
How Alexander Hamilton Tackled The National Debt

During the 1780s and early 1790s, the American debt was super high, both state debts which total 21.5 million dollars, and the national debt was very high. You're probably going to say 21.5 million dollars are really not that much money anymore. You are correct today but back then in the late 18th century that was enormous. Money was worth little. Remember under the Articles of Confederation, each state could print its own money its own currency, so there were 13 different currencies going around and a lot of them were worth next to nothing, so Hamilton rates 2 different reports and the first is a report on public credit, so he calls for dealing with the debt problem. It's basically his pamphlet to say "hey, here's this economic problem that we face and here's how we're going to fix it" and he saw to gain the support of the wealthy while writing this report, he also writes another report called the report on manufacturing and this is going to be a federalist idea and certainly an Alexander Hamilton idea until the day he dies. He favors a Maine American manufacturing industry. He believed that industry and merchants were the backbones of the American economy and in this report, he sought to protect and stimulate American businesses, and a way to achieve this was through tariffs.

So let's actually break down his plan, there are five parts that you should be very very familiar with. The first is an excise tax which is a tax on manufactured goods, notably during this time, there was a tax on whiskey, which leads to the whiskey rebellion, and remember the whiskey rebellion was quickly crushed and it shows the strength of the new federal government under the Constitution. Arguably, the most important part of this plan was the Bank of the United States certainly the most controversial. This would be a private bank with the government owning roughly one-fifth of the stock, so 20% of the bank would be owned by the United States. This leads to a conflict between Hamilton and Jefferson. He wants to fund all debt at par both state and national, which means pay off the debt at face value, so if the debt is twenty one and a half million dollars for the states, they're going to pay all twenty-one and a half million dollars plus interest, he wasn't going to try to negotiate the debt lower, pay it all off at once plus interest, speculators, people who went out, bought up bonds from average everyday Americans and they bought them very cheap because these people were afraid that the government would not repay the debt, they made lots of money. Sometimes speculators would buy there's a dollar bond, they would buy for about 10 cents, and then the government came in paid that full value back, so they've made lots of money and Hamilton was criticized for this. You want to take on state debts under the national government so that the 21 and a half million dollars again would be assumed by the national government and many of these states incurred debt during the Revolutionary War. Now, states with large debt, like Massachusetts, are going to love this, because now the federal government is coming and saying we will now take on your debt, so it's like a get out of jail free card for these states and debt. Virginia, a state that does not have a lot of debt, is not going to like this. Like, oh, Alex! what's in it for us, why are you helping Massachusetts, the state in the north, when here in the south, because we did it wrack up all this debt, we now have to help pay off Massachusetts debt. That's not very fair, so there were upsets. This is a kind of conflict between different states. Now, on a side note, Hamilton advocated for or favored having debt. He believed that the more people we owed money to, the more people would want to see us succeed. It's actually kind of ingenious. He thought okay, our government doesn't debt to people, there's no way those people will want to see the US government fail at least until they get their money back, so he actually a vision, us always being

a debt to somebody at some point so that these people would support the government succeeding. Another part of his plan was a tariff and this was designed to raise revenue for the government so when that tax is added on to a good when it comes, that will go straight to the American government and it would also protect American industries because now foreign goods would be more expensive.

All right, let's talk about that bus or the national bag and there is a painting from the first bus located in Philadelphia. All right, was it constitutional? Well, here is the big question. There are two different interpretations: one is held by Hamilton, one is held by Jefferson, and the strict interpretation says the Constitution does not specifically allow something that cannot happen, so if you're reading that Constitution and you see no mention that the Constitution says that the government can create a bank states then it cannot create a Bank of the United States, that's the strict interpretation. The loose interpretation takes the opposite approach and says: look, unless the Constitution says you cannot create a Bank of the United States, then you are allowed to, so whatever the Constitution does not forbid, it will allow. Jefferson on the left is going to advocate a strict interpretation. Hamilton on the right is going to advocate a loose interpretation. Hamilton will point to the elastic clause, also known as the Necessary and Proper Clause which allows Congress to make laws that are in the best interest of the country to keep up with the change in times. Now, on a side note in 1819, there is a famous court case *McCulloch v. Maryland* that deals would be the second bus, not the first one because the first one the Charter only lasts for 20 years. But the Supreme Court has a chance in 1819 to say that the bus is unconstitutional and they do not. They uphold the bus. And Washington ends up siding with Hamilton and he signs the bus into law. All right, let's talk about the passage of the plan, so how does this actually pass Congress has 2 different views. Well, there is something called log rolling and what this is is voting for a bill that favors the opposition to ensure the other side will vote for a bill that favors your cause. In other words, Hamilton says to Jefferson, look, you vote for the bus that you hate but it helps us out. We will vote for something that we may not like that'll help you out, so it's kind of like, I scratch your back, you scratch mine, but what really helped Jefferson come along to Alexander Hamilton's plan was this idea of Washington DC. In the constitution, it stipulated that a new Capital would be created and the capital was moved to the south on the Potomac River to gain support for the financial plan from the south, so the south agreed we will vote for this plan. All those parts as long as we get the capital in the south thought that would give them more power in the federal government, so the promise of Washington DC being in the south is what makes the south vote for this plan.