

Hamilton's Financial Plan

As Secretary of the Treasury, Alexander Hamilton faced many problems. Among the most pressing was the large national debt. From 1789-1791, the cost of running the government was about \$4.3 million. In that same time, the United States received \$4.4 million in tax revenues. However, the amount of debt owed by the United States at that time exceeded \$77 million dollars (about \$1 billion in today's terms).

During the Revolution, both the national government and individual states had desperately needed money. They had borrowed heavily from foreign countries and ordinary citizens to pay soldier and buy supplies. Then, as now, governments borrowed money by issuing bonds. A *bond* is a certificate that promises to repay the money loaned, plus interest, on a certain date. For example, if a person pays \$100 for a bond, the government agrees to pay back \$100 plus interest by a certain time.

Hamilton's plan called for the government to repay both federal and state debts. He wanted the government to buy up all the bonds issued by both the national and state government before 1789. He then planned to issue new bonds to pay off the old debts. As the economy improved, the government would then be able to pay off the new bonds. Many people, including bankers and investors, welcomed Hamilton's plan. Others attacked it.

James Madison led the opposition. Madison argued that Hamilton's plan would reward speculators. A *speculator* is someone who invests in a risky venture in the hope of making a large profit. During the Revolution, the government had issued bonds to soldiers and citizens who supplied goods. Many of these bondholders were desperate and needed cash to survive. So, they sold their bonds to speculators. These bonds were often purchased by speculators for much less than they were worth, often as low as 10 to 15 cents on the dollar. If the government paid off the old bonds in full, speculators stood to make fortunes. Madison thought that speculators did not deserve to make such profits. Hamilton replied that the United States must repay its debts in full. Otherwise, he said, it risked losing the trust of investors in the future. The support of investors, he argued, was crucial to building the new nation's economy. After much debate, Congress approved full repayment of the national debt.

As a southerner, James Madison also led the fight against the other part of Hamilton's plan, the paying of state debts. By 1789, most southern states had paid off their debts from the

Revolution. They thought that other states should do the same. As a result, they bitterly opposed Hamilton's plan. In the end, Hamilton proposed a compromise. Many southerners wanted the nation's capital to be located in the South. Hamilton offered to support that goal if southerners agreed to his plan to repay state debts.

Madison and others accepted the compromise. In July 1790, Congress voted to pay state debts and to build the new capitol city in the South. The new capitol would not be part of any state. Instead, it would be built on land along the Potomac River between Virginia and Maryland. Congress called the area the District of Columbia. Today, it is known as Washington, D.C. Plans called for the new capital to be ready by 1800. Meanwhile, the nation's capital was moved from New York to Philadelphia.

Hamilton's next challenge was to strengthen the faltering national economy. His economic plan was designed to help both agriculture and industry. Hamilton called on Congress to set up a national bank. In 1791, Congress created the Bank of the United States. The government deposited money from taxes in the Bank. In turn, the Bank issued paper money to pay the government's bills and to make loans to farmers and businesses. Through these loans, the Bank encouraged economic growth.

To help American manufacturers, Hamilton asked Congress to pass a tariff, or tax, on foreign goods brought into the country. He wanted a high tariff, to make imported goods more expensive than American-made goods. A tariff meant to protect local industry from foreign competition is called a *protective tariff*. In the North, where there were more and more factories, many people supported Hamilton's plan. Southern farmers, however, bought many imported goods. They opposed a protective tariff that would make imports more expensive. In the end, Congress did pass a tariff, but it was much lower than the protective tariff Hamilton wanted.

Name _____ Period _____

Hamilton's Financial Plan

1. What problems faced Secretary of Treasury Alexander Hamilton when he first took office?
2. What was Hamilton's plan to repay the national war debt? Who opposed this plan and why? How did Hamilton respond to these criticisms?
3. What deal was made between Hamilton and Madison to resolve this dispute?
4. What was Hamilton's plan for a national bank? Why did he want the bank?

