

# ESSAY 15

## McCulloch V. Maryland: An Analysis

A person's life is dictated by three overlapping environments: the personal, political, and economic environments. The personal environment is reactive; it responds to what's going on politically and economically. If the economy struggles, then people may go hungry. If the political environment struggles, then people may become oppressed. The political environment is the hardest to change effectively without recourse. If a revolution happens it's rarely sustainable. The economic environment, on the other hand, is maybe the easiest to change but the hardest to maintain. If the economy is over manipulated, it will find a way to rebel against control. With that, the legislation and judgments based on the economics of a state are the most important to the personal and political environment of a state. If economic resources are badly managed and famine arises, the personal and political environments will crumble. Similarly, a nation may easily change its economic environment but will find it difficult in maintaining the altered economic environment. Primary among economic management within the United States, however, was the creation of the Federal Reserve. While considered by some to be a detriment and others to a guiding light, the Federal Reserve has been without opposition, a majorly controversial but impactful part of the American government and economy. The mandate of this governmental economic entity was given in *McCulloch v. Maryland*. With it, the federal reserve answered to the federal government and was considered superior and unbound by the states.

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## McCulloch v. Maryland

The case began with the charter for the Second Bank of the United States. Being recently chartered after facing extensive opposition to not only itself, but to the First Bank of the United States, many states and groups were looking to dissolve or discredit the organization. To do this, the state of Maryland attempted to tax the bank into nonexistence. They, seeing that the bank was within their state, believed that they could tax the bank and treat it how they would a business in their locality. This turned into a larger issue when the Second Bank refused to pay such taxes. The Second Bank of the United States was taken to court on the state level and lost so they took it to the national level to the supreme court. On the supreme court, it was decided, unanimously, that it was within the powers of the federal government to create a centralized bank and being that it was a federal creation was not within the reach of state governments. Essentially, the case rejected the attempt of Maryland along with all states to supersede the federal government and the ability of the federal government to create a centralized US bank.

## Impact of McCulloch v. Maryland

The effect of the case was incredibly powerful and long-lasting. Even though the case involved the Second Bank of the United States, it supported the federal government's ability to create a central bank. Because of the case, not only did the government assume this power but they felt they could expand upon it by assuming a regulatory position over the economy as a necessary and proper function of maintaining a central bank. This expansion of power from a centralized entity that would hold debts to one of a monetary policy manipulator was the consequence of the government's approval of a central bank to do everything necessary and proper.

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The effects of the Federal Reserve have been incredibly important. In its management of the value of the US dollar through its monetary policy, it has depreciated the dollar incredibly as the money supply was \$7 billion in 1900 but in 2010, it was \$13,291 billion, a 1900% increase(Desjardins). Oddly, however, the average real family wage during this same hundred year time frame has almost doubled. In 1901, the average family wage was \$750, adjusted for inflation that would be approximately \$15,000-16,000 in 2000 (Friedman). Average wages across the country in 2000 were not in that range however, they were approximately \$36,000 (BLS). The existence of Federal Reserve and its policies defies the US economic belief of a purely Laissez-faire economy. At the same time the Federal reserve has operated to honor the laissez faire concept as much as possible only by changing interest rates by manipulation of the rates it charges and the amount of money in the money supply. However, without the federal reserve, the US couldn't have taken debt when it needed to during wartime or to bail out major US banks, which held about 60% of American assets, during the 2008 financial crisis (Jacobson).

The effects of this case are multifaceted. A major aspect of this case lies in that the power of taxation by a state is limited. A state, no matter what the federal organization is, cannot place taxes upon it. This new policy was part of the process that altered federalism within our nation from a system with shared power between the state governments and the federal government. This decision helped to further the system that favored federal supremacy over federal and state equality.

Also of paramount importance was essentially was what some people called the “blank check” given by this decision. It empowered the necessary and proper clause to be used in a flexible manner along with introduced ancillary implied powers. With the necessary and proper clause , it has expanded what seems to be all broad provisions. The most effective and applicable usage of

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the implied powers derived from the necessary and proper clause in conjunction with the commerce clause was in the creation of the New Deal during the Great Depression. The ability to use the constitution in a way such as that allowed for the Federal government to grow beyond what contemplated by the framers.

## The State's Case

The legal opposition to this case was limited solely to the plaintiff, the state of Maryland. The State saw this as a regular business and therefore under their umbrella of taxation. They believed they were the sovereign power as the states created the constitution. In that, they attempted to create a tax just for the federal bank within their state. They however really felt that this was an abuse of Federal power. They believed that the creation of a national bank was not within the boundaries of the constitution and wasn't necessary or proper. The opposition to this essential creation of implied powers and the national bank was the lack of textual evidence in the constitution to support the ability of government to take on powers such as these and to create a national bank. The opposition to a national bank took the position that our nation was founded on the laissez-faire model. A creation of a national bank that would regulate the economy was the very antithesis of an intervening government.

## The Federal Government's Case

\_\_\_\_\_The legal defendant believed that being part of the Federal government, they were above taxation from the states. The Second Bank believed that their creation and maintenance were

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necessary and proper per the Necessary and proper clause in Article 1 Section 8 of the Constitution as the responsibilities were given in the constitution but an entity wasn't created to manage said responsibilities. They held that implied powers existed because the constitution was a document that awarded responsibilities but not necessarily dealt with the execution of said responsibilities. They in a larger sense saw the creation of a national bank as necessary as it would allow for the US to take on and manage debt which would facilitate the country's economic growth and in times of war, its protection. Similarly, they saw the creation of a national bank pertinent to the regulation and centralization of the money supply. The supreme court sided with a national bank with the belief that the Federal government was superior to the state governments because they represented the people. John Marshall believed that the constitution was the framework for the government and therefore included powers to deal with the responsibilities allotted to it.

## Legacy

The changes created by this supreme court decision are incredible. Because of this decision, the federal reserve exists. Before it's existence and that of any other national banks, the national debt was just held by the government but there was no entity that held it. More importantly, however, the creation of the federal reserve and its predecessors created a centralized system of banking that made foreign relations and banking more centralized and cohesive. Without the federal reserve, the economy could possibly have been completely decimated by the 2008 financial crisis. The reason that the economy was able to stay afloat was solely the government intervention that took place from the federal reserve. They gave bailouts then underwent quantitative easing and in effect increased the money supply. Without a centralized banking entity to take measures such as that, the already terrible effects of the financial crisis would have been amplified and

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significantly longer lasting. A major effect of the federal reserve, however, is that since the money supply is manipulated, so is the value of the dollar. As the Federal Reserve pumps more money into the economy, there are more dollars and so the dollar is less rare and therefore worth less.

The effect of the Federal government being superior to state government is also very important. By the federal government being superior, the balance of power changed from sovereign states bounded by a central government to a federal government that held strong states in its domain. As a result, if the federal government disagrees with the actions of a state they may remove federal funding or to encourage said actions, provide aid. In recent times, this system has been questioned with the system of “new federalism” in which the state governments are empowered at the expense of the federal government. Without these provisions created by this decision, it is quite likely the system of federalism would have been more focused on the states.

The expansion of the necessary and proper clause in conjunction with the commerce clause allowed for an effective free range on Congress to do as it pleases. With this, it created the New Deal.

## Relevance and Importance

McCulloch v. Maryland is likely the most relevant and important supreme court decision overall. Being that the political environment of the United States is directly related and governed by the economic environment, the more economically important a supreme court decision is, the more politically important it is. McCulloch v. Maryland is quite literally the most economic supreme court decision as it defines what the world of banking looks like within the United States. With a laissez-faire economy, there is considerable fluctuations and changes that make the economic future unclear, a detriment to investor confidence. By creating a stabilizing force to the

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economy, it enhances the prospect the economy will manage, persist, and bounce back from any economic turmoil. While some may see the intervention of such an organization as fundamentally wrong and a symptom of a planned economy but in fact, it is part of a healthy free market economy. The intervention that the Federal Reserve undertook during the financial crisis led to an 8.9% increase in economic output from its pre-financial crisis peak levels. By contrast, the European Central Bank didn't undertake the dynamic reparations that Federal Reserve did with its manipulation of monetary policy and as a result, the European economy is .8% below its pre-crisis economic output levels (Bernake). *McCulloch v. Maryland* is the case that found the centralized banking institution to be constitutional.

While cases such as *Plessy v. Ferguson*, *Marbury v. Madison*, or *Miranda v. Arizona* among other landmark cases are vastly important and fundamental to our political and social environment, without the economics to hold the country afloat, the results of these cases are for naught. If the economic environment isn't working, then the social and political environments aren't in consideration. People care less about where they're going to school and the conditions therein when all they're thinking about is their next meal. This supreme court case, however, allowed for an entity to exist that is able to repair and prevent an economic crisis.

In its entirety, *McCulloch v. Maryland* protected an entity able to change the economic future of the nation. No other supreme court decision was so powerful and directly able to dictate the politics of a state. Everything political is economical and everything social is economical. By creating and protecting the national bank, the US economy can be safeguarded. With that, *McCulloch v. Maryland* is the most important and powerful supreme court decision and was simply, necessary and proper.

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