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Part1a: Alexander Hamilton's National Banking System of Public Credit

From *NAWAPA XXI LaRouche PAC Special Report, March 2012, Section III How NAWAPA XXI Will Restore the System of Public Credit*
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"No well-informed man can cast a retrospective eye over the progress of the United States, from their infancy to the present period, without being convinced that they owe, in a great degree, to the fostering influence of credit, their present mature growth. This credit has been of a mixed nature, mercantile and public, foreign and domestic. Credit abroad was the trunk of our mercantile credit, from which issued ramifications that nourished all the parts of domestic labour and industry. The bills of credit emitted, from time to time, by the different local governments, which passed current as money, co-operated with that resource. Their united force, quickening the energies and bringing into action the capacities for improvement of a new country, was highly instrumental in accelerating its growth."

—Alexander Hamilton, 1795 Report On Public Credit.

The revolutionary war was won, and the United States was won, by restoring the public credit.

To secure the spirit of 1776, it was necessary for Congress to have a national banking system, and also the necessary powers to fund the National Bank; with these elements, a system where circulating currency is defined by its future value is made possible. Alexander Hamilton worked with the key leaders of the new republic and led in the organization and implementation of these means beginning in 1779 as Aide-de-Camp to General Washington, and securing them as Treasury Secretary from 1789 through 1795.

Hamilton had outlined the problematic situation between 1779-1781 on a number of occasions in his letters to Robert Morris[1], zeroing in on the state of the currency. The war required expenditures far outside the means of the Continental Congress. Increasing emissions of paper currency were therefore necessary. However, a depreciation due to a want of confidence in the union, and high prices, caused a lack of circulation, leading to a further depreciation. The depreciation was not due to a decay of resources of the country, but rather to a lack of resources united behind the currency. Emissions of paper currency were not the problem; the problem was one of credit.

"It is by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object... "While Congress continue altogether dependent on the occasional grants of the several States, for the means of defraying the expenses of the Federal Government, it can neither have dignity, vigour, nor credit... There are some among us ignorant enough to imagine that the war may be carried on without credit, defraying the expenses of the year with what may be raised within the year."—Alexander Hamilton to Robert Morris, April 30th 1781.

Hamilton wrote to Morris that the war could not be won without creating a funding source for the civil and military needs of the nation beyond taxation, and that a foreign loan on credit was necessary. However, the paradox facing Hamilton was that private interests could make more profit, with greater assurance of payment, by investing their money in trade, rather than lending it to the Congress at interest. How could they be persuaded to loan their money for the security of the Union? Further, with a loan received, how would it not simply be a temporary fix, doled out to purchase needed items, at high prices, the amount soon used, the currency still depreciated, and the state of affairs no different again in six months?

Hamilton wrote that to give individuals the inclination and ability to lend, the loaned money could be turned into a fund in which other foreign and domestic traders would take part, as the fund would be directed in such a way as to be beneficial to them in commerce, making it in the interest of trading men to uphold the value of the currency, since it would be linked to the value of commerce, and in this way obtain a permanent paper credit.

"A plan must be devised, which by incorporating their means together, and uniting them with those of the public, will, on the foundation of that incorporation and union, erect a mass of credit that will supply the defect of monied capital, and answer all the purposes of cash; a plan which will offer adventurers immediate advantages analogous to those they receive by employing their money in trade, and, eventually greater advantages, a plan which will give them the greatest security the nature of the case will admit for what they lend; and which will not only advance their own interest and secure the independence of their country, but in its progress, have the most beneficial influence upon its future commerce, and be a source of national strength and wealth. I mean the institution of a ***National Bank.****"*

"The tendency of the national bank is to increase public and private credit... Industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consists the true wealth and prosperity of the state.

"It turns the wealth and influence of both parties into a commercial channel for mutual benefit, which must afford advantages not to be estimated; there is a defect of circulation medium which this plan supplies by a sort of creative power, converting what is so produced into a real and efficacious instrument of Trade." "It is in a national bank, alone, that we can find the ingredients to constitute a wholesome, solid, and beneficial paper credit." —From Letters to Robert Morris 1779-1781

Morris, Hamilton, and James Wilson, who would become its spokesmen, worked together to finalize the plan for the bank, chartered as the Bank of North America. The initial stock of the bank was formed by a subscription for a said amount of money which could then be loaned out on interest in the form of bank notes, benefiting the shareholders and the nation simultaneously. Most of the initial capital stock of the Bank's formation was bought by the United States government with the loan it would receive from France, uniting the public success with that of the bank. The rest of the stock was opened to subscription for trading men, both at home and abroad. This initial foreign loan going to the make-up of the initial stock of the bank ensured that the capital stock was large enough to create a proportional credit, and ability to lend to the United States, and enlarge its paper emissions. The bank was allowed to make contracts with the U.S. and France to supply needs for their armies and fleets, and would make an annual loan to the Congress. Robert Morris afterward said, "Without the establishment of a national bank, the business of the department of finance could not have been performed," and the war could not have been successfully prosecuted.

In addition to these main purposes, the bank could also lend for general commerce, and individuals could trade specie for bank notes of similar denomination, increasing the available currency in circulation. The depreciated continentals were to be replaced by circulating bank notes, and serve as a unified currency and a more homogenous source for taxation. The quantity of the currency increased, since specie invested in the bank was put to constant use in trade, in the form of bank notes. The available currency would now greatly accelerate trade and commerce, the payment of taxes would increase due to the new available and assured means for its payment, and Congress's deposit of its collection to the bank would add to its ability to lend. The interest on its loans would continuously increase the bank's capital.

The paper emission had been liable to depreciation because no paper currency could be substantial, or durable, which does not unite the resources and growth of the real economy with its establishment and circulation. With a National Bank, the quantity of paper currency would not have to be decreased for its value to be increased. It would be increased by increasing the confidence in the currency, since it would be funded with the growth of industry, agriculture, and successful execution of the war, as profitable to the stakeholders as individual trade investments were earlier.

Hamilton demonstrated in his formation of the bank with Morris the central principle of successful use of banking and national paper currencies. The credit of the paper currency would not be that it was upheld with a loan of gold from abroad; rather, the source of credit of the paper currency is major investment into commerce, for which the National Bank, united with the aims of government, serves as the necessary means.

The Needed Powers

"Credit, too, animated and supported by the general zeal, had a great share in accomplishing...that Revolution, of which we are so justly proud, and to which we are so greatly indebted." —Hamilton's 1795 Report on Public Credit .

However, while the Bank of North America, serving as a tool of the Continental Congress, helped secure the victory of the war, already, in the planning of its charter with Morris, Hamilton pointed out the impossible situation of a government which was given the nominal power to provide for the general welfare of its people, but not the ability and authority to procure the necessary revenues.

The institution which had been formed to organize the resources of commerce into a source of credit for the currency and the needs of the government, could not accomplish this task, if the resources could not be called forth. In short, the same problem remained as before the 1781 Bank of North America: that without the faith and proven power of the nation to act as a unity to carry out an intention, *a currency created by the Treasury has no value*. Without the powers to regulate trade, perform general taxation, regulate the currency, and coordinate the payments of the debts—in short, the ability to unify the resources of the various states into a unified whole for budgetary and loan payments—there could be no secure funds to establish credit, nor fund the National Bank. Such a bank could only serve as a driver for local commerce, and loans for the war, and would be unable to carry out an establishment of lasting credit of the nation and government.

For this was required a new constitution.

The states were plagued by trade wars—in large part orchestrated by Britain's 1783 policy of financial warfare[2]–as well as internal debt problems, both of which exposed the weakness of the Congress even further, making the need for these changes even more prominent. Hamilton, working with Morris and Franklin's Philadelphia networks and the Society of the Cincinnati, led the way toward a convention for a new constitution with the needed powers of Congress to secure the credit of the union.[3]

Establishing the System of Public Credit

Hamilton could now create the system of public credit, employing the powers of Congress which had been won through the Constitution. The first step was to declare that the public credit would be restored. The domestic debt stood at $42.4 million, the foreign debt at $11.7 million, and each state had its own separate debts, totalling $21.5 million. Viewed from the standpoint of gold and silver, which had been borrowed for the war, the new republic was bankrupt, and had no possible way within the existing system to settle its accounts. Creditors and veterans of the war held various types of claims of debt, owed to them for payment and loans which were becoming less and less valuable. However, rather than cancelling the domestic debt and letting the states do the same or fend for themselves, Hamilton devised a plan to increase the available wealth in circulation by an order of magnitude.

Hamilton reported to Congress on January 9th, 1790 that

Scene at the *Signing of the Constitution of the United States* by Howard Chandler Christy (1873-1952). Depicting members of the Constitutional Convention, painted in 1940. In the portrait, George Washington, who presided over the convention, is the figure standing on the dais. The other central figures of the portrait are Alexander Hamilton, Benjamin Franklin and James Madison. The work is located in the U.S. Capitol.

he would make good on all debts, declaring that the debt incurred during the war was not a burden to be shrugged off, but a price of liberty. If the virtuous intention which had created that debt were now applied toward utilizing the new Constitution, clothed with powers competent to call forth the resources of the nation, the public credit would be established as an immeasurable resource for a system of economy based on the authority of a sovereign government over its finances.

Since there was no way to pay the principal of the whole debt through annual taxes alone, Hamilton proposed that the newly assumed *national* debt would be provided for by taking out *another loan for the whole amount of the domestic and state debts combined*, $42.4 million, and $21.5 million respectively. The loans were not to come from holders of gold from abroad or at home, which would simply be creating another monetary debt to pay off an existing one. Instead, he issued a call for subscribers to the new proposed loans to turn in their certificates of debt which had been issued to them in multiple forms during the war, as claims of debt, interest on debt, or salary payment. Then, they would receive in exchange other certificates for the original ones, but now with an annual interest rate tied to a plan to fund all debts. The interest on the new debt was on average 4%, rather than the 6% interest that the original debt bore. To increase the available money in circulation, this interest on the certificates was to be paid out quarterly to increase available currency for commerce. A full analysis of the economic resources of the nation, and managed commerce through the Treasury department in the form of duties, imposts, and excises, gave an ability to collect and increase revenues needed to allocate a constant fund toward the payment of interest on the foreign and newly assumed national debt. This funding of the debt would be the basis for the value of a new currency circulating as a representation of the future value of the debt.

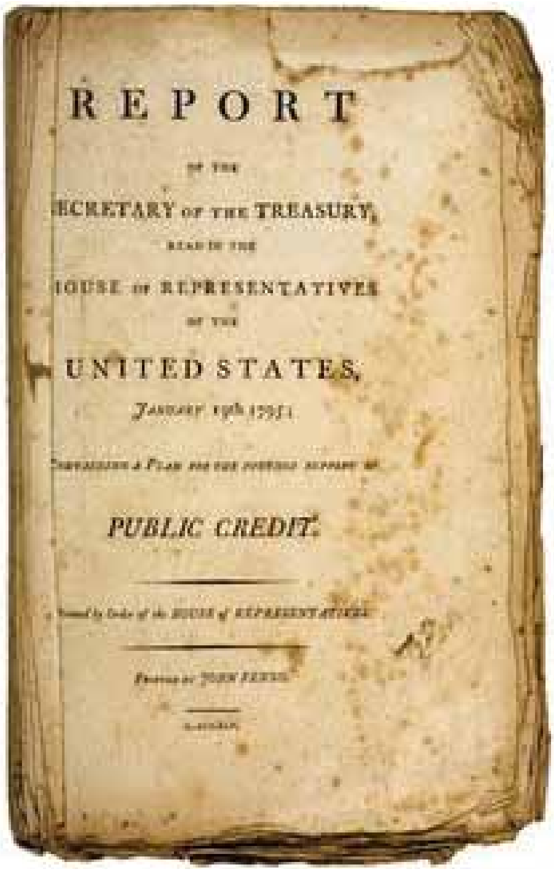
According to Hamilton's maxim for restoring and building the system of public credit, the creation of this new national debt, as now a responsibility of government, was linked to the means to extinguish and make good upon it. The first major act of Congress on July 4th, 1789 had been to apply its new power to lay and collect taxes, duties, imposts and excises: "An Act for laying a Duty on Goods, Wares, and Merchandises imported into the United States." Now on August 4th 1790, in accepting Hamilton's proposed Report on Public Credit, it acted on its power to pay the debts and provide for the common defence and general welfare of the United States, passing "An act making provision for the debt of the United States". This act authorized the two loans proposed by Hamilton for the domestic and State debts, and declared that all revenues of duties or other taxes, would be allocated accordingly, a) setting aside $600,000 from the revenues of duties— for "the support of the government of the United States, and their common defence", the payment of the interest on the $11.7 million of foreign debt, and b) the rest was "pledged and appropriated" toward the payment of the interest on the newly issued certificates of public debt. The sale of lands would go toward sinking the principal.

Legislation passed six days later, on August 10th, 1790, an "Act making further provision for the payment of the debt of the United States", greatly increased the number and amount of duties on imports and internal excise taxes, all appropriated according to the August 4th Act. Then, on August 12th an "Act making provision for the reduction of the Public Debt" declared that all revenues after the allocations toward the aforesaid, a) and b) would then go toward

c) purchasing the public debt (sinking the principal value of certificates) in order to increase and support its value, and protect it from speculators who would take advantage of a low gold value of the debt.

According to the maxim in his *Report on Public Credit*, Congress organized its revenue flows toward making good on the assumed debt in *the same act* that authorized the assumption of the debt. These measures ensured the value of the certificates, as they would be of stable value to the holder thereof, and became in this way a sound basis and vast capital for trade, and were accepted for credit at the state banks. The old continental currency which had been near valueless, also appreciated with the commitment to the new program.

Hamilton turned simple separate monetary debts of payment, into a national public debt whose value would increase as the strength of the nation increased. The internationally recognized value of the public debt increased 300% from the beginning to the end of Hamilton's first year as Secretary. Circulating at interest through the economy, it became the basis of a new national currency, and a new source for public credit.



Report of the Secretary of the Treasury , read in the House of Representatives of the United States, January 19th, 1795; containing a Plan for the further support of Public Credit. Puiblished in Philadelphia by John Fenno, 1795.

In his January 1790 *Report on Public Credit*, whose measures were carried out in the above Acts, Hamilton had outlined a "*second loan*", to be taken out by the government, in addition to the one for the full amount of the domestic and state debts. The subscriptions of this loan, of $10 million, would not be 100 percent payable in the public debt, but rather, those who subscribed, or partook in this loan, would pay one quarter in gold and silver, and the rest in certificates for the public debt. The stock created was to be a fund for circulating credit upon it to answer the purpose of money for government and economy, loaned out at a higher interest than the "*first loan*".

In his next report to Congress, on December 13th, 1790, having secured the passage of the Acts that year, Hamilton vas in a position to outline his plan or a credit fund for public and priate operations, which was to be imilarly a $10 million capital, but vhich now, rather than being a direct oan to the government, would be ne capital stock of a National Bank, egulated by Congress and under oint proprietorship with the governnent. Those who had subscribed to artake in the loan for the national ebt, and who had received a certifiate of the public debt with interest, ould now use these certificates to ecome subscribers for $8 million f the founding capital stock of the ank, where each share was made up f three parts public debt and one art specie. In this way, the future romise of the funded national debt erved as the majority of stock of ne new national bank which would e lent out at interest. Two million ollars worth of the shares of stock vould be subscribed by the U.S. overnment in specie, borrowed acording to provisions in the August th and August 12th acts of Congress. This subscription, on the account of the U.S., put the full weight of approval and interest of the U.S. government behind the establishment of the bank, uniting the public interest with its success.

The three other chief features of the bank were a) that its loans were to be limited to its capital stock, b) loans to domestic and foreign governments were to be regulated by Congress, and c) the bank was forbidden from purchasing and trading in public debt. On February 25th, 1791, Congress enacted Hamilton's plan, as "An Act to Incorporate the Subscribers to the Bank of the United States."

With a bank whose credit function could be funded with the powers worthy of a sovereign government, the multiple benefits of banking could be fused with the resources of a massive fund of public debt, which in turn would be fused together with the whole power of the economy.

To be continued...

Footnotes:

1. In February 1781 Robert Morris was appointed Superintendent of Finance by the Continental Congress; Morris was one of Benjamin Franklin's closest collaborators, and had been left in charge of the executive operations of the Congress by Franklin while he organized support for the war in France.

2. Soon after the Preliminary Articles of Peace of November 30th, 1782, financial warfare began with Britain's dumping of cheap manufactures in U.S. markets to destroy our industries (the policy of Prime Minister Shelburne). Meanwhile, Tories amongst us attacked the Bank of North America. which was a bulwark against financial instability, slandered Franklin, and argued against the increased powers of Congress which Hamilton was proposing. "How Ben Franklin Organized Our Economic Independence", EIR, Oct 21, 2011. www.larouchepub.com.

3. In April 1786, Franklin appointed Robert Morris, Tench Coxe and others as Pennsylvania delegates to the Annapolis convention. Hamilton, coming from New York, was appointed to report the outcome of the meeting, calling for a new convention to "devise such further provisions as shall appear to them necessary to render the constitution of the Federal Government adequate to the exigencies of the Union". The May 1787 meeting would coincide with a Society of Cincinnati meeting the same month, of which Hamilton was an active leader. Meetings then took place, weekly, beginning February 9th 1787 at Ben Franklin's Philadelphia house, with Robert Morris, Gouverneur Morris, James Wilson, and others, founding an official Society for Political Inquires for the meetings, whose topics would be confined to "subjects of government and political economy'. Franklin and Morris's collaborators in Philadelphia at the Bank of North America, Gouverneur Morris and James Wilson, were among the most active participants at the Convention, with G. Morris writing the preamble. It was this team who designed the Constitution's powers, and sought to implement them upon its ratification. Ibid.