

## Unit 3; Period 4 BANKING REVIEW

1791–1811	<b>First Bank of the United States</b>
1811–1816	No central bank
1816–1836	<b>Second Bank of the United States</b>
1837–1862	Free Bank Era

### Pre-B.U.S.

In 1690, the **Massachusetts Bay Colony** became the first in the United States to issue paper money, but soon others began printing their own money as well. The demand for currency in the colonies was due to the scarcity of coins, which had been the primary means of trade. Colonies' paper currencies were used to pay for their expenses, as well as a means to lend money to the colonies' citizens. Paper money quickly became the primary means of exchange within each colony, and it even began to be used in financial transactions with other colonies. However, **some of the currencies were not redeemable in gold or silver, which caused them to depreciate.**

**The first attempt at a national currency was during the American Revolutionary war.** In 1775 the Continental Congress began issuing its own paper currency, calling their bills "**Continental**s". The Continentals were **backed only by future tax revenue**, and were used to help finance the Revolutionary War. As a result, the value of a Continental diminished quickly. The experiences lead the United States to be skeptical of unbacked currencies, which were not issued again until the Civil War.

### Creation of First and Second Central Bank

The first U.S. institution with central banking responsibilities including printing the new currency, dollars (gold, silver, and copper coins), was the **First Bank of the United States**, chartered by Congress and signed into law by President **George Washington** on February 25, **1791** at the urging of **Alexander Hamilton**. This was done despite strong opposition from **Thomas Jefferson** and **James Madison**, among numerous others. The charter was for twenty years and expired in 1811 under President Madison, because Congress refused to renew it.

The **U.S. Coinage Act of 1792**, consistent with the Constitution, provided for a **U.S. Mint**, which stamped silver and gold coins. One dollar was defined by statute as a specific weight of **gold**. The Act also invoked the death penalty for anyone found to be debasing money. President **George Washington** contributed his own silver for the initial coins minted. All silver was removed from coins and the death penalty ended by the **Coinage Act of 1965**.

In **1816**, however, **Madison** supported the revival of it in the form of the **Second Bank of the United States** as part of **Henry Clay's American System**. Years later, early renewal of the bank's charter became the primary issue in the reelection of President **Andrew Jackson** who was opposed to the central bank. After his second term began, he pulled the government's funds out of the bank. **Nicholas Biddle**, President of the **Second Bank of the United States**, responded by contracting the money supply to pressure Jackson to renew the bank's charter forcing the country into a recession, which the bank blamed on Jackson's policies. Interestingly, Jackson is the only President to completely pay off the **national debt**. The bank's **charter was not renewed** in **1836**.

### Free Banking Era

Without a central bank, American banking was dominated by private "**pet banks**" and "**wildcat**" banks. These were established with state charters and they issued their own currency. Without the regulation of the central bank, having many different currencies (most not backed by gold or silver) made commerce difficult. With westward expansion, banks extended too much currency to fuel speculation. The value of money was unstable. This led to **Andrew Jackson's Specie Circular (Coinage Act) in 1836**... outlawing paper money purchases of land... which led to bank runs and the **panic of 1837** and a 6 year economic depression. From 1837 to 1862, in the **Free Banking Era** there was no formal central bank. States issued charters. However, the **Van Buren** administration did create the **United States Treasury system in 1846**. It moved public funds from private banks to Treasury branches in an effort to stabilize the economy. However, there remained no national currency.

Explain the constitutional conflict over the creation of a B.U.S.

Which of the following political parties supported the B.U.S.:  
Federalists, Democratic-Republicans, National Republicans, Democrats, Whigs?

Who were the two greatest advocates of the B.U.S.?

Who were the two greatest opponents of the B.U.S.?