

Hamilton and National Finances

What You Will Learn...

Main Ideas

1. Hamilton tackled the problem of settling national and state debt.
2. Thomas Jefferson opposed Hamilton's views on government and the economy.
3. Hamilton created a national bank to strengthen the U.S. economy.

The Big Idea

Treasury secretary Alexander Hamilton developed a financial plan for the national government.

Key Terms and People

Alexander Hamilton, p. 238
 national debt, p. 238
 bonds, p. 238
 speculators, p. 239
 Thomas Jefferson, p. 239
 loose construction, p. 242
 strict construction, p. 242
 Bank of the United States, p. 242

TAKING NOTES

As you read, take notes on the economic problems facing the nation when Alexander Hamilton became secretary of the treasury, as well as Hamilton's solutions to the problems.

Economic Problems	Solutions
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5. 6.

If YOU were there...

You live on a plantation in North Carolina in the 1790s. You have just heard that the federal government plans to pay most of the northern states' debts from the war. Your neighbors are outraged about this idea. It means more taxes and tariffs! New York and Massachusetts are far away, they say. Why should North Carolina farmers have to pay northern debts?

Would you pay other states' war debts? Why?

BUILDING BACKGROUND Some of the new nation's biggest problems were economic. The national and state governments had run up huge debts during the war. But the proposed solutions to these problems revealed differences in regional viewpoints. Southern planters and northern businesspeople had very different ideas about how the national economy should develop.

Settling the Debt

Alexander Hamilton seemed born with a head for economics. While still in his teens, he helped run a shipping company in his native British West Indies. Family friends then sent him to the American colonies for an education. Hamilton eventually married into a wealthy New York family and began practicing law. He served as Washington's aide and as a delegate to four Continental Congresses.

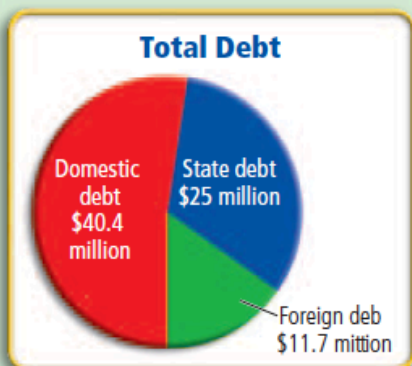
National Debt

As secretary of the treasury, Hamilton's biggest challenge was paying off the **national debt**—money owed by the United States—from the Revolutionary War. The United States owed about \$11.7 million to foreign countries and about \$40.4 million to U.S. citizens. During the war the government raised money with bonds. **Bonds** are certificates of debt that carry a promise to buy back the bonds at a higher price. The new government could not afford to keep this promise. Bondholders who needed money sold

Hamilton's Economic Plan

QUICK
FACTS

Alexander Hamilton developed a three-point plan to solve the nation's financial problems.



1 Deal with the Debt

- Take on the foreign and domestic debt by replacing creditors' old, low-value bonds with new, interest-bearing bonds
- Take over most of the states' \$25 million Revolutionary War debts

would build investor confidence in the stability of the new nation

2 Gain Revenue

- Pass a tariff to both bring in money and help American manufacturers

would free up state money for business and trade

3 Stabilize the Banking System

- Create a national bank
- Create a national mint

their bonds for less than the original value to **speculators**, or people who buy items at low prices in the hope that the value will rise and they can sell the items for a profit.

Hamilton wanted to pay the foreign debt immediately and gradually repay the total value of all bonds. The second part of his plan caused disagreements because paying full value would allow speculators to make a profit. Hamilton thought this was fair. He said, "He [the speculator] paid what the commodity [bond] was worth . . . and took the risks."

Thomas Jefferson disagreed. He thought the idea cheated bondholders who had sold their bonds at low prices. Jefferson wrote, "Immense sums were thus filched [stolen] from the poor and ignorant." But more politicians agreed with Hamilton. In 1790 the government exchanged old bonds for new, more reliable ones that were guaranteed.

States' Debts

The states owed \$25 million for Revolutionary War expenses. Hamilton wanted the federal government to pay for \$21.5 million of this debt. Hamilton believed that this action would help the federal government. He

thought that paying the states' debts would help the national economy. Debtor states would not have to spend so much on repayment and would have money to develop business and trade. Increased business and trade would put more money back into the national economy.

The South, however, did not want to help the federal government pay the debts of other states. States such as Virginia and North Carolina did not have many war debts. They thought Hamilton's idea was unfair. Patrick Henry said he did not believe that the Constitution gave Congress the power to pay state debts. Hamilton knew that he needed the help of southern representatives to get his plan approved.

Moving the Capital

Hamilton also knew that he had something to bargain with. Southern officials wanted to change the location of the nation's capital. Many southerners thought that having the capital in New York gave the northern states too much influence over national policy. Hamilton, Jefferson, and James Madison met in June 1790. Hamilton

promised to convince northern members of Congress to move the capital. Jefferson and Madison then agreed to gather support in the South for Hamilton's debt plan.

The compromise worked. The national capital was moved to Philadelphia in 1791 for 10 years. For the capital's permanent location, Washington chose a place on the Potomac River that included part of both Maryland and Virginia. The land was made up of swamps and farms. This site would eventually become the city of Washington, D.C.

THE IMPACT TODAY

Washington, D.C., and the surrounding areas are home to more than 7 million people today. The city is not only the nation's capital but also a major tourist attraction.

READING CHECK Identifying Points of View

How did southerners feel about the federal government paying state war debts, and how did Hamilton change their minds?



BIOGRAPHY

Benjamin Banneker (1731–1806)

Benjamin Banneker was born to a free African American family in rural Maryland. He attended a Quaker school but was largely

self-educated. He was a skilled mathematician and scientist. His mathematical skills prompted Thomas Jefferson to give him a job surveying the land for the new national capital.

Draw Conclusions How was Benjamin Banneker's life different from most African Americans' of the time?

Jefferson Opposes Hamilton

Hamilton and Jefferson did not cooperate for long. Instead, they began to disagree about how to define the authority of the central government. Hamilton believed in a strong federal government. Jefferson wanted to protect the powers of the states. Their conflict reflected basic differences in their opinions about democracy. Hamilton had little faith in the average individual. He once said that "the people . . . seldom judge or determine [decide] right."

Differing Views

Hamilton wanted a strong central government that balanced power between the "mass of the people" and wealthier citizens. He believed that his approach would protect everyone's liberties while keeping the people from having too much power.

Jefferson disagreed strongly with Hamilton's views of the average citizen's ability to make decisions for the country. He admitted that "the people can not be all, and always, well informed." However, Jefferson believed that it was the right of the people to rule the country.

Economic Differences

Hamilton and Jefferson also fought over how the country's economy should grow. Hamilton wanted new forms of economic growth. He wanted to promote manufacturing and business. He even suggested that the



U.S. Capitol in Washington, D.C.

Primary Source

POINTS OF VIEW

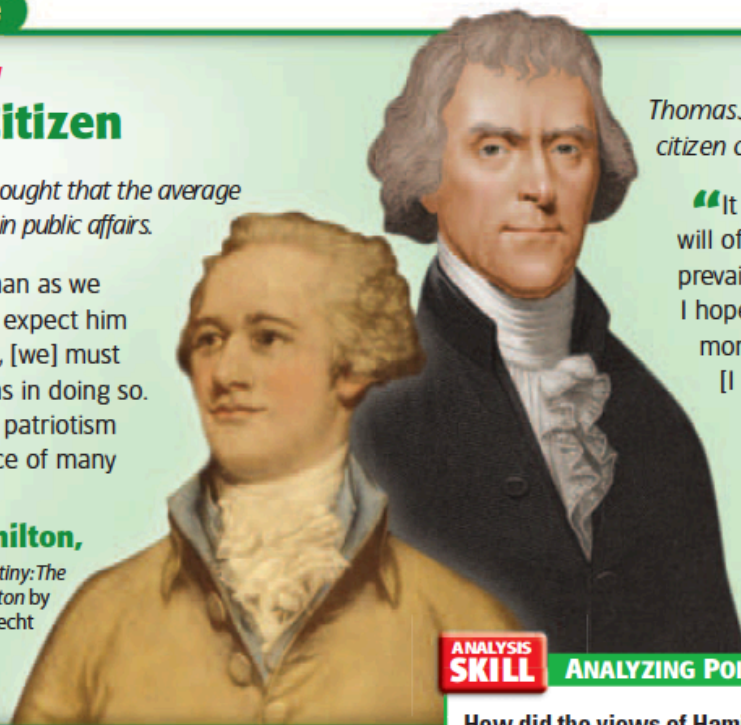
Role of a Citizen

Alexander Hamilton thought that the average citizen had no interest in public affairs.

“We must take man as we find him, and if we expect him to serve the public, [we] must interest his passions in doing so. A reliance on pure patriotism has been the source of many of our errors.”

—**Alexander Hamilton,**

quoted in Odd Destiny: The Life of Alexander Hamilton by Marie B. Hecht



Thomas Jefferson believed that each citizen could work to better society.

“It is my principle that the will of the Majority should always prevail [win] . . . Above all things I hope the education of the common people will be attended to; [I am] convinced that on their good sense we may rely with the most security for the preservation of a due degree of liberty.”

—**Thomas Jefferson,**

from Thomas Jefferson: A Biography in His Own Words

ANALYSIS SKILL

ANALYZING POINTS OF VIEW

How did the views of Hamilton and Jefferson differ?

government award a prize to companies that made excellent products.

In addition, Hamilton wanted to pass higher tariffs. Known as protective tariffs, these taxes would raise the prices of foreign products. Hamilton hoped this would cause Americans to buy U.S. goods. As a result, American manufacturing would be protected from foreign competition.

Jefferson worried about depending too much on business and manufacturing. He believed that farmers were the most independent voters. They did not depend on other people's work to make a living.

Jefferson wrote, “Our governments will remain virtuous [pure] for many centuries; as long as they are chiefly agricultural.” Jefferson wanted to help farmers by keeping the costs of the goods they bought low. Lower tariffs would help keep prices low.

READING CHECK Summarizing

What were the main differences between Hamilton and Jefferson concerning the power of the nation's government?

A National Bank

Hamilton's and Jefferson's differences became more and more public in early 1791. The two men had very different opinions about how the government should approach its economic problems.

Hamilton's Plan for a National Bank

Hamilton wanted to start a national bank where the government could safely deposit its money. The bank would also make loans to the government and businesses. Hamilton also thought that the United States should build a national mint, a place to make coins. Then the country could begin issuing its own money.

Hamilton knew that people who wanted to protect states' rights might have a strong reaction to the idea of a national bank, so he suggested limiting it to a 20-year charter. After that time Congress could decide whether to extend the charter. Hamilton also asked each state to start its own bank so the national bank would not have a monopoly.

THE IMPACT TODAY

The U.S. Mint was established in 1792 and now produces between 11 billion and 20 billion coins each year.

Jefferson Opposes the Bank

Both Jefferson and Madison believed that Hamilton's plans for the economy gave too much power to the federal government. They also thought the U.S. Constitution did not give Congress the power to create a bank. But Hamilton quoted the elastic clause, which states that Congress can "make all laws which shall be necessary and proper" to govern the nation.

Hamilton declared that the clause allowed the government to create a national bank. Hamilton believed in loose construction of the Constitution. **Loose construction** means that the federal government can take reasonable actions that the Constitution does not specifically forbid.

Jefferson thought that the elastic clause should be used only in special cases. He wrote to President Washington, "The Constitution allows only the means which are 'necessary,' not those which are merely 'convenient.'"

Jefferson believed in strict construction of the Constitution. **People who favor strict construction** think that the federal government should do only what the Constitution specifically says it can do.

President Washington and Congress agreed with Hamilton. They hoped a bank would offer stability for the U.S. economy. In February 1791 Congress enacted the charter for the **Bank of the United States**—the country's first national bank. The bank played an important role in making the U.S. economy more stable.

READING CHECK Drawing Conclusions

Why did Congress and the president agree to create a national bank?

SUMMARY AND PREVIEW Washington and Hamilton developed plans for paying the national debt. In the next section you will read about the U.S. neutrality policy.

Section 2 Assessment

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Online Quiz

KEYWORD: SC7 HP7

Reviewing Ideas, Terms, and People

- Describe** What economic problems did the new government face?
 - Summarize** What compromise did **Alexander Hamilton, Thomas Jefferson**, and James Madison reach regarding repayment of state debts?
- Identify** What disagreement did Jefferson and Hamilton have over the central government?
 - Draw Conclusions** Hamilton was a New Yorker, while Jefferson was from Virginia. How do you think that affected their views on the economy?
 - Elaborate** Do you agree with Hamilton or Jefferson regarding the average citizen's ability to make decisions for the country? Explain your answer.
- Recall** Why did Jefferson oppose the creation of the **Bank of the United States**?
 - Contrast** What is the difference between **loose construction** and **strict construction** of the Constitution?
 - Elaborate** Defend Alexander Hamilton's stance in favor of the creation of a national bank.

Critical Thinking

- Identifying Solutions** Review your notes on U.S. economic problems and Hamilton's solutions. Then copy the chart below and use it to show how Hamilton's views on the economy differed from those of Thomas Jefferson.

	Hamilton	Jefferson
Bonds		
Economy		
Tariffs		
National Bank		

FOCUS ON WRITING

- Gathering Information about Hamilton and Jefferson** Both Hamilton and Jefferson were strong leaders who helped shape the government of the young United States. What could you say about either of them to support a nomination for a Nobel Prize?