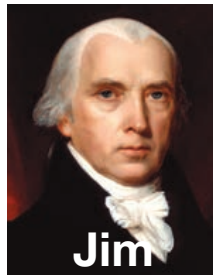
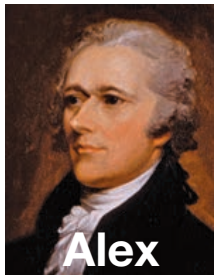


Capital to Leave NYC for Philly, Potomac

Deal over Dinner Assures Hamilton Debt Plan, June 20, 1790



Secretary of the Treasury Alexander Hamilton and Virginia Congressman James Madison had a private dinner at Secretary of State Thomas Jefferson's rooms at 57 Maiden Lane. The two men, helped by Jefferson's excellent wines, agreed to move the capital of the United States, in return for support of a key plank of Hamilton's financial program.

When President George Washington tapped Hamilton, his former aide, to be the first Secretary of the Treasury in Sept. 1789, the national and the state governments were mired in debt. In his first report to Congress ("Report on Public Credit," Jan 9), Hamilton told lawmakers that the debt problem had to be addressed. "States, like individuals, who observe their engagements, are respected and trusted." One key Hamilton proposal was that the federal government assume the debts of the states, to avoid, "collision and confusion" between federal and state repayment efforts. He expected smooth sailing in Congress since James Madison, one of Congress' leading figures, had told him in 1787 that he "perfectly agreed" with Hamilton on assumption.

Recently, however, politics changed Madison's mind. After the Constitution was ratified, many Virginians thought he had lost touch with his home state. In 1789, Virginia refused to elect him one of its Senators; he entered Congress as a mere Representative instead.

Virginia had paid off much of its debt, and did not want to help other states unless it got something in return. Moving the nation's capital from New York to Potomac would fit the bill. Madison fought assumption in the House throughout the spring. Then, on June 19, Secretary of State Jefferson ran into Hamilton outside President Washington's residence at 19 Broadway. He looked, according to Jefferson, "somber, haggard, and dejected." If assumption failed, Hamilton said, he must resign.

Jefferson suggested that Hamilton and Madison come to dinner on the 20th to work things out. As they discussed assumption, Jefferson recalls, "it was observed, I forget by which of them, that as the pill would be a bitter one to the Southern states, something should be done to soothe them." When Hamilton agreed to move the capital to a Potomac site, the deal was done.

Moving the capital to Philadelphia for 10 years, before moving it to the Potomac, will bring the Pennsylvania delegation aboard. Whether the deal repairs the rift between Hamilton and Madison remains to be seen.

None of the men involved would confirm or deny this story Secretary Jefferson's reactions come from a senior State Department source.

To Bank, or Not to Bank?

Feb. 23, 1791

The struggle over a National Bank – a keystone of Secretary of the Treasury Alexander Hamilton’s financial measures – took a new turn when Hamilton answered his main critics – Rep. James Madison and Secretary of the State Thomas Jefferson – on a point of constitutional law.

Sec. Hamilton riveted the financial community in Jan. 1790 when he unveiled his plan to pay off America’s war debts. The complex scheme passed after Secretary Jefferson brokered a deal between Hamilton and Madison, whereby Hamilton got his program, and Virginia got an agreement to move the nation’s capital from that urban hotbed of speculation, New York, to a more bucolic site on the Potomac (after a 10-year stopover in Philly.)

On Dec. 13, 1790, Hamilton unveiled a new plan: a National Bank, in which the U.S. government would deposit its funds. The Bank would make loans to private creditors, and issue currency based on its reserves. The United States has a few private banks, including the bank of New York (which Hamilton helped found in 1784). But a National Bank would be a first.

“Public banks,” Hamilton wrote, “have found admission and patronage among the principal and most enlightened commercial nations... After an experience of centuries, there exists not a question about their utility... Theorists and men of business unite in the acknowledgement of it.”

This time, the Virginians were not willing to bargain. Madison and Jefferson (who claims he didn’t understand Hamilton’s plans when he helped pass them in 1790) wrote memos to President Washington arguing that, since the Constitution makes no mention of banks, the proposed National Bank would be unconstitutional.

Hamilton blasted back with a 40-page memo defending the Bank’s constitutionality. (Mrs. Hamilton reportedly sat up with him as he pulled an all-nighter to finish the job.)

“Every power vested in government,” Hamilton wrote, “includes ... a right to employ all the means requisite,” so long as they are not “precluded by restrictions and exceptions specified in the Constitution.”

This is a Constitutional donnybrook: Madison and Jefferson say that anything not explicitly permitted is forbidden; Hamilton says that anything not explicitly forbidden is permitted. This will no doubt keep lawyers busy for years.

What interests the financial community is whether Sec. Hamilton will get his Bank, which is clearly part of a long-range mercantile, and perhaps even manufacturing, ventures.

What's Your Assumption?

Jan. 14, 1790

Alexander Hamilton, the first Secretary of the Treasury, made his long-awaited report on public credit to Congress on Jan. 14. The boyish financial whiz – he celebrated his 33rd birthday Jan. 11 – listened as his 51-page report was read aloud to the nation's solons at Federal Hall, at the intersection of Wall and Broad Streets. The document, dense with complex financial detail, left congressmen speechless.

They won't stay that way for long. Hamilton's basic point is simple enough: "States, like individuals, who observe their engagements – "that is, pay their debts – "are respected and trusted." But two of Hamilton's ideas about how the United States should pay its debts are sure to be controversial.

Pols and economists call Hamilton's first idea Assumption. The U.S. government took on a load of debt during the Revolutionary War. So did each of the 13 states. Some states have paid their debts off; others – notably Massachusetts, lately the scene of Shays' Rebellion – are still struggling. Hamilton wants the U.S. government to assume all the state debts, and pay them off along with the national debt, to avoid the "collision and confusion" of different repayment schemes.

Hamilton's second idea is Non-Discrimination. The largest class of creditors is Revolutionary War soldiers and officers, who were paid in certificates, or IOU's. (Military unhappiness with IOU's nearly caused a mutiny at Newburgh in 1783.) Over the years, many vets sold their certificates at a discount, in return for ready cash. Should the government discriminate between brave soldiers who hung on to their IOU's, and shrewd investors who snapped them up? Hamilton says no: fooling with the terms of repayment now would be a "breach of contract."

Where will the U.S. government's money come from? According to Sec. Hamilton, from tariffs and from an excise tax on distilled spirits.

Investors have been guessing about Hamilton's intentions for months. New York is buzzing with rumors of ships and coaches full of money, headed for the South and the frontier to buy up the certificates of veterans who are clueless about what is happening in the nation's capital.

Critics will surely latch on to such stories to attack Sec. Hamilton's program. The man to watch: Rep. James Madison (Virginia) – Sec. Hamilton's friend and ally during the fight to ratify the Constitution, but now said to be disturbed by both Assumption and Non-Discrimination.

At the same time, Sec. Hamilton has powerful allies, none more powerful than his old boss, President George Washington.