Hamilton’s First Bank Proposal

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The Bank of England

- The Bank of the United States is closely modeled after the Bank of England.
  - BOE Opened July 30, 1694.
  - Initial business is to help fund the Gov’t with £1.2m. Does so in paper notes rather than specie.
  - An engine of credit from the start.
  - Lending to the government is either direct or through the purchase of gov’t debt (discounting).
  - In addition to lending to the gov’t, the Bank made commercial loans, took deposits, and issued notes aiding and deepening financial intermediation in GB.
  - Profitable from the start paying dividends of 7% or more.
A look at the Bank of England

- The Bank, however, was not an overly dominant force. It did not have a monopoly on note issue and it did not act as a clearing house.

- Helped establish credible commitment on the part of the government by originating most of the loans. It thus, provided oversight of the gov’t especially with respect to payment of interest on the debt.

- Eventually, manages the government debt and a range of government securities. By 1770s it manages 3/4 of the government debt for a fee and holds about £11.7m.

- In London, payments dominated by Bank of England notes. Probably kept £3m in gold for every £5m in notes issued.

- As well its short-term commercial lending grows in importance.

- Gradually becomes a banker to banks.
A look at the Bank of England

- In summary, the BOE was an essential element in managing the national debt, issuing notes, and acting as a purveyor of credit to industry.

- It was these functions that Hamilton admired and wished to copy.
The First Bank’s creation is intimately linked with the funding of the debt.

As of 1789, U.S. financial conditions were dire.

- Customs duties generate a mere $162,000 and country was in default on Revolutionary War debt.
- No national bank and poorly developed financial markets and banking systems.

By 1793 a remarkable transformation.

- Customs duties are $4.7m and gov’t can fund itself and pay interest on debt.
- There is a First Bank of the United States with an initial raising of $10m in capital.
First bank of the United States and U.S. financial development

- Branches in several cities.
- Additionally, 10 newly chartered state banks.
- Mint opens and is coining gold and silver dollars.
- 44 new business charters issued, compared to 7 during the entire colonial period.
- Securities markets in Bost., NY, and Phil. price the $63m of national debt daily as well as valuing the National Bank’s stock and state bank stocks.
First bank of the United States and U.S. financial development

- System is able to survive financial panics in 1791 and 1792 (more later).

- By 1793 U.S. financial markets are getting a modern feel to them, where as in 1789 they were fairly primitive.

- Historians tend to gloss over this, but at the time there were only 2 other modern financial systems.
  - Dutch started 2 centuries prior.
  - GB started 1 century prior.
  - By 1793 it is likely that the U.S. systems had eclipsed them. All within the span of 3 years.

- Recall it is pretty much historically impossible to find a modern well functioning economic system without a sophisticated financial system (perhaps China).
First bank of the United States and U.S. financial development

- As well, financial difficulties especially in wartime are common, but financial revolutions are rare.

- Hamilton began on his plans for the U.S. financial system between 1779 and 1781. He is anticipating a Constitutional Convention to reform the Articles as early as then.

  - In a 1781 letter to Robert Morris “The tendency of a National Bank is to increase public and private credit. The former gives power to the state for the protection of its rights and interests, and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consists of the true wealth and prosperity of a state.”

  - Turns out to be quite prophetic.
Hamilton is well read in the economics of the time and is very familiar with the history of banking, both Venetian, Dutch, and British.

He anticipates that the Bank of the United States would be privately chartered, funded by a combination of foreign debt and domestic equity.

The Bank would issue notes and these notes would be redeemable in specie, thus stabilizing the value of currency.
First bank of the United States and U.S. financial development

- The gov’t would be a part owner receiving a share of profits and the Bank would loan money to the gov’t facilitating the development of a market in public debt and bolstering the public finances.

- Notably the Bank would not be a monopoly.

- “Most commercial nations have found it necessary to institute banks and they have proved to be the happiest engines that ever were invented for advancing trade.” [AH to Robert Morris in 1781].

- Hamilton goes on to publish 6 essays on his ideas in a NY newspaper in 1781 under the title “The Continentalist”.
As we discussed in the previous lecture restructuring the debt goes smoothly.

Money is raised from an increase in import duties and some excise taxes.

- Tariffs kept relatively low – they are primarily for revenue not protection.
- AH is also relying on improved prospect for growth and the ability to raise additional debt to smooth future taxes as needed.
- It is here were the Bank of the United States becomes a crucial ingredient. Needed to provide funding to the government and to help develop financial markets so that debt can be easily subscribed.
In December 1790, Hamilton issues the Bank Report to Congress and emphasizes 3 main advantages obtained by creating the Bank of the United States.

- It would deepen financial markets encouraging commercial activity and economic growth.
- It would provide loans to the government especially in emergencies.
- It would facilitate the payment of taxes because Bank notes and deposits would increase money in circulation.

The Bank would be privately chartered by Congress.

- Government retains 20% share.
- Raise $10m from private subscribers.
- Some government oversight.
• Investors could pay for stock with 1/4 in specie and the rest in U.S. government 6% consols.
  • The Bank could open branches, which is does in Bost., NY, Balt, and Charleston the following year.
  • Stock is oversubscribed in July of 1791.

• States copy and 17 state Banks are chartered between 1791-1795 bringing the total to 20 by 1795 and to 28 by 1800.
  • Form a national banking network.

• Securities markets expand with exchanges in NY, Bost, Phil, Charleston, and Baltimore.
  • Helps spur U.S. economic growth to the 1-1.5% range.
• The argument for the Bank was hotly contested on economic and Constitutional grounds.
  • Southerners in general oppose it.
    • Thought anti-agrarian with farmers at the mercy of city institutions. As well, ability to issue notes sparked fears of inflation.
    • Fear its size and hence potential monopoly power.
  • Madison, Jefferson, and Randolph oppose it on Constitutional grounds as well.
  • Constitution does not grant the gov’t the power to incorporate a bank.
    • Argue Constitution is limited document.
How are we to think about this.

In the Constitution there are **enumerated** powers: those powers expressly listed in the document, and

Article 1, Section 1 states "All legislative Powers herein granted shall be vested in a Congress of the United States."

So if a legislative power is not enumerated, then Congress doesn’t have it.

**general powers**: those given to the gov’t to serve the general welfare of the people. Contained in the “general welfare clause” which allows Congress to enact laws that it sees fit to support the common good, and “necessary and proper clause, which allows Congress to enact laws that are necessary to carry out its enumerated powers.
Madison insisted that Hamilton wanted to use the government to establish the national bank as a corporation – a power that fell outside of Article 1, Section 8, as a power granted directly to Congress. Attorney General Randolph told President Washington that he agreed with Madison’s reasoning.

Jefferson dislikes all corporations and further argues;

“...the foundations of the Constitution [was] laid on this ground that all powers not delegated to the U.S. by the Constitution, nor prohibited by it to the states are reserved for the states or the people.’ [10th amendment]. To take a single step beyond the boundaries drawn around the powers of Congress, is to take possession of a boundless field of power no longer susceptible of any definition.”
• Washington asks Madison to draft a veto in case he decides against the Bank.
  
  • Bases it on the Constitution not warranting the Act.
  
  • The Constitution is a grant of particular powers and the “necessary and proper” clause should not be considered as granting powers other than those consistent with “the incidentality to an express authority.”
  
  • It is not possible to discover within the Constitution a power to incorporate a Bank. Indeed the power of incorporation was rejected at the Convention.
  
  • The Bank bill is not a borrowing of money or a levy of taxes but the exercise of a power not enumerated.
• It is also not necessary for performing any of the enumerated powers

• “necessary and proper” can not mean unlimited discretion. At a minimum a measure that comes within the meaning of a clause and “to means necessary to the end and incidental to the nature of specified powers.”

• Madison worries particularly along the following lines. “To borrow money is made the end and the accumulation of capitals implied as the means. The accumulation of capital is then the end and a bank implied as the means. The bank is then the end and a charter of incorporation, a monopoly implied as the means. If implications thus remote and multiplied can be linked together, a chain may be formed that will reach every object of legislation, every object within the whole compass of political economy.”

• Bank bill a usurpation destroying the main characteristic of the Constitution.
• Appears different from his writings in Federalist 44, where he strenuously defends the necessary and proper clause (I have attached that part of the article to the lecture notes).

• “and that no axiom is more clearly established in law, or in reason that whenever the end is required, the means are authorized; wherever a general power to do a thing is given, every particular power for doing it is included.” (Madison)

• Hamilton’s reply (written on the night of Feb. 22, 1791 at 79 3rd Street). Based on necessary and proper clause. Under Article I, Section 8 of the Constitution, Congress has the power ”to make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or any Department or Officer thereof”.
• Hamilton view of necessary is now broader "needful, requisite, incidental, useful, or conducive."

• If it useful for Congress to charter a bank to collect taxes, then Congress has that power.
  
  • He adds some boundaries: "The relation between the measure and the end [...] must be the criterion of constitutionality" (means-ends scrutiny in today's legal parlance)

  • His response is seen as the basis for a broad interpretation of government power under the Constitution. Makes the argument for implied powers of government.

  • It is in concert with the writings in Federalist 44. “If the end be clearly comprehended within any of the specified powers, and if the measure have an obvious relation to that end and is not forbidden by any particular provision of the Constitution, it may safely be deemed to come within the compass of the national authority.”
“this general principle is inherent in the very definition of Government and essential to every step of the progress to be made by that of the United States; namely, that every power vested in a Government is in its nature sovereign, and include by force of the term, a right to employ all means requisite and fairly applicable to the attainment of the ends of such power;”

Bases argument on the fiscal policy nature of the Bank; it will help with the collection of taxes through printing notes redeemable in specie and that can be used to pay taxes, it will help with the payment of the debt, and it will aid raising future debt when necessary.
• “The power which can create the Supreme law of the land, in any case, is doubtless sovereign as to such case. This general & indisputable question puts at once an end to the abstract question – Whether the United States have power to erect a corporation.”

• Basically, Hamilton is arguing that any power is available if not prohibited by the Constitution. This is a very elastic interpretation.

• “It has been questioned by some, whether the Act of Congress, for establishing the Bank of the United States, is Constitutional; but if it is a useful means for carrying into effect any of the powers specifically vested in the government of the United States, and does not infringe the rights of any individual state or persons, on what principle can it be unconstitutional.”
• It seems to me, that giving a monopoly as the government’s fiscal agent would give the Bank an enormous advantage over competitors.

• The U.S. after Jackson and prior to the Federal Reserve Act has no national bank, yet has remarkable economic success and carries out its fiscal policies without significant difficulty.

• However, at the time there was not a sophisticated financial system in the U.S. so an institution like the First Bank would have been more useful than at later dates when there exists a well developed private banking system.

• Washington signs the bill on Feb., 25.
First bank of the United States and U.S. financial development – an interpretive excursion.

- Washington initially viewed the veto power as one to be used only when a law passed by Congress was unconstitutional, not for reasons concerning his agreement with the legislation.
- There was no judicial review at the time, that does not come until Marbury v Madison.
- However, we can uncover how the Marshall led Court would have ruled by looking at his decision in McCulloch v Maryland (1819).
  - Md. decides to tax the Second Bank of the United States' notes.
  - It is ruled unconstitutional by the court 7-0 (only 7 justices initially).
  - Can a state tax an agency of the U.S. government.
    - The 2nd Bank is a fiscal agent of the Treasury.
First bank of the United States and U.S. financial development – an interpretive excursion.

- It is a bit ironic that the First Bank Charter is not renewed by Madison in his first term and that the Second Bank is chartered in his second term.
- Madison accepts the precedent of the First Bank saying it is proper to defer to the judgement of several Congresses.
- Says deference is especially appropriate given the Bank’s "almost necessity."
- Most likely influenced by the financing of the War of 1812.
First bank of the United States and U.S. financial development – Excursion continued.

- Gov’t gives it an exclusive charter and owns 20%. The President with the consent of the Senate appoints 5 of its 25 directors.
- It also does commercial banking, and is like the 1st Bank a monopoly sponsored enterprise.
- It’s notes were tender for payments to the U.S. gov’t, which effectively makes them universally accepted.
- Treasury keeps its deposits and specie at the Bank.

- Marshall’s opinion.
  - In some places almost word for word what Hamilton wrote almost 30 years prior.
  - MD argues that the laws to be authorized are to be “necessary and proper” for the purpose.
First bank of the United States and U.S. financial development—Excursion continued.

- "necessary and proper" "necessary or proper". Convenience is not a justification, but must be "indispensably requisite".

- Marshall rejects the argument and indicates that convenience is a justification. Necessary implies that any means that accomplish the end are allowable. Does not mean absolutely necessary, a phrase that appears in Article 1, Section 10.
  - Uses the exact 4 adjectives as Hamilton: "needful, requisite, useful, and conducive" and adds "convenient."
  - The legislature must be able to "avail itself of experience, to exercise its reason, and to accommodate its legislation to circumstances."
  - Marshall fears that the national gov’t will fail without being able to exert discretion, and that discretion will not undermine the enumerated powers as Madison had argued earlier.
First bank of the United States and U.S. financial development—Excursion continued.

- Describes bank creation “a convenient, a useful, and essential instrument in the prosecution of [Congress’s] fiscal operations” and an appropriate mode of executing the powers of government.”

- Constitution needs to adaptable so as not to grow outdated
  - Some might argue that is what amendments are for.
• He casually dismisses the notion that the discretion granted will jeopardize what everyone knows. “This government is acknowledged by all to be one of enumerated powers.”

• In contrast to Madison who gave examples of enumerated powers that were not left to implication, he gives 3 examples of unenumerated powers: to carry mail between post offices, to punish any violations of its laws, and to require congressional oaths of office.

• Of all these examples Madison would have found them easy to justify. There is a definite connection between means and ends in all of them. The power to carry mail is “incident to the nature” of enumerated powers in Article 1 Section 8, and defending its laws is incident to the ability to make them.
• Marshall argues that the Bank is incidental to the furtherance of Congress’s fiscal operations. “Let the end be legitimate, let it be within the scope of the Constitution and all means which are appropriate, which are plainly adopted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are Constitutional.”

• Constitution is a document of enumerated powers not enumerated restrictions.

• Country does without a national bank from 1811-16 and from 1836-1914.
• How would some current originalists approach the reasoning in this decision.

• At the time “necessary” was defined as 1. needful; indispensably requisite. 2. Not free; fatal; impelled by fate. 3. Conclusive; decisive by inevitable consequence”. MD’s argument applies this meaning. Does not imply convenient or useful.

• But the Constitution also contains the term “absolutely necessary” perhaps implying that “necessary” does not imply indispensable when used by itself. As well in Article II, Section 3 the words “necessary and expedient” are used further indicating that necessary is not synonymous with indispensable.

• But if necessary is synonymous with expedient, why use it all in necessary and expedient.
First bank of the United States and U.S. financial development—Excursion continued.

- George Mason introduces the article II language at the 11th hour with an amendment, so not a lot of thought was given to the phrase. It was also clear from earlier statements by Mason at the Convention that he equated necessary with indispensable.

- It is interesting that Madison himself rejected that necessary meant indispensably necessary because “very few acts of the legislature could be proved essentially necessary to the absolute existence of government.” Madison urged that the words be “understood so as to permit the adoption of measures the best calculated to attain the ends of government, and produce the greatest quantum of public utility.”

- Thus, as was argued by Hamilton, necessity should not be so strict that no statute can pass, nor so lenient that any statute can pass. An appropriate level of scrutiny is required.
Since the Bank is Constitutional, Maryland cannot tax it.

“the power to tax is the power to destroy.”

But Marshall also goes on that the Court would still have to set aside a law “should congress under the pretext of executing its power, pass laws for the accomplishment of objects, not entrusted to the government.”
Additionally, many current constitutional interpreters may be interpreting Marshall’s opinion in too open ended a way. Certainly, his 1803 opinion in United States v. Fisher is open ended, but in McCulloch he is more circumspect.

- “The means chosen must be “plainly” adapted to the end, not merely conducive to it; tenuous connections to granted powers will not pass muster. It must in addition be “appropriate,” which implies some supervision of the reasonableness of the means...“

- It must not be a “mere pretext for the accomplishment of objects not entrusted to the government.” It must be consistent with the spirit as well as the letter of the Constitution.

- However, in McCulloch Marshall does make much effort to provide the scrutiny that would justify the Bank.
• The Bank is generally regarded as a success.
  • Helps the U.S. economy transition to a truly national economy by 1815.
  • Some of that is due to its tremendous size. Capitalized at $10m, which dwarfs the total capital of the $3m of the five banks already in existence.
  • When it closed its doors in 1811 it had as much specie in its vaults as all the other 89 banks combined.
    • It had branches from Boston to New Orleans.
First bank of the United States and U.S. financial development

- The $8m privately subscribed was the largest stock offering in the U.S. to date and it was over subscribed.
  - 25,000 shares at $400 each, with 20,000 being sold to the public on the first Monday in July.
  - 30 share maximum for any individual and a down payment of $25 and a schedule of later payments.
  - Over subscribed by 20% so shares scaled down pro-rata.
  - Widely distributed over the entire country.

- Speculative bubble erupts and then prices crash resulting in a short-lived financial panic before the Bank even opened its doors.

- By early August the share price or right to own the stock had increased 10 fold to $250 implying a fully paid share was worth $625 for a one-month profit of over 50%.
Prices for a piece of script (the right to a share) topped out at around $325 on August 11th fueled by notions that the return on the stock could reach 12% per year.

Bank of NY curtails loans to speculators and a panic sets in with prices plummeting to $110 on August 15th.

Hamilton quells the plummeting by directing the Treasury to purchase stock, and in September purchases more. This stops the free-fall in the share price and it fluctuates between $130-$170 over the rest of the year.

It appears the IPO price was too low. Madison makes that point in a letter to Jefferson. It is evident that the initial subscribers obtained large profits at the expense of the Treasury, which could have raised a good deal more capital than it did.
First bank of the United States and U.S. financial development

- Organization of the Bank.
  - 25 directors elected by shareholders.
    - Determine salaries of the officers and clerks.
    - Supervised the supply of bank notes.
    - Approved loan applications.
    - Appointed the Bank President (Thomas Willing elected unanimously).
    - Already President of the Bank of North America and partner in Willing and Morris
    - Seven face reelection each year.
  - Doors open December 12th.
First bank of the United States and U.S. financial development

• Branching

  • Hamilton preferred no branching or at least waiting until the Bank was operating effectively.

  • Board believes branches improve profitability and information concerning any financial problems in the country.

  • How would towns who didn’t get branches react? How would state-chartered banks react to a branch opening in their town.

    • Thinking then was that only one bank in a city would survive.

    • On Nov. 8th full board approves branches in Bost., NY, Balt., and Charleston to open the following spring.

    • Richmond the following July, but there is significant local opposition and Board reverses its decision.
• Hamilton in his report on manufactures “A general circulation of Bank paper, which is to be expected from the institution lately established will be a most valuable means to promote pecuniary remittances from place to place.”

• As part of a loan, the borrower received the Bank’s notes or a credit to his account at the Bank. Loan was discounted at 6%. For example if a merchant was granted a $100 loan for thirty days, he would receive $99.52. Reason loans are often referred to as discounts.

• Initial limit on loans to specie was 5 to 1 or 5 times capital. A very low leverage ratio compared to modern banking. Stayed pretty much in line with this directive.

• Initial maturities on loans set a 30 days, although board had the authority to issue 60 day loans.
First bank of the United States and U.S. financial development

- Prefers business loans to personal loans or accommodations, but insider lending existed and may have been fairly widespread (Lameroux 1994). Substantial uncertainty regarding the extent.

- Early operations and the Panic of 1792.
  - Initially, it floods the market with credit, but changes course in February 1792.
  - Caused a stock market crash, the first in U.S. history.
  - The largest speculator, William Duer, whose financial company failed in March paralyzing credit markets.
    - Once again Hamilton purchases securities and branches of the Bank are opened during the panic.
First bank of the United States and U.S. financial development

• Underpinning of the crash.
  
  • In Dec., 1791 William Duer and Alexander Macomb try to secretly corner the U.S. securities market including the stock of the BUS and the Bank of NY. In particular Duer attempts to corner the fixed income market consisting of U.S. government securities.

  • There is a schedule of payments investors must make for their shares in BUS and those payments can be made in 6% U.S. bonds. This created a natural demand for bonds and if you hold most of them, you can reap a sizeable profit as those bonds are sought to satisfy payments.

  • However, with the Bank withholding credit security prices drop by $\sim 25\%$ between January and April.

  • Bankrupts Duer who used loans to purchase the security. May have owed as much as $500,000$. 
First bank of the United States and U.S. financial development

- The crash may have resulted in $3m loss in NY.
- There exists evidence that BUS was partly to blame as it starts restricting credit in Feb, which was prior to the crash (see Cowen).

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<th>Dec 29</th>
<th>Jan 31</th>
<th>Mar 9</th>
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<tr>
<td>Outstanding notes</td>
<td>134,268</td>
<td>886,684</td>
<td>891,873</td>
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<td>Bills discounted</td>
<td>964,260</td>
<td>2,675,441</td>
<td>2,051,564</td>
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<td>Cash on hand</td>
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<td>Deposits</td>
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<tr>
<td>Total</td>
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<td>1,279,041</td>
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<td>898,125</td>
<td>811,863</td>
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<td>Capital</td>
<td>496,550</td>
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Table 1: Selection items – balance sheets – Philadelphia December 29, 1971; January 31, 1792; March 9, 1793.
First bank of the United States and U.S. financial development

• Can see Bank does flood market in January 1792. $964,000 in first 2 weeks of operation.

• Bank of NY stops accepting notes on Jan 26th.

• Did the BUS curtail lending in February. The next existing balance sheet that survived is Mar 9, 1792. The Bank did not renew almost 25% of the 30 day discounts from the end of January until March ($625,000 in loans called in).
  • There is evidence that the BUS started curtailing issuance in mid-Feb (letters of the times).

• BUS realizes that it has been too aggressive and that aggression was causing its notes to trade at a discount in Boston and for BONY to stop accepting its paper. Anything but a secure medium of exchange.
First bank of the United States and U.S. financial development

- Spector of paper being returned for specie. Between the end of January and March 9th almost $270,000 of notes returned.

- Specie is flowing out too quickly.

- Additionally, branches were set to open in 2 months and $500,000 in seed money is needed for each branch.

- Need to curtail the expansion of credit.

- Curtailment appears to be happening in Boston at the Massachusetts Bank and at BONY, but it appears their actions were rather small compared to BUS. They are much smaller in size.

- Fortunately, the 1792 financial panic did not lead to a recession. Similar to black Friday in October 1987 when market tumbled more than 25% with no discernable economic effect.
The 4 branches open during the crisis. Local boards elected by the main board. The last to open is in Baltimore in June.

Hamilton stems the crisis by injecting liquidity into financial markets in March. He also secures a new loan from the Dutch of 3m florins, which calms fears.

Branch in NY adds liquidity as well. And in Philadelphia BUS resumes discounting to merchants in May following a large infusion from the Treasury in mid-April.

- It is possible that Hamilton coordinated the events.

Safe principles would guide the Bank over the next 20 years.

The financial machinations draw the ire of Jefferson and he and Madison attack Hamilton viciously.

“take up your pen, select the most striking heresy and cut [Hamilton] to pieces in the face of the public” (J to M)
• The BUS as a central bank.
  
  • To be a central bank there needs to be a banking system.
  
  • Initially, its primary role is in assisting the treasury; acting as its fiscal agent collecting tax receipts and making payments as well as transferring funds on behalf of the Treasury.
    
    • Treasury earns interest on its deposits.
    
    • Transfers specie to foreign governments.
    
    • Lends directly to the Treasury. Initially, $6m lent to gov't.
  
  • At its inception there are only 3 other banks, BONY, Bank of North America, and the Bank of Massachusetts.

  • By 1811 there are 88 banks. U.S. moves to a fairly developed financial system in a very short time.
First bank of the United States and U.S. financial development

- Also took on a supervisory role by reigning in state banks that it believed were over issuing notes. It would gather up state bank notes and tender them for specie, thus constraining further issuance.

  - Boston branch president (1807) “We are charged with doing injury to other Banks by draining them of their specie and retaining it by limitation of our discounts”
  - So sacrificing its own profits to ensure stability of banking system.

- However, it does not act as a lender of last resort lending to other banks in a crisis.

- Hamilton promotes state banks as well and the Treasury acts to some extent as a regulator asking for monthly statements of various bank’s accounts.
Treasury under Gallatin reigns in the BUS when it believes it is excessively calling in bonds from state banks.

“A complaint has been made that at Baltimore the drafts of the Branch Bank on the other Banks of that city have been unusually large & particularly draining…”

He tells the Branch to back off.

Following Hamilton’s example with the NY Branch.

Further, the BUS is not truly independent. Both Hamilton and Gallatin are clear that the Treasury can inflict great harm on the Bank if it does not serve the government’s interest.

Indeed some individuals were employed simultaneously by the Treasury and the BUS.
First bank of the United States: important initial actions

- Whiskey rebellion of 1794.
  - Gov’t imposes excise tax on distilled liquors.
  - Farmers in western Pa. refuse to pay.
  - Washington tries to enforce tax more vigilantly in 1794, which leads to open revolt and riots from Pa to western Va.
  - Gov’t sends in troops raising a militia of 13,000 troops. The overwhelming force suppresses the rebellion without a shot being fired.
  - Gov’t needs money and needs it quickly to put that many men in the field. Calls on BUS for two $1m dollar loans.
  - Additionally, the loan is used to cover gov’t shortfalls at the time and to build a fleet to send against the Barbary pirates. But costs of Whiskey rebellion so large that shipbuilding put on hold.
• Hamilton borrows another $2m to cover the payment on the initial loans, and the Bank raises the funds by issuing $2m in 6% bonds.

• In total, the Bank lends $5.5m to the gov’t during 1794 and 1795.

• This comes at the cost of issuing less private loans to business. Evidence of “crowding out” comes from the decline in private deposits as these are drawn down to pay for existing loans.

• As well, the proportion of loans granted fell drastically, in Baltimore by as much as 2/3. (goes from $1.22 of loans requested for each dollar lent to $2.03 requested for each dollar lent).
First bank of the United States: important initial actions

- Government pays off $1.2m of the debt by selling off much of its Bank stock. Thereafter, the debt is repaid gradually.

- Summarizing: Bank lasts for 20 years and the charter is not renewed during the Madison administration.

  - By then the U.S. has a well established financial system that developed in a remarkably fast manner.

  - Bank is integral part of that development.

  - While not a full fledged central bank, the Bank does take on responsibilities that are associated with central banking.

  - Hamilton’s blue print for the economy turns out to be extraordinarily successful.
The SIXTH and last class consists of the several powers and provisions by which efficacy is given to all the rest. 1. Of these the first is, the “power to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof.” Few parts of the Constitution have been assailed with more intemperance than this; yet on a fair investigation of it, no part can appear more completely invulnerable. Without the SUBSTANCE of this power, the whole Constitution would be a dead letter. Those who object to the article, therefore, as a part of the Constitution, can only mean that the FORM of the provision is improper. But have they considered whether a better form could have been substituted? There are four other possible methods which the Constitution might have taken on this subject. They might have copied the second article of the existing Confederation, which would have prohibited the exercise of any power not EXPRESSLY delegated; they might have attempted a positive enumeration of the powers comprehended under the general terms “necessary and proper”; they might have attempted a negative enumeration of them, by specifying the powers excepted from the general definition; they might have been altogether silent on the subject, leaving these necessary and proper powers to construction and inference.
Had the convention taken the first method of adopting the second article of Confederation, it is evident that the new Congress would be continually exposed, as their predecessors have been, to the alternative of construing the term “EXPRESSLY” with so much rigor, as to disarm the government of all real authority whatever, or with so much latitude as to destroy altogether the force of the restriction.

It would be easy to show, if it were necessary, that no important power, delegated by the articles of Confederation, has been or can be executed by Congress, without recurring more or less to the doctrine of CONSTRUCTION or IMPLICATION. As the powers delegated under the new system are more extensive, the government which is to administer it would find itself still more distressed with the alternative of betraying the public interests by doing nothing, or of violating the Constitution by exercising powers indispensably necessary and proper, but, at the same time, not EXPRESSLY granted. Had the convention attempted a positive enumeration of the powers necessary and proper for carrying their other powers into effect, the attempt would have involved a complete digest of laws on every subject to which the Constitution relates; accommodated too, not only to the existing state of things, but to all the possible changes which futurity may produce; for in every new application of a general power, the PARTICULAR POWERS, which are the means of attaining the OBJECT of the general power, must always necessarily vary with that object, and be often properly varied whilst the object remains the same.
Had they attempted to enumerate the particular powers or means not necessary or proper for carrying the general powers into execution, the task would have been no less chimerical; and would have been liable to this further objection, that every defect in the enumeration would have been equivalent to a positive grant of authority. If, to avoid this consequence, they had attempted a partial enumeration of the exceptions, and described the residue by the general terms, NOT NECESSARY OR PROPER, it must have happened that the enumeration would comprehend a few of the excepted powers only; that these would be such as would be least likely to be assumed or tolerated, because the enumeration would of course select such as would be least necessary or proper; and that the unnecessary and improper powers included in the residuum, would be less forcibly excepted, than if no partial enumeration had been made. Had the Constitution been silent on this head, there can be no doubt that all the particular powers requisite as means of executing the general powers would have resulted to the government, by unavoidable implication.
• No axiom is more clearly established in law, or in reason, than that wherever the end is required, the means are authorized; wherever a general power to do a thing is given, every particular power necessary for doing it is included. Had this last method, therefore, been pursued by the convention, every objection now urged against their plan would remain in all its plausibility; and the real inconveniency would be incurred of not removing a pretext which may be seized on critical occasions for drawing into question the essential powers of the Union. If it be asked what is to be the consequence, in case the Congress shall misconstrue this part of the Constitution, and exercise powers not warranted by its true meaning, I answer, the same as if they should misconstrue or enlarge any other power vested in them; as if the general power had been reduced to particulars, and any one of these were to be violated; the same, in short, as if the State legislatures should violate the irrespective constitutional authorities. In the first instance, the success of the usurpation will depend on the executive and judiciary departments, which are to expound and give effect to the legislative acts; and in the last resort a remedy must be obtained from the people who can, by the election of more faithful representatives, annul the acts of the usurpers.
The truth is, that this ultimate redress may be more confided in against unconstitutional acts of the federal than of the State legislatures, for this plain reason, that as every such act of the former will be an invasion of the rights of the latter, these will be ever ready to mark the innovation, to sound the alarm to the people, and to exert their local influence in effecting a change of federal representatives. There being no such intermediate body between the State legislatures and the people interested in watching the conduct of the former, violations of the State constitutions are more likely to remain unnoticed and unredressed.