

**James Alexander Hamilton to Andrew Jackson, January 4, 1830, from Correspondence of Andrew Jackson.
Edited by John Spencer Bassett.**

COLONEL JAMES A. HAMILTON TO JACKSON.

New York, January 4, 1830.

My dear Sir. I have the pleasure to enclose a few hints on the subjects of Banks or offices of Deposit to assist the fiscal operations of the treasury and to establish a uniform currency.

It is not expected that such an adjunct to the Treasury Department will perform all the functions of a Bank in its general acceptation: Indeed the principal end of such an institution, which is; to extend the circulating medium of the Country to the utmost limit which the laws of commerce assign to it by means of its credit, is expressly denied to the Managers of these Banks or offices of deposit. The issue of notes is confined to actual deposits of Gold or silver or bank notes convertible into coin of standard value; Whereas a Bank of discount limits, or ought to limit its issues, not by the amount of its specie Capital and deposits but by the amount of Circulation which the commercial operations of the Community can absorb: And this may be done without or with a very small specie capital Provided the business of the Bank is confined as it ought invariably to be to discounting *business paper* or in other words *notes or Bills of Exchange created by commercial interchanges* . The Proposed Banks or offices of Deposit not having the power to make loans will not have the power of assisting the Government or individuals by loans or advances in any emergency; a defect which may be sensibly felt by both should the country be exposed to war; but which is incident to their organization and cannot be avoided without incurring the risk of far greater evils; For it would be highly

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indiscreet to entrust the funds and the credit of the Government (private persons could not be induced to entrust theirs) for the purposes of loans or discounting to the management of individuals, unless; their industry, vigilance and caution should be called into action by the strong motives of personal and pecuniary interest; such an interest as the directors of a Bank who are stockholders are supposed always to have in the institution committed to their management: But as I do not mean to extend this letter to a dissertation upon Banking I must return to the matter in hand.

Preparatory to the formation of the project I have examined with care the different Banking Systems that have been tried in different countries and ages and I have drawn from each such notions as seemed to be just and adapted to the end in view: The Bank of Amsterdam alone however is at all analagous to this. (an account of it will be found in the 2d vol of Smiths Wealth of Nations p 276) from it I have drawn the Idea of receiving a fee on deposits and but for the apprehension of exciting a clamour against a *novelty* I would have introduced a further provision in regard to Bills of Exchange that might be made highly useful in regulating or assisting to regulate exchanges at home and abroad.

This project is accompanied by notes explaining its different provisions and intended to meet the objections that have occurred to me: I could have wished for more time to mature this system but even with the advantages of more mature reflection I would not probably have thrown out any thing more worthy of your consideration; for I assure you I have no confidence in my ability as a projector of this kind. I have alone brought into the work the most ardent zeal for your service and If It shall be in the slightest degree useful to you I shall be amply compensated.

I intend shortly to send you a plan of a Bank of Discounts as well as deposit which will not be obnoxious to constitutional objections because like any other of its offices it will be under the exclusive direction and controul of the Government.¹

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1 This letter, with the accompanying "Outline of a Substitute for the United States Bank", is in the Library of Congress. They were purchased at an auction sale of Stan. V. Henkels, in Philadelphia, in 1922. There is no reason to doubt that the "Outline" was actually sent in the letter of Jan. 4. In Hamilton's *Reminiscences* (p. 154) this letter is given, but in a different form from the original. In the same book (pp. 155 and 156) Hamilton gives "A Project to create Offices of Deposit", That is evidently the paper he now speaks of sending soon. The paper which is here printed as an "Outline" is probably that sent with the letter and which he mentions in the first paragraph as "A few hints".

With the truest attachment

I remain your friend and obt Servt

P S I have been under the necessity of using my daughters pen in making copies and have not therefore made them as perfect as I could have wished. J. A H.

It ought to be recopied before it goes into other hands than yours.

Outline of a Substitute for the United States Bank.

The objections to the present Bank are—

1. It is unconstitutional;
2. It is dangerous to Liberty.

Yet, this Bank renders important services to the government and the Country.

It cheapens and facilitates all the fiscal operations of the government.

It tends to equalize domestic exchange and produce a sound and uniform currency.

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A substitute for the present Bank is desired, which shall yield all its benefits, and be obnoxious to none of its objections.

Banks do two kinds of business:

1. They discount notes and bills, for which they give their own paper.
2. They deal in exchange.

These two kinds of business have no necessary connections. There may be Banks of discount exclusively, and Banks of exchange exclusively. Both may be Banks of deposit.

The United States may establish a Bank of Exchange exclusively based on government and individual deposits.

This Bank may have branches wherever the government may think necessary.

They may be clothed only with the power to sell exchange on each other; and required to transmit government funds without charge.

They need only have such officers as their duties require, checked by frequent and rigid inspection.

The whole may be placed under the direction of the Secretary of the Treasury through a separate bureau.

The present Bank is unconstitutional:

1. Because it is a corporation which Congress has no constitutional power to establish.
2. Because it withdraws the business of Bank discounts and the property of private citizens from the operation of State laws, and particularly from the taxing power of the states in which it is employed.

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3. Because it purchases lands and other real estate within the States without their consent, under an authority purporting to be derived from Congress, when the General Government itself possesses no such constitutional power.

The proposed substitute would not be a corporation, but a branch of the Treasury Department; it would hold no property real or personal, and would withdraw none from the operation of the State laws.

The present Bank is dangerous to Liberty.

1. Because, in the number, wealth and standing of its officers and stockholders, in its power to make loans or withhold them, to call oppressively upon its debtors or indulge them, build houses, rent lands and houses, and make donations for political or other purposes, it embodies a fearful influence which may be wielded for the aggrandizement of a favorite individual, a particular interest, or a separate party.

2. Because it concentrates in the hands of a few men, a power over the money of the country, which may be perverted to the oppression of the people, and in times of public calamity, to the embarrassment of the government.

3. Because much of its stock is owned by foreigners, through the management of which an avenue is opened to a foreign influence in the most vital concerns of the Republic.

4. Because it is always governed by interest and will ever support *him* who supports it. An ambitious or dishonest President may thus always unite all its power and influence in his support, while an honest one who thwarts its views, will never fail to encounter the weight of its opposition.

5. It weakens the States and strengthens the General Government.

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The proposed substitute would have few officers, and no stockholders, make no loans, have no debtors, build no houses, rent no lands or houses, make no donations, and would be entirely destitute of the influence which arises from the hopes, fears and avarice of thousands. It would oppress no man, and being part of the government, would always aid its operations. It would have no stock and could not be reached by foreign influence. It would afford less aid to a dishonest President than the present Bank, and would never be opposed to an honest one. It would strengthen the States, by leaving to their Banks the whole business of discounts and the furnishing of the local currency. It would strengthen the General Government less 10 than the Custom Houses, immeasurably less than the Post Office, and less than the present Bank when it acts in concert with the National authorities.¹

¹ Opposite this paragraph Jackson has written: "The within is the only safe outline for a bank or government deposit."

The proposed substitute would cheapen and facilitate all the fiscal operations of the government as completely as the present Bank.

It would in the same manner tend to equalize the exchange. Until since the last annual message of the President, the present Bank charged a premium on all Exchanges, except for government, public officers, and members of Congress. This practise will, doubtless, be resumed should that Bank be rechartered. The profits of the exchange business heretofore done, was sufficient, it is believed, to pay all the expences of the Bank. The proposed Substitute may charge such a premium on all Exchanges, excepting those for the government, as will suffice to pay its expences.

It might be made in the same manner, although not perhaps to the same degree, to operate upon the currency. By taking the paper of such local Banks in the vicinity as pay specie, it would restrain over-issues and tend to preserve the currency in a sound state.

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The usual deposits of the government would be an ample capital for a Bank of Exchange. Independent of its capital, the Bank would always have cash on hand equal to its outstanding Bills of Exchange. But it might not be at the right points, and a small capital would be necessary to meet unequal calls at those points until the equilibrium could be restored. Exchange works in a circle. It is against the West in favor of the East, against the East in favor of the South, and against the South in favor of the West. By constant interchange of information and judicious management, little funds would be wanted at either point, other than those that would be raised by selling Exchange on another.

In time of war, the capacities of this Bank might be increased by act of Congress.

Such a Bank would not be unconstitutional, nor dangerous to Liberty, and would yield to the government all the facilities afforded by the present Bank. Further than this, perhaps the General Government ought not to look. But its incidental advantages to the Country would scarcely be inferior to those afforded by the present Bank, while it would destroy a favored monopoly.