

The Reason Behind a National Debt:

◦ Henry Knox: secretary of war, Thomas Jefferson: State Dept,

Alexander Hamilton: Dept. of the Treasury

◦ brilliant economic thinker, admirer of Brit system of finance

◦ directed making of a national government

◦ public debt fell in 3 categories: \$11 mill to foreigners, \$24 mill each

to national/state governments, to American citizen who supplied resources

◦ debts consisted of notes issued during Revolution

◦ speculators purchased notes at fraction of face value

◦ full payment brought speculators enormous windfall profits

◦ Nationalists wanted to assume debts of states as national debts

◦ Hamilton proposed not on public credit - urged Congress to assume state debts &

combine them into a national debt

◦ at center of plan for a powerful national state

Hamilton's Bank:

◦ gov would store funds in bank & supervise its operations

◦ print and back the national currency, stocks payable in gov't securities

◦ US bank was a carbon copy of the Bank of England

◦ to fund national debt, Hamilton called for federal excise tax on wines, coffee, tea, and spirits

◦ national bank & federal excise measures completed org. of gov't finances

◦ constituted full scale replica of treasury-driven gov't of Great Britain

Jefferson versus Hamilton:

◦ Jefferson joined opposition of Hamilton's economic plans

◦ Hamilton responded with clause in Constitution "necessary & proper"

- majority sided with Hamilton
- J argued that federal bank was unconstitutional, arouse public opposition - penalize ordinary citizens
- J argued that H used gov. securities and stock in Bank of US to buy loyalty of members of Congress
- enabled Hamilton to control congress from non-elective seat
- Hamilton insisted that centralization of power was necessary to survival of the republic
- until 1729 argument of Hamilton's centralizing schemes remained among govt officials
- Hamilton tried to mobilize commercial elite on side of gov.
- M and J struggled to hold off the perceived monarchial plot until citizen could be aroused to defend their liberties

The French Revolution:

- Treaties signed in 1778 allied US w/ France
- Americans supported French Revolution of 1789 § French republicanism
- gratitude for French help during American Revolution and hopes for international republicanism faced severe tests when French executed thousands and threatened sovereignty of nations by declaring war of all ppl against monarchies
- Brit § France went to war in 1793, Washington declared US neutral
- nations' commerce § financial health of gov't depended on good relations w/ Great Britain
- viewed Britain as defender of hierarchal society § ordered liberty against homicidal anarchy of French
- Jeffersonians sympathized openly w/ French as Federalists did w/ British

The Reason Behind a National Debt

- 114\$ million owed to foreigners-primarily debts to France incurred during the revolution

- 24\$ million owed by the national and state governments to American citizens who had supplied food, arms & other resources to the revolutionary cause

- at the center of Alexander Hamilton's plan for a powerful national state

Hamilton's Bank

- gov. would store its funds in the bank & supervise its operations, but the bank would be controlled by directors representing private stockholders

- would print & back the national currency & would regulate other banks

- made stock in the bank payable in government securities making it 1) adding to the value of securities, 2) giving the bank a powerful influence in the fiscal stability of the government, 3) binding the holders

of the securities even closer to the national government

Jefferson vs. Hamilton

- When Hamilton proposed the Bank of the U.S., Congress immediately noticed similarity to the Bank of England

- Thomas Jefferson joined the opposition arguing the Congress had no constitutional right to charter a bank

- Hamilton and his supporters, a.k.a. Federalists, insisted that centralization of power & a strong executive were necessary to the survival of the republic

The French Revolution

- America remained neutral since France had helped during the revolution & since Great Britain provided 90% of American imports

- Federalists genuinely sympathized w/ the British

- Jefferson & friends on the other hand, applauded the French for carrying on the republican revolution Americans had begun in 1776

- Jeffersonians sympathized as openly w/ the French as Federalists did w/ the British

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The reason Behind ~~the~~ a National Debt.

- Alexander Hamilton was head of Department of Treasury
 - directed the making of a national gov.
- 1789, Congress asked secretary of Treasury to report on public debt.
 - 3 categories of debt: owe to foreigners (France), 2nd & third = American citizens supplied resources for Revolution
- "Constitution would create gov. likely to pay debts."
- 1790, gov. debt concentrated on businessmen & speculators (northeastern)
- Hamilton wanted to assume debts of states as part of national debt. - concentrate on public creditors, need for taxation, & expand civil service
- Jan. 1790 - Hamilton urged Congress to assume state debts & combine with federal gov. foreign & domestic debts.
 - Under plan, gov. would pay annual rate of interest of 4%.
 - would bring economic power to gov.

Hamilton's Bank

- asked Congress to charter Bank of U.S.
 - gov. would store funds in bank's & supervise operations. controlled by directors (private stockholders)

- Bank would print & bank national currency & regulate ^{other banks}
- idea: stock in the bank payable in gov. securities
 - 1) adding value of securities
 - 2) Giving bank a powerful interest
 - 3) security closer to national gov.
- to fund, Hamilton taxed federal excise wines, tea, & spirits.
- Purpose: produce revenue but also establish govern-ment powers to create internal tax & collect it
- April 1791 - national bank & federal excise measured Hamilton's organization of gov. finances.
- Replica of treasury-driven gov. of Great Britain.

Jefferson vs. Hamilton

- Jefferson said, Congress had no ~~economic~~ ^{constitutional} right to charter a bank & allow fears of centralized despotism.
- It responded federal power under clause in constitution empowering congress "to make all laws which shall be necessary & proper"
- Pres. Washington & majority of Congress sided w/ H.
- J. Federal Bank = unconstitutional, it would arouse public opposition & funding debt would reward speculators & penalize citizens.
- ↑ H. used gov. securities & stock Bank of U.S. to buy ^{loyalty}
- charged "corrupt squadron" of "paper men" in Congress enabling H. to control congress from nonelective stat.
- H. & supporters (federalist) insisted on centralization of power & strong executive were necessary
- 1792 - argument remained among gov. officials
- H & supporters tried to mobilize commercial elite
- Madison & Jefferson struggled to hold off perceived monarchal plot until citizens aroused to defend rights

The French Revolution

- not escape involvement (Americans)
- 1778, Treaties signed w/ France, Americans had to support French Revolution 1789
- Jefferson argued whether treaties applied to New French Republic
- 1793, French Revolution began to execute 1000s of aristocrats, priests, & other counterrevolutionaries
- French threatened sovereignty of nations by declaring war of all ppl against all monarchies.
- War between Britain & France 1793, Pres. Washington declared neutrality, → abrogating obligations made in 1778 treaties w/ French.
- 90% of imports came from Britain

