

A Lesson to Accompany “The First Bank of the United States: A Chapter in the History of Central Banking”

Lesson by

Andrew T. Hill, Ph.D., Federal Reserve Bank of Philadelphia

Lesson Description

In this lesson, through a reader’s theater, students learn about the economics of the early United States and the debate between Alexander Hamilton and Thomas Jefferson over the founding of the first Bank of the United States. They examine quotations from Hamilton’s and Jefferson’s letters to President Washington and the arguments each man is trying to make about the need for and constitutionality of the bill to incorporate the bank. They read the booklet “The First Bank of the United States” to learn about the founding of the first Bank of the United States, the financial crisis associated with the bank’s stock subscription, the bank’s operations, and the way it influenced the early American economy. The students learn to read primary sources by examining letters written in the 1790s about the First Bank and its operations. In the final activity, the students learn about the First Bank’s influence on the availability of credit in the early American economy by examining simple banking scenarios.

Grade Level

Grades 9-12

Content Standards

National Standards in Economics

- **Standard 10:** Students will understand that institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined property rights, is essential to a market economy.
 - Benchmark 1, Grade 4: Banks are institutions where people save money and earn interest, and where other people borrow money and pay interest.
 - Benchmark 1, Grade 8: Banks and other financial institutions channel funds from savers to borrowers and investors.
- **Standard 11:** Students will understand that money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.
 - Benchmark 1, Grade 12: The basic money supply in the United States consists of currency, coins, and checking account deposits.
 - Benchmark 2, Grade 12: In many economies, when banks make loans, the money supply increases; when loans are paid off, the money supply decreases.

National Standards for History

Era 2, Colonization and Settlement, Grades 9-12

- **Standard 3:** How the values and institutions of European economic life took root in the colonies, and how slavery reshaped European and African life in the Americas.

Era 3, Revolution and the New Nation, Grades 9-12

- **Standard 2:** The impact of the American Revolution on politics, economy, and society.
- **Standard 3:** The institutions and practices of government created during the Revolution and how they were revised between 1787 and 1815 to create the foundation of the American political system based on the U.S. Constitution and the Bill of Rights

Historical Thinking Standards, Grades 5-12

- **Standard 2:** Historical Comprehension
- **Standard 3:** Historical Analysis and Interpretation

National Council for the Social Studies Strands

- Time, continuity, and change
- Power, authority, and governance
- Production, distribution, and consumption

Concepts

Banks	Federalist Party	Money supply
Banknotes	Financial bubble	Primary source document
Central bank	Financial contagion	Public debt
Credit crunch	Fiscal agent	Republican Party
Customs duties	Initial public offering (IPO)	Specie

Objectives

Students will be able to:

1. Explain the differences between Alexander Hamilton's and Thomas Jefferson's view of the constitutionality of the first Bank of the United States and the power granted to the federal government by the U.S. Constitution.
2. Analyze the importance of the first Bank of the United States in the early American economy.
3. List basic operations of the first Bank of the United States and explain how the First Bank could reduce the amount of credit in the early American economy by redeeming state-chartered banks' banknotes in exchange for specie.

4. Use data from primary source documents from the 1790s to answer questions and explain the importance of primary source documents when studying history.

Time Required

- **Day 1:** 45-60 minutes
- **Day 2:** 45-60 minutes

Materials

- A copy of “The First Bank of the United States: A Chapter in the History of Central Banking” for each student and the teacher*
- A copy of Handout 1 for each student and one for the teacher
- Copies of Handouts 2, 3, and 4 and Visual 1 for each student
- A copy of Handout 2—Answers for the teacher
- A copy of Handout 5, printed on white card stock and cut apart
- A copy of Handout 6, printed on yellow card stock and cut apart
- Visual 1
- Overhead projector pen
- Five calculators
- Five sheets of scrap paper

Procedures

Day 1

1. Distribute a copy of Handout 1 to each student. Explain that the class will participate in a reader’s theater to learn about the economy of the early United States. Ask for volunteers to play the narrator, George Smith, Edward Smith, Peyton Plummer, Hannah Bradford, Sarah Harris, and William Harris.
2. Ask the volunteers to come to the front of the classroom. Have the students read the play.
3. After the students have read the play, ask them to return to their seats and discuss the following with the class:
 - Where was the play set? (*A coffeehouse in Philadelphia in February 1791*)

* Copies of “The First Bank of the United States: A Chapter in the History of Central Banking” can be ordered by visiting <http://www.newyorkfed.org/publications/result.cfm?pub=1536NN>

A pdf version of the publication can be viewed and printed at

<http://www.philadelphiafed.org/publications/economic-education/first-bank.pdf>

- What important events were happening in the U.S. government at the time?
(The play takes place in the days between passage of the national bank bill in the U.S. Congress and President Washington’s signing of the bill.)
 - How many banks were there in the United States at the time this play takes place?
(Four, with another one soon to open its doors)
 - What prominent American supported the founding of the new national bank?
(Alexander Hamilton)
 - What prominent Americans opposed the founding of the new national bank?
(Thomas Jefferson and James Madison)
 - Why did Jefferson oppose the founding of the first Bank of the United States?
(Jefferson felt that the national bank was unconstitutional. The bank also clashed with his vision of the United States as a chiefly agrarian country, not one based on banking, business, and the pursuit of profit. Jefferson was also afraid that a national bank would create a financial monopoly that would undermine state-chartered banks.)
 - What was Hamilton’s vision for the United States?
(Alexander Hamilton wanted a system that incorporated public debt, thereby delivering much-needed capital to speed the growth of the new nation’s financial system. The first Bank of the United States, modeled after the Bank of England, was a central part of his vision of the United States as a country of businessmen and bankers.)
 - What experiences have the people in the coffeehouse had with money?
(There have been persistent shortages of both paper money and coin. During the Revolution, things were particularly hard for the merchants. Also during the Revolution, the Continental Congress had issued Continental dollars, which by the end of the war were essentially worthless.)
 - How did banks help merchants?
(Banks helped merchants by discounting bills of exchange and, in so doing, provided short-term loans to merchants.)
 - What kinds of business did the people in the coffeehouse expect the new national bank would conduct?
(The bank would issue paper money; take in deposits from individuals, businesses, and the government; collect the government’s tax revenue; make loans to individuals and business; and keep public funds safe.)
4. Explain that Thomas Jefferson, then Secretary of State; Edmond Randolph, then the Attorney General; and Alexander Hamilton, then Secretary of the Treasury, all provided written opinions on both the need for and constitutionality of the first Bank of the United States to President Washington before he signed the bill creating the bank.

5. Divide the class into groups of four or fewer students. Distribute one copy of Handout 2 to each student. Explain that Handout 2 contains excerpts, in no particular order, from Thomas Jefferson’s February 15, 1791 letter to President Washington and from Alexander Hamilton’s February 23, 1791 letter to the President. The students will work in groups to determine which man wrote each of the excerpts and then summarize the argument or point each man is trying to make in the excerpt.
6. Give the groups time to work on Handout 2. After they have completed the activity, review the students’ answers using the following:

- **EXCERPT 1: Jefferson**

Jefferson explains that the Constitutional Convention rejected the argument of implied powers of the federal government. He recalls that a proposition to authorize Congress to create corporations, such as those formed to build and run canals, was rejected by the convention. One of the reasons for rejecting the proposition was that it would allow Congress to start a bank.

- **EXCERPT 2: Hamilton**

Hamilton contends that all of the arguments made against the new bank that are derived from the fact that there were a few state-chartered banks at the time were poorly founded because those banks could easily be gone quickly.

- **EXCERPT 3: Hamilton**

Hamilton explains that the proposed bank will be primarily a corporation of individual investors. The bank’s primary purpose will be to make loans. The law allows individuals to set up such corporations. The Bank of New York, which is not incorporated, is a private company composed of individual investors. The bill proposes that the federal government will also hold shares in the corporation. The federal government will allow the bank’s notes, which will be payable on demand, to be used to pay taxes. The federal government will grant these powers only to the first Bank of the United States and not to any other bank. Hamilton argues that all of these things are within the power of the federal government. He argues that the only question is whether the federal government has the right to incorporate the bank in order to make it easy for the government to carry out its functions.

- **EXCERPT 4: Jefferson**

Jefferson agrees that it would be more convenient to have a national bank whose banknotes could serve as a currency throughout the whole country. But, he also recognizes that a single global currency would make things even easier. He argues that just because a single national currency would make things easier, it does not mean that the federal government has the power to create the bank nor that the economy wouldn’t function just fine without it.

- **EXCERPT 5: Hamilton**
Hamilton explains that the bank would make it easier to collect taxes by increasing the number of banknotes in circulation and the speed at which transactions take place.
- **EXCERPT 6: Hamilton**
Hamilton argues that the bank bill does not prohibit states from chartering as many banks as they want and for individuals to incorporate to create state-chartered banks. Therefore, the bank bill would not create a monopoly since it does not impede others' ability to operate banks in the country.
- **EXCERPT 7: Hamilton**
Hamilton explains that the bank would help in national defense. The bank could be useful in raising funds to be used to protect the country's western frontier.
- **EXCERPT 8: Jefferson**
Jefferson points out that those who support the bank bill have argued that a national bank would make it easier to collect taxes. He explains that the Constitution expressly allows the means that are necessary and not convenient. If the Constitution is interpreted to mean that the federal government has powers to do what is convenient, there would have been no need for the Constitution to spell out the specific powers of the federal government. Therefore, it is clear to Jefferson that the Constitution only grants necessary means by which the federal government can carry out its enumerated powers.
- **EXCERPT 9: Hamilton**
Hamilton argues that the bank would have a natural place in the regulation of trade between the states by providing a currency, in the form of banknotes, that could be used to carry on that trade. The use of the bank's notes would reduce the number of coins that had to be used to engage in interstate trade. Money is the most important thing in making commerce happen. Lots of things have been used as money, including paper banknotes. Hamilton refutes Attorney General Randolph's argument that interstate trade should be carried out exclusively with coin.
- **EXCERPT 10: Jefferson**
Jefferson argues that the powers assumed in the bank bill have not, in his opinion, been delegated to the federal government by the Constitution.

7. Discuss the following:

- What was the underlying premise behind Jefferson's arguments against the first Bank of the United States? (*Jefferson believed that the Constitution did not provide the federal government with the power to incorporate a bank.*) Jefferson was a strong supporter of states' rights. He argued that the Constitution expressly lists

those powers that belong to the federal government and that all other powers were reserved for the individual states. Since the Constitution did not expressly state that the federal government could establish a bank, Jefferson argued that the national bank bill was unconstitutional.

- What was the underlying premise behind Hamilton’s arguments in support of the first Bank of the United States? (*Hamilton believed that the federal government did have the power to incorporate a national bank because the bank would help the government to collect taxes, pay debts, and borrow money—powers of the federal government expressly authorized by the Constitution.*) Hamilton, a Federalist, believed in a strong federal government. He argued that a lot of powers necessary for an effective federal government were implied by general clauses of the Constitution, such as the one that authorizes Congress to “make all laws which shall be necessary and proper” for carrying out other powers specifically granted. Hamilton understood that a national bank would make it easier for the federal government to levy and collect taxes, pay debts, and borrow money, all powers given to the federal government by the Constitution. Hamilton concluded that the federal government could create the first Bank of the United States under its implied powers.
 - President Washington signed the Bank Act of 1791 into law on February 25, 1791, thereby creating the first Bank of the United States. The bank operated from 1791 to 1811. President Washington’s acceptance of Hamilton’s view of the bank’s constitutionality set an important precedent for an expansive interpretation of the federal government’s powers under the Constitution.
 - **Banks** are institutions where people save money and earn interest, and where other people borrow money and pay interest. Banks and other financial institutions channel funds from savers to borrowers and investors.
8. Distribute a copy of “The First Bank of the United States: A Chapter in the History of Central Banking” to each student. Distribute a copy of Handout 3 to each student. Explain that Handout 3 is a reading guide that will help them focus on key points in the publication. Instruct students to read the publication and complete the reading guide for homework.

Day 2

9. Review the students’ answers to the short answer section of Handout 3 by discussing the following:
- 1. What was American economic life like in the 1780s? (*The 1780s in the United States were characterized by widespread economic disruption. The Revolutionary War had disrupted commerce and left many Americans heavily in debt. The*

Continental dollar had caused rampant inflation and many people were bankrupt, even destitute.)

- 2. Which prominent economic thinkers did Hamilton look to in forming his own vision for the American economy? (*Adam Smith, David Hume, and Jacques Necker*)
- 3. Why did Hamilton want to see the American economy make use of public debt? (*Hamilton wanted to see the American economy make use of public debt because this type of funding had helped build England's military might, pay for its wars, build an empire, and accounted, at least in part, for England's prosperity. He wanted the United States to be able to develop in the same way.*)
- 4. In December 1790, Hamilton outlined his proposal for creating a national bank in a report to Congress. What did he argue that a national bank could do for the country? (*Hamilton argued that a national bank could issue paper money, provide a safe place to keep public funds, offer banking facilities for commercial transactions, and act as the government's fiscal agent.*)
- 5. What was similar and what was different about the bank Hamilton envisioned and the Bank of England? (*The Bank of England and the bank Hamilton envisioned both acted as fiscal agent for the government, facilitated commercial transactions, were prohibited from trading in commodities, and were required to obtain legislative approval before making loans to the government. The Bank of England and the bank Hamilton envisioned differed in the following ways: 1. Each shareholder in the Bank of England had one vote, but under Hamilton's plan, the number of votes would be determined by the size of each shareholder's investment. 2. Hamilton's bank would have a maximum ratio of loans to specie, whereas the Bank of England had no such requirement. 3. In Hamilton's plan, the U.S. government would own 20 percent of the bank, but the Bank of England was privately owned.*)
- 6. What did Thomas Jefferson and John Madison think about the national bank proposal? (*Jefferson was afraid that a national bank would create a financial monopoly that would undermine state banks. He also believed that creating a national bank was unconstitutional. Madison opposed the bank for similar reasons. Madison also believed that two decades was too long a period for the bank's charter to last, given how young the United States was.*)
- 7. In what cities were the branches of the first Bank of the United States established? Why were they located in these cities? (*Boston, Baltimore, Charleston, New Orleans, New York, Norfolk, Savannah, and Washington, D.C. The branches were established in these cities because they were all port cities and were the largest cities in the United States at the time. These branches provided the Bank of the United States and the U.S. government with a network through which to transfer funds and facilitate the collection of customs duties.*)

- 8. The stock subscription for the first Bank of the United States took place in July 1791. a. What was a scrip? (*A scrip was a piece of paper that indicated that a person had placed a down payment on the purchase of shares of First Bank stock.*) b. How much did a share of scrip initially cost? (*Scrips initially cost \$25 per share.*) c. What was the total amount that bank scrip holders would pay for the bank stock? (*\$400*) How much was paid in specie and how much was paid in U.S. debt securities? (*\$100 in specie and \$300 in U.S. debt securities*)

- 9. What was William Duer's and Alexander Macomb's plan? (*William Duer and Alexander Macomb tried to corner the market on U.S. government securities by borrowing heavily and using the borrowed funds to buy the government's debt.*) What was the effect of their plan? (*The amount of Duer's debt was so overwhelming and the number of people and companies he had borrowed from so large that he went bankrupt and other investors defaulted on their loans, causing the Panic of 1792.*)

- 10. What did Alexander Hamilton and other members of the sinking fund commission do to defuse the Panic of 1792? (*Alexander Hamilton and other members of the sinking fund commission authorized purchases of U.S. government securities in the marketplace in order to prop up the price of the securities and provide liquidity for the market.*)

- 11. What kinds of business did the First Bank conduct on behalf of the U.S. government? (*The First Bank collected the federal government's tax revenues, secured the government's funds, made loans to the government, transferred government deposits through the bank's branch network, paid the government's bills, and managed the government's interest payments to European investors in U.S. government securities.*) What services did it provide to individuals and businesses? (*The First Bank accepted deposits from the public and made loans to private citizens and businesses.*)

- 12. How did the banknotes of the First Bank most commonly enter circulation? (*The banknotes of the First Bank most commonly entered circulation through the loan-making process. When making a loan, the bank often gave the borrower banknotes redeemable in specie. The borrower would then transfer those banknotes to others in exchange for goods and services.*)

- 13. Why did state-chartered banks envy the First Bank? (*At the time, loans and deposits were closely related. Since the First Bank received all of the U.S. government's deposits, it could therefore make more loans. State banks were not able to make as many loans because they didn't have the size, geographic scope, and level of deposits that the First Bank had.*)

- 14. How did the First Bank conduct a rudimentary form of monetary policy? (*The First Bank conducted a rudimentary form of monetary policy by managing its lending*

policies and the flow of funds through its accounts. In the course of business, the First Bank could accumulate the notes of the state banks and hold them in its vault. When it wanted to slow the growth of money and credit, it would present the notes for collection in gold or silver, thereby reducing state banks' reserves and putting the brakes on state banks' ability to circulate new banknotes. To speed up the growth of money and credit, the First Bank would hold on to state banks' notes, thereby increasing state banks' reserves and allowing those banks to issue more banknotes through their loan-making process.)

- 15. Why did the First Bank close? (As in 1790-91, in 1811, many people still believed that the First Bank was unconstitutional. The number of state banks had increased substantially by 1811. Those state banks feared competition from the Bank of the United States. The bill to recharter the first Bank of the United States was defeated by one vote in the House of Representatives. The vote in the Senate was tied, and the tie was broken when Vice President George Clinton voted against the bill.)
10. Review the students' answers to the biographical match on Handout 3 by discussing the following:
- 1. John Adams was President of the United States from 1797 to 1801. Although not a major player in the debate over the national bank, Adams, a Federalist, often supported Hamilton's policies, even though the two men sometimes clashed personally. John Adams should be labeled with "A" and "H."
 - 2. Aaron Burr was vice president of the United States from 1801 to 1805, shared a law practice with Alexander Hamilton, and ultimately mortally wounded Hamilton in a duel on July 11, 1804. Aaron Burr should be labeled with "P."
 - 3. George Clinton was the first elected governor of New York. As vice president, he cast the tie-breaking vote that defeated the First Bank's charter renewal. George Clinton should be labeled with "S."
 - 4. Jonathan Dayton was the youngest man to sign the United States Constitution and the fourth Speaker of the U.S. House of Representatives. He signed the checks that appear on page 3 of the First Bank publication. Jonathan Dayton should be labeled with "X."
 - 5. William Duer was assistant secretary of the Treasury under Alexander Hamilton, a position Hamilton created for him. He formed a partnership with Alexander Macomb and tried to corner the market on U.S. government securities. He went bankrupt during the Panic of 1792 and was thrown into debtor's prison, where he died in 1799. William Duer should be labeled with "B," "M," and "Y."
 - 6. Albert Gallatin served in Congress from 1795 to 1801 and as Secretary of the Treasury from 1801 to 1814. In 1809 Gallatin recommended the renewal of the First

Bank's charter and expansion of its capitalization to \$30 million from \$10 million. Albert Gallatin should be labeled with "J."

- 7. Alexander Hamilton served as the nation's first Secretary of the Treasury and wrote "Report on a National Bank," in which he laid out his plans for a national bank. In 1804, he was mortally wounded by Aaron Burr, his former law partner. Alexander Hamilton should be labeled with "C," "N," "U," and "Z."
- 8. David Hume was a Scottish philosopher and economist. Alexander Hamilton consulted Hume's writings when outlining his plans for the U.S. economic system. David Hume should be labeled with "F."
- 9. Thomas Jefferson was the nation's third President. Jefferson, who believed that the U.S. should remain primarily a nation of farmers, argued that Alexander Hamilton's proposed national bank was unconstitutional. Thomas Jefferson should be labeled with "A" and "Z."
- 10. Alexander Macomb formed a partnership with William Duer and tried to corner the market on U.S. government securities. Alexander Macomb should be labeled with "R."
- 11. Pierre Charles L'Enfant designed the layout of Washington, D.C. Pierre Charles L'Enfant should be labeled with "I."
- 12. James Madison was the nation's fourth President. He opposed the idea of a national bank, and in 1811, during his administration, the bank's charter expired. James Madison should be labeled with "A" and "O."
- 13. Robert Morris was a signer of the Declaration of Independence, the Articles of Confederation, and the United States Constitution. He was also a United States senator from Pennsylvania from 1789 to 1795. Robert Morris should be labeled with "T."
- 14. Jacques Necker served as director of finances in the government of Louis XVI. Alexander Hamilton consulted Necker's writings when outlining his plans for the U.S. economic system. Jacques Necker should be labeled with "F" and "Q."
- 15. Charles Willson Peale is known for the large number of portraits he painted of important Americans, such as Thomas Jefferson, Alexander Hamilton, and George Washington. Charles Willson Peale should be labeled with "L."
- 16. Raphaelle Peale is considered the founder of the American school of still-life painters. Raphaelle Peale should be labeled with "V."

- 17. Edmund Randolph tried to remain neutral in the debate over the national bank, but he nonetheless advised President Washington to veto Alexander Hamilton’s bill to create the First Bank. Edmund Randolph should be labeled with “D.”
 - 18. Adam Smith was a Scottish philosopher and economist. He spent 10 years writing his masterwork, *The Wealth of Nations*, which was published in 1776. Alexander Hamilton consulted Smith’s writings when outlining plans for the U.S. economic system. Adam Smith should be labeled with “F” and “G.”
 - 19. George Washington was the nation’s first President. In 1791, he signed the bill chartering the first Bank of the United States. George Washington should be labeled with “A” and “K.”
 - 20 . Thomas Willing was elected president of the Bank of North America in 1782. He later became the first president of the first Bank of the United States. Thomas Willing should be labeled with “E” and “W.”
11. Tell the students that they are now going to have a chance to look at some **primary source documents**. Explain that a primary source is a document or some other type of media that was created in the time being studied by someone with first-hand knowledge of the events you are studying. In the study of history and other disciplines primary source documents are often the most valuable resources because they are the reference materials most closely associated with the time period, person, and events being studied and therefore most likely give the most accurate information about the subject.
12. Explain to the students that they are going to examine some letters written by Clement Biddle in 1791 and 1792. Clement Biddle was a veteran of the Revolutionary War, during which he had served as the commissary officer for George Washington’s encampment at Valley Forge. From 1789 to 1793, Biddle served as the first U.S. Marshal for Pennsylvania. Clement Biddle was also a prominent securities broker in Philadelphia. Biddle kept copies of his letters in a letterbook, which has been preserved at the Historical Society of Pennsylvania. These letters are valuable primary sources that historians have used to better understand what the early days of the First Bank were like.
13. Distribute a copy of Handout 4 to each student. Divide the class into five groups. Explain to the students that the letters in Handout 4 are reproductions produced from transcriptions of the originals in Biddle’s letterbook. Working with primary sources often poses challenges. The style of people’s handwriting in the 18th century was different than it is today. In the 18th century uniform spelling and punctuation was not common among many writers. Working with materials from Biddle’s letterbook poses another challenge—these are the copies he made of the letters he sent to other people. Therefore, he was often lax in producing the copies in his letterbook, and this laxity introduced further irregularities.

14. Tell the students to read the letters in Handout 4 and work in their groups to answer the questions at the end of the handout. Give the students time to complete the activity.
15. Review the groups' answers to the questions in Handout 4 by discussing the following:
- 1. a. How does Biddle describe the bank stock subscription process in his letter to Mr. Dewey? *(He explains that many more people subscribed for shares than had originally been thought would subscribe. People rushed to Philadelphia from all over, including New York and Boston, to subscribe. Within one hour 4,000 shares of the bank had been subscribed.)*
 - 1. b. Why was Biddle unable to subscribe for all the shares his customers wanted? *(In order to deal with the exceptional demand for bank shares, the bank had to reduce the number of shares any one person could subscribe. First the subscription amounts were reduced to the 30-share maximum allowed by law and then everyone's subscription was reduced by one-fifth.)*
 - 1. c. What does Biddle say has happened to the price of government securities since the bank stock subscription? *(Biddle says that the price of government securities [stocks] has risen since the bank stock subscription to the highest levels ever known—19 shillings and 4 pence, in Pennsylvania currency, for U.S. government securities paying a 6 percent interest rate.)*
 - 1. d. What does Biddle say has happened to the price of bank stock scrip over the course of the month? *(It rose from \$25 to between \$45 and \$50.)*
 - 2. a. In his letter of August 15, 1791, what business does Biddle indicate he is trying to transact for William Rogers? *(He has been trying to buy bank scrip for Mr. Rogers.)*
 - 2. b. What does Biddle say has recently happened to the price of bank scrip? *(Bank scrip prices have risen rapidly from \$185 to \$190 up to \$225, eventually reaching \$310 per scrip.)*
 - 2. c. What happened Friday morning and how did it change the price of bank scrip? *(On Friday morning [August 12, 1791] communications arrived from New York that bank scrip prices had fallen there. As a result, bank scrip prices in Philadelphia plummeted to no more than \$100 per scrip. The price then rose to around \$150 to \$160 per scrip.)*
 - 2. d. What does Biddle say about the speculation in bank scrip that had taken place? Did he participate? *(Biddle says that he disapproved of the speculation in bank scrip and that he did not buy even a single share. He explains to Rogers that speculation is incompatible with his plan of business.)*

- 3. a. In his letter to William Hodgson, how high does Biddle say the price of bank scrip went before falling after the news from New York was received? (\$310)
- 3. b. What does Biddle tell Hodgson he will do with Hodgson's bank scrip? (*He will wait to hear from Hodgson before selling his four shares unless he can get near \$190 for them.*)
- 3. c. What does Biddle tell Hodgson that Secretary of the Treasury Alexander Hamilton did after the price of government securities fell? (*Hamilton entered the market and purchased government securities in order to drive up their price.*)
- 4. a. In his letter to George Lewis on December 21, 1791, what is the range of prices of bank scrip that Biddle quoted? (\$141 to \$145)
- 4. b. What business did Biddle carry out for Lewis? (*Biddle sold 10 shares of Lewis's bank scrip for \$145 per share.*)
- 5. a. In his letter to his customers on March 18, 1792, what does Biddle say happened to discounts in 1792? (*All banks have significantly reduced the number of discounts they are making. Credit is very tight and it is very difficult to borrow money.*)
- 5. b. What does Biddle say caused the First Bank to decrease the number of discounts it made? (*Biddle says that the opening of the First Bank's branches in Baltimore, Boston, Charleston, and New York caused the First Bank to transfer money to those branches and away from discount loans in Philadelphia.*)
- 5. c. What does Biddle say resulted from banks restricting their discounts? (*It has become very difficult for businesses and individuals to borrow money. The price of government securities [stocks] fell rapidly.*)
- 6. a. How high does Biddle say the price of government securities had reached before the collapse in March? (*25 shillings 4 pence, in Pennsylvania currency, for U.S. government securities paying a 6 percent interest rate*)
- 6. b. How high does Biddle say the price of a half share of bank stock scrip had gotten before the collapse? (\$200 for half shares)
- 6. c. What does Biddle tell Rotch about William Duer? (*Biddle tells Rotch that Duer, one of the biggest speculators, had stopped payment on his debts. Duer's default led to a rapid and sudden fall in the prices of all kinds of securities, including U.S. government securities, as well as bills of exchange.*)
- 6. d. How long does Biddle think the financial distress will last? (*Biddle estimates that the financial distress will last about a month.*)

- 6. e. What is Biddle’s outlook for the United States? (*Biddle believes that the outlook for the United States is a very positive one.*)

16. Tell students the following:

- The basic **money supply** in the United States consists of currency, coins, and checking account deposits. It was very much the same in the United States in the 18th century.
- Much of the paper currency that people used in the 1790s in the United States was banknotes issued by state-chartered banks and the first Bank of the United States. The banknotes of the First Bank were preferred to the banknotes of state-chartered banks because the First Bank’s notes could be used to pay federal taxes and were widely accepted throughout the country.
- Like today, people would deposit their money in banks and write checks drawing on the funds in their accounts. (There are examples of checks drawn on accounts at the First Bank on pages 3, 7, 10, and 12 in the publication “The First Bank of the United States: A Chapter in Central Banking History.”)
- When people deposited their money at the First Bank, they could deposit it in the form of gold or silver coins (specie), state bank notes, or First Bank notes. Both kinds of banknotes were convertible into specie if the bearer of the banknotes took them to the issuing bank and requested payment in gold or silver coin.
- The First Bank would usually hold different state banks’ notes in its vaults and present them at specific times to the state-chartered banks for payment in gold and silver coin.

17. Explain to the students that they are going to work in groups to investigate the effect that the First Bank would have on state-chartered banks and the availability of credit in the economy when it presented banknotes to the state-chartered banks in exchange for specie. Using the groups you established in Step 13, distribute one card from Handout 5, a sheet of scrap paper, and a calculator to each group. Explain that these cards contain data for fictitious state-chartered banks in 1798. Instruct students to read their card and work in their group to answer the question with the data provided. Give students time to work on the activity.

18. Display Visual 1. Distribute a copy of Visual 1 to each student. Ask each group to share the maximum amount of new loans (and therefore banknotes) that its bank could issue and record them in the third column of the Round 1 table on Visual 1. Once all of the groups have shared their answers, ask the groups to sum their initial amounts of banknotes outstanding with the maximum amount of new loans their banks can make to get the total possible amount of banknotes in Round 1. Record these amounts in the fourth column of the Round 1 table on Visual 1. The resulting table will be:

ROUND 1			
STATE	Initial Banknotes Outstanding	Maximum New Banknotes	Total Possible Banknotes
Massachusetts	\$176,567.00	\$152,423.00	\$328,990.00
New Hampshire	\$126,791.00	\$ 18,161.50	\$144,952.50
Pennsylvania	\$ 66,723.00	\$ 90,265.00	\$156,988.00
Virginia	\$ 78,567.00	\$ 38,705.75	\$117,272.75
South Carolina	\$ 58,319.00	\$ 49,537.00	\$107,856.00
TOTAL	\$506,967.00	\$349,092.25	\$856,059.25

19. Discuss the following:

- Why would some banks be able to issue more new banknotes than others? (*Banks that have a higher possible ratio of banknotes to specie would be able to issue more total banknotes than those that had lower ratios of loans to specie. Banks that had more specie in their vaults would be able to issue more total banknotes than those banks with less specie in their vaults. Some banks had already issued more banknotes than others. They wouldn't be able to issue as many new banknotes as banks that had fewer banknotes outstanding at the beginning of the round.*)
- Point out to students that the first Bank of the United States, throughout its 20-year life, roughly maintained a loan to specie ratio of about 5:1.

20. Explain to the students that they are now going to examine their banks' lending ability again in Round 2. Explain that this round takes place in 1799, one year after the first round. Distribute the cards from Handout 6, being sure to give each group the card that corresponds to the state bank they had in Round 1. Give students time to work on the activity.

21. Ask each group to share the maximum amount of new loans (and therefore banknotes) that its bank could issue and record them in the third column of the Round 2 table on Visual 1. Once all of the groups have shared their answers, ask the groups to sum their initial amounts of banknotes outstanding with the maximum amount of new loans their banks can make to get the total possible amount of banknotes in Round 2. Record these amounts in the fourth column of the Round 2 table on Visual 2. The resulting table will be:

ROUND 2			
STATE	Initial Banknotes Outstanding	Maximum New Banknotes	Total Possible Banknotes
Massachusetts	\$157,335.00	\$ 42,220.00	\$199,555.00
New Hampshire	\$ 90,982.00	\$ 1,302.50	\$ 92,284.50
Pennsylvania	\$ 75,289.00	\$ 39,779.00	\$115,068.00
Virginia	\$ 88,711.00	\$ 0.00	\$ 88,711.00
South Carolina	\$ 59,752.00	\$ 7,760.00	\$ 67,512.00
TOTAL	\$472,069.00	\$ 91,061.50	\$563,130.50

22. Discuss the following:

- What was the effect of the First Bank redeeming the state-chartered banks' banknotes in exchange for specie? (*The state-chartered banks had less specie in their vaults. As a result, the state-chartered banks were able to issue fewer banknotes in Round 2 than they were in Round 1.*)
- What would be the overall effect in the economy of the First Bank's redemption of state-chartered banks' banknotes? (*Fewer banknotes would be in circulation. State-chartered banks would be able to make fewer loans. The availability of credit in the economy would be reduced.*)
- Why is the maximum amount of new banknotes that the state-chartered bank in Virginia could issue equal to \$0.00 in Round 2? (*Because it only has \$18,676 in specie in its vault, and its banknotes to specie ratio can be no higher than 4.75:1. It has already issued all of the banknotes it can issue until more specie is deposited into the bank.*)
- By managing its lending policies and the flow of funds through its accounts, the First Bank could—and did—alter the supply of money and credit in the economy and hence the level of interest rates charged to borrowers.
- In the course of business, the First Bank would accumulate the notes of the state banks and hold them in its vault. When it wanted to slow the growth of money and credit, it would present the notes for collection in gold or silver, thereby reducing the state-chartered banks' reserves and putting the brakes on state banks' ability to circulate new banknotes and make more loans.
- To speed up the growth of money and credit, the First Bank would hold on to the state-chartered banks' notes, thereby increasing the state banks' reserves and allowing those banks to issue more banknotes through their loan-making process.

Closure

23. Review important content from the lesson by discussing the following:

- What was Thomas Jefferson’s principal argument against the founding of the first Bank of the United States? (*Jefferson believed that the Constitution did not provide the federal government with the power to incorporate a bank.*)
- What was Alexander Hamilton’s principal argument in support of the constitutionality of the first Bank of the United States? (*Hamilton believed that the federal government did have the power to incorporate a national bank because the bank would help the government to collect taxes, pay debts, and borrow money— powers of the federal government expressly authorized by the Constitution. Hamilton believed that the federal government had implied powers given to it by the Constitution.*)
- Why was the first Bank of the United States important in the economy of the early United States? (*The first Bank of the United States provided banking services to the U.S. government, businesses, and individuals in the 1790s and early 1800s, a period when there were relatively few banks in the United States. The First Bank, through its branches located around the country, provided an important network for the transfer of payments throughout the United States. Its banknotes were widely accepted nationwide and provided a relatively uniform currency for the young nation.*)
- What were the basic operations of the first Bank of the United States? (*The First Bank collected the federal government’s tax revenues, secured the government’s funds, made loans to the government, transferred government deposits throughout the bank’s branch network, paid the government’s bills, and managed the government’s interest payments to European investors in U.S. government securities. The First Bank also accepted deposits from the public and made loans to private citizens and businesses.*)
- What is a primary source? (*A primary source is a document or other type of media that was created in the time being studied by someone with first-hand knowledge of the events of that time.*)
- Why are primary sources important in the study of history and other disciplines? (*Primary sources are often the most valuable resources in the study of history and other disciplines because they are the reference materials that are most closely associated with the time period, person, or event being studied and therefore most likely give the most accurate information about the subject.*)

Assessment

24. Ask the students to write a headline and article for a 1798 issue of the *Pennsylvania Gazette*, a newspaper published in Philadelphia from 1723 to 1800. The article should explain to readers:
- the differences between Jefferson’s and Hamilton’s positions on the constitutionality of the first Bank of the United States.
 - the First Bank’s importance to the economy of the early United States.
 - the basic operations of the first Bank of the United States.
 - Answers should include the following: *Jefferson believed that the Constitution did not provide the federal government with the power to incorporate a bank. Hamilton believed that the federal government did have the power to incorporate a national bank because the bank would help the government to collect taxes, pay debts, and borrow money—powers of the federal government expressly authorized by the Constitution. Hamilton believed that the federal government had implied powers given to it by the Constitution. The first Bank of the United States provided banking services to the U.S. government, business, and individuals in the 1790s and early 1800s, a period when there were relatively few banks in the United States. The First Bank, through its branches located around the country, provided an important network for the transfer of payments throughout the United States. Its banknotes were widely accepted nationwide and provided a relatively uniform currency for the young nation. The First Bank collected the federal government’s tax revenues, secured the government’s funds, made loans to the government, transferred government deposits throughout the bank’s branch network, paid the government’s bills, and managed the government’s interest payments to European investors in U.S. government securities. The First Bank also accepted deposits from the public and made loans to private citizens and businesses.*
25. Ask the students to write a short paragraph in which they explain what a primary source is and why primary sources are important in the study of history and other disciplines. (A primary source is a document or other type of media that was created in the time being studied by someone with first-hand knowledge of the events of that time. Primary sources are often the most valuable resources in the study of history and other disciplines because they are the reference materials that are most closely associated with the time period, person, or event being studied and therefore most likely give the most accurate information about the subject.)

Visual 1
State Banknotes Outstanding

ROUND 1			
STATE	Initial Banknotes Outstanding	Maximum New Banknotes	Total Possible Banknotes
Massachusetts	\$176,567.00		
New Hampshire	\$126,791.00		
Pennsylvania	\$ 66,723.00		
Virginia	\$ 78,567.00		
South Carolina	\$ 58,319.00		
TOTAL	\$506,967.00		

ROUND 2			
STATE	Initial Banknotes Outstanding	Maximum New Banknotes	Total Possible Banknotes
Massachusetts	\$157,335.00		
New Hampshire	\$ 90,982.00		
Pennsylvania	\$ 75,289.00		
Virginia	\$ 88,711.00		
South Carolina	\$ 59,752.00		
TOTAL	\$472,069.00		

Handout 1

The Coffeehouse: A Reader's Theater

Setting (read by the Narrator):

It is an unusually quiet afternoon at a coffeehouse in Philadelphia in February 1791. Philadelphia, then the capital of the United States, is the center of political and economic life in the new nation. At this time, Philadelphia has a number of coffeehouses where its inhabitants come to discuss and debate the politics of the day and negotiate financial transactions. Travelers also often make use of the coffeehouses' facilities. After much debate, the House and the Senate have recently passed a bill to create a new national bank. The bill is now before President George Washington for either his signature or his veto. George Smith, a Philadelphia merchant and a regular at the coffeehouse, is just entering with his 15-year-old son, Edward. William and Sarah Harris, travelers from Virginia, have been staying at the coffeehouse for the last day and are enjoying some coffee in the corner. Hannah Bradford, the coffeehouse owner's daughter, is serving the customers. Peyton Plummer, a 68-year-old man who spent a short time in local politics some years ago, is enjoying his coffee at his table in the center of the room.

George Smith: (Enters the room with Edward following quickly behind) Ah, Peyton! You are here again! How are things?

Peyton Plummer: Quite good. Quite good, indeed. My rheumatism is still acting up, but I have to expect that at my age.

George Smith: May we join you?

Peyton Plummer: Of course! (looking at Edward) And how are you today young Master Edward?

Edward Smith: Particularly happy, Mr. Plummer. My father's consignment from London arrived on the *Lady Elaine* yesterday. I have been helping to unpack it all day. There are some wonderful things in those crates, including a new book I'm anxious to start reading.

Peyton Plummer: Ah, the shipments from England have always put a twinkle in the eyes of our young people!

Hannah Bradford: (Comes through the door from the back room and approaches the table where the Smiths and Peyton Plummer are seated) Good day, Mr. Smith! And, Edward, how are you?

George Smith: Hello, Hannah. I will have a cup of your best coffee.

Edward Smith: Hello, Hannah. May I please have a cup of hot chocolate?

Hannah Bradford: Certainly gentlemen! It will be right up! (turning to Peyton Plummer) Looks like your coffee is getting a little low there, Mr. Plummer. Would you like another cup?

Peyton Plummer: Why, yes, Hannah. That would be lovely! (turning to George Smith) George, my friend, can you believe it? The bill for the national bank finally passed both houses! I'm delighted that the centerpiece of Secretary Hamilton's plans for putting this country on a more stable economic footing is finally moving forward.

George Smith: It certainly seems as though the bill was before the Congress for the longest time. We have so few banks in our country. Credit is always much needed by merchants like me.

Peyton Plummer: George, tell me, how many banks do we have now?

George Smith: Well, there is the Bank of North America here in Philadelphia. North of here there is the Bank of New York and the Massachusetts Bank. And I hear that the Providence Bank will soon open in Rhode Island. To our south, there is the Bank of Maryland. So, I guess that makes four with another one soon to open its doors. That's just too few banks to support all of the merchants and others in this country in need of ready credit.

Edward Smith: Why are banks so important to merchants, father?

George Smith: Well, you see son, often I will get an order for some goods from as far away as Savannah. The person ordering the goods will send me a promise to pay once they receive the goods. I would like to get my money right away after shipment, but without the bank I would have to wait until payment comes from far away.

Edward Smith: But I don't see how the bank helps?

George Smith: (sounding slightly annoyed) Edward, you didn't let me finish. I take the promise to pay—we call it a bill of exchange—from the person ordering the goods to the bank, and the bank will discount the receipt. Say I have a receipt for \$100 today and the discount rate is 6 percent. Then, if I take the receipt to the bank today, the bank will give me \$99.52 in banknotes or coins and I will repay the bank \$100 in 30 days.

Edward Smith: Oh, I see! The bank will get the difference between what they give you today and what you repay in 30 days. (thinks hard) Let me see... That would be 48 cents in the example you gave.

George Smith: Precisely! You've got it! We call that difference interest.

Peyton Plummer: But as I understand it, this bank that Mr. Hamilton has proposed would not just provide credit to merchants and other private citizens, but also act as our nation's fiscal agent.

Edward Smith: Mr. Plummer, what is a fiscal agent?

- Peyton Plummer:** Well, Edward, if this new bank is signed into existence by President Washington, it will collect the government's tax revenues and the government will hold accounts there. It will be a place to keep the public funds.
- George Smith:** And not only that, Edward, it will also issue paper money and give people another place, in addition to the few banks we already have, to keep their money safe.
- Hannah Bradford:** (returns from the back room with the beverages) Two coffees and a hot chocolate.
- George Smith:** Thank you, Hannah.
- Peyton Plummer:** Edward, we have long had difficulty in this country keeping enough money in circulation to support our economic transactions. Our late friend Dr. Franklin identified this problem many years ago, but our government still has trouble meeting the currency needs of our new nation. We still don't have enough coins and banknotes in this country to support all of our economic activity. This new national bank will hopefully eliminate that problem by widely issuing banknotes that will be accepted everywhere.
- George Smith:** Let's hope so. Let's also hope that this national bank will eliminate, or at least alleviate, much of the economic disruption we have seen these years since our war with King George.
- Edward Smith:** The war disrupted your business, didn't it father?
- George Smith:** Indeed it did, son. When you were young, your mother and I were very heavily in debt because we had to borrow quite a bit during the war and right after to keep ourselves afloat. People just weren't buying anything they didn't need during the war, and, of course, our trade with Britain was closed until the war ended. And, after the war, everybody seemed to be in debt. That was a terrible time for merchants like me.
- Peyton Plummer:** And, George, it wasn't just the people that had to borrow. The Continental Congress borrowed heavily to finance that war. And the Continentals, those paper dollars they issued, were essentially worthless by the end of the war.
- George Smith:** Oh, I did indeed hate the Continental. They printed and issued so many of those paper dollars to pay for their war needs. By the end of the war, I didn't want to accept them anymore. And prices skyrocketed seemingly just as fast as they issued new Continentals.
- Edward Smith:** Why didn't you just accept coins for payment, father?
- George Smith:** Well, I tried, but that was not very easy. Like Mr. Plummer said, we have never had enough coins in this country. And people still to this day tend to hoard them. They will offer to buy something using paper money, but they keep their coins at home.

- William Harris:** (speaking from across the room) Gentlemen! Are you talking about the bill before President Washington for the national bank?
- George Smith:** We are, sir.
- William Harris:** My wife, Sarah, and I arrived from parts south yesterday afternoon. Yesterday evening, two men were in this very coffeehouse talking about this very same subject. Isn't that right Sarah?
- Sarah Harris:** Indeed. It is no secret that our Secretary Jefferson is much opposed to the idea of this new bank, but these men, who seemed to have knowledge of Mr. Jefferson's current feelings, say he is very disturbed by the bill's passage in the two houses of Congress. He has apparently been asked by President Washington to give his opinion on the matter.
- George Smith:** We have heard that as well. We also understand that Attorney General Randolph has also been asked to provide his opinion. Since both men are from Virginia and most southerners have opposed the bank for fear it will encroach on their rights, I expect they will both argue most heartily against President Washington signing the bill.
- Hannah Bradford:** (interjecting from across the room) One of our customers yesterday told me that President Washington already has received Mr. Jefferson's and Mr. Randolph's written opinions on the bank bill and has asked Mr. Hamilton to respond to the others' documents.
- William Harris:** That is indeed an interesting bit of news!
- Peyton Plummer:** Indeed!
- Sarah Harris:** We have heard that this new bank will help to finance the government's debt. Is that your understanding as well?
- George Smith:** That is what we have heard. Such an idea is in keeping with what Secretary Hamilton has pressed for in the past. He believes that we should have an economic structure that incorporates public debt, which would deliver much-needed capital to speed the growth of our nation's financial system.
- Peyton Plummer:** Mr. Hamilton wants to have a system much like that in England.
- Hannah Bradford:** From what I understand, this national bank will be much like the Bank of England.
- Sarah Harris:** Mr. Hamilton always has been a great fan of our former overlords.
- George Smith:** And, most important, their economic system.
- Edward Smith:** Wasn't it the British economic system that caused us to break with King George?

- Peyton Plummer:** Well, in part, but the British economic system is our economic heritage too. The break with King George was really more about governance, in my opinion.
- William Harris:** And Mr. Jefferson has always had fond feelings for our allies in the late war, the French.
- Peyton Plummer:** Mr. Jefferson seems to fear that the national bank will create a financial monopoly that will undermine state-chartered banks like the Bank of North America and the Bank of New York.
- George Smith:** Well, clearly Mr. Jefferson believes that this new bank would be unconstitutional. In general, he seems opposed to the idea that this new nation of ours will be based on banking, business, and the pursuit of profit. He's more interested in seeing us be a nation of farmers.
- Sarah Harris:** I have heard that Mr. Madison is similarly opposed to this new bank.
- Peyton Plummer:** Here again, we have heard the same.
- George Smith:** Well, it was very nice talking with all of you. Edward and I must get back to the shop. There is much more to unpack from our shipment. You should all stop by the shop to see all of the things we have gotten in from England.
- Sarah Harris:** Sounds like a great opportunity. (turning to her husband) We will stop in your shop before we leave town tomorrow. Won't we, William?
- William Harris:** (says sadly) I suppose.
- George Smith:** (turning to Hannah) Hannah, I have left payment on the table.
- Hannah Bradford:** Thank you Mr. Smith! Come again soon!
- Peyton Plummer:** Goodbye, Edward.
- Edward Smith:** Goodbye, Mr. Plummer. (The Smiths leave.)

Handout 2

Hamilton Versus Jefferson

Directions: Each of the following excerpts is from either Thomas Jefferson’s letter or Alexander Hamilton’s letter to President Washington. Both letters were written in February 1791. Read each excerpt and determine, based on your knowledge of each man’s position on the national bank bill, which man wrote the text. Write that man’s name in the second column. In the space under the excerpt, summarize the point the author was trying to make.

EXCERPT 1	WHO WROTE IT? Hamilton or Jefferson
<p>“It is known that the very power now proposed as a means, was rejected as an end, by the Convention which formed the constitution. A proposition was made to them to authorize Congress to open canals, and an amendatory one to empower them to incorporate. But the whole was rejected, and one of the reasons of rejection urged in debate was that then they would have a power to erect a bank, which would render the great cities, where there were prejudices and jealousies on that subject adverse to the reception of the constitution.”</p>	
<p>SUMMARY</p>	

EXCERPT 2	WHO WROTE IT? Hamilton or Jefferson
<p>“All the arguments, therefore, against the constitutionality of the bill derived from the accidental existence of certain state banks—institutions which <i>happen</i> to exist today and, for aught that concerns the government of the United States, may disappear tomorrow—must not only be rejected as fallacious but must be viewed as demonstrative that there is a <i>radical</i> source of error in the reasoning.”</p>	
<p>SUMMARY</p>	

EXCERPT 3	WHO WROTE IT? Hamilton or Jefferson
<p>“The proposed bank is to consist of an association of persons, for the purpose of creating a joint capital, to be employed chiefly and essentially in loans. So far the object is not only lawful but it is the mere exercise of a right which the law allows to every individual. The Bank of New York, which is not incorporated, is an example of such an association. The bill proposes, in addition, that the government shall become a joint proprietor in this undertaking, and that it shall permit the bills of the company, payable on demand, to be receivable in its revenues; and stipulates that it shall not grant privileges, similar to those which are to be allowed to the company, to any others. All this is incontrovertibly within the compass of the discretion of the government. The only question is, whether it has a right to incorporate this company in order to enable it the more effectually to accomplish ends which are in themselves lawful.”</p>	
<p>SUMMARY</p>	

EXCERPT 4	WHO WROTE IT? Hamilton or Jefferson
<p>“It may be said that a bank, whose bills would have a currency all over the states, would be more convenient than one whose currency is limited to a single state. So it would be still more convenient that there should be a bank whose bills should have a currency all over the world. But it does not follow from this superior conveniency that there exists any where a power to establish such a bank; or that the world may not go on very well without it.”</p>	
<p>SUMMARY</p>	

EXCERPT 5	WHO WROTE IT? Hamilton or Jefferson
<p>“A bank relates to the collection of taxes in two ways—indirectly, by increasing the quantity of circulating medium and quickening circulation, which facilitates the means of paying directly, by creating a convenient species of medium in which they are to be paid.”</p>	
<p>SUMMARY</p>	

EXCERPT 6	WHO WROTE IT? Hamilton or Jefferson
<p>“The bill neither prohibits any state from erecting as many banks as they please, nor any number of individuals from associating to carry on the business, and consequently, is free from the charge of establishing a monopoly; for monopoly implies a legal impediment to the carrying on of the trade by others than those to whom it is granted.”</p>	
<p>SUMMARY</p>	

EXCERPT 7	WHO WROTE IT? Hamilton or Jefferson
<p>“The relation of a bank to the execution of the powers that concern the common defense has been anticipated. It has been noted that, at this very moment, the aid of such an institution is essential to the measures to be pursued for the protection of our frontiers.”</p>	
<p>SUMMARY</p>	

EXCERPT 8	WHO WROTE IT? Hamilton or Jefferson
<p>It has been much urged that a bank will give great facility, or convenience in the collection of taxes. Suppose this were true: yet the constitution allows only the means which are "necessary" not those which are merely "convenient" for effecting the enumerated powers. If such a latitude of construction be allowed to this phrase as to give any non-enumerated power, it will go to every one, for [there] is no one which ingenuity may not torture into a <i>convenience, in some way or other, to some one</i> of so long a list of enumerated powers. It would swallow up all the delegated powers, and reduce the whole to one phrase as before observed. Therefore it was that the constitution restrained them to the <i>necessary</i> means, that is to say, to those means without which the grant of the power would be nugatory.</p>	
<p>SUMMARY</p>	

EXCERPT 9	WHO WROTE IT? Hamilton or Jefferson
<p>"The institution of a bank has also a natural relation to the regulation of trade between the states, insofar as it is conducive to the creation of a convenient medium of exchange between them, and to the keeping up a full circulation, by preventing the frequent displacement of the metals in reciprocal remittances. Money is the very hinge on which commerce turns. And this does not merely mean gold and silver; many other things have served the purpose, with different degrees of utility. Paper has been extensively employed. It cannot, therefore, be admitted with the attorney general that the regulation of trade between the states, as concerns the medium of circulation and exchange, ought to be considered as confined to coin...."</p>	
<p>SUMMARY</p>	

EXCERPT 10	WHO WROTE IT? Hamilton or Jefferson
“The incorporation of a bank, and the powers assumed by this bill, have not, in my opinion, been delegated to the U.S. by the Constitution.”	
SUMMARY	

Handout 3

Reading Guide

Name: _____

Read “The First Bank of the United States: A Chapter in the History of Central Banking” and answer the following questions.

I. Short Answers

Directions: Provide short answers to each of the following questions.

1. What was American economic life like in the 1780s?
2. Which prominent economic thinkers did Hamilton look to in forming his own vision for the American economy?
3. Why did Hamilton want to see the American economy make use of public debt?
4. In December 1790, Hamilton outlined his proposal for creating a national bank in a report to Congress. What did he argue that a national bank could do for the country?
5. What was similar and what was different about the bank Hamilton envisioned and the Bank of England?

Handout 3 (continued)

Reading Guide

II. Biographical Match

Directions: Match the names of the individuals on the left with description(s) from the column on the right by entering the appropriate letters in the spaces next to each name. Each name may have more than one description.

- | | |
|-----------------------------------|---|
| _____ 1. John Adams | A. President of the United States |
| _____ 2. Aaron Burr | B. Formed a partnership with Alexander Macomb. |
| _____ 3. George Clinton | C. The first Secretary of the Treasury |
| _____ 4. Jonathan Dayton | D. Although he tried to remain neutral in the debate over the national bank, he nonetheless advised President Washington to veto Alexander Hamilton's bill to create the First Bank. |
| _____ 5. William Duer | E. In 1782, he was elected president of the Bank of North America. |
| _____ 6. Albert Gallatin | F. Alexander Hamilton consulted his writings when outlining plans for the U.S. economic system. |
| _____ 7. Alexander Hamilton | G. He spent 10 years writing his masterwork, <i>The Wealth of Nations</i> , which was published in 1776. |
| _____ 8. David Hume | H. Although not a major player in the debate over the national bank, this Federalist often supported Hamilton's policies, even though the two men sometimes clashed personally. |
| _____ 9. Thomas Jefferson | I. Designer of the layout of Washington, D.C. |
| _____ 10. Alexander Macomb | J. When the Senate asked him to render an opinion on whether to let the First Bank's charter expire, he sent a report favoring renewal of the charter and expansion of the bank's capitalization to \$30 million from \$10 million. |
| _____ 11. Pierre Charles L'Enfant | K. In 1791, he signed the bill chartering the first Bank of the United States. |
| _____ 12. James Madison | L. Known for the large number of portraits he painted of important Americans, such as Thomas Jefferson, Alexander Hamilton, and George Washington. |
| _____ 13. Robert Morris | M. In 1789, he became assistant secretary of the Treasury under Alexander Hamilton, a post Hamilton created for him. |
| _____ 14. Jacques Necker | N. Wrote "Report on a National Bank," in which he laid out his plans for a national bank. |
| _____ 15. Charles Willson Peale | O. Opposed the idea of a national bank, and in 1811, during his administration, the bank's charter expired. |
| _____ 16. Raphaelle Peale | P. Shared a law practice with Hamilton. |
| _____ 17. Edmund Randolph | Q. Served as director general of finances in the government of Louis XVI. |
| _____ 18. Adam Smith | R. Formed a partnership with William Duer. |
| _____ 19. George Washington | S. As vice president, he cast the tie-breaking vote that defeated the First Bank's charter renewal. |
| _____ 20. Thomas Willing | T. A signer of the Declaration of Independence, the Articles of Confederation, and the United States Constitution; also a United States senator from Pennsylvania. |

Handout 4

Clement Biddle's Letters *

Directions: Read each of the following letters and answer the questions that follow.

Mr. Dewar - Annapolis

Philadelphia July 25. 1791

I have Received for Captain Campbell 24 shares for Wm. Hindman Esq. 16 Shares of Bank Stock which is the whole I am to receive—I subscribed for 50 shares in the name of Capn. Campbell & 20 in the name of Mr. Hindman on the first of July at least I put down their names as had been done by most persons here & paid the money for the Subscriptions on Monday the 4th of July So many persons rushed in from all parts principally New York & Boston to Subscribe that in less than an hour 4000 Shares were Subscribed more than filled the limited number—this was unexpected and we all here had no doubts but two or more days would continue for subscribing in which case I should have had the whole number Subscribed but filling in one day Every person whose name was down for more than thirty shares were first reduced to thirty because that was the highest number limited by Law to be subscribed in one and as 4000 shares & upward was were Subscribed in less than one hour and no determination could be made of priority of application all were put on a footing & 1/5 struck off from each number subscribed & not more than 30 Shares this leaves the subscriptions to the number I first mentioned for Capn. Campbell & Mr. Hindman. I am truly sorry that they are disappointed, but none under like circumstances have fared better and many thousand subscriptions are entirely struck out - the Subscription of 25 Del. Sells @ 45 D. & 50 Del. Stocks have continued gradually to raise & Saturday Evening sales were the highest known for cash 6 pct. 19/4 - 3 pct. & deferred 11/6 to 11/7 finals 18/6 to 18/8, no South debt at market. I am making up the different kinds of stock on Capn. Campbell's order. I shall follow his directions. I paid Mr. Simmons within a trifle of his balance til I could hear from you—he says that he will allow the bill of horse keeping (which I paid Mr. Davidsen reserving it out of the account) from the time Coln Richmond was ready to go down til your servant came up for the horses. I think it makes a week or two days different but I shall see Coln. Richmond on the subject—Shall I send down the Certificates of Subscription in the name of Capn. Campbell & Mr. Hindman or will you write to them for their order & if a conveyance offers send this or a copy of it to Capn. Campbell at the Springs with my Compliments & wishes for his recovery. I am

Clement Biddle

* Source for letters in this handout: *Clement Biddle's Letterbook*, Historical Society of Pennsylvania.

Handout 4 (continued) Clement Biddle's Letters

Philadelphia August 15 1791

William Rogers

The last week has been a most interesting & busy scene, in as much engaged the first three days attending a Court but I had endeavoured to lay out your balance each evening at the coffee house but could meet nothing which I thought would answer there, nor from our rumors - for bank scrip which here got up at 155 190 dollars - thursday morning began at 225 & kept rapidly rising til night when they reached 310 dollars for cash & higher on a short credit - the people of all classes embarked in the business the coffee house was crowded & the frenzy was extreme indeed. on friday morning the expresses from New York advised of the fall in scrip there an immediately it would not command more than 100 Doll. but it has been gradually rising chiefly by the efforts of the holders to about 150 to 160 Doll. & may keep near there if the same prices can be supported with you but not otherwise as they stand on ticklish ground - many people are greatly injured others have [sic] acquired large sums but on the whole I believe a large share of the high purchases have been transferred from here to New York. Who will be hurt or it all can stand the shock is not yet well known. I disapproved the extreme and rapid rise and did not buy one share as it incompatible with my plan of business to speculate at so great profit. It has caused a stand in prices the values of stock scrip have been established on the occasion but the sales chiefly sham & bought in by the sellers up - I think every kind of certificates will fall a littler perhaps 10 or 15 percent below the last regular prices which were about 6 percent 22 1/2 - 3 percent 13 / deferred 13 1/4 at present. I can give no fixed rates -

I think it probable there may be an opportunity to lay your balance out to advantage here but you may in this commotion want it for other purposes & I would have sent a bill for the balance this morning, but things are too unsettled to know whose drafts to take therefore please to draw on me at sight or at short a sight as you please for 500 D. I should have made up your account but was too much hurried during the week & after taking a ride yesterday to rest myself had too many letters to write to set about it - So many persons are sending money here you can be at no loss to dispose of a bill on me.

I wish you to write me fully & to know how it affects individuals as well as you bank which we are told has stepped discount but this is frequently done at our without previous notice.

I am - C. B.

Handout 4 (continued) Clement Biddle's Letters

August 18, 1791

William Hodgson

I am honored with your favour of 12th instant am much obliged to Mr. Finlay for introduction & you may rely on my utmost endeavours to execute any command may favour me with to your satisfaction—the speculations in Scrip (or subscription to the Bank of the United States) had become so general and a frenzy had seized on the dealers which suddenly rose them to 310 Doll. on the evening of the 11th but on the morning of the 12th expresses from New York (where an equal rage had seized the people) advised on a fall there & they instantly fell here to about 100 Doll. & they have since been gradually rising & seem to fix about 160 Doll. the not brisk at that—the fall also affected stocks which were on the fall but the Secretary of the Treasury came into the market & gave 20/4-1/2 for 6 percent 12/6 deferred & 12/- 3 percent on which the fall caused & they have each risen for 6 percent 20/6 to 20/9 deferred & 3 percent 2d. to 3d. above his prices from this sudden fall I shall wait your further orders before I proceed to a sale of the four shares you mention unless I can get near 190 D. for them I shall hope to hear from and with respect your

C. B.

Handout 4 (continued) Clement Biddle's Letters

George Lewis New York

December 21 1791

Monday Evening Sales were so much at a Stand I did nothing in Scrip last Evening they sold from 145 to 141. in trying the prices Cash for Scrip I sold 10 of yours @ 145. the only lot sold at those prices. 6 pct. with Interest from January 22/5 ¹/₂ payable 2nd January 22/6 ¹/₂ a 22/7 ¹/₂ - 3 pct & Def. 13/3 & 4. Scarce-

Kettanc & Lyle called to tender the 20,000 Ds deliverable yesterday & payable 1 April @ 23/11. But as I had not your Notes I committed your Bro. & offered them his & to procure Petters or my Endorsement or acceptance but they refused & declared off, as you had not sent your notes on the Day I have no doubt it may be replaced at least from present appearances.

Clement Biddle

Geo. Gale

March 18. 1792

George Gray

Richard M. Scott

Robinson Sanderson & Co.

Buchan Patton & Co.

John Land

William Deakison Jr.

John & Jos Swan

The formation of the branches of the National Bank had occasioned a demand for a considerable sum of money which was taken out of use for discounts just at a time that the paper which had been so liberally discounted at the Bank in January last has become due—not only the National Bank but the Bank of N.Y & the Bank of N.A. all restrained their Discounts within very narrow limits about the same time—which occasioned the greatest Demand for Money to take up Notes for which the Given had relied at least for a Renewal of a large proportion - the partial stoppage of one house in N.Y (but which it hoped may Reverse) added to the alarm & altogether occasioned a Rapid fall in Stocks - It will take some time to Restore them to their former price.

Clement Biddle

Handout 4 (continued) Clement Biddle's Letters

Mr. Francis Pickens

Philadelphia March 25 1792

It gave me and Beckey singular pleasure to receive your letter by Mr. Thibault who forwarded it from New York and has since paid us a visit but returned there this day intending to be here in about a month. I have offered him my best services and shall endeavour to be useful and it is pleasing that he has often called to see us. I am glad to hear of your success & sincerely wish that it may continue. I found it difficult to get up hill after my misfortunes & met with many pull backs in the attempt but my business increases & I begin to feel the benefit but conforming my self to the notary servicing & Stock Brokers Business & unwilling to run risques at my time of life, I with a large but fine family of Children my progress has been moderate and from my having avoided Speculations of any consequence in the present calamity among our stock dealers and indeed and indeed among the traders also, I feel my self without embarrassment. Our stock has risen to prices beyond calculations and were engrossing the attention of all classes of people. 6pt stock had got up to 25 1/4 in the pound 3pt 15/- deferred 15/6 - Half shares of Bank Stock which was for 200 Dollars in cash & 6 pt stock paid in towards the full shares of the stock of the bank of the United States sold at 115 to 120 pt advances on the Sum paid - the foregoing prices for cash and ten pt advances given for every kind payable and deliverable in four five & six months. Our New Bank had discounted too freely on first setting out - Being about forming branches of their bank in different places Shut up a large sum of their money & several other circumstances concurred to oblige that Bank as well as all the others on the Continent suddenly to check and many of them totally to Suspend all discounts - this put the dealers in Stock as well as the merchants in great difficulty to make good their payments. Mr. Duer of New York one of the greatest speculators stopped payment and a sudden and rapid fall in prices of all kinds of stock as well as in bills of exchange on Europe as in West India produce took place in consequence - the Stocks in general are about 20 pt below the prices therein before quoted but vary daily and will continue to do so. I believe for near a month to come when the present distress will be over and I am confident that a rise of about 10pt on the present prices will take place & at which I should expect our stocks to settle. The resources of the country are great our duties produce more to the federal government than they were estimated at, the Indian war is a matter of little consequence, altho' it may cost us a million of dollars our Commerce is thriving and our government well established. In that notwithstanding the present temporary distress for money, I think I may safely assure you that this country was never in so happy or prosperous situation. I shall inclose a price current which will give you the general state of our markets - I have made enquiry of a neighbor a very worthy merchant, who has built three or four large & middling ships within these two years past, & is thoroughly acquainted with the cost and expense of outfit - he tells me that from the result of several, he finds that a ship of 250 tons completely fitted to sea including a months advance wages & provisions as usually layed in for a voyage to Europe will cost, if the frame (for the parts which requires it) are of live oak & red cedar and which is preferred & generally in use here £17 currency ptenn.

Clement Biddle

Handout 4 (continued)

Clement Biddle's Letters

1. Refer to Clement Biddle's letter to Mr. Dewar in Annapolis on July 25, 1791, and answer the following questions:
 - a. How does Biddle describe the bank stock subscription process?
 - b. Why was Biddle unable to subscribe for all the shares his customers wanted?
 - c. When Biddle refers in his letter to "stocks," he is referring to government securities. The prices he quotes are denominated in Pennsylvania pounds, a currency issued by the state of Pennsylvania in 1785-86. Many people, including Clement Biddle, continued to state prices in Pennsylvania pounds well into the 1790s. The Pennsylvania currency was divided into pounds, shillings, and pence. When Biddle writes "19/4" he means 19 shillings and 4 pence in Pennsylvania currency.

What does Biddle say has happened to the price of government securities since the bank stock subscription?

- d. What does Biddle say has happened to the price of bank stock scrip over the course of the month?

Handout 4 (continued)

Clement Biddle's Letters

2. Refer to Clement Biddle's letter to Mr. Rogers on August 15, 1791, and answer the following questions:
 - a. What business is Biddle trying to transact for Rogers?
 - b. What does Biddle say has recently happened to the price of bank scrip?
 - c. What happened on Friday morning and how did it change the price of bank scrip?
 - d. What does Biddle say about the speculation in bank scrip that had taken place? Did he participate in that speculation?

3. Refer to Clement Biddle's letter to Mr. Hogson on August 18, 1791 and answer the following questions:
 - a. How high did the price of bank scrip go before falling after the news from New York was received?
 - b. What does Biddle tell Hodgson he will do with Hodgson's bank scrip?

Handout 4 (continued)

Clement Biddle's Letters

- c. What does Biddle tell Hodgson that Secretary of the Treasury Alexander Hamilton did after the price of government securities fell?

4. Refer to Clement Biddle's letter to Mr. Lewis on December 21, 1791, and answer the following questions:
 - a. What is the range of prices of bank scrip prevailing on the market in December?

 - b. What business did Biddle carry out for Lewis?

5. Refer to Clement Biddle's letter to his customers on March 18, 1792, and answer the following questions:
 - a. What does Biddle say happened to discounts in 1792?

 - b. What does Biddle say caused the First Bank to decrease the number of discounts it made?

 - c. What does Biddle say resulted from banks restricting their discounts?

Handout 4 (continued)

Clement Biddle's Letters

6. Refer to Clement Biddle's letter to Mr. Rotch on March 25, 1792 and answer the following questions.
 - a. How high does Biddle say the price of government securities had reached before the collapse in March?
 - b. How high does Biddle say the price of half shares of bank stock scrip had gotten before the collapse?
 - c. What does Biddle tell Rotch about William Duer?
 - d. How long does Biddle think the financial distress will last?
 - e. What is Biddle's outlook for the United States?

Handout 5

State Bank Cards—Round 1

MASSACHUSETTS	ROUND 1	SOUTH CAROLINA	ROUND 1
<p>It is 1798. You are the directors of a state-chartered bank in Massachusetts. You must abide by your bank's bylaws, which stipulate that the sum of all of your banknotes outstanding cannot be more than five times the value of the specie (gold and silver coins) in your vault. Remember that most of your banknotes enter circulation through the loan-making process. At the end of each month, you determine the amount of loans you will authorize the bank president to make in the coming month. There is \$176,567 of your bank's notes outstanding. You have \$65,798 in gold and silver coins in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank's president to issue in the coming month?</p>		<p>It is 1798. You are the directors of a state-chartered bank in South Carolina. You must abide by your bank's bylaws, which stipulate that the sum of all of your banknotes outstanding cannot be more than six times the value of the specie (gold and silver coins) in your vault. Remember that most of your banknotes enter circulation through the loan-making process. At the end of each month, you determine the amount of loans you will authorize the bank president to make in the coming month. There is \$58,319 of your bank's notes outstanding. You have \$17,976 in gold and silver coins in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank's president to issue in the coming month?</p>	
NEW HAMPSHIRE	ROUND 1	VIRGINIA	ROUND 1
<p>It is 1798. You are the directors of a state-chartered bank in New Hampshire. You must abide by your bank's bylaws, which stipulate that the sum of all of your banknotes outstanding cannot be more than three and a half times the value of the specie (gold and silver coins) in your vault. Remember that most of your banknotes enter circulation through the loan-making process. At the end of each month, you determine the amount of loans you will authorize the bank president to make in the coming month. There is \$126,791 of your bank's notes outstanding. You have \$41,415 in gold and silver coins in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank's president to issue in the coming month?</p>		<p>It is 1798. You are the directors of a state-chartered bank in Virginia. You must abide by your bank's bylaws, which stipulate that the sum of all of your banknotes outstanding cannot be more than four and three-quarter time the value of the specie (gold and silver coins) in your vault. Remember that most of your banknotes enter circulation through the loan-making process. At the end of each month, you determine the amount of loans you will authorize the bank president to make in the coming month. There is \$78,567 of your bank's notes outstanding. You have \$24,689 in gold and silver coins in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank's president to issue in the coming month?</p>	
PENNSYLVANIA	ROUND 1		
<p>It is 1798. You are the directors of a state-chartered bank in Pennsylvania. You must abide by your bank's bylaws, which stipulate that the sum of all of your banknotes outstanding cannot be more than four times the value of the specie (gold and silver coins) in your vault. Remember that most of your banknotes enter circulation through the loan-making process. At the end of each month, you determine the amount of loans you will authorize the bank president to make in the coming month. There is \$66,723 of your bank's notes outstanding. You have \$39,247 in gold and silver coins in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank's president to issue in the coming month?</p>			

Handout 6

State Bank Cards—Round 2

MASSACHUSETTS	ROUND 2	SOUTH CAROLINA	ROUND 2
<p>It is 1799. You must again decide how much in additional loans (and therefore banknotes) you will authorize your bank’s president to issue in the coming month. There has been one significant change since last year—the Bank of the United States presented \$24,674 in your bank’s notes to your bank last month in exchange for gold and silver coins. There is now \$157,335 of your bank’s notes outstanding and you have \$39,911 in specie in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank’s president to issue in the coming month? Be sure to remember the upper bound on the number of banknotes you may issue.</p>		<p>It is 1799. You must again decide how much in additional loans (and therefore banknotes) you will authorize your bank’s president to issue in the coming month. There has been one significant change since last year—the Bank of the United States presented \$8,748 in your bank’s notes to your bank last month in exchange for gold and silver coins. There is now \$59,752 of your bank’s notes outstanding and you have \$11,252 in specie in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank’s president to issue in the coming month? Be sure to remember the upper bound on the number of banknotes you may issue.</p>	
NEW HAMPSHIRE	ROUND 2	VIRGINIA	ROUND 2
<p>It is 1799. You must again decide how much in additional loans (and therefore banknotes) you will authorize your bank’s president to issue in the coming month. There has been one significant change since last year—the Bank of the United States presented \$19,018 in your bank’s notes to your bank last month in exchange for gold and silver coins. There is now \$90,982 of your bank’s notes outstanding and you have \$26,367 in specie in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank’s president to issue in the coming month? Be sure to remember the upper bound on the number of banknotes you may issue.</p>		<p>It is 1799. You must again decide how much in additional loans (and therefore banknotes) you will authorize your bank’s president to issue in the coming month. There has been one significant change since last year—the Bank of the United States presented \$11,785 in your bank’s notes to your bank last month in exchange for gold and silver coins. There is now \$88,711 of your bank’s notes outstanding and you have \$18,676 in specie in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank’s president to issue in the coming month? Be sure to remember the upper bound on the number of banknotes you may issue.</p>	
PENNSYLVANIA	ROUND 2		
<p>It is 1799. You must again decide how much in additional loans (and therefore banknotes) you will authorize your bank’s president to issue in the coming month. There has been one significant change since last year—the Bank of the United States presented \$10,000 in your bank’s notes to your bank last month in exchange for gold and silver coins. There is now \$75,289 of your bank’s notes outstanding and you have \$28,767 in specie in your vault. What is the maximum amount of additional loans (and therefore banknotes) you can authorize your bank’s president to issue in the coming month? Be sure to remember the upper bound on the number of banknotes you may issue.</p>			