

Tracing the History of the Bank War

Part 2

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The banking system in those days was totally different than it is today. . .

- The federal government coined a limited amount of hard money, and printed no paper money at all.
- The main source of paper money (bank notes) was private commercial banks.
- There were lots of these, chartered by the various states.

Back in the day . . .

- Private banks supplied credit to finance land purchases, business operations, and economic growth.
- Bank notes were iou's - promises to pay in gold or silver - but they were backed by a limited amount of these metals so their value was not stable.

The War of 1812 . . .

- . . . cost the government a lot of money, and when it ended there was a sizable debt.
- Since there was no more national bank, the government had to borrow funds from the smaller private banks, even during the war.
- Also during the war, especially when Washington, D.C. was burned, people got nervous and tried to cash in their bank notes for specie, but the banks didn't have enough to back all the notes they had issued, so they refused to pay.
- The value of bank notes declined, as did the value of government bonds. The national debt shot up.

And so . . .

- Congress chartered the Second Bank of the United States, in 1816. (With a charter that would expire in 1836.)
- Madison signed the bill into law, and the Bank of the United States became, essentially, a Republican institution.



McCulloch v. Maryland (1819)

Enter John Marshall . . .

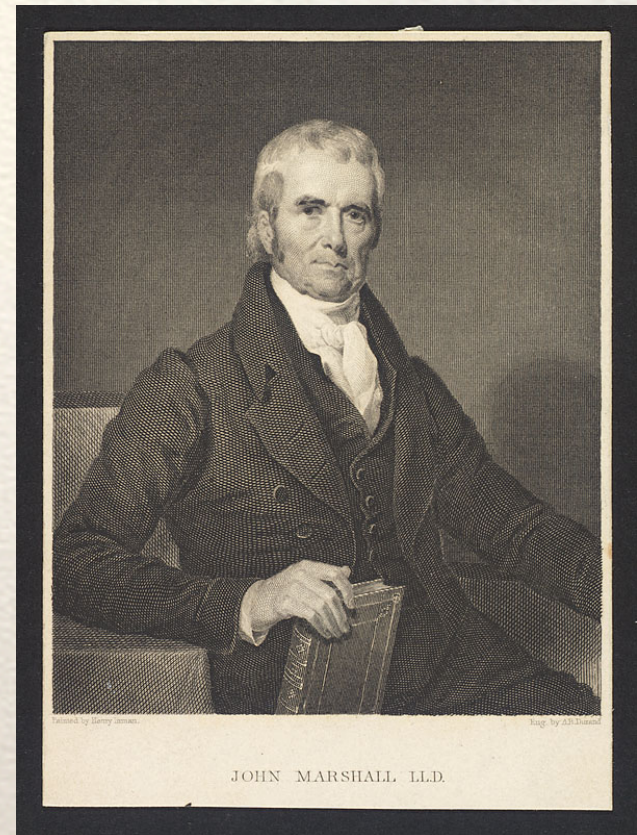
Maryland had tried to force the B.U.S. out of the state by taxing it.

No state has the power to hinder or control any national institution within its borders.

“The power to tax is the power to destroy.”

Congress has the right “to make all laws necessary and proper” to carry out its duties.

The laws of the United States are “the supreme law of the land.”



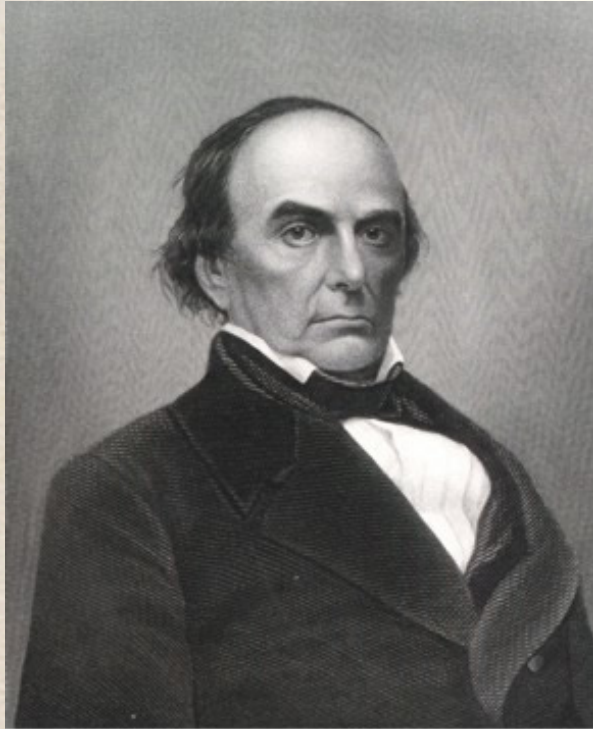
Significance?

- **“loose construction”**
- The power of the national government is affirmed (the Federalist perspective)
- The Bank of the United States is constitutional.

Renewed Opposition to the B.U.S.

- Wage earners and small businessmen blamed it for economic fluctuations and for restrictions that made it hard for them to get loans.
- Smaller, private, state-licensed banks resented its privileged position in the banking industry.
- Farmers felt it favored merchants and manufacturers.
- Some said it had too much political influence.

Too much influence?



Daniel Webster

- Daniel Webster (a National Republican) was a United States Senator.
- He was also the chief lobbyist for the B.U.S.
- And he was a Director of the bank's Boston branch.
- Upon Jackson's election, he wrote: "Gen. J. will be here abt. 15 Feb.— Nobody knows what he will do when he does come.... My opinion is That when he comes he will bring a breeze with him. Which way it will blow, I cannot tell.... My *fear* is stronger than my *hope*."