

Hamilton's Bank

- **Massachusetts had a huge debt, but Virginia didn't, so there needed to be some haggling.**
- **This was because Virginia felt it unfair that all debts were to be assumed by the entire nation.**
- **Essentially, its rival states would be at the same level as Virginia, even though they had obtained larger debts.**
- **The bargain Virginia (Jefferson) would have the District of Columbia built on its land (therefore gaining prestige) in return for letting the government assume all the states' debts.**
- **This was called the Assumption Bill**

Congress endorsed his plan to pay off the \$11 million owed to foreign creditors, but balked at funding the domestic debt of \$27 million and assuming the state debts of \$25 million. This led to a serious economic depression.



Hamilton proposed a remarkable set of policies for handling the debt problem. All debts were to be paid at face value. The Federal government would **assume all of the debts owed by the states**, and it would be financed with new U.S. government bonds paying about 4% interest. The government would not pay back the principal on the bonds, merely the interest, which would be paid by a new tariff and a stiff excise tax on liquor.

Hamilton's economic plan had multiple goals

- The debts and honor of the nation would be secured. Hamilton felt that the Federal government would not be able to borrow money from anyone in the future if these debts were not paid.
- By selling bonds to pay the debt, bondholders would have a direct financial interest to help the new United States government survive and thrive. Creditors who purchased the bonds could use them as collateral for loans, stimulating the economy even more.
- The plan would also create a bureaucracy of agents across the country who would be tied to the Federal government instead of the individual states. Assuming the debts of the states would likewise couple financial elites in those states to the national government and less so to state governments, thereby reducing the risk of secession.

Hamilton's Plan in a Nutshell

- Assume all state debts
- WILL NOT ASSUME PRIVATE DEBT
- Tax Whiskey
- Put in a tariff
- Create a national bank
- Sell bonds – bond owners would want new government to survive (support of federal over state government)