

Hamilton's Financial Plan

As president, George Washington was faced with many challenges. Washington's strengths were in the military and handling foreign affairs. Washington relied on a key member of his cabinet for assistance with domestic issues, his Treasury Secretary. At only 32, Alexander Hamilton was tasked with creating a financial plan for the New Republic. The United States of America owed millions of dollars from the American Revolution. In addition to extensive debt, the United States was transitioning from a bartering economy to a **capitalist economy** - an economy based on money. Alexander Hamilton believed in a strong central government that would pay all its debts and help build a stable economy based on manufacturing. Hamilton presented several ideas to Congress to create a stable economy.

- **Part One** - In addition to the large debt the government owed, it had an issue with credit - no one wanted to lend the US government money. Hamilton wanted to **assume** (take over) the entire debt of the federal and state governments. Once the debt was assumed, the federal government could sell bonds to repay the debt. The repayment of these debts would prove to others that the United States was a good investment and restore the credit of the country.
- **Part Two** - This part of the of the plan was to create a National Bank to hold the funds raised from taxes and bond sales. The bank would be owned by the government and people that invested in the bank. The money would be used to make loans to businesses and develop roads and build bridges. The government could issue paper money that was backed by gold and silver thereby creating a common **currency** (system of money) between all of the different states.
- **Part Three** - The government needed money. This part of the plan was to raise money by taxing items that were not necessary to daily life. The taxing of "luxury" items such as carriages and whiskey was an **excise tax**, a tax on a specific good. Many farmers were against the excise taxes because they had to pay taxes to make and sell whiskey from the corn and wheat they grew. In addition to taxes, Hamilton wanted to create **protective tariffs**, high taxes on imports. These tariffs would protect Northern industries from foreign competition, but did little to benefit the South.



The First National Bank in Philadelphia

STOP Stop and Discuss

1. Why did Hamilton need to create a financial plan for the United States?
2. Describe the first part of Hamilton's financial plan.
3. What is the purpose of the National Bank?
4. How did Hamilton propose to raise money for the United States?

↳ Complete the first part of your Doodle Notes
"Hamilton's Financial Plan"

Hamilton's Financial Plan Faces Opposition

Hamilton's financial plan was not met with overwhelming support in Congress. Arguments began over the issue of assuming state debts, taxes, and the formation of a National Bank.

One of the first arguments with Congress concerned the assumption of state debts by the federal government. Congressmen from Southern States were reluctant to assume debt from other states. During this same time, Congressmen were also debating the location of the capital of the nation. In order to resolve both issues, Alexander Hamilton, Thomas Jefferson and James Madison created the *Compromise of 1790*. The final compromise was created in secret in a private dinner meeting between Hamilton, Jefferson and Madison. The 'dinner table bargain' allowed the first part of Hamilton's financial plan to pass Congress by placing the capital of the United States in Virginia. The District of Columbia was created, and both sides celebrated a victory.



Watch a video clip on the "table bargain" from the musical Hamilton.

Listen to "Cabinet Battle #1" from the musical Hamilton.



Another argument had to do with the constitutionality of the National Bank - did the government of the United States have the authority to establish a bank? According to Alexander Hamilton, yes! Hamilton pointed to Article I Section 8 of the Constitution. It said the government had the power to "make all laws" to "provide for the general welfare." The formation of a National Bank would be a "necessary and proper" power of the central government. Hamilton supported a loose interpretation of the Constitution.

Hamilton was opposed by Secretary of State Thomas Jefferson and James Madison. Jefferson felt the National Bank was not directly stated in the Constitution and was therefore against the law. Jefferson believed in a strict interpretation of the Constitution. James Madison agreed with Jefferson. Madison stated that according to the Tenth Amendment, "all powers not endowed to Congress are retained by the States (or the people)." He also believed the bank was unconstitutional.

When Congress passed the Bank Bill, it fell to George Washington to make the final decision - did he sign the bill authorizing the National Bank, or veto it? Washington carefully investigated both sides of the issue, asking for written opinions from members of his cabinet. Ultimately Washington was convinced that the Constitution allowed for the creation of a National Bank, and he signed the bill into law.

STOP

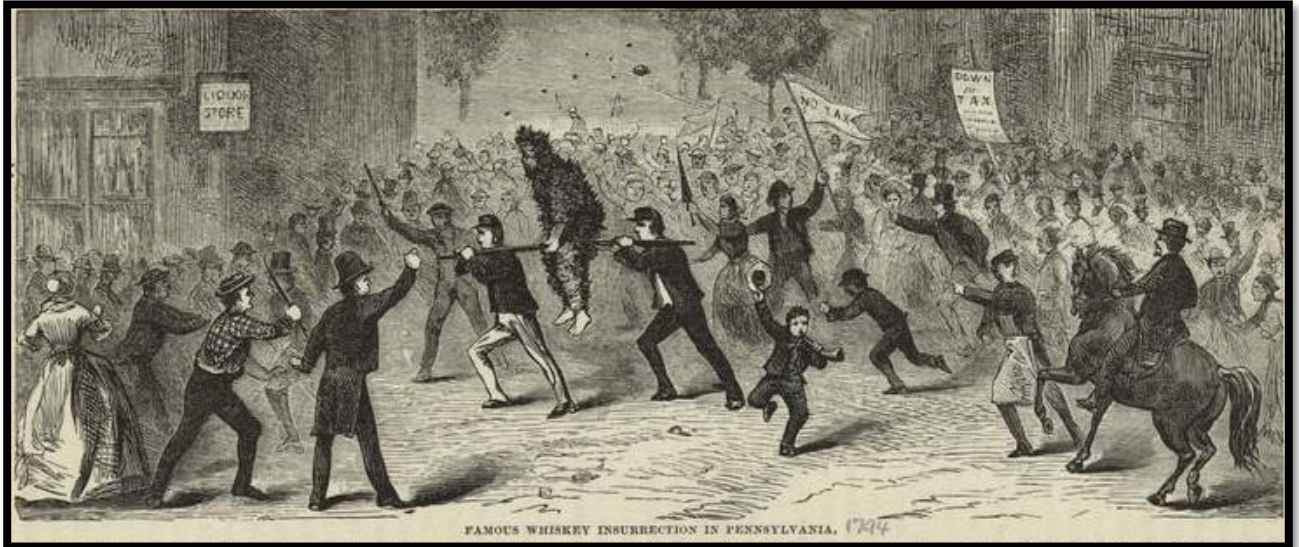
Stop and Discuss

1. How did Hamilton convince Congress to approve of his idea to assume state debt?
2. Why did Hamilton think the National Bank was constitutional?
3. Why did Jefferson and Madison think the National Bank was not constitutional?
4. What was Washington's final decision on the National Bank? Why do you think he made that decision?

Complete the next part of your Doodle Notes -
"Hamilton's Financial Plan Faces Opposition"

Hamilton's Financial Plan Fuels Rebellion

One final result of Hamilton's financial plan was not a debate in Congress, but an armed rebellion against the government. From 1791-1794, farmers in Pennsylvania attacked tax collectors and burned down government buildings to protest the Whiskey Tax.



"Famous Whiskey Insurrection in Pennsylvania", an 1880 illustration of a tarred and feathered tax collector being made to ride the rail

Many farmers were upset about the taxes placed on whiskey - not because they were wanting to drink it, but because they created it. In the 1790s, farmers grew grain in Pennsylvania, but it was costly to transport. Instead of selling the grain, they made whiskey. It was easy to sell and transport. When the Whiskey Tax was passed, farmers had difficulty paying the cash required by the government. Their actions intensified from protest to armed rebellion. Between 1791 to 1794, farmers harassed tax collectors and refused to pay the tax. In 1794, a confrontation between farmers and tax officials resulted in mob violence and the deaths of several people.

Fearing an escalation of violence, Washington personally led over 13,000 soldiers into Pennsylvania. Washington claimed that he would not allow "a small portion of the United States dictate to the whole union." President Washington, accompanied by Alexander Hamilton, was successful in stopping the rebellion. By the time the president arrived, the presence of so many troops had scared the farmers into hiding. No battle ever took place.



Washington reviews troops.

While a battle did not occur, the **Whiskey Rebellion** was significant due to Washington's reaction. The rebellion was the first test to federal authority, and unlike Shay's Rebellion, resulted in strengthening the government of the United States. The Whiskey Rebellion reinforced the idea that the federal government has the authority to pass laws impacting all states.

Complete the last part of your Doodle Notes

