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Alexander Hamilton and the National Bank.

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Alexander Hamilton and the National Bank

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East Tennessee State University
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by
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ABSTRACT

Alexander Hamilton and the National Bank

by

Bradley T. Dimmitt

The purpose of this manuscript is to explain Alexander Hamilton’s idea that a national bank was essential for America’s survival. Three key ingredients, clarified through the use of letters and documents, are used to understand the importance of Hamilton’s objective: 1) Hamilton’s relationship with George Washington, discussed in chapter one; 2) James Madison’s and Thomas Jefferson’s arguments against Hamilton’s ideas, discussed in chapters two and three; and 3) Hamilton’s proposal for the bank and his opinion in favor of its constitutionality, including the idea that the necessary and proper clause expands the authority of government, discussed in chapter four.

The prosperity and stability America experienced after the national bank threw open its door is proof that Hamilton’s initiatives were needed. While James Madison is considered the Father of the Constitution, Hamilton is most definitely it foremost interpreter.
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CHAPTER 1
MR. WASHINGTON GOES TO NEW YORK

In February 1791, a day after reviewing Alexander Hamilton’s opinion on the constitutionality of the national bank, and despite some lingering doubts, Washington signed the Bank Bill into law. While James Madison is considered the Father of the Constitution, Hamilton, as Ron Chernow wrote, is its “foremost interpreter, starting with the Federalist and continuing with his treasury tenure, when he had to expound constitutional doctrines to accomplish goals.”

Hamilton was influenced by several leading politicians of the era, none more so, however, than George Washington. It can be argued that if Hamilton and Washington had not developed such a close relationship, Washington may have been persuaded to accept Madison’s view that the original holders should be compensated or Thomas Jefferson’s argument that the national bank was unconstitutional. Hamilton’s connection with Washington turned out to be his biggest asset. It is appropriate, therefore, before examining the necessity of the national bank, to recount the affiliation between Hamilton and Washington in order to understand why, in part, Hamilton was able to succeed in getting his bank plan passed.

It is interesting when reading through the letters of Hamilton and Washington in the early stages of the Revolution to recognize that many of the letters written by Hamilton echoed those written by his mentor. Both men consistently talked of national unity or, as Hamilton wrote to George Clinton in March 1778, “to preserve a national character.” As Richard Morris wrote, “in the years that followed that sense of nationalism was to be the most powerful intellectual bond

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between Hamilton and Washington.”³ In Hamilton’s Continentalist essays he expounded upon his ideas of national unity.

When Washington’s military conduct was being attacked by a political faction called the “Conway Cabal,” Hamilton was one of General Washington’s most ardent supporters despite Hamilton’s dissatisfaction when Washington refused his request for a combat command. It seems that Hamilton was willing to put “patriotism and knowledge of the country’s essential need for Washington” above his own disaffection.⁴ Hamilton did eventually receive his own command and by the end of the war the two had mended their ties. In a letter to Washington on March 24, 1783, Hamilton said, “I congratulate your Excellency on his happy conclusion of your labors.”⁵

Although the two statesmen wrote few letters to one another in the years after the Revolution, both agreed that the weakness of the Confederacy was a detriment to national unity and that a more centralized power was critical. When fears that Hamilton’s ideas expressed at the Constitutional Convention would lead to the same tyranny America had fought to break with, Washington wrote to Hamilton offering his encouragement. “The men who oppose a strong and energetic government are, in my opinion, narrow minded politicians [who reflect] local views.”⁶

As the newly elected president rode the two week long journey from his home in Mount Vernon to the nation’s capital in New York, George Washington waxed pessimistically about his


⁴ Morris, 111.


new assignment. During the Constitutional Convention Washington was able to sit by silently as the other delegates debated the structure and function of each governmental branch. As president, however, he was now the leading voice of the American nation. It is certainly true that his leadership qualities provided him with an advantage in leading the nation through its infancy and everyone including himself thought he was more than capable of completing the task. Many thought his presence alone would prevent the nation from splintering.

After the Constitution was ratified, Hamilton pleaded with Washington to accept the presidency. Broadus Mitchell wrote that Washington’s acceptance “would ensure in the eyes of all, at home and abroad, the most promising auspices.” Hamilton knew that Washington was the only person who could lead the nation at that point. In November 1788 Hamilton wrote Washington that “It is no compliment to say that no other man can sufficiently unite the public opinion or can give the requisite weight to the office in the commencement of Government.” It has been stated that Washington had the easiest election in American history. This was so in large part because he was not elected, as Joseph Ellis wrote, “for what he thought, but for who he was.” As Hamilton wrote on August 13, 1788, in a letter addressed to Washington,

“I take it for granted, Sir, you have concluded to comply with what will no doubt be the general call of your country in relation to the new government. You will permit me to say that it is indispensible you should lend yourself to its first operations—It is too little purpose to have introduced a system, if the weightiest influence is not given to its firm establishment, in the outset.”

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In a return letter, Washington articulated his reluctance in pursuing such an important position. After a long and taxing war, Washington’s body was beginning to feel its age. There was also the concept at the time that outward ambition for any public office was seen as dangerous. Hamilton, however, reiterated how important it was for Washington to accept this position. The convention was of little worth if the most important piece of the puzzle did not take his rightful place within the picture. “I am not sure that your refusal would not throw everything into confusion,” Hamilton wrote Washington, “I am sure that it would have the worst effect imaginable.” Hamilton knew just the right words to use to persuade Washington to accept the presidency.

On the other hand, Washington knew that if the nation struggled or eventually faltered, he would be forever held responsible for its undoing, a terrible burden for any man to live with. Hamilton warned Washington that if the government miscarried, “the blame will in all probability be laid on the system itself. And the framers of it will have to encounter the disrepute of having brought about a revolution without substituting anything that was worthy of the effort. They pulled down one utopia, it will be said, to build up another.” It was sincerely felt by everyone that Congress and the President, as the first members to take their seats at the head of government truly faced an exhausting struggle. On April 1, 1789, on the eve of his inauguration Washington wrote his beloved friend Henry Knox that

“For myself, the delay may be compared to a reprieve . . . that my movements to this chair of Gov. [are] accompanied by a feeling not unlike those of a culprit who is going to his place of execution: so unwilling am I, in the evening of my life . . . to quit a peaceful abode for an Ocean of difficulties, without that competency of political skill, abilities, and inclination which is necessary to manage the helm.”

Disregarding his apprehensions, Washington knew that America, if it held together, was destined for greatness. In his last *Circular to the States* in 1783, he emphasized the “enviable condition” the citizens of the United States were “blessed” with.\(^\text{14}\)

“They are, from this period to be considered as Actors on a most conspicuous Theater . . . they are not only surrounded with everything which can contribute to the completion of private and domestic enjoyment, but Heaven has crowned all its other blessings, by giving a fairer opportunity for political happiness, than any other nation has ever been favored with.”\(^\text{15}\)

On April 20 in the Senate Chamber at Federal Hall, Washington was officially sworn in as the first president of the United States. As he read his inaugural address, Washington pronounced that the new government would be held responsible for the success or failure of the new country and the reputations of everyone would be measured by the American people, “since the preservation of the sacred fire of liberty and the destiny of the republican model of government are justly considered, perhaps, as deeply, as finally, staked on the experiment entrusted to the hands of the American people.”\(^\text{16}\) He also acknowledged that because “The battle royal over the Constitution” had divided the nation to such a large extent, “America needed,” as Chernow wrote, “a first president of unimpeachable integrity who would embody the rich premise of the new republic.”\(^\text{17}\) With Washington as president, it was hoped stability would be provided for the new nation. Of all the challenges Washington faced, none was larger than convincing the American people he was not a monarch, and, thus, would not be tempted by

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\(^{17}\) Chernow, 270.
power. He was determined, however, to lend his last ounce of energy to ensure that the citizens of the new nation began to view themselves as Americans and that all foreign nations will look upon the United States with respect.\textsuperscript{18}

Although he made it a point to visit all thirteen states during the first year of his presidency, he spent most of his time, during the latter half of 1789 sifting through applications in an attempt to construct a cabinet. Six months after taking the oath of office, Washington requested and received the financial records of the old confederation government. As he thumbed through the mountain of paper, he quickly realized that he had inherited a massive debt, and that he was not the person who could straighten it all out. As Joseph Ellis wrote, “The records were filled with floating bond rates, complicated currency conversion tables, and guesswork revenue projections that, taken together, resembled an accountant’s worse nightmare.”\textsuperscript{19}

In July of 1789 Congress passed two revenue acts intended to generate revenue. The acts proved, however, to be of little significance. The problem was that the collection of these taxes was lackadaisical. With little money coming in and an enormous debt staring it in the face, Congress finally decided it had to create a series of executive departments, which it accomplished September 2, 1789. Throughout the process of choosing an executive department, Washington continually consulted Madison, who was instrumental in helping Washington select executive and judicial appointments. With the exception of the position of Post Master General, Washington selected four individuals whose brilliance played a significant role in shaping the infant nation: Henry Knox, Edmund Randolph, Alexander Hamilton, and Thomas Jefferson. He

\textsuperscript{18} Ellis, \textit{His Excellency}, 186.

\textsuperscript{19} Ellis, \textit{His Excellency}, 203.
was also blessed with the genius of Vice President John Adams. In June 1790 Washington wrote his Revolutionary compatriot Marquis de Lafayette expressing his satisfaction with the affairs of the United States. The newest members of the executive branch were “harmonizing extremely well together. I believe that these and the other appointments generally have given perfect satisfaction to the Public.”

With the appointment of these individuals, Washington had surrounding himself with some of the most intellectually gifted men of the era, and probably in American history—a dream team of sorts. It was his sincere hope that by appointing the brightest of the best, they would be able to put their differences aside and mold their talents together for the betterment of the nation. The two members who played the most prominent role within the new government were Alexander Hamilton and Thomas Jefferson. Jefferson became Secretary of State in February 1790 only after being persuaded by his good friend Madison. Jefferson first received a letter of inquiry from Madison asking whether he would be interested in accepting a role within Washington’s administration. In October of 1789 President Washington himself wrote Jefferson about his desire to have Jefferson be part of the administration.

“In the selection of characters to fill the important offices of Government of the United States, I was naturally led to contemplate the talents and disposition which I knew you possess . . . And without being able to consult your inclination . . . I was determined . . . to nominate you for the Department of State . . . But as grateful as your acceptance of this Commission would be to me, I am at the same time desirous to accommodate your wishes . . .”

In December 1789 Jefferson expressed to Washington his willingness to mold his talents around the president’s agenda. Jefferson, however, did express his fear of criticism by a “misinformed

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and misled” public that would possibly become dissatisfied with his performance. Therefore, he continued, since he shared a “degree of familiarity” with his present situation, and since the “change in government” in France could possibly procure “new advantages in commerce,” he preferred to stay where he was. If, however, Washington felt that transferring him to a different position was best for the country, “my [Jefferson’s] inclination must be of no obstacle . . . If it should be to remain at New York, my chief comfort will be to work under your eye. I shelter the authority of your name, and the wisdom of measures to be dictated by you, and implicitly executed by me.”

Washington had first approached Robert Morris about the Secretary of Treasury position in early September 1789. Morris was a logical choice given his experience with the colonies’ finances during the Revolution. Overall, however, he would have been a poor selection because of his ties with the old government and the fact that there were suspicions of corruption surrounding some of his business dealings. The economist Robert Wright suggested that, given these misgivings, Washington “sighed with relief” when he learned Morris had turned down the position. Upon turning down Washington’s request, Morris suggested that Hamilton fill the position. Hamilton was very much like Washington in the sense that he advocated an energetic government and fiscal reform. For Hamilton the appointment as Secretary of Treasury allowed


him to reach his personal ambition of creating, as Cerami wrote, the “financial machinery that would drive a dominating federal government.”

With the exception of Martha Washington, Washington’s relationship with Hamilton was unmatched. During the Revolution, Hamilton served as Washington’s aid-de-camp. Cerami wrote that “The brilliant immediacy of Hamilton’s responses to almost every situation made Washington regard him [Hamilton] as an equal, more than he did some of his leading generals.” At one point during the Constitutional Convention, Hamilton, in disgust, walked out of the proceedings. Washington pleaded with Hamilton to return, stating to Hamilton that the “crisis at hand required [his] presence.”

“I am sorry you went away. I wish you were back. The case is equally important and alarming, and no opposition under such circumstances should discourage exertions till the signature is fixed,” Washington wrote. As president, Washington often confided in Hamilton about the etiquette of the office of president, adopting most of Hamilton’s advice.

After the passage of the Judiciary Act in 1789 and the dismissal of the hotly debated Quaker petitions that advocated the abolition of slavery, Washington turned his attention to the “debt-burdened American economy.” He delegated the task of restructuring America’s finances to his energetic Secretary of Treasury. Hamilton studied various essays written by some of the


25 Cerami, 28.

26 Ellis, His Excellency, 178.


28 Ellis, His Excellency, 203.
brightest financiers of the era, in particular Pelatueh Webster’s “Dissertation on . . . the Office of a Financier-General” (1781), while also reexamining the history of the Bank of England for guidance. Finances, however, was not something Hamilton was just learning at this time. During the war, while intensely engrossed in the military affairs of the Continental Army, his thoughts often turned to subjects of foreign policy and finances. He often consulted Madison, William Bingham, and Stephen Higginson, the latter two being “business men of Philadelphia and Boston.”

It took Hamilton just three months to calculate the numbers and compile his notes, estimating that the total debt, which included foreign, domestic, and state, was around $80 million, with $4.5 million in interest tacked on annually. What emerged from Hamilton’s labor was a forty-thousand word document entitled: A Report on Public Credit, one of two reports that Hamilton would write. In the first Report, Hamilton proposed two mechanisms for solving America’s financial woes: funding the state and federal debts and repaying the foreign debts. His second Report proposed the creation a national bank to oversee all transactions. While historians and economists have concluded that Hamilton’s ideas made perfect sense, the two reports ignited a firestorm within Congress and Washington’s cabinet that nearly tore the country apart. As Mitchell wrote, “The question of assumption of the war obligations of the states, while pecuniary, was more political, for it aroused the jealousies of the states who did not want to see the importance of the national government magnified.”

This was because his plan, particularly the creation of a national bank, many feared would increase the power of the federal government beyond what was intended by the Constitution and could possibly result in the evaporation of

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29 Mitchell, 181-182.
30 Mitchell, 188.
state authority. This fear was expressed by those who opposed the Constitution during the ratification process as well. There were even a few members of the House of Representatives who found Hamilton’s report difficult to understand, and it was argued at the time that he made it difficult on purpose, believing that those who did not understand it would accept his ideas out of fear of being seen as incompetent.

Publicly Washington never mentioned whether he was an opponent or proponent of Hamilton’s financial system. In letters written by Washington and Hamilton to one another, the amalgamation of the debts or the creation of a national bank was never a topic of discussion. Privately Washington thought the plan to be sound and deeply regretted the opposition to it, particularly in his home state; in Virginia, the idea of a national bank was greeted with talk of secession. Upon Washington’s request, Jefferson, Madison, and Randolph, in-house counsel for the federal government, submitted arguments explaining the unconstitutionality of Hamilton’s bank plan. Washington, before making a decision, sent all three written arguments to Hamilton so he could manufacture a reply. What emerged from Hamilton’s office was a landmark brief that expounded upon the necessary and proper clause of the Constitution, which is considered the birth of implied powers. The difference of opinion between Jefferson and Hamilton created enormous fractures within the administration, which eventually contributed to Jefferson’s resignation at the end of 1793.

Washington worked “unceasingly” to reconcile the separation between Jefferson and Hamilton.31 Their political disagreements made such attempt pointless. Jefferson believed the federal government was limited to those powers specifically enumerated by the Constitution.

31 Lott, 1.
Hamilton was convinced the federal government was not restricted to those powers expressly declared by the Constitution. It was soon realized—to the chagrin of some and the exuberance of others—that “political peace between Jefferson and Hamilton was impossible despite Washington’s efforts.”

While he was president George Washington had many of his speeches, state papers, and proclamations written by Hamilton. The ideas of both, while conflicting at times, meshed very well together. As Morris wrote, “In some cases they were a vehicle for ideas that originated with Hamilton; in numerous others they were a literary rephrasing of Washington’s own thoughts.” There is, of course, no better example of this “literary partnership” then Washington’s Farewell Address, which, according to Morris, “exemplifies the degree of collaboration and agreement” between the statesmen. To be sure, without the trust the two men had for each other, the policies of Hamilton would have never been instituted.

Hindsight, with its 20/20 vision, offers an enormous advantage. It is easy, some two hundred years later, to conclude that the bank plan was essential to the survival of the nation. There were, however, many in early American society who felt that the bank plan was creating a dangerous precedent. While the Constitution created three equal branches, powerful enough to check the others so no branch would become dominate, the delegates sincerely felt that, because the House of Representatives was elected by the people and, therefore, represented the interests of the people, it would provide a check on the executive. Hamilton’s interpretation of the

32 Lott, 1.
33 Morris, 114.
34 Morris, 114.
necessary and proper clause, it was believed, would effectively destroy such a check and shift the advantage to the executive branch, creating a monarchical system that everyone feared.

Through hindsight, it can be seen that this was not the case. America had a president in Washington who feared power and who surrounded himself with individuals with different opinions about the role of the executive, but who believed in the system they helped to create, and who accepted the position that Hamilton’s plan, although potentially dangerous, was essential to America’s survival.

The goal of this composition is to review Hamilton’s argument concerning a national bank and to illustrate his conviction that without the bank America would have been unable to persevere let alone grow or improve itself. It was the nucleus of America’s financial system. The other elements of Hamilton’s agenda were extricable linked to a national bank. Madison argued that state controlled banks were sufficient and failed to support Hamilton’s plan. As it will be seen, America under the Articles of Confederation proved that the states were not capable of handling such an enormous responsibility. With Hamilton’s guidance and with federal control, the Bank of the United States became a resounding success and America prospered.
CHAPTER 2

THE DEBATE OVER ASSUMPTION

Alexander Hamilton probably imagined that his Report on Public Credit and Further Provision Necessary for Establishing Public Credit would raise the ire of many members of Congress. He probably did not imagine, however, that the two reports would create the outcry of opposition that they did. While chapter two introduces Hamilton’s assumption bill through his own words, its focus is on Madison’s rebuttal and counter-proposal. Chapter three examines Jefferson’s opinion against the constitutionality of the national bank. Both are critical to understanding why the bank plan was so important to America’s survival because if the results had turned out differently, and Madison’s proposal and Jefferson’s opinion had been accepted, the economic growth America experienced probably would not have occurred.

Hamilton’s plan was to create a vigorous central government. Days after taking office, Hamilton reorganized the customs service, since customs duties were America’s main source of revenue. When custom officers reported their figures to the Secretary of the Treasury, Hamilton was so alarmed by the low numbers, which indicated a high level of smuggling, that he hinted to friends about forming a company of guard boats as a way to enforce compliance. If Hamilton had followed through with his plan according to Ron Chernow, the United States Coast Guard would have been created much earlier than it was.\footnote{Chernow, 295.} Hamilton was also instrumental in
constructing an American/British trading alliance, possibly making him “the administration’s most influential figure on foreign policy.”

Reorganizing America’s finances was Hamilton’s top priority, and the most critical question was what should be done about the enormous debt. Several proposals for settling the debts of the states and the federal government had been debated by the Confederation Congress, all different in one aspect or another. In 1787 the Congress finally agreed on an ordinance that widened the “latitude to claims for credit against the Union.” Samuel Otis, a member of the Continental Congress from 1788 to 1789, wrote that he had on occasion contemplated federal assumption and thought that it would surely happen. In effect, the ordinance allowed for payments to be made with species not sanctioned by the Confederation Congress. Upon the ordinances passage, Madison wrote to Jefferson that “The settlement of the Public accounts has long been pursued in various shapes and with little prospect of success. The idea which has long been urged by some of us, seems now to be seriously embraced.” The problem, according to Harold Syrett, was that if it had been largely ignored, the ordinance would have increased the amount of the debt by $80 to $90 million. In addition, the ordinance failed to settle the problem of who was to pay what for the costs of the war. It had also been debated during the Constitutional Convention and during ratification. During the debates, it was supported by some delegates and looked at with disdain by others. The North Carolina ratifying convention proposed a Constitutional amendment “prohibiting the Federal assumption of state debts or

36 Chernow, 295.


intervening in state provisions of them.” 39 With the debt growing ever larger, the first Congress urged Hamilton to report on ways to solve the dilemma. What developed from Hamilton’s desk was a series of recommendations followed by a storm of controversy.

Hamilton’s two reports on public credit are a summary of America’s financial burdens and a series of recommendations to effectively deal with the enormous debt. Most of the debt incurred by the states and the Confederation Congress was owed to “domestic creditors” who received IOUs for helping finance the Revolution.40 To everyone, particularly Hamilton, it was paramount that the new nation pay back what it owed so that its ability to borrow could be restored. In its simplest terms, Hamilton’s first Report on Public Credit recommended that the federal government “assume responsibility” for all debts incurred during the Revolution, and that it repay the debt to current holders at “full face-value.” 41 His second Report recommended using the national debt to establish a national bank to oversee federal transactions, the collection of taxes, and the revival of the economy through loans.

Scouring through the pages of English history, Hamilton noticed that in the 1690s England had used its public credit to build up its Royal Navy, finance wars, and maintain its commercial empire. It established the Bank of England to oversee the collection of excise taxes and issue government bonds to grow its economy, since the bonds could be used as collateral for future loans. Great Britain, Hamilton reasoned, was the key to America’s financial success. Not

39Syrett, “Introductory Note,” 58.


41Banning, 309.
only did Hamilton wish to use Britain’s financial system as a model, but he was insistent on establishing a friendly connection with British ministers to ensure the success of his plan. Britain, Hamilton contended, could be an asset to or if a confrontation arose a hindrance to America’s well-being. Contrary to the opinions of many of his colleagues, Hamilton did not intend to reconstruct America in the image of Britain, as one historian wrote, his “objective was to promote American prosperity and self-sufficiency and make the country ultimately less reliant on British capital.”

His Report began by stating that the debt incurred during the Revolution was the “price of liberty.” The Confederation Congress did not have the revenue to finance the war, since it was not empowered to levy taxes, and the states refused to tax their citizens—borrowing money from individuals and foreign nations was the only solution. Honoring these debts was imperative to America’s survival, for it would build trust with future leaders, allowing America to gain creditability with European powers. Unfortunately, a large amount of the debt had not been paid—in large part because some states found it inconvenient to honor their commitments. “There is indeed reason to regret that it [the obligation to pay back the debt] has not hitherto been kept,” Hamilton wrote, “that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation, or non-compliance.”

To ensure the continuation of the new nation, the government must be able to borrow money at affordable interest rates. “States, like individuals,” Hamilton continued, “who observe their engagements are respected and

42 Chernow, 296.


trusted, while the reverse is the fate of those who pursue an opposite conduct. Every breach of the public engagements, whether from choice or necessity, is in different degrees hurtful to public credit.”

To extinguish the debt, both interest and principal, Hamilton proposed a plan of setting aside revenue in a sinking fund at regular intervals throughout the fiscal year.

Viewed through Hamilton’s eyes, this assumption made perfect sense. On the one hand, assumption of the debt would put all creditors on equal footing with one another, since everyone would have the “same interest,” as Hamilton wrote. It would also, as Lance Banning concluded, “counterbalance . . . the local loyalties that Hamilton had long regarded as the greatest dangers to the Union.” On the other hand, his funding program would energize manufacturing and commerce since creditors could use the interest paid to them to reinvest in the economy.

The amalgamation of the national debt was not the most controversial aspect of Hamilton’s Report. The section that caused the most disagreement concerned the IOUs given to citizens who helped fund the war and soldiers or their families who gave their blood for years without the certainty of pay, all for the cause of independence. Should the original holders, those who had bought the bonds during the war with the expectation of being paid back when it was over, be tracked down and paid back, or should the current holders pocket all the rewards? As one author wrote, Hamilton’s answer to these questions set the tone for America’s future financial markets. “To establish the concept of ‘security of transfer,’ Hamilton was willingly, if necessary, to reward mercenary scoundrels and penalize patriotic citizens,” by allowing the

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47 Banning, 311.
transfer of the bonds to stand.\textsuperscript{48} To Hamilton’s understanding, the original holders had willingly sold their bonds, receiving cash in return, while the current owners risked their money and should be rewarded.

Another issue Hamilton addressed was the consolidation of the state, national, and foreign debt into one large federal debt. In Hamilton’s view consolidation was important for several reasons. For one, it was more efficient. Instead of having several small, state operated plans, there would be one “overarching scheme.”\textsuperscript{49} This would give bond holders a stake in the federal government, shifting their allegiance away from the state governments. In addition, amalgamation would prevent the state governments from competing against the federal government for revenue.

Third, once the debts were consolidated, the question of interest rates owed on the IOUs and the national debts surfaced. After much thought, Hamilton proposed that the foreign debt be paid at the original four to five percent rate, while creditors who were owed IOUs be given the choice of either receiving part of the payback at the original six percent rate and a fixed number of acres of western land, or receive the payback at a much lower interest rate that would be stretched over a number of years. To pay back the owners of the bonds, Hamilton suggested that Congress tax wine and spirits, teas, and coffee. He wrote: “That the articles which have been enumerated, will, better than most others, bear high duties, can hardly be a question. They are all of them, in reality—luxuries—the greatest part of them foreign luxuries; some of them, in the excess in which they are used, pernicious luxuries.”\textsuperscript{50} In addition, the federal government would

\textsuperscript{48} Chernow, 298.

\textsuperscript{49} Chernow, 299.

\textsuperscript{50} Hamilton, “Report,” 99.
tax the sales of carriages and playing cards and anything sold at an auction, while also taxing imported items, such as spices, sugar, molasses, and salts. Hamilton estimated that the revenue generated from the taxes would trim the national debt by $1.04 million. Not only did Hamilton believe that a tax on these articles could yield enormous revenue, but by taxing such extravagances or pernicious luxuries, with their morally decaying effects, Hamilton thought that consumption could possibly decrease. “The consumption of ardent spirits particularly, no doubt very much on the account of their cheapness, is carried to an extreme . . . is truly regretted . . . a decrease of the consumption of these articles, the effect would be, in every respect.”

He doubted, however, that man would be able to detach himself because such habits “are not easily alienated.” The idea of taxing luxuries of these sorts because they are believed to be morally deteriorating was also proposed by Morris. In a letter addressed to Washington, Morris wrote, “It may be boldly affirmed, that no inconvenience can arise from laying a tax on the use of ardent spirits. These have always been equally prejudicial to the constitution and morals of the people.” Those who opposed Hamilton’s Report, disapproved of it for several reasons including the argument that taxation would put an undue burden on the public and saddle the economy; the sale of western lands would be much more feasible.

Finally, Hamilton warned that a well-funded debt should not be perpetual. While, on the one hand, in order for America to improve and grow, Hamilton believed it had to be able to borrow money. The United States did not have the resources to make the necessary

advancements that were required. In addition, foreign entities that were willing to lend money would have an interest in America’s survival, and, if the national government paid the debt in a timely manner under the conditions stated, the new nation would gain credibility along the way. On the other hand, he argued, the debt had to be eventually extinguished. In one of the important passages of the Report, Hamilton wrote, “that he ardently wishes to see it incorporated, as a fundamental maxim, in the system of public credit of the United States, that the creation of the debt be accompanied with the means of extinguishment. This he regards as the true secret for rendering public credit immortal.”

Hamilton filed his Report immediately after completing it January 9, 1790. Once filed, a debate broke out in Congress over whether the document should be delivered by Hamilton himself or read out loud by a second party. The fear of executive encroachment upon legislative affairs led Congress to require the Report to be read by someone else. It was reasoned that the Constitution explicitly separates the branches of government so that it is difficult for one branch to influence another, or so that one branch does not engulf another. The fear was that by allowing Hamilton, a member of the executive branch, to read the document himself, a precedent would be established that could allow the executive branch a voice in legislative debates.

The debate over Hamilton’s Report took several directions. Opponents immediately declared Hamilton’s plan as too lengthy. “It was so lengthy,” Chernow wrote, “that, by the end, many representatives sat there in stupefied silence.” Some also argued that it was too complex, or cried that it was moving things too fast, on too many fronts. Others stated the plan resembled

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56 Chernow, 302.
too much the financial system of Britain. Still others feared the supporters of the plan, especially those from New York, were dabbling in government securities in anticipation of its passage. During this time it was believed by many within Congress that a group of stock-jobbers, “wealthy dealers in securities,” were intruding upon the legislative branch, asking various Congressmen to divulge any information about Hamilton’s intentions. Even one of Hamilton’s closest friends, Henry Lee, could not hold back his excitement, inquiring to Hamilton about information in the Report. This particular argument caught the attention of the President, who questioned Hamilton about the matter. In his defense, Hamilton assured the President that, “As far as I know there is not a single member of the legislature who can be properly called a stock-jobber or a paper dealer.” Even if some members were engaged in such activity, Hamilton continued, there is nothing inappropriate about becoming proprietors in the funds of the country. Moreover, certain members of Congress venomously contended that the plan was a device to tip the scales of power from the people’s branch to the executive. Finally, opponents pointed to the fact that southern farmers, because of their ignorance of finances, were being taken advantage of by devilish northern merchants who had swarmed to the South—many even before the Report had been filed—to buy up southern IOUs in order to make a substantial profit.

On February 8, 1790, the debate over Hamilton’s Report on Public Credit began. For a whole week prior to the arguments, Hamilton lobbied various members of Congress trying to secure votes. Some members who opposed Hamilton’s proposal viewed his efforts as a violation

57 Chernow, 302.
58 Hamilton to George Washington, 18 August 1792, Papers of Alexander Hamilton Vol. XII, 251.
59 Chernow, 302.
of America’s system of government. Initially, the *Report* was quickly sent to the Committee of the Whole who, after narrowly adopting Hamilton plan, sent it back to the House for consideration. When time came for the House to vote, however, the momentum towards acceptance fell apart. Quakers, for example, had re-petitioned the end to the importation of slavery. Their petition riled southerners who already had a fear that Hamilton’s plan could possibly give the government power to accomplish just that. In addition, states that were heavily indebted threatened civil war and succession if the plan was affirmed.

The debate over funding and assumption brought unfortunate consequences for Hamilton. Not only did he raise the ire of southern planters, he lost the support of his most trusted colleague. One member of the House of Representatives that Hamilton expected to support his *Report* was his Federalist colleague James Madison. In the Federalist Papers, Hamilton, Madison, and John Jay argued that the biggest threat to liberty was overbearing state governments. Now, however, Madison feared that the government he had helped to create was becoming too powerful for America’s good. One historian debated whether Madison was prodded by Jefferson to abandon his nationalist views. In any event, Hamilton now faced a new foe who was just as talented as him.

In his book *Sacred Fire of Liberty*, Lance Banning argued that while students of Madison like to view him as a proponent of expansive federal power because in 1781 Madison conducted a campaign to expand federal power, this idea is largely fiction. Banning contended that Hamilton and Madison were polar opposites when it came to their ideas about how to set the new

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60 Chernow, 304.

61 Mitchell, 190.
government on a solid foundation. He wrote that “Although he [Madison] plainly hoped that national prosperity and strength would benefit all segments of the population, his immediate concern was with the state [of Virginia].” In his “Motion of Impost,” presented February 3, 1781, Madison recommended, as “indispensable necessary,” that the Confederation Congress be granted the power to institute a 5% tax on foreign imports, while vesting Congress with the authority to collect the revenue and use it towards its debt. Banning noted that Madison was not opposed to the idea of granting Congress the power to collect taxes, nor was Madison opposed to the idea that the taxes could be collected by congressional appointees and used to restore the financial credit of the United States. In fact, Madison wrote that collection of the revenue should be given to the “offices which shall be appointed by Congress to collect the said impost,” after being awarded with “all the legal authority necessary to the execution of this duty.” Instead, Banning argued that Madison discouraged the granting of congressional power to impose taxes or use the revenue beyond the repayment of the debt. As Banning concluded, while Madison supported the idea of taxing certain items and collecting and distributing the revenue, he was opposed to expanding “congressional authority as far as many of his fellows would have liked.”

Banning also downplayed the idea that Madison was in any way, shape, or form a nationalist. He wrote that although Madison was in favor of strengthening the Confederation government’s power during the latter part of the Revolution, and although he argued for a federal

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62 Banning, 315.


64 Madison, "Impost," 304.

65 Banning, 20.
government strong enough to combat the states, his aims should not be construed as a nationalistic thrust towards an all-powerful government. When presenting his argument supporting an amendment to the Articles of Confederation granting Congress the power to force delinquent states to oblige their federal duties, Banning stressed, Madison’s intent was to coerce the states to help with the war effort not to increase federal powers. He feared that invoking the doctrine of implied powers would potentially evaporate the limitations and boundaries imposed on government.\(^{66}\)

Banning’s claim that Madison’s nationalistic intentions were fiction can be supported by letters he wrote in the 1820s. After his presidential duties had concluded and he retired to his home in Montpellier, Madison wrote John Tyler in 1823 and Robert Garnett in 1824 insisting that his nationalist views during the Constitutional Convention were meant to distinguish between a government whose authority rested on the consent of the state and a government whose authority should rest upon the consent of the people. His views, in Banning’s mind, were not intended to give the federal government unlimited powers to construct and institute laws and corporations not explicitly granted by the people through the Constitution.\(^{67}\)

While Banning’s assessment of Madison is partly accurate, it does not reveal the whole story. It can be argued that Madison did, in fact, do an about-face and that his turnaround was due to the fact that under Hamilton’s financial system—federal assumption of the debt and the creation of a national bank—the planter classes of the South, especially Virginia, realized they were no longer America’s political elite. As Ellis wrote, “Hamilton and his banking cronies thus

\(^{66}\) Banning, 21.

\(^{67}\) Banning, 21.
became the personification of the reasons for Virginia’s economic decline.” It did not help that many Virginia planters did not understand the complexities of accounting procedures, which left many planters, to their surprise, facing bankruptcy.

Three days after the debate commenced, on February 11, 1790, Madison rose from his seat and began his speech attacking the whole scheme. While Madison acknowledged that the federal government was deeply indebted to its citizens and that “No logic, no magic, in my opinion, can diminish the force of the obligation” the government owed to its creditors, the question was: to whom should the obligation extend? Madison supported the idea of rewarding the current bond holders, but he also thought the original bond holders should receive their fair share. Madison strongly believed that the new nation had done a great disservice to those who fought for its existence by not taking the initiative of repaying them once the war had concluded. “The value stipulated and expected is not satisfied by the steps taken by the government,” Madison stated. He viewed the original holders, mostly country folk, as the most patriotic of citizens, who were taken advantage of by speculators because of their desperate situation.

In Madison’s view, according to Chernow, these patriotic citizens did not “surrender [their] faith in government . . . but had merely sold [their bonds] in desperation.” He saw these country folk as hopeless victims down on their luck. “Madison’s arguments had a strong sentimental appeal to patriotic veterans,” Ron Chernow wrote, “while Hamilton’s contained a

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71 Chernow, 305.
core of hardheaded practicality.”72 Now, after selling their bonds for a fifth or an eighth of their value, these country folk were expected to pay taxes to fulfill the federal government’s obligation. In other words, these revolutionary soldiers were not only being forced to pay back in the form of taxes the scant amount they had received for their bonds but an additional amount on top of that. Since the value of the bonds had climbed dramatically since the conclusion of the Revolution, Madison was against the idea of rewarding those whom he felt were undeserving, most notably the speculators who bought the bonds from widows, orphans, and soldiers and were now reaping huge profits. To Madison this “would be fatal to the proposed establishment of public credit; it would moreover punish those who had put their trust in the public promises and resources. To make the other class the sole victims was an idea at which human nature recoiled.”73 The only solution, Madison concluded, was to repay the secondary holders the highest amount the market will allow and then “let the residue belong to the original suffers. This will not be perfect justice, but it will do more real justice, and perform more to the public faith, than any other expedient proposed.”74 “The original holders,” Madison continued, “will not be fully indemnified; but they will receive, from their country, a tribute due to their merits, which, if it does not entirely heal their wounds, will assuage the pain of them.”75 Madison’s idea, it has been argued, would have giving the United States the ability to: 1) interfere in business transactions of the past, changing them if they felt the need; and 2) change the distribution of profits as they saw fit. “It was little wonder,” Cerami wrote, “that Washington . . . supported

72 Chernow, 305.


Hamilton’s position and was disturbed by Madison’s apparent departure from the logic that Washington had always found in his views.”\textsuperscript{76}

This was the foremost contention between Hamilton and Madison—the unwillingness to repay the original holders, who had sold their bonds at a much lower price in order to make ends meet. Madison wanted the original holders “to receive a substantial profit” for their paper.\textsuperscript{77} Hamilton believed that the original bond holders were simply out of luck. He argued that the speculators were not the villains. The real culprit was an anemic government unable to pay back what it owed. Madison condemned the European financial system that Hamilton was trying to model, particularly Britain’s. He felt that America should avoid imitating it at all costs. As such, he strongly felt that Hamilton’s idea of funding the debt was a grave mistake that would transfer wealth from the people to a select few. In a letter to Henry Lee, Madison wrote, “I go on the principle that a Public Debt is a Public Curse and in a Rep. Govt. a greater than any other.”\textsuperscript{78} Madison did, however, state earlier in his letter that with a few modifications, assumption would “be favorable to the pecuniary interests of Virginia.”\textsuperscript{79} The select few, in Madison’s view, resided in the Northeast. In a letter to Edmund Pendleton, Madison expressed his dissatisfaction

\textsuperscript{76} Cerami, 292.

\textsuperscript{77} Cerami, 291.

\textsuperscript{78} Madison to Henry Lee, April 13, 1790, \textit{The Papers of James Madison} Vol.13, 148.

\textsuperscript{79} Madison to Henry Lee, April 13, 1790, \textit{The Papers of James Madison} Vol 13, 148.
with those “who have no particular merits towards their country . . . gaining 7 to 8 times as much as they advance.”\textsuperscript{80}

Those who had originally supported Madison were shocked at what the Virginia Representative was proposing. To many of Madison’s colleagues, not only was the plan absolutely unworkable, but would cost the government $1.6 million more than Hamilton’s assumption plan. Madison acknowledged that his arrangement would increase “the unavoidable weight and duration of the burdens to be imposed,” but would bring honor to the nation because it “compelled the government to pay the full amount that it had promised.”\textsuperscript{81} Just as Hamilton’s proposal had created a firestorm of discontent, so did Madison’s proposal create an outcry of injustice. Many within the House stepped forward, arguing vehemently that the extra burden would have “devastating consequences” for the new nation.\textsuperscript{82} In addition, as Representative Theodore Sedgwick pointed out, it was wholly unfair to the secondary holders because Madison’s plan would “strip one class if citizens who have acquired property by the known and established rules of law, under the specious pretense of doing justice to another.”\textsuperscript{83}


\textsuperscript{81} Madison, “Discrimination,” 38.

\textsuperscript{82} Banning, 131.

\textsuperscript{83} Annals of Congress, 1st. Congress, 2\textsuperscript{nd} Session February 22, 1790, 1353-1354.
Madison disagreed with Sedgwick’s assessment, considering the government fully responsible, as Banning wrote, “for the predicament of its disbanded soldiers.” It was difficult for Madison to envision a government so uncaring. As if to speak directly to Hamilton, on February 18, 1790, Madison argued, “He must renounce every sentiment he has hitherto cherished, before his compliance could admit that America ought to erect the monuments of her gratitude, not to those who saved her liberties, but to those who had enriched themselves in her funds.”

Ironically, the debate over Madison’s motion, which lasted two weeks, allowed speculators to buy up additional bonds. As historian Alexander McDonald wrote, “Before he was through, Madison would put more profits into the hands of speculators than Hamilton could have done by inviting them to help themselves to the Treasury.”

On February 20 the House soundly defeated Madison’s proposal by a vote of 36 to 13. To Madison’s, and probably Hamilton’s dismay, none of the thirteen vote against came from Virginia. Banning even admitted that “Hamilton’s idea was better calculated than [Madison’s] to foster prosperity and to promote the nations long term interest . . . it is crucial to acknowledge that, for Madison, prosperity and rapid economic growth were not the only—not indeed the most important—points to be considered.” After Madison’s funding plan was defeated, Congress diverged from the issues presented in the Report and turned their attention to the ominous issue of slavery and other matters.

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84 Banning, 131.


87 Banning, 316.
One of the issues most vexing for Congress was the assumption question. In order to determine whether a state would receive a refund or owe the federal government, the expenses incurred by the Revolution, the percentage of debt retired, and how much of the debt each state had paid had to be figured. This process raised eyebrows across the new nation. Assumption split the cohesive political environment of America in two separating the states into two distinct groups: those who would benefit from it and those who felt that it was an injustice.

On the one hand, states that were shouldering a heavy war debt welcomed Hamilton’s assumption plan, fearing that their own attempts to relieve it would bring about tax rebellions because of the increased burden on their citizens, as had happened in Massachusetts. On the other hand, states that had made great progress in relieving their debt objected to the plan because they felt they would be compelled to pay their debt twice. Likewise, arguments raged about whether some debts should be assumed while others should not. Some states argued that, as Mitchell Broadus wrote, only “debts above a state’s proportion should be assumed, but this was discarded.”\(^{88}\) The state leaders felt that by assuming the entire debt, the national economy would buckle under the weight. Although Madison doubted the merits of assumption, he clearly understood that if the state debts were not assumed, dissolution was a very real possibility. It must be remembered that Madison’s support for discrimination was meant to sooth his heart more than anything else. Like any politician, he was weary of opposing a plan that would anger is constituents, especially if they were famers.

Some states such as Massachusetts and South Carolina had accumulated large debts and were in support of Hamilton’s plan. Other states, most notably Virginia, had retired most of their

\(^{88}\) Mitchell, 192.
debt and were avidly opposed. Advocates argued that, since the war was a collective effort, the debts should be consolidated to ensure rationality and lessen the blow of impending conflicts. Opponents urged for the plan to be reconsidered in order to make it fairer to those states that had taken it upon themselves to pay off their debts. Madison introduced a measure that would require the federal government to assume the debts as they stood in 1783. As Banning wrote, his plan would be “fairer to those states whose efforts had been greatest.”

When the Report was first introduced by Hamilton, fairness to the original holders was really the only obstacle preventing Madison from voting in favor of Hamilton’s proposal, but with each passing day, Madison resisted the plan more and more. Congress returned to Hamilton’s Report in March. By this time the southern bloc was even more determined to defeat Hamilton’s plan. If federal power was strengthened, which southerners feared would happen with the passage of Hamilton’s design, the federal government could possibly sometime in the future decide to intervene in the institution of slavery. The southern faction was determined to prevent the plan from succeeding at all costs, including but not limited to, personal attacks on Hamilton’s character.

In addition, other members of Congress argued that the respective governments should repudiate their debts, Hamilton argued against such a proposal in the Report stating, “States, like individuals, who observe their engagements are respected and trusted, while the reverse is the fate of those who pursue an opposite conduct.” If the state and federal governments repudiated their debts, Hamilton continued, they would be unable to borrow money in the future, which

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89 Banning, 318.

would be devastating if money was needed to defend the citizenry from foreign invasion or domestic insurrection. “Loans, in times of public danger, especially from foreign war, are . . . an indispensable resource, even to the wealthiest of countries.”91 Finally, Hamilton wanted the $40.4 million worth of IOUs and other state obligations distributed during the Revolution to be paid with back interest.

On April 26, 1790, the House defeated the funding bill by a vote of 32 to 18. The Senate received the funding bill in June minus the provision for assumption. Luckily for Hamilton, the Senate had a “bare majority” that ensured that the assumption provision would be reinserted, only if, however, a decision on the location of the seat of government was established.92 The proposal for relocating the seat of government, much like assumption, had engulfed the Senate in bitter conflict. As Madison wrote in a letter to fellow Virginian James Monroe, “The provision for the public debt has been suspended for sometime in the Senate by the question relating to the seat of Government . . . but I am persuaded it will be awakened on the first dawn of a favorable opportunity. It seems, indeed, as if the friends of the measure were determined to risk everything rather than suffer [and] finally to fail.”93

Distraught over the idea that his assumption bill was on the verge of dying, Hamilton approached Jefferson, asking him to convince his southern colleagues that assumption was an indispensable necessity. Recognizing that the bill had greatly divided the nation, Jefferson invited Hamilton and Madison over for dinner, and in June of 1790 they met at Jefferson quarters

92 Banning, 320.
on 57 Maiden Lane in New York City. The social gathering that ensued has become famously known as the Dinner-Party.

In short, the Dinner-Table bargain was a deal whereby Madison agreed not to oppose Hamilton’s assumption plan. The main ingredient in the deal, however, involved the location of the national capital. The capital had moved from New York back to Philadelphia in 1790, but Virginians wanted the new capital nearer to them in the South. During the dinner-party, Hamilton agreed to provide northern support for placing the new capital in the South in exchange for Virginia’s votes for the assumption bill. The bargain called for the construction of the new capital on the banks of the Potomac River, which divided Virginia and Maryland, on land to be selected by Washington himself. The new government would move there by the beginning of the new century, after a ten-year residence in Philadelphia.

Funding and Assumption, however, laid the foundation for the development of political parties, the very “factions,” as Madison had called them in the Federalist Papers, that the founding fathers hoped to avoid. Madison wrote that “By a faction I understand a number of citizens . . . who are united . . . and adverse to the rights of other citizens, or to the permanent and aggregate interests of the community.” In the opinion of Cerami, the conflict divided the nation and solidified the establishment of two distinct political parties. The mercantile New Englanders were avid Federalists, with “Hamilton’s as the most forceful man of the party,” while

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96 James Madison, “Federalist 10,” 123.
the agrarian south and west were staunch Republicans who considered themselves “true believers in a republican government.”97

97 Cerami, 306.
CHAPTER 3

JEFFERSON’S OPINION CONCERNING THE NATIONAL BANK

With a successful beginning to his funding system, Hamilton was at the pinnacle of his popularity among merchants and individuals of wealth and property. As Bowers wrote, “He was acclaimed the savior of the State.” 98 Madison, despite reservations about Hamilton’s funding system, even continued not only to defend Hamilton’s abilities as Secretary of Treasury but refused to criticize Hamilton’s intentions or condemn his proposal on the whole. That was until Hamilton proposed the creation of the national bank.

From March to December of 1790, Hamilton began to prepare his second Report on Public Credit. The introduction and debate over the national debt was only one-half of Hamilton’s financial objective. The other half, as reported in the second Report, concerned the establishment of a national bank. While Madison had opposed only certain parts of Hamilton’s proposal for funding the national debt, with the help of the Secretary of State, the two statesmen were able to somewhat work their differences out and reach a compromise. Now, however, like two tectonic plates colliding with each other, the idea of compromise was lost. This went doubly true for the relationship between Jefferson and Hamilton.

Throughout the entire debate over assumption, Jefferson, the head of the Department of State, remained neutral. Although he opposed the plan, he helped bring Hamilton and Madison together to ensure its survival. His position of neutrality did not last long, however, because as

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soon as the issue of a national bank was proposed, Jefferson was compelled to offer his own opinion. Hamilton and Jefferson, when it came to America’s economic structure, were polar opposites. Hamilton envisioned an America led by industry and manufacturing, while Jefferson, according to Chernow, “perpetuated a fantasy of America as an agrarian paradise with limited household manufacturing.”99 Jefferson insisted, wrote Marsh, that America would “remain virtuous for many centuries as long as they [Americans] are chiefly agriculture . . . When they get piled upon one another in large cities, as in Europe, they will become corrupt as in Europe.”100 Hamilton felt banks were indispensible to any government’s operation; they were essential for the collection of revenues, dispensing payments towards the debt, handing out loans, being used as depositories for government funds, while strengthening the federal government. During the Revolution, Hamilton, who educated himself in the world of finance, wrote to James Duane in September 3, 1780, that

“A bank . . . even in its commencement would answer the most valuable purposes to government and to the proprietors; in its progress the advantages will exceed calculation . . . The Bank of England unites public authority and faith with private credit . . . The Bank of Amsterdam is on a similar foundation. And why cannot we have an American bank?”101

A bill to charter the Bank of the United States for twenty years met little opposition in the Senate, but the debate over the bill reached a feverish pitch in the House of Representatives. The political cracks that had formed with the debate over assumption split wide open, and whatever was left of the Hamilton/ Madison collaboration was irreversibly broken. When the bank bill came before the House, an overture to have the bill committed for discussion and possible

99 Chernow, 346.


amendments was defeated 34 to 23. The next day, Madison rose from his seat and delivered an intense condemnation of Hamilton’s plan. Part of Madison’s critique stemmed from the fact that most southern planters were farmers who were forced to continuously purchase items on credit and, thus, detested bankers for their perpetual servitude. Even Patrick Henry, who had remained relatively silent throughout the debate over assumption, agreed with Madison that Hamilton’s plan would create, as historian Harry Amman wrote, a “subserviency of southern to northern interest.”

First, Madison argued that the interests of the government and the business world would be better served by numerous banking institutions rather than by a single overbearing institution. Corporations of this type, according to Madison, had always been evils within society. In his speech on February 8, 1791, Madison argued, “They [corporations] are a powerful machine, which have always been found competent to effect objects on principle, in great measure independent of the people.”

In addition, Madison argued that the Constitution denied the government the ability to create such an institution because it was not one of the enumerated powers granted to it. Ironically, Madison argued just the opposite view in Federalist forty-four. In his essay, Madison expressed his concern that the federal government, if it had to adhere only to those powers expressly mentioned, would end up no better off than the government under the Articles of Confederation. He stated, “[without] the substance of this power . . . the whole Constitution would be a dead letter . . . it is evident that the new Congress would be continually exposed, as


their predecessors have been, to the alternative of construing the term ‘expressly’ with so much rigor as to disarm the government of all real authority . . .”\textsuperscript{104} Now, however, fearing that Hamilton and those who supported the plan could use the Necessary and Proper Clause to extend its powers beyond what the framers intended, he felt he was forced to do an about-face. “The power of granting Charters is a great and important power, and ought not to be exercised, without we find ourselves expressly authorized to grant them . . .”\textsuperscript{105}

The Constitution, Madison argued, was a document granting the government a few explicit powers. “It is not a general grant, out of which particular powers are expected—it is a grant of particular powers only, leaving the general mass in other hands.”\textsuperscript{106} Thus, Madison continued, since the “general welfare” clause, copied from the Articles of Confederation, was limited to acts “laying taxes” for specific purposes, it could not be used, nor was it meant to be used, to legitimate the incorporation of a bank. To allow the clause to be stretched beyond its intended boundaries “would give to Congress an unlimited power.”\textsuperscript{107} Before Madison rested, he revisited the old argument the framers faced when confronted with demands for a bill of rights. The framers argued, Madison asserted, that powers not explicitly given to the federal government were retained by the states or the people, while “those given were not to be extended


\textsuperscript{107} Madison, “The Bank Bill,” 375.
to remote implications.” Madison argued, “the immediate exercise of it cannot be essential.” Since it is not listed, he concluded,

“the exercise of it involves the guilt of usurpation, and establishes a precedent of interpretation, leveling all barriers which limit the powers of the general government, and protect those of the state governments . . . the power exercised by the bill was condemned by the silence of the Constitution; was condemned by the rule of interpretation arising out of the Constitution; was condemned by its tendency to destroy the main characteristic of the Constitution . . .”

While it seems that Madison’s views during the bank debate are contrary to his views during ratification, this is not entirely correct. Neither, Madison nor any of the founders, could have imagined creating a complete list of powers the Constitution would permit, and everyone was quite aware that the Constitution could not possibly answer every question. He conceded that some powers were to be implied, but he was convinced that “constructive powers” had to have boundaries if the government was to be restricted at all. In other words, Madison accepted the argument that implied powers could be used to halt an existing government entity for usurping the people, but implied powers could not be used to create a government entity. If doctrine could be used in this way, Madison thought, governmental power could become unlimited.

As the debate over the bank bill reached its conclusion and Representatives prepared to cast their vote, it became abundantly clear that two very different parties were taking shape. The final vote was 39 to 20 in favor of the bill, but the numbers reveal something very disturbing for the infant nation: the great majority of representatives who voted in favor of a national bank

110 Banning, 331.
resided in the North, while the majority of those who voted against the bank resided in the South. The argument between farmers and merchants and their place within the new nation and the new government that had caused tears in America’s political and social structure during the assumption debate was now threatening to widen to the point that the nation was coming apart at the seams.

The tension between Madison and Jefferson and Hamilton is an example of this split. On the one hand, Jefferson was convinced that true freedom resided in farmers. On the other hand, Hamilton was the quintessential big business enthusiast who dreamed of an industrial America and felt the only way to make the dream a reality was under the encouragement of an energetic national government led by a heroic executive. Madison and Jefferson viewed the legislative branch, as Ron Chernow wrote, as the “leading branch of government, the guardian of popular liberty that would prevent the restoration of British tyranny.” Hamilton, by contrast, did not trust the legislature and, instead, felt the strength of the executive would be the engine that drove America in the right direction.

After the bank bill was passed by Congress, it needed President Washington’s signature to officially become law. Those who opposed the bill desperately hoped that Washington would see the unconstitutionality of the bill and veto the measure. Just as he had done during the Revolution, Washington conferred with members of his cabinet before making his decision. He solicited the opinions of his Attorney General, Edmund Randolph, and the Secretary of State, Jefferson. While Randolph’s view was significant because it was the first delivered and agreed that the measure was unconstitutional, Jefferson’s opinion set the tone for the opposition. Jefferson, it has been written, “had long detested monopolies and chartered companies as

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111 Chernow, 351.
privileges conferred by British kings.”¹¹² In his brief, Jefferson blasted Hamilton’s proposal as unconstitutional and outright rejected the doctrine of implied powers, scolded him for attempting to stretch the Necessary and Proper clause of the Constitution beyond its intended boundaries. To Jefferson, a national bank was not necessary or indispensible to America’s economic growth; instead, it was just another convenient way for the government to expand its powers.

Jefferson’s argument largely followed along the lines as Madison’s. Jefferson wrote that Hamilton’s plan “would reduce the whole instrument to a single phrase, that of instituting a Congress with power to do whatever would be for the good of the United States and as they would be the sole judges of the good or evil, it would be also to do whatever evil they pleased.”¹¹³ Jefferson assumed that if a certain phrase in the Constitution was interpreted as having multiple meanings, the particular phrase could either “allow some meaning to the other parts of the instrument,” or “render all the others useless.”¹¹⁴ To Jefferson, Hamilton’s interpretation was incompatible with the framers intent. In his opinion, he reminded Washington that during the Constitutional Convention certain delegates attempted to give Congress the power to construct and incorporate canals, and the proposed provisions were rejected. He wrote,

“It [the Constitution] was intended to lace them [the executive] up straitly within the enumerated powers, and those without which, as means, these powers could not carried into effect; one of the reasons of rejection urged in debate was that then they [the executive] a power to erect a bank, which would render the great

¹¹² Chernow, 351.


cities, where there are prejudgets and jealousies on that subject, adverse to the reception of the Constitution.”

In February 1792 Jefferson sent a series of letters to Washington expressing his dissatisfaction with the direction the government was heading while alluding to his wish of retiring from his position. The various measures introduced by the Secretary of Treasury, Jefferson wrote:

“had introduced its poison into the government itself . . . that particular members of the legislature, while those laws were on the carpet, had feathered their nests with paper, had then voted for the laws, and constantly since lent all the energy of their talents . . . to the establishment and enlargement of the system . . . such legislative constructions of the Constitution has made it a very different thing from what the people thought they had submitted to . . . the doctrine that the power given to the Constitution to collect taxes and provide for the general welfare . . . [has] permitted Congress to take everything under their management which they should deem for the public welfare.”

Furthermore, Jefferson wrote that the passing of the bill had allowed Congress to endow itself with powers to appropriate money for anything “they should deem for the public welfare.”

From Jefferson and Madison’s point of view, the federal government was not omniscient or omnipotent. Although the Constitution made it specifically clear that federal actions trumped state actions, Hamilton was attempting, in their view, to use the Constitution to make the states subservient. Their sentiments somewhat echoed those made during the ratification process years earlier. In one of the most famous anti-federalist articles, Brutus, probably Robert Yates, a New York judge and delegate to the New York ratifying convention, wrote:


“The legislative power is competent to lay taxes, duties, imposts, and excises—there is no limitation to this power . . . they are the sole judges of what is necessary to provide for the common defense . . . not only is the power to lay taxes unlimited, as to the amount they may require, but it is perfect and absolute to raise them any mode they please . . . It is proper to remark, that the authority to lay and collect taxes is the most important of any power that can be granted . . . it is the great means of protection, security, and defense, in a good government, and a great engine of oppression and tyranny in a bad one.”

What Brutus was predicting was that the necessary and proper clause, as it was written, would allow the federal government to extend its powers beyond what was intended, creating a monster. With the legislature empowered to enact the laws and the executive in charge of enforcing them, working together, these two branches can become overbearing. This was the point Jefferson and Madison were trying to make.

Hamilton and his following, according to Jefferson, had become a cult, bent on destroying the ideals of republicanism and restoring a monarchy, much like that of England. In a letter to Thomas Paine, Jefferson wrote, “It is but true that we have a sect preaching up and panting after an English constitution of kings, lords, and commons, and whose heads are itching for crowns, coronets, and miters. But our people, my good friend, are firm and unanimous in their principles of republicanism . . .” In other words, as Lance Banning wrote, “What he feared was that disillusioned leaders, devoid of faith in the common man, would capture the reins of government first, and then subvert the Constitution, until they had made their own rule a hereditary aristocracy or worse.” When Virginia’s governor Henry Lee attempted to open a state controlled bank that would counter Hamilton’s national bank, Jefferson wrote to Madison expressing his dissatisfaction with Hamilton’s plan. “The power of erecting banks and

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120 Banning, 138.
corporations,” Jefferson wrote, “was not given to the general government; it remains then with the state itself. For any person to recognize a foreign legislature in a case belonging to the state itself is an act of treason against the state. And whosoever shall do any act under color of the authority of a foreign legislature . . . shall be judged of high treason and suffer death.”\(^{121}\)

It must be remembered that Jefferson and Madison were politicians whose ideals were subject to change according to various circumstances. While both preached that Hamilton’s plan was unconstitutional and regarded industrialization as vile because it subjected the masses to the will of a few, both used these established precedents to their advantage later on when national security became an issue or when their fear of factions in Congress had subsided.

Washington was squarely on Hamilton’s side over the national bank issue but was concerned by Jefferson’s comments. “It made no sense to him [Washington],” wrote Charles Cerami, “that one could establish a national bank simply because no one had inserted those exact words into the Constitution.”\(^{122}\) After reading over the opinions penned by Jefferson and Randolph, Washington summoned Madison to the Executive Mansion in Philadelphia. There, the two engaged in several lengthy conversations, as the “little giant of the Constitutional Convention” expressed his dissatisfaction with Hamilton’s measures.\(^{123}\)

With Washington’s responsibility to either sign the bank bill or let it die drawing to an end, he requested that Madison put his objections to paper. He then hurried the Attorney General’s and Secretary of State’s opinions to Hamilton, asking him to reply. Upon receiving

\(^{121}\) Jefferson to James Madison, October 1, 1792, \textit{The Papers of Thomas Jefferson} Vol. 24, 432-433.

\(^{122}\) Cerami, 306.

Washington’s letter and the briefs, Hamilton consulted a law colleague, William Lewis, gathered his thoughts and wrote a fifteen thousand word, forty-page treatise on the constitutionality of the national bank, and, in doing so, as Lance Banning wrote, laid the “foundation for the liberal interpretation of the Constitution.”\textsuperscript{124} If one was to sum up Hamilton’s argument in one sentence, it would read that the federal government, as Ron Chernow wrote, “must possess the means to attain ends for which it was established or the bonds of society would dissolve.”\textsuperscript{125}

\textsuperscript{124} Banning, 328.

\textsuperscript{125} Chernow, 353.
CHAPTER 4
THE IMPORTANCE OF A NATIONAL BANK

For much of early English history prior to the Glorious Revolution, debt was accumulated and managed by the king. Thereafter, Parliament instituted, as Robert Wright wrote, “a good dose of Dutch republicanism, finance, and public administration.” Before long, this practice won the confidence of investors and made London the financial center of Europe and then the world. Along with the trading of joint-stock corporations, the most important entity generated by Parliament was the creation of the Bank of England, which laid the foundation for the handling of a national debt for future generations. Hamilton looked at the banks of Europe, particularly that of England as a reference for his own ideas. In a letter to James Duane on September 3, 1780, Hamilton wrote, “The Bank of England unites public authority and faith with private credit . . . The Bank of Amsterdam is on a similar foundation. And why cannot we have an American bank? A bank . . . even in its commencement would answer the most valuable purposes to government and to the proprietors; in its progress the advantages will exceed calculation.”

The national bank was the linchpin of Hamilton’s entire financial system. Its creation was essential for America’s survival because it would be responsible for, as Lance Banning wrote, “receiving federal taxes, holding federal funds, and [serve] as a ready source of short-term federal loans,” all of which would lead to “rapid economic growth.” In addition, the bank

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126 Wright, 22.
128 Banning, 325.
would be owned by both the government and private investors, giving citizens a stake in the federal government. In order to understand the importance of the bank a review of the financial system under the Articles of Confederation is imperative.

To pay for the Revolution, state governments and the Continental Congress issued bills of credit, considered much more practical than levying taxes. This was especially true since British occupation rendered collection in some areas impossible; in those areas not under British control, revolts against tax collectors were frequent. Furthermore, the colonies had never been very good at collecting and managing tax revenue to begin with. The colonial governments managed to borrow little abroad in the early stages of the war, but borrowing had increased dramatically by 1780. Some of the money borrowed came from America’s allies, especially France, but much of the money after 1781 came from private investors, mostly Dutch. The issuance of bonds was well established by the beginning of the war and played an important role in the financing effort, but loans made up the bulk of the government’s resources. To further fund the war effort, the Continental Congress sought to create an institution that could provide readily available revenue.

The charter of the Bank of the United States was not America’s first attempt at creating a national bank. In the midst of the American Revolution, and shortly after accepting the office of Superintendent of Finance, Robert Morris asked the Continental Congress to charter the Bank of North America. Even though a few congressmen, including the young Madison, argued the Articles of Confederation did not provide the government with the power to create such an institution, Morris’s proposal passed and the bank went into operation in January 1782. Initially, Morris’s bank served the government well as it provided emergency loans, supplied money to
commercial centers, and stimulated the economy by funding business projects.\textsuperscript{129} It was not created, however, to help relieve the ever growing debt, which caused the economy to eventually slip. Morris’s bank plan played an extremely important part in Hamilton’s education concerning America’s finance. He thought very highly of Morris and thought of him as the only person who could at the time properly manage the financial affairs of the country. In a letter to Morris, Hamilton wrote, “I know of no other person who unites so many advantages . . . In the frankness of truth I believe, Sir, you are the man best capable of performing this great work.”\textsuperscript{130} Although the Bank of North America proved to be a success, as far as obtaining loans from foreign banks and paying the interest on the debt, it did not solve America’s revenue problem as many had hoped.

After the Revolution, America’s financial system teetered on chaos because the Articles mentioned nothing about the central government repaying its debt, and most states still owed most of which they had borrowed. This was largely the result of the unwillingness of the country’s leading figures to discuss the issue. Even during the Philadelphia Convention, men who became impassioned during the debates over a bi-cameral or uni-cameral legislature, turned their backs to talk of finances. The lack of discussion created a crisis in the middle-part of the 1780s when states, because there was no national coinage, forced merchants and citizens alike to accept paper money as currency, although it did not have the same value as gold. When various state courts refused to enforce the acceptance of paper money, merchants closed their shops, while farmers began to riot. As Cerami wrote:

\textsuperscript{129} Wright, 67.

“there were places where near starvation followed as shops preferred to stay closed rather than exchange food for money that was soon to become worthless . . . In most of the country, farms and homes were being sold or foreclosed for non-payment on mortgages . . . People were increasingly infuriated [with] the local authorities, the courts, and the confederation government.”\textsuperscript{131}

Frustrated by the lack of agreement in Congress about how to resuscitate the deteriorating financial structure in America, Morris resigned in November 1784. Several incompetent financiers tried to deal with the situation after Morris left, but America was essentially bankrupt. The new nation could not pay her bills because of the glaring problems associated with the Articles of Confederation. The Articles allowed the nation to remain a loose confederation of states instead of a united country. The distrust of central authority denied the national government, as Wright wrote, the “power of the purse — the Articles of Confederation did not inspire confidence among merchants, manufactures, or urban artisans. Under this document, the national government could not do much of anything.”\textsuperscript{132} Hamilton in 1781 expressed his concern about the lack of central authority in a series of essays. In \textit{The Continentalist No. 1}, he wrote, “the Federal Government, if it is too weak at first . . . will continually grow weaker. The ambition and local interests of the respective members, will be constantly undermining and usurping upon its prerogatives, till it comes to a dissolution . . .”\textsuperscript{133} In \textit{Continentalist No. 3}, Hamilton wrote that the deficiencies of the Confederation should not fall upon the shoulders of Congress. The lack of authority “is partly . . . attributed to an excessive compliance to the spirit, which has evidently actuated the majority of the states, a desire of monopolizing all power in

\textsuperscript{131} Cerami, 207.

\textsuperscript{132} Wright, 68-69.

themselves. Congress have been responsible for the administration of affairs, without the means of fulfilling that responsibility.”\textsuperscript{134} The solution was presented during the debates of the Constitution Convention in 1789, through Article I, sections 8, 9, and 10. Collectively, the sections granted the federal government the power to tax as long as the taxes were uniform throughout the country and the power to borrow money, both of which met little resistance. A little more controversial was the section that granted the federal government the power “To Coin Money, regulate the value of . . .” Although the section passed by a vote of 33 to 6, it might have been closer if Rhode Island had sent delegates to the Convention. Rhode Island was controlled by supporters of state-issued paper money. When a message reached the smallest state in the Union that the section had passed, it, as Wright argued, “convulsed the State nearly to Civil War.”\textsuperscript{135} The battle was just beginning, however. The document that would define the nation still had to be ratified, and during the process, Hamilton with the help of Madison and Jay advanced the idea of a more energetic government.

Hamilton argued in Federalists 11, 12, and 13 that the Constitution would energize economic growth by putting fiscal and monetary policy in the hands of the national government, and, with availability of a commanding navy, keep other nations from preying on shipping, thus, keeping commerce unrestrained. “Under a vigorous national government,” Hamilton wrote, “the natural strength and resources of the country, directed to a common interest, would baffle all the


\textsuperscript{135} Wright, 82.
combinations of European jealousy to restrain our growth.”  

Under the system of government dominated by the states, Hamilton warned, America’s commerce would be at the mercy of rival nations. During the New York ratification convention, Hamilton gave such an oratorical masterpiece that one historian proclaimed him a “political porcupine, armed at all points,” while brandishing “a shaft at every opposer.”

Hamilton’s quest for a more active central government reached its height when he presented to Congress on December 14, 1790, his Second Report on Public Credit. His opening paragraph laid forth the foundation of his entire argument. He wrote: “a national bank is an Institution of primary importance to the prosperous administration of the Finances, and would be the greatest utility in the operation with the support of the Public Credit.”

In his Second Report Hamilton exposed the glaring problem of tax revenue trickling into the treasury. He wrote that a national bank was essential to the new government because it could be used as an instrument by which large sums of money would be lent to various state governments, or the federal government for short-terms to help overcome temporary imbalances between revenues and expenditures. Hamilton stated that while state banks had been helpful, they were just too small and their interest too narrow to be of any help during times of emergency or economic crises. Public banks, he stated, have played an indispensable role in assisting governments in war and peace; they have provided aid during “dangerous and distressing emergencies” and have helped

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bolster improvement during other times.\textsuperscript{139} With a bank roll of $10 million, the national bank would be larger than all existing banks combined\textsuperscript{140}. Because of its size, the regulation of the existing state banks could be easily achieved.

Furthermore, Hamilton stressed the need for America to catch up with the most economically advanced nations of Europe. “It is a fact well understood,” he wrote, “that public banks have found admission and patronage among the principle and most enlightened commercial nations.”\textsuperscript{141} Among “the principle advantages of a Bank,” Hamilton argued that banks can solidify a nation’s currency, while stimulating the economy.\textsuperscript{142} If a merchant keeps his money in a chest, Hamilton wrote, “waiting for a favorable opportunity to employ it,” he can take comfort in knowing that it is saved, “but it will produce nothing until an opportunity arrives.”\textsuperscript{143} If the money is deposited in a bank, however, the merchant or someone else can borrow against the money, receiving a “much larger amount” then what is deposited.\textsuperscript{144} Secondly, Hamilton argued that governments can borrow against the collective deposits “in obtaining pecuniary aid.”\textsuperscript{145} The bank, for instance, could use its deposits as credit for future loans while also increasing the circulation and supply of specie, eliminating the need for barter. “There is in the nature of things . . . an intimate connection of interest between the government

\textsuperscript{140} Wright, 147.
and the bank of a nation.”\textsuperscript{146} Finally, Hamilton stated that the national bank would be a great benefit in the collection of taxes and federal disbursements.

In preparing his \textit{Report}, Hamilton relied heavily on the experiences of European bankers, and the theories of Adam Smith in his \textit{Wealth of Nations}. Although there were banks already established in America, such as the Bank of New York, which Hamilton founded in June of 1784, historians have had a difficult time determining whether Hamilton referred to their practices or not since they too operated according to the European model. There was, however, no other model that directly influenced Hamilton’s ideas more than the Bank of England. While Hamilton cannot be accused of copying the charter word for word, the charter creating the Bank of the United States was strikingly similar to the original charter establishing the Bank of England.

Hamilton also relied on the debates concerning the re-chartering of the Bank of North America. He extensively studied the arguments for and against the bank, looking with a keen eye at those arguments made by its opponents--the debates, ironically enough, mirrored those of Congress in 1791. The general fear among many Americans at the time was that the Bank of North America, as it grew ever more profitable, would pull back on the reins of specie circulation, making money increasingly scarce. Furthermore, because of the bank’s profitability, Europeans would invest more and more of their money in the bank, getting rich off the interest, resulting in a large sum of American currency being held in the hands of foreigners. The time would arrive, the opponents of the bank argued, when the “engine of power may become subject to foreign influence; this country may be agitated with the politics of European courts, and the good people of America reduced once more into a state of subordination and dependence upon

\textsuperscript{146} Hamilton, “Second Report,” 309.
someone or other of the European powers.”¹⁴⁷ To counter such arguments proponents of the bank proposed regulations, very similar to those in the charter of the Bank of England, that would limit foreign investment.

Another fear was that the Bank of North America would be given certain exclusive privileges, creating a monopoly. In fact, during the Revolution, the directors of the bank persuaded several states to prohibit the establishment of local banks. In a letter to Morris in 1781, Hamilton listed several important functions a national bank would conduct, advocated the granting of monopoly status to a national bank, stating “No other banks public or private [should be] permitted during that period . . . other banks might excite a competition prejudicial to the interest of this [bank] and multiply and diversify paper credit too much.”¹⁴⁸ Hamilton explained in his 1791 Report that, because the national bank would be responsible for the ebb and flow of the nation’s currency, Congress must be prohibited from incorporating a similar institution, although he was adamant that state banks should be prohibited from exercising the same functions. Other members of Congress feared that the plan would essentially erode the importance of the Constitution. Madison, a decade later, echoed the same sentiments to President Jefferson, when he wrote:

“If this licentiousness in constructive perversions of the Constitution [should] continue, we shall soon have to look into our code of laws and not the charter of the people for the form as well as the powers of our government. Indeed, such an unbridled spirit of construction as has gone forth in sundry instances would bid defiance to any possible parchment securities against usurpation.”¹⁴⁹


Hamilton took all these arguments and counter-arguments into consideration when constructing his plan. He knew full well that the same arguments would be made during the congressional debates on his bank plan.

With such a large institution, the fear that the bank would misuse its power was a potential sticking point Hamilton knew he had to address. As a check on the bank’s power, Hamilton proposed allowing the treasury department to examine the bank’s records, while having the authority to distribute the bank’s deposits to other locations as the department saw fit. In addition, he forbade foreign stockholders a vote in the election of bank directors, he suggested that the rotation of bank directors be mandatory, and he required the bank to be re-chartered or discontinued in twenty years, while allowing the states an opportunity to create as many additional banks as they wished. Hamilton did not deny the fact that abuses would occur and loans would be granted to individuals who would be unable to repay them, but the advantages far outweighed the disadvantages. In a letter to Morris years earlier, Hamilton wrote that every measure and every action contemplated or passed by Congress, no matter how well intended, is “subject to abuse and when abused becomes pernicious.”

“The truth is,” he continued, “in human affairs, there is no good, pure, and unmixed; every advantage has two sides, and wisdom consists in availing ourselves to the good, and guarding as much as possible against the bad.” These instances are only minor incursions, Hamilton argued, upon an otherwise beneficial institution.

“If the abuses of a beneficial thing are to determine its condemnation, there is scarcely a source of public prosperity, which will not speedily be closed. In every


case, the evil is to be compared with the good, and in the present case such a comparison will issue in this, that the new and increased energies . . . greatly outweigh the partial ills . . . of a few individuals . . . or of the numbers in particular conjunctures.”

Hamilton intended the Bank of the United States to remain in the hands of private investors, governed by a board of directors made of a “small and select class of men.” Thus, politicians with deceitful agendas would be insulated from the bank’s operations. “To attach full confidence to an institution of this nature, it appears to be an essential ingredient in its structure that it shall be under the guidance of individual interest, not of public policy.” Hamilton rejected the government’s participation in the management of the national bank. History had shown that in the past governments had used banks to fund needless extravagances; “private interest is the best guide of policy from the point of view of management of it and investment in it and the only security for a careful and prudent administration.” Hamilton, however, also expressed his concern that creating a buffer zone between the bank and the government would lead to abusive habits among the board members. To negate such a possibility the federal government would be allowed to become a minority stockholder. The President of the United States would be authorized to purchase two million dollars of bank stock, while the Secretary of Treasury would receive weekly reports on the activities of the bank and preserve the right to inspect its books. His deliberate interlocking of the bank and public debt made it nearly impossible to remove one part without destroying the whole.

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The Bank of the United States would also allow the government to oversee and regulate four powers enumerated in the Constitution: the collection of taxes, the borrowing of money, the regulation of trade among the states, and the organization of the armies and the fleets. History had shown, Hamilton wrote, that banks played an indispensable role in aiding trade and industry while also providing the government with security in distressful situations. One would think, Hamilton continued, that with all of this evidence, the opinions in favor of such an institution would be overwhelming. “Yet doubts have been entertained; jealousies and prejudices have circulated; and though the experiment is everyday dissipating them . . . yet there are still persons by whom they have not yet been entirely renounced.”\textsuperscript{156} He never directly attacked Madison like he would Thomas Jefferson, but he did get his own sense of revenge. In his opinion supporting the constitutionality of the bank, Hamilton wrote, “No axiom is more clearly established in law, or in reason, than that wherever a general power to do a thing is given, every particular power necessary for doing it is included.”\textsuperscript{157} These words were not Hamilton’s; they were written by Madison in Federalist forty-four. The Virginia representative had to have sat in a state of dismay as Hamilton’s opinion was read out loud in the House.

After receiving Jefferson’s and Randolph’s opinions concerning the bank, Hamilton decided to put pen to paper and refute any disagreements. Hamilton began his opinion on the constitutionality of the bank by avidly disagreeing with Jefferson’s and Randolph’s belief that the Constitution forbade the creation of corporations by the United States government because


such power was not explicitly mentioned. They feared, as Koch wrote, that “The legislation that would sanction the incorporation of a national bank would therefore undermine the original intention of the framers of the Constitution and beget a monopoly that would jeopardize the equal rights of every citizen.” 158 Hamilton affirmed that “the power of erecting a corporation is not included in any of the enumerated powers; but was rather an implied power granted through various clauses.” 159 If it can be argued that the Constitution denied the federal government the ability to incorporate institutions because the framers did not specifically grant the power to it, it can also be argued, Hamilton wrote, that the Constitution denied the states that same ability to act since only certain powers were delegated to them. “To deny that the Government of the United States has sovereign power as to its declared purposes & trusts, because its power does not extend to all cases, would be equally to deny that the State Governments would not have sovereign power in every case because their power does not extend to every case.” 160 In Hamilton’s mind, if a government action such as erecting a corporation has a “natural” relationship with the desired end, then the employment and execution of that action will fall within the scope of the government’s prerogatives. 161 He amplified this explanation by arguing that the government cannot create a corporation, for example, to superintend the police of a


161 Hamilton, “Final Version,” 100
particular city because the corporation did not have a relationship with the actions of law enforcement, but, as he stated, “one may be erected in relation to the collection of taxes, or to the trade with foreign countries.”

The essential ingredient in Hamilton’s argument concerning the bank’s constitutionality centered on the “Necessary and Proper” clause of the Constitution. To Hamilton, the Constitution was not meant to be a restrictive document, whereby the federal government carried through with only those powers spelled out. Such a narrow interpretation, one in which the action had to be absolutely necessary, would be onerous. “There are few measures of any government, which would stand so severe a test.” Instead, he wrote, the necessity of an act differs with each individual situation and is always a matter of opinion. “The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent, and complexity that there must, of necessity, be great latitude of discretion in the selection and application of those means.” The necessary and proper clause does not give the government any “new or independent power” that it can unjustly invoke, but only gives the government the authority to extend upon its specified powers. “This criterion,” Hamilton wrote, “is the end to which the measure relates as a mean. If the end be clearly comprehended within any of the specified powers, & if the measure has an obvious

162 Hamilton “Final Version,” 100.
relation to the end, and is not forbidden by any particular provision of the Constitution—it may be safely deemed to come within the compass of the national authority.”

Hamilton agreed with Jefferson’s claim that the corporation, if enacted by Congress and signed by the President, would alter state laws, but Hamilton argued that the threat of alteration could not deem the corporation unconstitutional. Laws concerning bankruptcy and coinage that may differ from state to state can be altered by the federal government in order to bring about uniformity. The exercise of these powers can extend to the creation of a national bank to oversee the collection of taxes. Hamilton also argues against Jefferson’s notion that “the proposed incorporation is against the laws of monopoly.” The fallacy of Jefferson’s argument, Hamilton wrote, lies in the fact that the national bank would not impede the ability of the states to erect their own banks, or discourage individuals from associating with these businesses. “The bye-laws of such an institution,” he continued, is that “a bank can only operate upon its own members; can only concern the disposition of its own property, and must essentially resemble the rules of a private mercantile partnership. They are expressly not to be contrary to law; and law must here mean the law of a state as well as the United States.”

Saying that the federal government has the power to “erect a corporation,” Hamilton concluded, is not affirming that it has the power to “do whatever else they please.”

Hamilton then turned his attention to his own opinion of why such an endeavor is necessary to the execution of the powers granted to the federal government. Hamilton wrote that

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the “principles . . . espoused by the Secretary of State and Attorney General would be fatal to the

The national bank, after all, was the key ingredient to America’s financial success. All of Hamilton’s other recommendations, particularly assumption, could have been passed, but without the affirmation of the bank the whole system would have collapsed.

The federal government did not have an institution capable of overseeing all of these different responsibilities, and, thus, it would have belonged to the states to handle these duties. The experience of America under the Articles of Confederation had demonstrated that the states were not responsible enough to deal with the task. State banks could not have supplied the federal government with the necessary means to carry through with its functions; only a national bank created for that very purpose could achieve such lofty expectations.

Hamilton listed several ways in which the bank would be of necessity to the new nation. He wrote that the national bank would be com mingled with the governmental functions of collecting taxes, borrowing money, regulating trade between the states and foreign nations, and “raising, supporting, and maintaining fleets and armies.” Hamilton, “Final Version,” 97. First, “A bank,” he wrote, “relates to the collection of taxes in two ways: indirectly, by increasing the quantity of circulating medium & quickening circulation . . . directly, by creating a convenient species of medium . . .” Hamilton warned that if a national bank was not created to oversee the collection of revenue and the circulation of cash, America’s currency would devalue to the point where it was virtually worthless, and America would be unable to pay back her debts, causing great distress among her creditors, which, in turn, would cause conflict that would lead to her destruction.


Secondly, he appealed to Washington’s military background by connecting the bank with the potential emergencies of war. Hamilton stated that when such an emergency arose the federal government would be able to borrow money from the bank and supply the army much faster than it could by raising taxes and waiting for the results to be available. “A nation is threatened with war. Large sums of money are wanted, on a sudden, to make the requisite preparations. Taxes are laid for the purpose, but it requires time to obtain the benefit of them. Anticipation is indispensable. If there be a bank, the supply can, at once be had; if there be none loans from individuals must be sought.” \(^{173}\) Thus, it is necessary and proper for the government to erect an institution for the purpose of carrying out the requirements that follow such emergencies.

Finally, the institution is paramount to the “regulation of trade between the states” because of the bank’s ability to circulate money and prevent the “displacement” of a medium of exchange. \(^{174}\) “Money,” Hamilton wrote, “is the very hinge on which commerce turns.” \(^{175}\) Hamilton agreed with Jefferson’s argument that such actions would interfere with the internal mechanisms of the states. Hamilton wrote, however, that all actions taking by the federal government would, in one way or another, affect the internal actions of the states.

The regulation of money and trade, however, was not the object of the national bank, Hamilton argued. The essential element was the results that come about because of the regulations. “The support of Government; the support of the troops for common defense; the payment of the public debt are the true causes for raising money.” \(^{176}\) Essentially, the national


\(^{175}\) Hamilton, “Final Version,” 126.

bank is meant to improve the nation’s credit, both publicly and privately. By improving the public credit the rights and interests of the state are protected because it has money to fall back on; by improving private credit wealth is distributed because individuals are able to borrow and spend. “Industry is increased, commodities are multiplied, and agriculture and manufacturing flourish, and here in consists the true wealth and prosperity of the state.” 177 Such actions were manifestly granted by the Constitution to effectively administer the finances of the United States. Hamilton, in his closing statements, reiterated that the bank would in no way encroach upon the sovereignty of the states or the liberties of the people. “Each state,” he wrote, “may still erect as many banks as it please; every individual may still carry on the banking business to an extent as he pleases.” 178

Hamilton warned Washington that if Randolph’s and Jefferson’s views were accepted, “the United States would furnish the singular spectacle of a political society without sovereignty or of a people governed without government.” 179 In other words, by vetoing the bank bill, Washington would be making the federal government subservient to the states, and America would be no better off than it was under the Articles of Confederation.

A year later in 1792 in a letter to Colonel Edward Carrington, Hamilton expressed his distrust of state governments. He wrote that the fear was not that the federal government would become omnipotent; the fear was that state power would render federal power incompetent. “As to the destruction of the state governments, the great and real anxiety is to be able to preserve the


Hamilton feared that the state governments would, just as they had under the Articles of Confederation, overpower the federal government. Only circumscribed under the authority of the national government, he argued, could the state governments be useful and beneficial. “If the States were all the size of Connecticut, Maryland, and New Jersey,” he wrote, “I should decided regard the local governments both safe and useful. As the thing is now . . . the Government of the Unites States will not be able to maintain itself against their influence.”

It was not as if Hamilton did not trust the republican theory of government, he just was not sold on the idea that it would work. Instead, he envisioned the state governments as laboratories for the federal government, where various ideas could be experimented with before being implemented by Congress. In the end, however, Hamilton viewed history on his side. “In all questions of this nature,” he wrote, “the practice of mankind ought to have great weight against the theories of individuals.”

On July 4, 1791, Hamilton’s Bank of the United States threw open its doors to an expectant public that, crazed with anticipation, bought every issue of stock within an hour. The mania caused prices to promptly take off and spread to other cities, most notably New York and

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Boston through their respective banks. Even Vice-President John Adams, an ardent opponent of the banking system, was generally satisfied with its results. Years later, in a letter to his good friend Benjamin Rush, Adams wrote,

“Funding and banks I never approved, or was satisfied with our funding system; it was founded on no consistent principle; it was contrived to enrich particular individuals at the public expense. Our whole banking system I ever abhorred . . . But I cannot be an enemy of the funding or banking system. They are absolutely and indispensably necessary . . . But every bank of discount, every bank by which interest is to be paid or profit of any kind made by the deponent is downright corruption.”

In other words, although Adams, who was a farmer himself, had a distrust of banks, believing whole-heartedly that land was the safest investment of all, or, like Madison and Jefferson, that an agricultural society was much more stable than a manufacturing society, he was pleased with the prosperity that was engulfing America.

Madison and Jefferson, however, were mystified by the “delirium of speculation.” Madison wrote to Washington, Smith recorded, that “It remains to be seen whether in a country whose capital is too small to carry its own commerce, to establish manufactures, erect buildings . . . such sums should have been withdrawn from these useful pursuits to be employed in gambling.” Criticisms also came from within the Congress itself and centered on the thirty-five members who got rich quickly because of the high price of the bonds.

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Although Hamilton had written to his southern constituents in the hope that they could be enticed to buy bank shares, suspicions abounded that Hamilton was showing favoritism towards northern investors, leading some southern Congressmen to declaim that a northern oligarchy was taking root and that it would soon impose its will on the rest of the country. The get-rich-quick scheme that many Americans found themselves addicted to was in direct opposition of Jefferson’s view of a pure, agrarian America. As Jefferson wrote in the summer of 1791, according to Joseph Davis, “Ships are lying at the wharves, buildings are stopped, capitals are withdrawn from commerce, manufactures, arts, and agriculture to be employed in gambling, and the tide of public prosperity almost unparalleled in any country is arrested in its course and suppressed by the rage of getting rich in one day.”

The problem with Hamilton’s grand design, according to the opponents of the bank plan, was that it favored the wealthy rather than the less-well off, which threatened some of the founder’s belief about what sort of nation America should become. Representative James Jackson of Georgia, who favored higher taxes rather than a “permanent funded debt” or a national bank, blasted both of Hamilton’s plans as a burden to “the honest, hard-working part of the community,” while “promoting the ease and luxury of men of wealth.” The fear that Jackson had was that, overtime, Hamilton’s plan would create a division between North and South, East and West that could potentially split the country apart.

Despite the fears of many, as Robert Wright wrote, “The bank of the United States proved to be smashing success.” The public stocks offered by the bank soared to new heights in a very short time just as Hamilton had planned and greased state and national treasuries with

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188 Annuls of Congress, 1st Congress, 3rd Session, February 11, 1791, 1179-1182.

189 Wright, 149.
an abundance of money, so much so that the bank president, Thomas Willing, had to urge the
government to scale-back. Throughout the month, the prices rose to unfathomable heights. In
early July, stocks sold for twenty-five dollars; by the middle of August, prices had zoomed to
more than three hundred dollars. Helped by low interest rates, low taxes, and a steady supply of
cash, many small business owners, farmers, professionals, and artisans were able to achieve their
material aspirations. “Throughout its existence,” Wright wrote, “the BUS provided the treasury
with valuable assistance in the collection, safe storage, transfer, and disbursement of government
monies, including interest payments and the national debt. It also smoothed the Treasury’s cash
flow, allowing it to spread tax collection over months and even years, rendering taxation less
onerous.”

America emerged from the Revolution technologically deficient and lacking in “capital-
building facilities.” In large part, however, because the change in attitude and philosophy that
developed during the 1780s by a small but determined group of individuals and America’s trial
and error of various manufactures, the United States made the turn from a backwater society to a
society that stressed manufacturing. The national bank, which served as a source of credit and
loans for industrial and commercial enterprises, proved to be America’s most important
institution, pushing the country forward and preserving its ability to survive and thrive. As
Heilbroner wrote, Hamilton’s bank established “the credit worthiness of the government and

190 Wright, 150.

191 Robert L. Heilbroner, The Economic Transformation of America (Fort Worth, TX: Harcourt College
there by laid the groundwork for the climate of confidence needed to advance the shaky cause of manufacturing.”\textsuperscript{192}

\textsuperscript{192} Hielbroner, 24.
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