Andrew Jackson and the Independence of the Central Bank
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The independence of the Federal Reserve Bank is not a new issue. The role of the central bank in regulating credit and the money supply goes back at least 200 years, to the administration of Andrew Jackson.

By 1832, the United States of America was no longer a “developing” country. Its size and wealth had increased so much since the turn of the 18th century that the U.S. was largely an independent economy. Its commerce and trade were no longer those of a peripheral component of the British Empire. In the three decades since 1801, the GDP of the former colonies had grown from 25% to 42% of Great Britain’s. Measured by individual wealth, the two countries were almost equal; in 1831 per capital GDP was $101 for Great Britain and $79 for the U.S.

Measured by government debt and tax revenues, the United States was in a much stronger position than its “mother country.” For the fiscal year ending June 30, 1831, the Federal government collected $28.5 million; gross public debt was $24.3 million. For the calendar year 1832 the parliament and the Crown collected $264.9 million (54.5 million pounds); its gross public debt was $3.82 billion (785 million pounds). (All figures use the conversion rate of $4.86 to 1 pound – the ratio of the gold content of each country’s legal tender.) While Great Britain, the center of international exchange and commerce, had to carry the accumulated burden of its wars against France, somehow, the United States had no significant war debts. For Great Britain the national debt was 155% of GDP and 14.4 times government revenues; for the U.S. the national debt was 2.3% of GDP and less than its government revenues.

These comparisons exaggerate the America’s relative prosperity because they do not include the state and local debts and taxes that were part of the United States’ federal system. But, they greatly understate the national government’s relative credit-worthiness. For FY 1831 the U.S. Federal government had a surplus of $13,279,000, nearly half of total tax collections. There was every reason to expect that, if President Andrew Jackson was able to remain in office for a second term, the country would completely eliminate the federal government’s gross public debt. (And, indeed, it would; over the remainder of Jackson’s tenure as president the Federal government’s budget would achieve a surplus of $66,488,000; for both 1835 and 1836, the government of the United States of America would be – for the only times in its history – without any debts other than the amount of its year-end payables - $38,000.)

The U.S. was not completely free of worry; like every other country, including Great Britain, it needed to earn enough international money - i.e. gold and silver coin – to pay for the trade balances that could not be cleared through financial accounts. But, as Adam Smith had written on the year of American independence, “(i) is convenient for the Americans, who could always employ with profit in the improvement of their lands a greater stock than they can easily get, to save as much as possible the expense of so costly an instrument of commerce as gold and silver….. (i)n the exterior commerce which the different colonies carry on with Great Britain, gold and silver are more or less employed exactly in proportion as they are more or less necessary. Where those metals are not necessary they seldom appear. Where they are necessary they are generally found.”

The U.S. economy was able to collect the international money needed while at the same time providing regular and reliable increases in domestic money and credit. Plantation owners and farmers exported enough cotton and corn to earn the specie needed for imports of British iron and foreign luxuries. New Orleans, Baltimore, Philadelphia, New York and Boston merchants acquired enough of that gold to pay the required tariffs and excise taxes. Meanwhile, the second Bank of the United States and the state-chartered banks issued enough new notes to cover speculators’ increasing purchases of Federal government land. For the decade of the recovery from the 1819 crash, when the U.S. had a trade surplus, its exporters kept enough of their international money balances at home to make the interest expenses and principal payments on the national debt (which had to be paid in gold). Even in the years when imports exceeded exports, growth continued and expectations of gains from direct investment in U.S. land were optimistic enough to allow Americans to find the gold they needed.
The U.S. had managed to escape the debt trap that so regularly ensnares developing countries. When Jackson had become a national hero, at the end of the disastrous war of 1812, the country had been broke. The gross public debt of the federal government was $127,335,000; interest charges alone were $7,213,000. Now, at the end of President Jackson’s first term, circumstances were completely different. Interest charges had declined to $1,384,000 - 20% of what they had been a decade and a half earlier.

Why, then, did the country have a political crisis over whether the second Bank of the United States should continue to exist? The published comments by President Trump about the Federal Reserve and its Chairman have been, by modern standards, shockingly uncomplimentary. But, if the events of 1832 were being repeated today, President Trump would be issuing executive orders exempting U.S. Treasury accounts from all reserve requirements and other Fed regulations; Chairman Powell would funding the Democrats’ impeachment campaign and 2020 candidacies.

What takes this scenario beyond comprehension is that, in a time when the federal government’s positive cash flows were extinguishing the entire public debt, a sitting president would decide that his ideal campaign pledge for re-election was the abolition of the country’s central bank?

No one, then or now, doubts that Jackson won the immediate political argument. His veto of the extension of the central bank’s charter was upheld – even against the opposition of his own vice-president, John Calhoun, who had hoped to use the crisis to replace Jackson as the leader of the Democratic Party. In the 1832 general election, Jackson soundly defeated the National Republican’s candidate Henry Clay. In the first session of the 1833 Congress, he and his new vice-president Martin Van Buren pushed through the Force Bill - squashing South Carolina’s attempt to nullify its obedience to federal law. They then managed the passage of a compromise tariff that pacified the Nullifiers and became the unchanged federal tax law for the next decade.

Yet these achievements were not enough to satisfy the president. The memoirs from the members of Jackson’s cabinet record that he was “in a continual rage”; at each meeting Jackson demanded that the federal government’s funds be withdrawn immediately from the second Bank of the United States. When his new Treasury Secretary refused to issue the order, Jackson summarily fired him and found a new subordinate, future Justice of the Supreme Court Taney, who would carry out the order.

To members of his cabinet and to scholars since then, the president’s actions made no sense. Why risk financial chaos when the political goal of ending the bank’s charter had been achieved? The only answer people could come up with – it was been the unanimous scholarly explanation ever since – is that Jackson did not understand money and banking. In declaring and winning his war on the second Bank of the United States, Jackson was acting out the fantasies of a financial primitive who harked back to a completely mythical era when “hard” money was the only form and method of finance.

The difficulty with this explanation is that it does not fit the facts of Jackson’s own financial and political history. He made his fortune as a planter in Tennessee through the use of bank loans and futures; as a politician he had supported the chartering of private state banks. His only opposition had been to the creation of a Tennessee State Bank that would have the power to issue notes that would be legal tender. In his message vetoing Congress’ bill renewing the charter of the second Bank of the United States, Jackson was careful to explain that the U.S. Constitution acknowledges that both the states and the federal government have the authority to establish banks. In his opinion, what the Constitution did not allow was the establishment of an institution to be the sole recipient of the government’s tax collections.

The second Bank of the United States’ own paper had never been called into question because its own reserves of international money were never in doubt; it had the reliable deposits of specie from the Customs agents. The bank and the customs agents were even willing to accept the Bank’s own notes and bills of exchange in payment of Federal taxes, even though this was technically illegal. This was, in the view of Jackson’s opponents, the very fact that made the central bank so valuable. Its ability to print legal tender gave the second Bank of the United States the ability to manage the money supply.

For Jackson this was what made “the bank” a monster. Under the central banking structure the second Bank of the United States had the deepest pockets because it had monopoly control over the government’s own deposits. That gave the bank and its friends, both inside and outside of Congress, the ability to define financial prudence in a way that suited their interests first. When it chose, the bank could be liberal in its discounts to both foreign and domestic counter-parties who found themselves unable to clear their accounts. When it feared “excess” or disliked the people who were lending on terms other than those the bank approved, the bank could draw in hits discounts based solely on Mr. Biddle’s view of what was appropriate. In Tennessee and Washington D.C. Jackson had seen the extent to which the second Bank of the United States had been able to favor its own “pet” banks by allowing their notes and bills to receive favorable discounts, even as other banks and individuals’ IOUs were rejected out of hand.
Jackson was happy to have bankers decide which risks were good and which ones were not; that was the point of banking. Some farmers would borrow too much money and buy too much farmland; some bankers would be too willing to believe that the price of cotton would always go higher. Those speculations were a necessary part of enterprise. Americans' success would continue to come, in part, from disappointing the Adam Smiths of this world and stretching credit as far as it could go. But, the government could not be part of that risk-taking; and, most important of all, it could not set itself up as the owner of the monopoly casino where it alone, through its central bank, decided whose assets were entitled to be most favored. In Jackson's view, neither national commerce nor international exchange required a central bank of issue and deposit.

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