Background

Alexander Hamilton was born on January 11, 1755 or 1757.

"Alexander Hamilton was born out of wedlock in the West Indies. He was an orphan by the time he was fourteen years old. As a young man he knew poverty. He had seen it. He had experienced it. And that really shaped his life."

At age eleven he started working as an accounting clerk at a mercantile in St. Croix.

"He had to mind money, chart courses for ships, keep track of freight, and compute prices in an exotic blend of currencies, including Portuguese coins, Spanish pieces of eight, British pounds, Danish ducats, and Dutch stivers. If Hamilton seemed very knowing about business as a young adult, it can be partly traced to these formative years."

In 1772, he sailed to New York and enrolled in King’s College.

"Alexander Hamilton started writing in support of the Revolution when he was just a young student. He was very active in the military, and he became a close confidant of George Washington. He was at the Constitutional Convention. He was instrumental in getting New York to ratify the Constitution."

"In all posts, he (Hamilton) was one of the most outspoken advocates of a strong national government. He was the single most important figure in securing the adoption of the Constitution in New York State and, with Washington and Madison, was one of the most critical figures in the national campaign for the new federal frame of government."

The war left America with a national debt of 54 million dollars and a 25 million dollar state debt.

"In September 1789, Washington, the newly elected first President, tapped his former aide to be the first Secretary of the Treasury."

Hamilton released the first part of his plan on January 14, 1790.

Hamilton’s job was to resolve America’s debt. So he researched thoroughly, and during 1790, he created a two-part plan in order to do so.

However, when Hamilton released this proposal, conflict arose.
Part One: Conflict and Compromise

"Hamilton submitted to Congress a proposal calling for the repayment of foreign and domestic debts through the issuing of new federal loans. He also recommended that the state debts incurred during the Revolutionary War be assumed by the national government."


"Hamilton's report was opposed on most grounds by House leader James Madison, soon joined by Sec of State Thomas Jefferson. Madison proposed instead to pay the current holders only the purchase price for their certificates, and pay the remainder to the original veteran holders. Madison also opposed federal assumption of state debt as some states (notably, Madison's own Virginia) had already paid off most of theirs."

"Some of the northern states resisted, even though many of them were more heavily in debt, because they saw turning over their debt as the first step toward weakening themselves by empowering the central government. The southern states resisted pooling all the debt even more fiercely. They'd been less ravaged by the war and believed that pooling debt meant all states would share the burden equally. They didn't want to pay for debts incurred outside their state.

"Other aspects of Hamilton's plan generated force opposition as well, including the idea of selling securities which prompted accusations that Hamilton was catering to the moneyed, merchant classes, looking for ways to help his New York city friends become wealthier."

Hamilton desperately tried to eliminate this conflict, and prove that the assumption plan would be effective. However, his attempts were ineffective.

"On April 12, 1790, the House voted down Hamilton's assumption plan, thirty-one to twenty-nine, and two weeks later voted to discontinue all debate on this issue. By early June, it looked as if the assumption plan was heading for oblivion. So Hamilton began to search for compromise that would salvage much of his economic program.

"When Jefferson arrived, Hamilton was furiously lobbying Congress to accept his proposal, trying to persuade the state to agree. He argued that only after reducing a common expense the people would become united and support a new government formed by the banks and the banks to be a national center of government, also adjacent to Virginia."

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Alexander Hamilton, the first Secretary of the Treasury, after years of conflict, created America's first financial system and laid the foundation for our current financial system. Compromising with opponents, he helped shape America's financial institution by establishing both good credit and the first national bank and by resolving America's debt from the Revolutionary War. Hamilton's actions directly led to America's prosperity because his initiatives broke the manufacturing hold that Great Britain had on our nation's economy.

Part Two: Conflict And Compromise

On December 13, 1790, Hamilton released the second part of his plan.

"Hamilton proposed the creation of a 'Bank of the United States'... The bank, wrote Hamilton, was to be established 'under a private, not a public, direction—under the guidance of individual interest, not of public policy.'"


In his second document, Hamilton explained the need for a national bank, and how it would help America maintain good financial credit. This report also caused much conflict, mainly with Thomas Jefferson, James Madison, and southern states.

"Among those Southern opponents was James Madison, who worried that the Bank's placement in Philadelphia, the nation's temporary capital, might thwart the decision to put the permanent seat of government further south on the banks of the Potomac River."


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"He explained that such a bank would serve as a nursery for wealth. Hamilton’s suggestion was greeted with joy from America’s mercantile class, but triggered fear in others."

While there were other issues that opponents to the bill had with the Bank, the most pressing one was whether or not it was constitutional.

"Hamilton argued that because a bank would ‘promote the general welfare,’ the Constitution fully empowered the legislative and executive branches to establish a bank. Hamilton’s argument — that the ‘necessary and proper’ and ‘general welfare’ clauses allowed for a federal bank — struck Jefferson as making things up, reading into the Constitution things that weren’t there and were never intended."

"I consider the foundation of the Constitution as laid on the ground that ‘all powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the states or to the people.’...The incorporation of a bank, and the powers assumed by this bill, have not, in my opinion, been delegated to the United States by the Constitution. They are not among the powers specially enumerated..."

"Washington was not sure what to do. Like Jefferson, he was concerned about the constitutionality of the Bank. Washington decided to look at both sides of the issue. He asked three people to write what they thought about the constitutionality of the Bank: Alexander Hamilton, Thomas Jefferson, and Edmund Randolph. As expected, Hamilton wrote in favor of the Bank, Jefferson wrote against the Bank. Randolph wrote two essays, one against the Bank, and one which did not take a clear position one way or the other."

"Persuaded by Hamilton’s arguments, on February 25 Washington signed the Bank bill into law."

"To Jefferson, by enriching the central government, Hamilton was demolishing liberty, robbing states of their independence, and undermining the main pillar of democracy -- that the people should govern themselves. Hamilton, on the other hand, envisioned America taking its place among the leading empires of the world -- and required money and a bank."

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"James Madison vigorously fought Hamilton’s bill in the House of Representatives, but it passed both houses of Congress and was submitted for the President’s signature in February 1791." "Washington was not sure what to do. Like Jefferson, he was concerned about the constitutionality of the Bank. Washington decided to look at both sides of the issue. He asked three people to write what they thought about the constitutionality of the Bank: Alexander Hamilton, Thomas Jefferson, and Edmund Randolph. As expected, Hamilton wrote in favor of the Bank, Jefferson wrote against the Bank. Randolph wrote two essays, one against the Bank, and one which did not take a clear position one way or the other."
Hamilton's assumption plan was still causing conflict months after it had already been instated.

"Buried in Hamilton's Report Relative to a Provision for the Support of Public Credit was a proposal for a new tax. He knew the people wouldn't like it. In an agricultural society in which most families met all their own needs, people saw little point in sending money to a distant government. He waited until the end of 1790 to ask Congress to impose the whiskey tax. Not surprisingly, there was vehement anger. Southern states warned that they would simply ignore the tax. Others called a federal tax an act of war on the citizens."


Because of the anger against the tax, an uprising started in the western Pennsylvania.

"The roots of the uprising (The Whiskey Rebellion) lay in Hamilton's excise on distilled liquor. Passed in early March 1791, the excise imposed a modest tax of seven and a half cents per gallon on distilled whiskey and rum. Hamilton proposed the tax to help defray the costs of funding and assumption."


"The whiskey tax that inspired the rebellion remained in effect until 1802. Under the leadership of President Thomas Jefferson and the Republican Party (which, like many citizens, opposed Hamilton's Federalist tax policies), the tax was repealed after continuing to be almost impossible to collect."


"Hamilton's plan worked, in large part because the American economy kicked into high gear in the 1790s. Another war between France and England helped increase America's share of the world market; trade in the West Indies that had been stunted by the Revolutionary War was revived; and industry, particularly in the North, began to develop. America, the new kid on the block, now had some change in its pockets."


Hamilton's two-part plan allowed the new nation to make a name for itself, and grab hold of a strong financial footing. After bitter conflict, this plan moved parties toward compromise.

"Hamilton's plea for the bank had a continuing life in American history, partly from the influence it exerted upon Chief Justice John Marshall. When Daniel Webster made oral arguments for the Second Bank of the United States in the landmark case of McCulloch v. Maryland in 1819, he quoted Hamilton's 1791 memo to Washington on the necessary-and-proper clause. In words that distinctly echoed Hamilton's, Marshall said that necessary didn't mean indispensable so much as appropriate."


"He lived, in theory and practice, every syllable of the Constitution. For that reason, historian Clinton Rossiter insisted that Hamilton's 'works and words have been more consequential than those of any other American in shaping the Constitution under which we live.'"


However, seven years after Hamilton died, the charter for the bank ended. The Bank, not having any defenders, was turned down, and its charter was not renewed.
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“Republican capture of the White House in 1800 and continued control did not bode well for the Bank, and when its first charter expired in 1811, the Senate rejected a bid to renew it. President Madison felt the consequences during the War of 1812, when there was no central bank to fund the military effort, and as a result he endorsed renewal in 1816.”


“But the charter of this Second Bank of the United States expired under President Andrew Jackson, another Bank foe, and Jackson let it lapse. In a curious irony, Jackson’s acting secretary of state, James Alexander Hamilton, opposed the very Bank his father had created. And this time there would be no quick renewal; although Congress allowed certain nationally chartered banks during the Civil War, the modern Federal Reserve system did not come into being until 1914.”


Long-Term

Hamilton’s arguments for the National Bank have been quoted for a long time, including in World War II.

“Henry Cabot Lodge later referred to the doctrine of implied powers enunciated by Hamilton as ‘the most formidable weapon in the armory of the Constitution...capable of conferring on the federal government powers to almost any extent.”


Alexander Hamilton’s role as Secretary of the Treasury has left a huge impact on the financial basis of America. His plan created a stable backbone for the growing nation, and left a huge impact on the financial system we have today.

“So I would suggest that his significance in American history is second only to that of George Washington.”

Henry Cabot Lodge later referred to the doctrine of implied power in the army of the Constitution most vividly, conferring on the federal government powers to almost any extent.

"If I were to suggest that the power of the Treasury shall be a stepping-stone to a more perfect system of finance, and that it shall be the financial institution and the economy that we finance is the financial principle, and then his allies," he added.

Another Hamilton's role as Secretary of the Treasury has been to create a stable backbone for the growing nation. This plan has a huge impact on the financial system we have today, as a model for each other to create a country.

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