procedures for special transactions, items being carried in the teller's drawer till it was expedient to post them. Accounts of the old bank were continued on the books of the new as if the corporate continuity was unbroken; and the notes of the old were kept in circulation by the new—a practice which particularly outraged Gallatin. It was in this atmosphere that Biddle's successors learned to manage the bank, and if they came to grief it cannot be said that it

55 Laws of Pennsylvania 1835–36, p. 43; 29th Congress, 1st Session, House Document No. 226, p. 532. See report of the stockholders' committee, April 3, 1841, 29th Congress, 1st Session, House Document No. 226, esp. pp. 414–16, 425 ff. This report confirms, it seems to me, the opinion of Judge Barton a year later. I do not go into the cotton transactions, which Judge Barton discusses at length, because to discuss them adequately takes too much space. They show Biddle's audacity, ingenuity, and casuistry, but it is not clear that they cost the bank much, except indirectly by deterioration of management. The loan policy, though less irregular, did the bank more direct damage.
was merely because they had not his ability. He would have come to grief himself.56

That Biddle must bear responsibility for the bank’s condition is one thing; but that he had a guilty consciousness of its condition is quite another. Although the tradition of his dishonesty is held both by the Jacksonian partisans and by some scholars, I think it rests on a trite and stiffly moralistic view of the facts. If he realized how seriously wrong things were, it was an instance of objective analysis and cold self-appraisal unique in his career. I cannot believe him capable of it. He was eminently of a sanguine disposition, as is emphasized in the characterization of him by Catterall, who has given him more attention than any other historian. Caution and modesty were probably never among his more conspicuous virtues, and Jackson’s attack did not enhance them. In the years 1836 to 1839, when he was laying down a new course for the bank, he was at the height of his career, it then seemed, and flushed with victory. He had blundered when he forced the issue of recharter in 1832, and Jackson had whipped him in the elections that year, in the veto, and in the removal of the deposits in 1833. But by 1838 he seemed to have retrieved his blunder and defeat. He had found sanctuary for the bank in the Pennsylvania jurisdiction, where Jackson could only gnash his teeth at it. He could point scornfully at the situation compounded of the panic of 1837, the specie circular, and distribution of the federal surplus. By 1839 he was the honored guest of Van Buren in the White House, and he could boast that the bank was again a government depository, that the independent Treasury scheme was rejected, and that the specie circular was repealed. He had triumphed over the Jacksonians on the points he cared most about. He even claimed credit for resumption, patronized Wall Street, and acted as the impresario of national monetary policy. It was in the fatuous mood of wishful thinking and expansive imagination stimulated by these illusive developments that he administered the bank after the failure of Jackson’s attempt to annihilate him. If Biddle, at the height of his success in the winter of 1838–1839, examined his achievements objectively and concluded that all he had done mounted up to either a colossal fraud or a colossal mistake, he must have been a very remarkable character indeed. Yet that is what the tradition of his moral guilt requires one to believe. I find more

56 For some account of the bank’s methods, see Sister M. Grace Madeleine, Monetary and Banking Theories of Jacksonian Democracy (Philadelphia: The Dolphin Press, 1943), chaps. iv and v. The author seems to believe Biddle morally culpable.
credible the less dramatic possibility that, being a man of very sanguine susceptibilities, he was simply carried away by success and self-confidence, by the grand scale of his activities, and by the daily exercise of more power, as he put it, than the President of the United States possessed. I believe he had lost the faculty of recognizing his own mistakes. The series of letters he wrote in 1841—prolix, specious, declamatory compositions in which he unconvincingly insisted that the bank had been in sound condition when he left it—seem to me the pathetic efforts of a man confounded by other things than guilt: by surprise, incredulousness, grief, anxiety, and shock. His friends were at no less a loss; the most they could say in his favor was to protest at those who had been his sycophants while hoping to prosper but who turned against him with a “malicious prosecution” when their common fortunes collapsed.

The hostility of Jackson to the Bank of the United States was in the first instance a matter of principle, the bank belonging to a monetary system and to a theory of federal powers which he disapproved; but later he and his followers could allege also that the bank was rotten and Biddle dishonest. That allegation was, in fact, emphasized more than the original principle. But if the bank was not rotten and Biddle was not dishonest, then what may be called the moral grounds for Jackson’s action disappear leaving no defense except in charity to his good intentions. All he did was destroy a wisely developed monetary system. The administration of that system by the B.U.S. was admirable but might have been strengthened and improved had not Jackson’s views been so radical and his temper so intransigent. In particular, had his demoralizing attack never been made Biddle would not have been stimulated to undertake his later grandiose and tragic course. But the blame must be shared by Biddle. The fury and the folly of these two ruined an excellent monetary system—as good as any the country has ever possessed—and left a reckless, booming anarchy.

When the career of Nicholas Biddle is given the study its importance deserves, it may appear that the earlier part of it, when he was a central banker, was something less than brilliant and that the later part, when he was an empire builder, was something worse than overweening. But, as it is, the evidence indicates an inventive, facile, dynamic person—vain and not too painfully honest under pressure—

58 Philadelphia Public Ledger, April 1, 1842.
who encountered a bigoted interference with his extremely able management of an institution purposing to restrain the inflationary abuse of bank credit; who naively trusted the rightness of his position, contemned his adversary, defied him, and, after a smart defeat which he refused to acknowledge, achieved an illusory victory; who then, with overblown confidence in his own judgment, in the economic future of the country, and in the alchemic powers of bank credit, committed himself to empire building; who did things the ingenious if not the right way; and who reckoned on a faster and less fluctuant growth than the country actually had. In all this he went with the times. When an opposition that was locofoco on one side and laissez faire on the other overcame him, he joined the latter and likelier of the two. Having been stripped of the Hamiltonian garments of central control, he gladly put on the gayer ones of free enterprise. Yet Biddle was attracted more by the statesmanship of enterprise than by enterprise itself. As a central banker, his policy had been governed properly by public interest rather than profit.59 As empire builder also, he led the bank into affairs of national scope and purpose.60 He upheld the nation's foreign financial obligations. He intervened with both parties on behalf of Texas, whose government he had financed.61 He resisted Jackson's monetary measures with a determination more patriotic than discreet. His retirement from the bank at the age of fifty-three must have been greatly influenced, and very reasonably, by political ambitions. Only a few weeks before announcing that he would retire, he had been advised by Thomas Cooper that his candidacy for president of the United States was not immediately practicable because of the “prevailing ignorance and prejudice about banks”—the general suspension being still a recent matter—and that “some years hence” prospects might be better.62 The bank's difficulties from 1839 on blanked out these prospects wholly. They did more. Biddle had rebounded from the earlier frustration that ended his career as central banker; from the disaster to his later career he had no power to turn. John Quincy Adams had dinner with him en famille, November 22, 1840, and talked long with him. “Biddle,” he

59 See his criticism of “mere men of business” as administrators of the B.U.S.—R. C. McGrane, Correspondence of Biddle, p. 27.
60 It will be recalled that, in his earlier literary days, he prepared a popular edition of the Lewis and Clark journals.
62 R. C. McGrane, Correspondence of Biddle, p. 333. See also earlier correspondence with Thomas Cooper regarding the presidency, pp. 272, 277–282, 293, 296, 323.
wrote, “broods with smiling face and stifled groans over the wreck of splendid blasted expectations and ruined hopes. A fair mind, a brilliant genius, a generous temper, an honest heart, waylaid and led astray by prosperity, suffering the penalty of scarcely voluntary error—’tis pitieous to behold.” He died a little more than three years later, in reduced circumstances if not insolvent.

Besides the Jacksonian view of Biddle and the view that I have opposed to it, there is another I have already mentioned. Its distinction is its calm silence about the unhappy events, whether discreditable or tragic, of Biddle’s last years. In R. C. McGrane’s _Panic of 1837_, the bank’s failure is alluded to, and Biddle’s connection with it is dismissed in a footnote: “It should be noted that Biddle was now out of office, and can not be held responsible for what the bank did at this period.” In the published correspondence of Nicholas Biddle, edited by Mr. McGrane, there is nothing that deals with the things that made Biddle’s last years so miserably unlike those of his prime—the bank’s failure, the loss of money and esteem, the prosecution of suits against him. And similarly in the article on Biddle in the _Dictionary of American Biography_, no mention is made of his last years’ being clouded by any trouble whatsoever. Such reticence and piety contrast genteelly with the bitterness he actually suffered and with the judgment that he belonged in jail.

Two things combined to give Biddle’s fall a supererogatory blackness. One was the sheer drama of the event. The largest corporation in the country—one of the largest in the world—had fallen suddenly from its splendid success into sprawling collapse at the very feet of the genius who had only recently with grand gestures relinquished its management. It was a denouement that stimulated the imagination to make worse what was already bad enough. The other aggravation of the story came from political motives. Biddle and the bank had never been warmed to by the Whigs, and Biddle’s own ties were less with them than with the Democrats, but the latter naturally sought to make the bank seem Whig. They had great success; the debacle


64 Reginald C. McGrane, _The Panic of 1837; Some Financial Problems of the Jacksonian Era_ (Chicago: The University of Chicago Press, 1924), p. 205; R. C. McGrane, _Correspondence of Biddle_. The Jacksonian opinion of Biddle is reflected in Arthur M. Schlesinger, Jr.’s, _Age of Jackson_ (Boston: Little, Brown and Company, 1945), which I have not referred to in this essay because I reviewed it in the May 1946 issue of this _JOURNAL_.

65 It is not clear which party Biddle supposed might make him president. The second Bank of the United States was both nurtured and destroyed within the Democratic party. Its
helped to distingishate the Whigs and strengthened the Jacksonians immeasurably. As a result, partisan views have dominated subsequent judgments and given Biddle the incidental and thankless role of darkened background to the glories of Andrew Jackson; and his achievements in credit policy, especially in the earlier and more admirable phase when he was a pioneer central banker, have been forgotten. Nowhere has he been studied adequately in his own right as a man of significant accomplishments, shortcomings, and misfortunes. Yet, in intellectual capacity, force of character, public spirit, and lasting influence, he was comparable with any of the contemporaries of his prime.

The withering that overtook Biddle's fame did not extend to his philosophy and example, which turned out to be triumphant, though with no acknowledgment to him. The monetary views of Gallatin and of Jackson are both obsolete, but Biddle's have a sort of pragmatic orthodoxy. He sought to make monetary policy flexible and compensatory rather than rigid. His easy-money doctrine had its source in a vision of national development to which abundant credit was essential. The majority of his countrymen have agreed with him. They have dismissed the man, but they have followed his ideas, especially his worse ones. They have shared his bullishness and his energy. They have not liked Jackson's primitive ideals of a simple, agrarian society, except in their nostalgic moods. They have not understood Gallatin's noble aversion for the fierce spirit of enterprise. They have exploited the country's resources with abandon, they have plunged into all the debt they could, they have realized a fantastic growth, and they have slighted its cost. Gallatin personified the country's intelligence and Jackson its folklore, but Biddle personified its behavior. They closed their careers in high honor—he closed his in opprobrium and bewilderment.

Somerset, Chevy Chase, Maryland          Bray Hammond

creators and friends included Madison, Monroe, Gallatin, and Crawford; its three presidents, Jones, Cheves, and Biddle, were party members. Its greatest enemies were likewise pillars of the party—Jackson himself, Benton, and Taney. Jackson's cabinet was divided. The Whigs championed the bank less for its own sake than because Jackson's course left them no choice, and they abandoned it with relief as soon as they could. They were not interested in having bank credit restricted.