

The Need for a National Bank



Alexander Hamilton

During the presidency of George Washington, **Alexander Hamilton** was the first **Secretary of the Treasury**. His role was to put the new government into a solid and sound economic situation. It would be known as Hamilton's **Financial Plan**. He created a four-part financial plan for the nation.

1. The creation of a National Bank

His idea was to create by Charter By Congress, a private bank owned by stockholders that would collect and hold government funds, make payments on the newly established government bond system, and therefore establish a stable currency for the nation. George Washington signed the charter into law in 1791 and the new bank was located in Philadelphia.

The Anti-Federalists, James Madison and Thomas Jefferson strongly opposed this charter and the creation of a national bank. They claimed that the *Constitution* did not provide for a national bank, therefore it was a "denied power." They believed that the national bank would be controlled by financiers, merchants and wealthy people and it would not represent the ordinary citizen.

In response to these accusations, Alexander Hamilton stated that the **implied powers** of the *Constitution*, namely the "**necessary and proper clause**" [elastic clause] allowed the creation of the national bank. The Constitution gave Congress the powers to collect taxes, coin money, borrow money, and pay debts. Therefore to complete these transactions, a national bank was deemed necessary and proper.

Hamilton's response again started the Federalist versus Anti-Federalist arguments over the *Constitution*. **Federalists** saw a Loose Interpretation of the *Constitution*, allowing for the government to be able to respond effectively as the nation grew and situations changed.

Anti-Federalists saw a Strict Interpretation of the *Constitution*, meaning the government can only do what is exactly spelled out word-for-word in the *Constitution*.

2. The Assumption Plan

Hamilton wanted to first pay off the debts from the Revolutionary War, including the debts of the states. Payments would be made at full face-value even though some of the debts were in worthless paper money. He wanted to issue bonds that his government paid interest upon to the holders. In short, the government would assume all of the debts and by buying bonds from the government, citizens would become invested in the nation and the economy would become stable.

Congress approved his plan, despite the objections again from James Madison and Thomas Jefferson. They believed that these bonds would benefit those states that had not repaid their war debts and those who would benefit the most would be the speculators who previously bought up the paper money at far less than face value.

3. The Excise Tax

Hamilton proposed a tax on the sale of whiskey. In 1794, western Pennsylvania farmers refused to pay this excise tax on whiskey that they produced from grain grown locally. In response to this boycott, George Washington called out his state militia to put down this "Whiskey Rebellion." The sending of federal troops to Pennsylvania was the first demonstration that the new government was to fully enforce federal law, the supreme law of the land.

4. The Protective Tariff

The goal of Hamilton's plan was to protect home industry from foreign competition. Hamilton believed that manufacturing, not agriculture, was the future for America. If he raised the tariffs on foreign industrial goods, it would give domestic industry more sales at a fair price compared to its overseas competitors.

The Southern agricultural states strongly opposed this tariff fearing that foreign countries would retaliate by raising their import fees on American goods, especially cotton and then those importers would buy their goods from other countries, not the United States.

In the end Congress rejected the protective tariff on industrial goods but passed other protective tariffs which generated valuable income for the government.

Hamilton's plans, despite being controversial, put the country in a strong financial position. His plans encouraged the wealthy to support the system while building the nation's future as an industrial power.

Ironically, the Southerners who opposed Hamilton's plans passed his **Financial Plan** on the understanding that a new national capital be constructed between Virginia and Maryland on the Potomac River, namely Washington, D.C.