

The Bank of the United States was a banking corporation chartered by the federal government to serve as a central bank. The bank existed in two stages, known as the First Bank (1791-1811) and the Second Bank (1816-1836). Although the bank rendered important services to the economy, it became in its later years the focal point of a bitter political struggle that resulted in its eventual overthrow by President Andrew Jackson. The Constitution made no provision for the chartering of federal corporations, but this is what Alexander Hamilton proposed to Congress in his *Report on a National Bank*, Dec. 14, 1790. His plan involved the creation of a national bank that, while largely privately owned, would perform important public functions. Such a bank would act as the fiscal agency of the government and the principal depository of the Treasury, and would help to provide for the government's monetary requirements. It would lend to government. It would deal in foreign exchange. It would serve as a regulator of the country's money supply. At the same time, while directly aiding commerce and industry by its own loans, it would be a banker's bank so that private state-chartered commercial banks could borrow from it.

The stock of the Bank of the United States was quickly subscribed and the bank began operations on Dec. 12, 1791. Its main office was set up in Philadelphia, and in time eight branches were created. This so-called First Bank was conservatively run, and it fulfilled brilliantly all of Hamilton's expectations. It handled the government's foreign-exchange operations; it was its depository, transferring public moneys from place to place; it helped importers pay their customs duties; and it assured the successful establishment of the United States Mint, toward this end furnishing the bullion for the country's own coinage. It lent to the state banks and placed checks on their note circulation. As a private bank, it exercised restraint. It always paid handsome dividends.

When the charter expired in 1811, Madison was president. Like Jefferson's, his hostility to the bank had never ceased. Southern agrarians were of the same mind, and Congress denied the bank's request for charter renewal. The country had no controls over its monetary affairs from 1811 to 1816.

**Second Bank** The turmoil in the country's finances as a result of the War of 1812 (specie payments had been suspended and state banks were expanding their circulations recklessly) forced Congress' hand. The so-called Second Bank was set up by law on April 10, 1816. In its first seven years the Second Bank floundered and created hostility. In 1823, Nicholas Biddle, a wealthy Philadelphian and one of the government's five directors, became its president. Under Biddle, the Second Bank proceeded to deport itself like the central bank Hamilton had envisaged. He increased the number of branches to 29, and in several ways was able to regulate the country's money—and the ups and downs of its business. He was not averse, however, to using the bank for political purposes, and to Philadelphia's advantage, by imposing restraint on the government's own activities and by checking overexpansion in banking in the Southwest and in New York State.

Biddle was a great banker, but his arrogance created too many enemies. Chief among these were President Jackson, the powerful Democratic party of New York State (controlled by Martin Van Buren), and the New York State bankers. Jackson, elected in 1828, was a hard-money man who was suspicious of all banks and paper money. To

Jackson and the organized workingmen's parties, the bank was a monopoly, controlled by foreigners, and representing wealth.

Biddle's Whig friends in Congress introduced a bill on Jan. 9, 1832, for the bank's recharter. The existing charter was due to expire in 1836. Somewhat earlier, the Whigs had nominated Henry Clay for the presidency and voted to make the bank the issue of the campaign. The bill was passed on July 3. Jackson's quick temper was aroused. He vetoed the bill on July 10 in a message that denounced the bank as an agency of "the rich and the powerful" that was oppressing the poor. Congress did not override the veto, and the stage was set for the presidential contest. With the bank the primary issue, Clay was badly defeated in the 1832 election.

The country was left without any regulator of its money supply and a period of "wildcat banking" ensued in the late 1840s and the 1850s. From 1837 to 1863, state banking alone remained in the field. In the latter year national banks were chartered. After the Civil War, the Treasury itself was forced to take on some of the functions of a central bank. It was not until 1914, with the establishment of the Federal Reserve System, that real central banking was finally achieved in the United States.