

# Handout A: Background of the National Bank Debate

Under the Articles of Confederation, Congress was to raise any funds that the central government needed through contributions of money from the states and domestic and foreign loans; Congress had no power to tax or to regulate trade. However, the economic condition of the states was equally bleak, and the states sought to raise their own revenue by levying tariffs against one another, which further crippled domestic trade. There was no feasible system for restoring order in the economy, and the hard-won union was in dire jeopardy by the latter 1780s. Under the Constitution of 1787, the enumeration of Congress's powers included the power to tax, to regulate interstate trade, and to make all laws that were necessary and proper to carry out its constitutional duties.

Alexander Hamilton, fearful of the disorder and powerlessness that characterized the weak union of the Articles of Confederation, crafted a plan that would increase the power of the national government to regulate the economy and foster a modern commercial republic. He believed all sections of the country should be tied together in mutual economic dependence and cooperation. Critical for the system would be a Bank of the United States, modeled after the Bank of England. Hamilton and his supporters believed the new bank would serve as a safe depository, oversee the financial business of the U.S. government, issue stable paper currency, and facilitate commerce for the benefit of all. The Bank would simplify the collection of taxes and ease the flow of money across all regions of the country.

Although the Constitution's explicit grants of congressional power included the authority to tax, to regulate interstate commerce, and to coin money, it was silent on the issue of a national bank. Other members of Washington's cabinet were skeptical regarding the constitutionality and the practical benefits of Hamilton's bank. Jefferson's view of the ideal future of the nation emphasized the virtues of rural and small-town life, not industrialization, urbanization, or shipping and trade. He envisioned a decentralized society in which small property owners engaged in primarily agrarian pursuits and small-scale businesses. Jefferson, James Madison, and their supporters were suspicious of the central management and elitism inherent in Hamilton's plan. Jefferson and Madison warned against the dangers of corruption they expected to develop as wealthy bankers in the Northeast gained increasing control over national policy, particularly at the expense of those in the South and West. Jefferson and Madison, fearful of a tyrannical aristocracy that reminded them of the British system, counseled against Hamilton's plan.

George Washington was a cautious leader who carefully considered both the short-term and long-term consequences of his actions. He was always mindful of the power of his example as the nation's first president. He well understood the desperate financial position of the nation he and the other Founders had ushered into being. He had undertaken great risks to his own life, his fortune, and his sacred honor to command the new nation's army, and then to preside over the convention in which the Constitution was written. Washington agreed with the likely practical benefits of Hamilton's far-reaching bill, but he instructed each of his advisers to prepare a report to answer the question, "Does the Constitution permit Congress to establish a national bank?" Secretary of State Jefferson, Attorney General Edmund Randolph, and Secretary of the Treasury Hamilton each explained his interpretation of the Constitution in memos they wrote at the president's direction. Their differing approaches to federalism, or the amount of power that the Constitution grants to the national government in comparison to the states, set the stage for two enduring political parties in the United States. The American public ever since that time has struggled to define the proper limits and relationships to be applied to state and national government.

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## Warm-up Question:

If you were President Washington, what kinds of evidence would you be looking for in the reports to be provided by your cabinet officers?

(Excerpts of their reports are provided in **Handout B: Cabinet Member Reports.**)

## Review Questions

1. What were the most significant economic problems facing the new nation in the 1780s?
2. How did Hamilton believe the Bank of the United States would unify the economically diverse nation?
3. Why were Jefferson, Madison, and other southerners suspicious of the Bank?
4. How was Hamilton's view of the ideal future of the republic different from that of Jefferson?
5. How did the debate over the Bank contribute to development of two distinct political parties in the United States?