

Discussion on “The Life and Legacy of the
Second Bank of the United States”
by Peter Rousseau

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The views in this presentation are my own
and do not necessarily represent the position
of the Financial Conduct Authority.

This Paper

- ▶ The Second Bank and the Bank War are heavily researched topics in economic history.
- ▶ This paper contributes to the literature by:
 - ▶ Focusing on the last months prior to the Bank veto
 - ▶ Considering the Bank's legacy and long-run effects
- ▶ Main sources:
 - ▶ Private correspondence
 - ▶ Public government documents
- ▶ Positive view on dissolution of the bank since it led to:
 - ▶ An expansion of the banking system
 - ▶ A greater integration of capital markets
 - ▶ Eventually, a monetary union

1. Central bankers' political influence

- ▶ This paper provides further evidence of how central bankers may try to manipulate policy.
 - ▶ See, e.g., White (2010), Poast (2015), Morrison (2015).
- ▶ Biddle used all the bank's political and economic resources to stop the veto.
 - ▶ He paid generously for advertising in newspapers (McCrane, 1991).
 - ▶ Increased loans by 66% during the Bank War (Jackson, 1909).

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 - ▶ He paid generously for advertising in newspapers (McCrane, 1991).
 - ▶ Increased loans by 66% during the Bank War (Jackson, 1909).
- ▶ In the paper the author makes the claim that:

The legacy of the Second Bank showed that a central bank should be independent, but not excessively.

- ▶ Morrison (2015) considers that it was not corruption, but the bank's threatening power trajectory what led to its demise.
- ▶ The Bank had a large influence over both the public and private sectors.
 - ▶ It managed the government's debt.
 - ▶ It regulated the nation's smaller banks.
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- ▶ Perceived as dangerous for President Jackson's power.
- ▶ Food for thought: How independent we want central bankers to be?

2. The Bank's dissolution: good or bad?

- ▶ The paper takes a favorable view on Jackson's decision to veto the bank.
 - ▶ Positive effects in the long-run.
- ▶ After the Second Bank ended its tenure:
 - ▶ **Free Banking era (1836-1863)**: flawed payment system, bank failures and several bank panics.
 - ▶ **National Banking era (1864-1913)**: uniform currency created, but still 4 serious bank panics and numerous minor ones.
 - ▶ **Federal Reserve Act (1913)**: creation of the Fed.
- ▶ The succeeding 80 years were characterized by considerably financial instability.

What if...

- ▶ **Counterfactual scenario:** the charter had not been revoked and the Second Bank had survived (Bordo, 2012).
 - ▶ US may have adopted nationwide branch banking (as Canada did).
 - ▶ Monetary and financial instability could have been considerably less.
- ▶ Other possibilities...
 - ▶ The Bank could have learned to act as lender of last resort (as the Bank of England did).
 - ▶ Many central banks started as hybrids too. Could the Second Bank as US central bank evolve in a similar way as the others?

To sum up...