

CHAPTER 18: OF AVARICE AND ENTERPRISE

Alexander Hamilton truly was NON-STOP. On December 13th, 1790, he taxed our whiskeeeeyyyyyyyyy. The next day, he started the ball rolling on the very first central bank in America.

- People were starting to see what he could really do: public credit, the customs service, and now a central bank. The bank caused the most questions to date.

Two things that happened because of and after the American Revolution:

- 1) Politics: People were over royal rule and they were all about individual rule and smaller government
 - a) Hamilton was involved with that and so was Franklin, Adams, Jefferson, and Madison
- 2) Economics: the industrial revolution, the banks, trade, etc
 - a) Hamilton was the only Founding Father who did both. Ben Franklin came close, but not really.
 - i) And THAT is why he scared people so much: they didn't know what to make of him because no one else was like him. It's a prime example of people fearing what they didn't understand.

HAMILTON: HE GETS THE JOB DONE

- 1) Hamilton became a symbol for getting off your patoot and getting things DONE. He thought government should promote a total DIY mentality: self fulfillment, self-improvement, and self reliance. Basically everything he did for himself.
 - a) He thought entrepreneurs embodied this spirit and would also be great for the economy
- 2) Chernow says Hamilton didn't create the market economy itself, but he promoted a culture and legal atmosphere where it could not only be a thing, but flourish (page 345).
 - a) Ham was super pissed the Articles of Confederation didn't mention anything about ANY of this, which is why he pushed the Constitution so hard.
 - i) "It is known that the relaxed conduct of the state governments in regard to property and credit was one of the most serious diseases under which the body politic laboured prior to the adoption of our present constitution and was a material cause of that state of public opinion which led to its adoption."
 - ii) So what'd he do? He changed it. He activated three clauses that were super vague: 1) the necessary-and-proper clause, the general-welfare clause, and the commerce clause.

Washington's first term was most about economics and OH LOOK Hamilton was amazing at that, so that works out pretty well.

Damn, Chernow does not hold back AT. ALL. Listen to this: "Among the well-intentioned who were woefully backward in finance, if forward-looking in politics, were Hamilton's three most savage critics of the 1790s: Jefferson, Madison, and Adams. These founders adhered to a stasis, archaic worldview that scorned banks, credit, and stock markets." (pg. 346)

- BUT HE KEEPS GOING! "As members of the Virginia plantation world, Jefferson and Madison had a nearly visceral contempt for market values and tended to denigrate commerce as grubby, parasitic, and degrading." (pg. 346). He goes on but you get the idea. Seriously, not a single word about this is minced, you guys. Wow.

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Jefferson hated banks. A lot. He thought they were all about cheating the poor and we were on our way to becoming just as corrupt as Europe. OH and get this: He also thought governments could only have virtue if they focused on agriculture. Agriculture. AGRICULTURE.

- UHHHHHHHH we know who's really doing the planting, T.Jeff. Stop it.

SIT DOWN, JOHN!

- John Adams thought that big, scary, evil paper money would make us as bad as the nobility of France or England. He also thought that banks were all about exploiting the poor and just bad news all around.
 - He was cool with state branches, but nothing private banks.

On the other hand Hamilton was like, "That was a real nice declaration. Welcome to the present, we're running a real nation!"

MORE BRITISH INFLUENCE FROM OL' HAMMIE HAM

- 1) Hamilton knew all about the private banks in NYC, Philly, and Boston but that didn't cut it when it came to setting up a bank for the entire country. But England did, soooooooo....
 - a) He read Malachy Postlethwayt's *Universal Dictionary of Trade and Commerce*, Adam Smith's *Wealth of Nations* (that one was sent to him by Angelica from London, aw), and the kicker: The charter from the Bank of England, which was established in 1694 under King William III.
 - i) He kept the charter in his desk and it was his go-to reference but he also had a lot of criticisms about it so don't go thinking he lifted the entire thing.

SETTING UP THE BANK

- 1) People hated the idea of a national bank SO MUCH (cue Mrs. White from Clue: "Flames! On the side of my face! Breathing, breath-, HEAVING breaths.") that Hamilton spent a lot of his time debunking myths about it.
 - a) Namely, the issue of paper money. It seems crazy now, but back then it really freaked people out.
 - i) The Constitution outlawed paper money because of the Continental money debacle (when Congress printed out a ton of cash and devalued it to less than nothing. WAY TO GO.)
 - ii) Hamilton's idea was to have the bank give out paper money, but it would be in the form of bank notes that people could trade in for coins. That way, if the bank gave out too much paper people would question the value and trade it in for gold and silver - which meant that the bank would be forced to hang on to paper and the value wouldn't plummet like it did before.
- 2) The bank's board of directors was super important.
 - a) Hamilton wanted the bank to get private investors while also serving the public, so the people he chose to serve on the board needed to be on the up and up.
 - i) The members would be a "small and select class of men" (page 348)
 - ii) In an interesting twist, Ham thought this would only happen if there was a mandatory revolving door of people (unlike when he was cool with having a President serve for life).
- 3) Everything about this was unprecedented for America, including the fact that there would be more money than the country had ever seen before.
 - a) Hamilton wanted to make sure the banks served the people first, not public policy

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- i) He made it so that the government became a minority stockholder, and the president could buy up to 2 million bucks in stock
 - (1) This was enough to give the government leverage, but not enough to let them go crazy and ruin everything with self-serving nonsense
 - ii) And of course, he made it so that the treasury secretary would get weekly reports of what was happening in the bank and had access to the books so they could be inspected
- 4) Chernow says that Hamilton nailed what he set out to do and you couldn't undo one part of it without undoing another part. Cue Jefferson, "I couldn't undo it if I tried. And... I tried."
 - a) Of course, this also made everyone hate him and fear him even more. This is exhausting.
 - i) HOWEVER: Chernow also says his plan breezed through the Senate, NBD. But it still has to go through the House and this is Ham so of course there's gotta be a little dramz.
 - (1) It passed 39-20 but predictably, the Northerners were all for it and the Southerners hated it. What else is new?
 - (a) This constantly us vs. them stuff is a little preview of the two political parties taking shape.

MADISON YOU MATTER AS A HATTER SON TAKE YO' MEDICINE - I know I'm recycling yet another reference but it's appropriate. Madison was PISSED.

- 1) Hamilton wanted the bank in Philly (where he lived) and Madison hated that. He thought it the capital would end up wherever the bank was and he wanted it near the Potomac.
- 2) Madison wasn't sure if the bank was even Constitutional, which is weird, because back in The Federalist Papers he was into this elastic interpretation and now he's suddenly a stickler.
 - a) Ham was all Jefferson in the Cabinet Battle like, "ha ha ha ha!" because he pointed out a little clause (Article 1, Section 8 to be exact) that said Congress could pass whatever the hell they wanted if they thought it was "necessary and proper." (page 350.)
- 3) Madison was feeling really betrayed at this point and considered Hamilton the voice of the super rich
 - a) Yeah but Madison was the one changing course, not Hamilton. Suddenly Madison drastically changed his mind but he felt betrayed by the person who didn't. Okay.
 - i) Elias Boudinot embarrassed him by reading a bunch of his quotes from The Federalist Papers aloud Congress, just to show how much he'd changed his mind.
 - (1) Chernow suggests that Hamilton fed Elias the information.
- Sidenote: I kinda feel bad for hating on Madison in these outlines. There's no way we could understand the thought process and what these people were going through at the time. There was no basis to go on and it's true that every American experiment sets a precedent. They were all trying to do what they thought was best but when we take took at it these 200+ years later, it's easy to be super judgemental. Sigh. /end rant
- 4) The fact that Hamilton was everywhere and doing everything was another issue. Madison and Jefferson hated the idea that he was all knowing, and all doing. They were convinced he had ulterior motives, and everything he did was seemingly impossible to undo (but we covered that already).
 - a) Example: Hamilton had the power to write his own reports and then draft bills on them. He was reporting to himself, like Dwight Schrute. *Pam: You will be your own assistant? Dwight: Correct. I need someone I can trust.*

- b) Fun fact: Chernow says Hamilton later admitted the central bank “represented his greatest stretch of federal power.” (page 351)
- 5) Madison wanted George Washington to make history by casting the first veto bill EVER to shut down Hamilton
 - a) It didn’t happen, obviously. Washington turned to the cabinet and asked around and no one could convince him that Hamilton’s plan was unconstitutional.
 - i) It wasn’t the easiest thing in the world, though. GWash was taken aback by all the hate and Hamilton wrote a pretty genius document fighting for a broad understanding of the Constitution and saying that the government should be able to take the whatever means necessary to do what the Constitution says (Jefferson didn’t want the government to do ANYTHING like that).
 - (1) It took him a week and was 15,000 words and forty pages. Chernow says he stressed words like whoa. Italics all up in that treatise.
 - (2) Eliza helped! She stayed up with him the night before the deadline. “I sat up all night, copied out his writing, and the next morning, he carried it to President Washington and we had a bank.” <3
 - (3) This document went down in history. People referenced it in future debates about the bank and government and loved citing Ham’s “necessary-and-proper clause.”
 - ii) GWash read and signed it without even talking to Jefferson about it first WHATTTTTTTT
 - (1) The fact that Washington hemmed and hawed about it for a while of course made Madison and Jefferson furious. Must be nice... must be niii-iii-iiiice... And then he didn’t even discuss it with them before he signed it?!
 - (2) Jefferson was SO FURIOUS that he wrote a letter to Madison saying... Actually, I’ll let Chernow tell it: “...the principle author of the Declaration of Independence was recommending to the chief architect of the U.S. Constitution that any Virginia bank functionary who cooperated with Hamilton’s bank should be found guilty of treason and executed.” CHERNOW ONCE AGAIN!!! (page 352)

MASTER OF COIN

- 1) In the middle of all this, Hamilton had to figure out what to do about coins and currency. He still used Britspeak (pence, pound, shillings) in his documentation and that needed to change.
 - a) The Confederation Congress adopted the dollar as currency but states kept doing their own thing, giving different foreign coins different values and making things super confusing. People didn’t want to do business with him because they were scared they’d get shorted since they didn’t have a set worth.
- 2) Hamilton read every treatise on the shelf that had anything to do with this including: *Principles of Political Economy* by Sir James Steuart and tables Isaac Newton (as in, “To every action there is always opposed an equal reaction” which Lin’s Jefferson references in the show) wrote for the British Treasury Board
- 3) One week after Senate approved the bank bill, Hamilton was told he needed to write up a document about it:
 - a) *Report on the Mint*
 - i) Hamilton endorsed the dollar as the basic currency, which would be divided into smaller coins on a decimal basis (page 356).

- (1) A lot of people were still bartering, so Hamilton thought coins were important to keep.
 - (a) He “suggested introducing a lot of different coins including gold and silver dollars, a ten-cent silver piece, and copper coins of a cent or half cent.” (page 356)
 - (i) Are you listening Madison and Jefferson? This proved he wasn’t all about rich people because poor people could use the smaller cents.
 - ii) He suggested that coins feature “presidential heads or other emblematic designs and display great beauty and workmanship.” (page 356) Dude was a patriot.
 - (1) He also thought they should be small and thick instead of large and thin
 - iii) Hamilton started “bimetallism” with his idea to use both gold and silver for coins and of course he went all out in his research. Chernow uses his writings on the silver dollar as an example: “[It] would contain ‘370 grains and 933 thousandth parts of a grain of pure silver.’” Ham. Stop it.
- 4) But there’s a twist! Chernow says that at this point, Hamilton and Jefferson were STILL civil to each other! Mostly because Jefferson was super into coinage at the time. But Hamilton is the pretentious richie rich?
 - a) Yet *another* twist! When the U.S. Mint was created in the spring of 1792, Jefferson convinced Washington to put it under his jurisdiction at State. Ham was devastated and rightly so! This was his jam! (Hi Seth Stewart! #jam)
 - i) To be fair, this DID have a lot to do with State and Washington thought Hamilton had wayyyyyyyyyy too much on his plate and that was perpetually accurate.
 - ii) Oh wait nope, Jefferson was terrible at running the Mint but it eventually got on its feet and stayed in Philly even when the capital moved to DC in 1800.

OH WALL STREET THINKS YA GREAT

- 1) July 4th, 1791. Chernow says that suddenly all the bank drama was a thing of the past because Hamilton’s bank opened up to the public and, “the public promptly went berserk.” (page 357). BERSERK! Excellent word.
 - a) The demand was crazy and banks were immediately packed and overflowing. America had never seen anything close to this before, ever. It started in Philly and started to spread to other places.
 - b) *Scrippomania* (page 357)
 - i) Investors didn’t purchase shares outright. Instead Hamilton sold bank shares in the form of a “scrip.”
 - (1) Investors made a \$25 down payment and they got a scrip saying they could buy a certain number of shares at par and then pay it off over 18 months.
 - (2) It was a frenzy and people were doubling their money in as little as a few days
 - c) Everyone was going nuts and things were flourishing and Madison and Jefferson were sitting there, seething, and writing angry letters to each other about it.
 - i) On the other hand, there were a lot more scrips in the North than the South, and that’s all these Virginians needed to keep on chugging that Haterade.
 - ii) Also... at least 30 members of Congress AND Secretary of War Knox were getting in on SCRIPPOMANIA! which wasn’t a good look

- 2) By August 11, 1791, we had the “first crash in government securities in American history (page 359).”
 - a) Scrips that were once 25 bucks were now over 300.
 - b) Bankers refused to give more credit to speculators, so everyone started selling and the price plummeted.
 - c) This was an even bigger problem because, once again, this had never happened before so there was nothing to read about how to fix it.
 - i) Chernow says Hamilton normally would not have gotten involved but felt he had an obligation to protect the very thing he created so he dove in, flying by the seat of his pants.
 - (1) He started telling people that the prices were too high in hopes they’d consider lowering them
 - (2) He told William Seton, cashier of the Bank of New York, to buy \$150,000 in government securities. He wanted the prices to rise so “the beneficial effect would spill over into the market for bank shares” and it worked (page 360).

WILLIAM DUER

- 1) He made things even more complicated and Chernow describes him as Hamilton’s “most flamboyant New York speculator.” (page 360)
- 2) He lasted 7 months as Hamilton’s assistant and after he left, he started borrowing HEAVILY so he could fund his constant spending and trading with the bank scrips.
 - a) Hamilton had to write him a strongly worded letter telling him to knock it off and exactly how to do it (yet still tried to be a good friend). Ham told him to that 190/share would be a good price for bank stock and that was a baaaaaaad move. Instead of dealing with the bank, he spoke to his friend about prices and bonds. Oof. Hamilton was kind of the first insider trader?! But didn’t know it?!
 - i) However, it worked. This showed (again, for the first time) that a financial regulator could steady the market through “deft, behind the scenes operations.” (page 361). Still... bad look. Chernow calls it “financial wizardry.”
 - (1) All of this is is EXACTLY what Madison and Jefferson were saying would happen and TJ was PIIIIIIIISSSED. Chernow ends the chapter with yet another ominous statement: “For Jefferson, Alexander Hamilton was more than just dead wrong in his prescriptions. He was becoming a menace to the American experiment, one who had to be stopped at all costs.” AHHHH I HAVE CHILLS DO YOU HAVE CHILLS AHHHHHH!