

The First Bank of the United States

Lesson Description

In this lesson, students view a film segment about the early United States and the first Bank of the United States from *The Federal Reserve and You*. They work in groups to examine quotations from Hamilton's and Jefferson's letters to President Washington and summarize the arguments each man is trying to make about the need for and constitutionality of the bill to incorporate the First Bank.

Grade Level

8–12

Lesson Author

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Standards and Benchmarks

See page 7.

Concepts

First Bank of the United States

Primary source document

Time Required

45 minutes

Materials

- Film segment “The First Bank of the United States” from Chapter 2: History of Central Banking in the United States of *The Federal Reserve and You*. The film is available streaming in 720p at philadelphiafed.org/the-federal-reserve-and-you. You may also order a standard definition DVD of the film at the same address.
- Handout 1: Hamilton Versus Jefferson, one copy for each student
- Handout 2: Assessment, one copy for each student

Objectives

Students will:

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. Explain the importance of primary source documents to the study of history and other related fields.

Procedures

1. Ask the students how many banks they think there were in the United States in 1791. (*Answers will vary.*)
2. Explain to the students that at the beginning of 1791, there were only four banks open and operating in the United States. They were located in Maryland, Massachusetts, New York, and Pennsylvania. Ask the students, given their knowledge about the functions that banks play in an economy, what difficulties people in the new nation may have faced given that there were only four banks. (*Answers will vary but may include no safe place to keep savings, no place to get a loan, and no convenient way to channel funds from savers to borrowers.*)
3. Explain that while some wealthy merchants in Britain's 13 North American colonies, and later in the new United States, made loans and offered some of the services that banks normally do, the new nation nonetheless did suffer from a significant lack of banking services.

4. Explain to the students that they are going to watch a film segment from *The Federal Reserve and You*. In the film clip, they will learn about banking in the early United States and Alexander Hamilton’s proposal for a national bank. Emphasize to the students that they should listen carefully for the functions of a modern central bank.
5. Play the “First Bank of the United States” film segment from Chapter 2: History of Central Banking in the United States of *The Federal Reserve and You*.
6. Discuss the following:
 - a. How did the continental dollars that were printed by the Continental Congress during the American Revolution become practically worthless? (*The Continental Congress authorized the printing of a huge number of continental dollars, which caused rampant inflation and left the notes with very little value.*)
 - b. What are some functions of a modern central bank? (*It issues a common currency, determines the money supply, regulates depository institutions, acts as a “lender of last resort,” and serves as a bank for its own government.*)
 - c. What is a lender of last resort? (*A lender of last resort lends money to depository institutions when they are facing temporary cash shortages or when financial markets are disrupted.*)
 - d. In the street scene, why did the merchant say that the United States needs a national bank? (*The United States was destined to become a capital of commerce. Therefore, the merchant thinks that a national bank will favor everyone in the new country.*)
 - e. In the street scene, why did the farmer say that a national bank was a bad idea? (*The farmer thinks that a national bank will favor speculators. Farming is the beating heart of the new nation, and bankers will squeeze that heart. The national bank will put too much power in too few hands, leading to favoritism and corruption.*)
 - f. In the street scene, which character’s views represent those of Alexander Hamilton and his followers? (*The merchant’s views*)
 - g. In the street scene, which character’s views represent those of Thomas Jefferson and his followers? (*The farmer’s views*)
 - h. Thomas Jefferson argued that, since the Constitution did not expressly give Congress the power to create a national bank, such a bank would be unconstitutional. Alexander Hamilton argued that Congress could do whatever was necessary to meet the ends that the Constitution implies.
 - i. What were some reasons that Hamilton gave for the new nation having a national bank? (*The national bank would provide a way for the federal government to finance its Revolutionary War debt. The national bank would also expand the availability of credit nationwide and create a more uniform paper currency.*)
 - j. President Washington signed a bill in 1791 that created the **first Bank of the United States**. It opened in Philadelphia and had branches in other port cities around the country. It was the largest bank in the United States at that time.
 - k. What functions did the First Bank perform for the U.S. government? (*Received revenues, held deposits, and made payments*) In performing these functions, the First Bank was the fiscal agent of the United States.
 - l. What functions did the First Bank perform for individuals? (*Accepting deposits from and making loans to businesses and individuals*)
 - m. How was the First Bank able to affect the economy throughout the United States? (*It was very large and therefore very influential.*)
 - n. Why did the First Bank go out of business? (*Its charter was not renewed by Congress.*)

7. Explain that prior to President Washington signing the bill to create the first Bank of the United States in 1791, Secretary of State Thomas Jefferson, Attorney General Edmond Randolph, and Secretary of the Treasury Alexander Hamilton all provided written opinions on both the need for and constitutionality of a national bank.

8. Tell the students that they are now going to have a chance to look at some excerpts from primary source documents. Explain that a **primary source** is a document or some other type of medium that was created in the time period being studied by someone with first-hand knowledge of the events that are being studied. 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.

9. Divide the class into groups of four or fewer students. Distribute one copy of *Handout 1: Hamilton Versus Jefferson* to each student. Explain that *Handout 1* 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. Explain that in 1791 people used different words, spellings, capitalization rules, and abbreviations than we use today. While the students will work in their groups to complete the activity, each student must have a completed copy of *Handout 1*.

10. Give the students time to work on *Handout 1* in their groups. After they have completed the activity, review the students' answers by discussing 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 nor does it prohibit individuals from incorporating and creating 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 only the means that are necessary and not necessarily the means that are most 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 by the bank bill have not, in his opinion, been delegated to the federal government by the Constitution.

11. Discuss the following:

- a. 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.*)
- b. 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.*)
- c. 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.
- d. 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.

Closure

12. Review important content from the lesson by discussing the following:
 - a. 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.*)
 - b. 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.*)
 - c. Why was the first Bank of the United States important to 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.*)
 - d. What were the basic operations of the first Bank of the United States? (*The First Bank collected the federal government’s revenues, held the government’s deposits, and made payments on the government’s behalf. The First Bank also accepted deposits from the public and made loans to private citizens and businesses.*)
 - e. What is a primary source? (*A primary source is a document or other type of medium that was created in the time being studied by someone with first-hand knowledge of the events of that time.*)
 - f. 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.*)

- g. What does a lender of last resort do? (*A lender of last resort lends money to depository institutions when they are facing temporary cash shortages or when financial markets are disrupted.*)

Assessment

13. Distribute a copy of *Handout 2: Assessment* to each student.

Suggested answers:

- 1.a. *Alexander Hamilton’s view was that a national bank was vital to the new country . He believed that according to the Constitution Congress had implied powers to create a national bank because such a bank would support the overall goals of the Constitution and would not interfere with any express powers granted to the states or to Congress or any other branch of government. In this quotation, Fisher Ames supports Hamilton’s views by clearly stating in 18th-century wording that in his view Congress can do whatever is necessary in support of the “end for which the Constitution was adopted.” To Hamilton, that goal was clearly a strong government and a strong economy nationwide. Ames further explains in the quotation that he believes that Congress can pursue doing whatever it deems necessary to support the aims of the Constitution as long as those measures do not interfere with the “natural rights of man” or to any power expressly given by the Constitution to Congress or the states.*
- 1.b. *Thomas Jefferson’s view of the constitutionality of a national bank differed significantly from those of Fisher Ames and Alexander Hamilton. Jefferson believed that Congress could not create a national bank because the Constitution did not specifically give that authority to Congress. In Jefferson’s view, Congress could only do those things that the Constitution expressly said it could do. Therefore, Jefferson’s view and Ames’s (and Hamilton’s) view of the constitutionality of a national bank were polar opposites.*
2. *A primary source is a document or other type of medium 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.*

Additional Resources

- The Federal Reserve Bank of Philadelphia has published *The First Bank of the United States: A Chapter in the History of Central Banking*, which is available, along with an accompanying lesson, at www.philadelphiafed.org/publications/economic-education/. The lesson provides additional activities and primary source documents to teach about the First Bank. Copies of *The First Bank of the United States* pamphlet may also be ordered in free class sets by visiting www.philadelphiafed.org/publications/order-form/.

Standards and Benchmarks

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 and enforced 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.

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, the 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

COMMON CORE STATE STANDARDS

English Language Arts & Literacy Standards in History/Social Studies and Technical Subjects, Grades 6–12

Reading Standards for Literacy in History/Social Studies 6–12

- Grades 6–8, Craft and Structure (RH.6–8.4): Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.
- Grades 6–8, Range of Reading and Level of Text Complexity (RH.6–8.10): By the end of grade 8, read and comprehend history/social studies texts in the grades 6–8 text complexity band independently and proficiently.
- Grades 9–10, Craft and Structure (RH.9–10.4): Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- Grades 11–12, Key Ideas and Details (RH.11–12.1): Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- Grades 11–12, Key Ideas and Details (RH.11–12.2): Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

Writing Standards for Literacy in History/Social Studies, Science, and Technical Subjects 6–12

- Grades 6–8, Text Types and Purposes (WHST.6–8.1): 1. Write arguments focused on *discipline-specific* content. (a) Introduce claim(s) about a topic or issue, acknowledge and distinguish the claim(s) from alternate or opposing claims, and organize the reasons and evidence logically. (b) Support claim(s) with logical reasoning and relevant, accurate data and evidence that demonstrate an understanding of the topic or text, using credible sources. (c) Use words, phrases, and clauses to create cohesion and clarify the relationships among claim(s), counterclaims, reasons, and evidence. (d) Establish and maintain a formal style. (e) Provide a concluding statement or section that follows from and supports the argument presented.
- Grades 9–10 and 11–12, Production and Distribution of Writing (WHST.9–10.4 and WHST.11–12.4): Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.
- Grades 6–8, 9–10, and 11–12: Research to Build and Present Knowledge (WHST.6–8.9, WHST.9–10.9, WHST.11–12.9): Draw evidence from informational texts to support analysis, reflection, and research.

Handout 1: 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. Circle 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? (circle one)
<p>“It is known that the very power now proposed <i>as a means</i> was rejected as <i>an end</i> 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 the subject, adverse to the reception of the Constitution.”</p>	Hamilton or Jefferson
Your summary:	

Excerpt 2	WHO WROTE IT? Hamilton or Jefferson? (circle one)
<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 ought 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 radical source of error in the reasoning.”</p>	Hamilton or Jefferson
Your summary:	

Handout 1 (continued)

Excerpt 3	WHO WROTE IT? Hamilton or Jefferson? <i>(circle one)</i>
<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 <i>ends</i>, which are in themselves lawful.”</p>	<p style="text-align: center;">Hamilton or Jefferson</p>
<p>Your summary:</p>	

Excerpt 4	WHO WROTE IT? Hamilton or Jefferson? <i>(circle one)</i>
<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 anywhere a power to establish such a bank; or that the world may not go on very well without it.”</p>	<p style="text-align: center;">Hamilton or Jefferson</p>
<p>Your summary:</p>	

Handout 1 (continued)

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

Excerpt 6	WHO WROTE IT? Hamilton or Jefferson? (circle one)
“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.”	Hamilton or Jefferson
Your summary:	

Handout 1 (continued)

Excerpt 7	WHO WROTE IT? Hamilton or Jefferson? (circle one)
<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 frontier.”</p>	<p>Hamilton or Jefferson</p>
<p>Your summary:</p>	

Excerpt 8	WHO WROTE IT? Hamilton or Jefferson? (circle one)
<p>“It has been 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 not one which ingenuity may not torture into a <i>convenience</i>, in some instance <i>or other</i>, to <i>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 power 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>Hamilton or Jefferson</p>
<p>Your summary:</p>	

Handout 1 (continued)

Excerpt 9	WHO WROTE IT? Hamilton or Jefferson? (circle one)
<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 <i>exchange</i> 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</p>	<p>Hamilton or Jefferson</p>
Your summary:	

Excerpt 10	WHO WROTE IT? Hamilton or Jefferson? (circle one)
<p>“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.”</p>	<p>Hamilton or Jefferson</p>
Your summary:	

Handout 2: Assessment

1. Read the following quote from one of Congressman Fisher Ames's (Massachusetts) speeches during the debate over the founding of the first Bank of the United States and answer the question that follows:

“Congress may do what is necessary to the end for which the Constitution was adopted, provided it is not repugnant to the natural rights of man, or to those which they have expressly reserved to themselves, or to the powers, which are assigned to the states.”*

- a. Explain how Ames's statement supports Alexander Hamilton's argument that the United States should have a national bank.

 - b. Explain how Thomas Jefferson's view of the constitutionality of a national bank differed from that of Fisher Ames's view.
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2. Write a paragraph in which you explain what a primary source is and why primary sources are important to the study of history and other disciplines.

* Source: M. St. Claire Clarke and D.A. Hall, eds., *Legislative and Documentary History of the Bank of the United States Including the Original Bank of North America*. Washington: Gales and Seaton, 1832, p. 47.