

For a New Nation, Hamilton Seeks a Bank

From VOA Learning English, welcome to The Making of a Nation – American history in VOA Special English. I'm Steve Ember.

This week in our series we continue the story of Alexander Hamilton. He was the nation's first secretary of the treasury.

Alexander Hamilton firmly believed that no country could become a modern nation without industry. So, he carefully developed a program that would make the United States an industrial nation.

Part of his program protected American manufacturers from foreign competition. Hamilton protected them by establishing a system of import taxes on some foreign goods brought into American ports. These tariffs raised the prices of those goods. As a result, American manufacturers had much less competition in selling their products.

Alexander Hamilton also organized the nation's finances. One of his first steps was to pay back the debt the country owed from the Revolutionary War. But Hamilton wanted to go much further. He wanted to establish a national bank.

Hamilton argued that many European countries had national banks. University of Virginia history professor Andrew O'Shaughnessy says Hamilton saw the advantage of Britain's system. It permitted a very small country to go deeply into debt while fighting wars.

“The British had essentially been able to project power well beyond their size, thanks to a very efficient financial system and system of borrowing.”

Hamilton said a national bank in America would increase the flow of money throughout the country. It would help the national government negotiate loans and collect taxes. Business historian John Steele Gordon says Hamilton believed a centralized bank would also keep the states from competing with each other.

“Banks always have the problem that they’re in the money business, so they’re always tempted to lend too much and speculate too much. So he wanted a central mechanism to keep them on a short leash.”

But Hamilton’s plan raised old fears, especially among farmers in the South. Critics argued that a national bank would give too much power to a few rich men in the North. It would take control of state banks, on which southern farmers and small businessmen depended. It would also increase the use of paper money, instead of gold and silver.

James Madison led the opposition against Hamilton's plan in Congress.

Madison said the United States should not put all its wealth in one place. So he proposed a system of many smaller banks in different parts of the country. He also argued that the idea of a central bank was unconstitutional.

No one knew more about the American Constitution than James Madison. He was given credit for most of the ideas in it. Everyone respected his explanations of its wording.

Madison noted that the Constitution gave Congress a number of powers, which were stated. For example, the Constitution gave Congress the power to borrow money. But Congress could borrow money only to repay debts, to defend the country and to provide for the general good of the people. Madison said permitting Congress to do more than what was in the Constitution was dangerous.

Hamilton presented a very different view. His view came to be known as the “implied powers doctrine.” In other words, the Constitution includes powers without naming them. Business historian John Steele Gordon says this means that Congress can do whatever it needs to do to fulfill its duties, unless the Constitution forbids it.

“This is an argument that has been going on in the United States now for well over 200 years and probably will go on for another 200 years.”

In 1790, Hamilton’s view won more congressional support. He got enough votes to approve his proposal to establish a national bank.

Still, President George Washington had to sign the bill into law. Washington worried about the possibility that the bill was not constitutional. So he asked three men for advice: Attorney General Edmund Randolph, Secretary of State Thomas Jefferson and Treasury Secretary Alexander Hamilton.

Randolph had no firm answer. Jefferson agreed with Madison. Creating a national bank violated the Constitution.

Hamilton, of course, disagreed. He said the Constitution gave the government a number of powers besides those written down. Otherwise, he said, the government could not work.

These arguments did not completely answer all of President Washington's questions. But he went ahead and signed the bill to establish a national bank in America.

One of its jobs was to maintain the value of the country's currency and to borrow money for the government. The national bank also increased the flow of capital needed for investment. It fed the country's business and commercial activities. And it collected taxes.

Business historian John Steele Gordon says America's financial success in the 1790s showed that Hamilton's plan worked.

"It was known as the Hamiltonian miracle."

The national bank, and many of Hamilton's other ideas, had another important effect. They created a disagreement that still exists. The disagreement began with Alexander Hamilton and Thomas Jefferson.

The two men were very different.

Alexander Hamilton was born in the West Indies to a man and woman who were not married. However, Hamilton was educated in America. And he gained a place in society by marrying the daughter of a wealthy landowner in New York state.

Money and position were important to Hamilton. He believed men of money and position should govern the nation.

Thomas Jefferson could have been what Alexander Hamilton wanted to be. Through his mother, he was distantly related to British noblemen. And he liked fine food, wine, books and music.

But Jefferson had great respect for simple farmers and for the men who opened America's western lands to settlement. He believed they, too, had a right to govern the nation.

University of Virginia historian Andrew O'Shaughnessy says both Hamilton and Jefferson believed they were defending the ideals of the American Revolution. And he says their disagreement revealed their fears.

Professor O'Shaughnessy says Hamilton remembered the chaos under the country's first, weak government. He was afraid the government would collapse and there would be social anarchy.

"John Adams and Alexander Hamilton felt that differences were breaking down too much and that it would lead to a breakdown in authority."

On the other hand, he says Jefferson and his supporters were afraid that the American Revolution would, like most revolutions, fail. A small, elite group would control the country again. In other words, they were afraid of tyranny.

Hamilton and Jefferson's personal disagreements turned into a public dispute when they served in President Washington's cabinet. The president tried to make peace between them. He liked them and respected them. He believed the new nation needed the skills of both men.

However, the disagreement became more than just a question of two strong men who could not agree. It became a battle of two completely different philosophies of government.

Those who supported Hamilton became known as the Federalist Party. The Federalists supported a strong national government with a powerful president and courts. In the early 1790s, the Federalists controlled the Congress. They also had great influence over President Washington.

Most Federalists lived in the cities of the Northeast. They were the nation's bankers and big businessmen. They were lawyers, doctors, and clergymen.

But at that time, the majority of Americans were farmers, laborers and small businessmen. Many were bitter over government policies that always seemed to help the wealthy. They had no political party to speak for them. These were the people Thomas Jefferson wanted to reach.

Jefferson's task was big. Many of these Americans knew little of what was happening outside their local area. Many were not permitted to vote, because they did not own property.

Jefferson looked at the situation in each state. Almost everywhere, he found local political groups fighting against state laws that helped the rich.

These local groups were what Jefferson needed. He worked to bring them together into a national party to oppose the Federalists. The party came to be called the Jeffersonian Republicans — or just the Republicans.

It may sound confusing, but today many of Jefferson's ideas are expressed by the Democratic Party rather than the Republican Party. This is because of changes in parties and party names over the years.

In Jefferson and Hamilton's time, says Professor O'Shaughnessy, the idea of organized political parties was new in America.

"Today we would regard the existence of party politics as essential for the functioning of democracy. There needs to be minority view expressed. Government needs to be held accountable by an opposing party."

But at that time, he says, the people who fought in the American Revolution expected to be united.

As a result, the country did not have any laws governing what political parties could or could not do. There were no restrictions on the political activities of government officials.

So Hamilton and Jefferson carried on a war of words in their party newspapers.

Jefferson, especially, felt the need for newspapers in a democracy. He believed they provided the only way for a large population to know the truth. He once said if he had to choose between a government without newspapers, or newspapers without a government, he would choose newspapers without a government.

Both parties' newspapers carried unsigned articles attacking the opposition. Both printed stories that were false. At times, the attacks were personal. Many people felt the two cabinet secretaries should be above that kind of public fighting. But Professor O'Shaughnessy says that did not stop them.

"The party politics became as bad as any time in history."

Toward the end of President Washington's first administration, he received a letter from Jefferson. The secretary of state said he planned to resign. He said he disagreed with most of the administration's domestic and foreign policies. He did not name Hamilton. It was not necessary. Washington knew what he meant. Hamilton was the chief planner of those policies.

But Jefferson decided not to resign. In a letter to his daughter, Jefferson said the attacks on him changed a decision which he did not think could possibly be changed. He must remain and fight.

So, while continuing to serve as secretary of state, Jefferson began working to get his supporters elected to Congress. He believed that was the only way to fight Hamilton. National elections were set for 1792. That contest will be our story next week.

I'm Steve Ember, inviting you to join us each week at this time for The Making of a Nation – American history in VOA Special English.