

LESSON 6

The National Banks

The National Banks of the United States dominated American economic history from 1791 to 1845. No issue was more contentious between Federalists and Republicans as these two parties established the financial foundation of the nation. In the early years of the Republic, Alexander Hamilton's supporters clashed with Thomas Jefferson's supporters over the Bank's constitutionality and its alleged unfairness to the poor.

Later, the rechartering of the Bank sparked a raging controversy between the Jacksonian Democrats and Henry Clay's Whigs. Further, it divided the country geographically as western farmers blamed the Bank for their economic woes and saw it as a symbol of eastern financial elitism and dominance.

The following chart summarizes the First and Second Banks of the United States. It can be used in conjunction with the chart on political parties (Lesson 9). As you study the Bank, consider why it was so controversial. Can you think of any other economic issue that so dominated United States history?

1. A primary reason for opposition to the National Banks was that these banks
 - (A) failed to provide sound economic services to the country
 - (B) contributed to foreign speculation in the American economy
 - (C) promoted speculation and risk-taking in banking
 - (D) supported and promoted the slave trade
 - (E) were not authorized by the Constitution
2. The person most likely to support the First National Bank would be someone who
 - (A) farmed in the frontier regions of Tennessee
 - (B) voted for Thomas Jefferson in the presidential election of 1796
 - (C) lived in Philadelphia and was involved in commerce and trade
 - (D) feared the rapid expansion of government power in the 1790s
 - (E) supported the economic and political system of England
3. The main argument for rechartering the National Bank in 1816 was that
 - (A) England had a national bank and America must remain competitive
 - (B) the Bank would prevent falling land prices from hurting economic growth
 - (C) the Constitution had been amended and Congress now had the power to create a Bank
 - (D) the Bank could restore economic stability after the War of 1812
 - (E) *McCulloch v. Maryland* required that the Bank be rechartered

	First Bank	Second Bank
Years	1791–1811	1816–1836
Reasons for Creation	Hamilton modeled it after Bank of England Paid dividends and interest to government, which was the source of revenue	1811–1816 country in economic chaos following War of 1812 Explosion in number of unstable state banks
Function	Provided flexible currency Created adequate credit for business Generated revenue for national government	Controlled state banks Provided flexible currency Controlled inflation Restrained land speculation
Supporters	Alexander Hamilton’s supporters Members of the Federalist Party Mercantile, eastern groups Friends of strong central government	Madison signed recharter National Republicans/Whigs Henry Clay/Nicholas Biddle Mercantile, eastern groups
Opponents	Thomas Jefferson’s supporters (Democratic) Republicans Backcountry farmers States’ rights supporters	Old Jeffersonians Andrew Jackson—Democrats Western farmers Small banking interests Land speculators
Reasons for Demise	Republicans gain political power and, by 1811, control Washington Madison’s government did not renew charter	Andrew Jackson’s veto Became a cause celebre for opponents of Jackson Appeared undemocratic/elitist in the egalitarian 1830s
Constitutional Issue	Federalists: Bank was “necessary and proper” under “elastic clause” in Constitution Republicans: Bank violated the Constitution—establishing Bank was not enumerated as a power of Congress in Article 1, Section 8 Great struggle of loose <i>v.</i> strict interpretation of the Constitution	1819 <i>McCulloch v. Maryland</i> declared the Bank constitutional 1832 Jackson declared the Bank unconstitutional in his veto message Part of an ongoing debate between the loose/strict interpretations of Constitution and the strong/weak views of federal government