THE FIRST BANK of the United States

A CHAPTER IN THE HISTORY OF CENTRAL BANKING

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ACKNOWLEDGMENTS

The Federal Reserve Bank of Philadelphia thanks John Van Horne, director of The Library Company of Philadelphia, and his staff, particularly Nicole Joniec, for their help in providing most of the images that appear in this publication. Thanks also to Independence National Historical Park and its staff, particularly Karen Stevens, Karie Diethorn, and James Mueller, for their assistance in making this publication possible.

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The War for Independence was over. The spirited, though often tattered, militia of the American colonies had defeated the army of one of the greatest nations in the world. Great leaders had emerged from the conflict: George Washington, John Adams, and Thomas Jefferson, to name just a few.[1]

But all was not well. The United States of America, a name the new country had adopted under the ***Articles of Confederation***,[2] was beset with problems. In fact, the 1780s saw widespread economic disruption. The war had disrupted commerce and left the young nation, and many of its citizens, heavily in debt. Furthermore, the paper money issued by the Continental Congress to finance the war was essentially worthless because of the rampant inflation it had caused,[3] and many people were bankrupt, even destitute. Add to this the lack of a strong national government and it's easy to see how the fragile union forged in the fight for independence could easily disintegrate.

Clearly, the new nation's leaders had their work cut out for them: reestablishing commerce and industry, repaying war debt, restoring the value of the currency, and lowering inflation.

Proposing a Solution

One prominent architect of the fledgling country — Alexander Hamilton, the first Secretary of the Treasury — had ideas about how to solve some of these problems. Unlike other founding fathers, who thought that the United States should remain primarily agricultural, Hamilton researched the history and economic structure of other countries, especially France and Britain, for ideas on how to build a nation. Although Hamilton culled valuable information about public finance from the writings of French Minister of Finance Jacques Necker, it was England — America's recently defeated colonial overlord — that provided Hamilton with sound foundations for creating a viable economic system. Hamilton also consulted the works of philosophers David Hume and Adam Smith. In addition, England's use of ***public debt*** interested Hamilton because this type of funding, which had helped to build England's military might and pay for its wars, accounted, at least in part, for that country's prosperity and had enabled the British to build an empire. Hamilton reasoned that an economic structure that incorporated public

[1] Brief biographies of the people mentioned in the text can be found in the Biographical Sketches.

[2] Explanations of terms in bold italics can be found in the Glossary.

[3] Because of this inflation, the expression "not worth a Continental" became a popular way of saying that something was worthless. The Continental dollar was not redeemable on demand for gold or silver.

> MOST COMMERCIAL NATIONS HAVE FOUND IT NECESSARY TO INSTITUTE BANKS; AND THEY HAVE PROVED TO BE THE HAPPIEST ENGINES THAT EVER WERE INVENTED FOR ADVANCING TRADE.
>
> -ALEXANDER HAMILTON, 1781

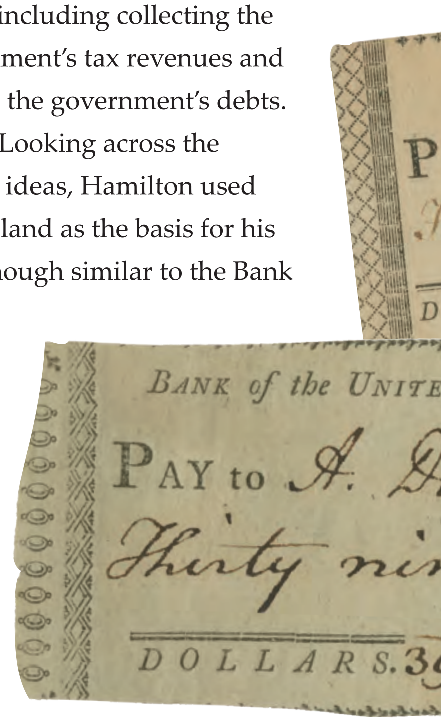
debt could deliver much-needed capital to speed the growth of the U.S. financial system.

Although estimates vary, at the end of the war, the national debt was more than $5 million, and the states collectively owed about $25 million.[4] In one of his many reports to Congress, Hamilton suggested that the federal government assume the states' war debts. He felt that this consolidation of state and federal debt would give investors who held that debt a reason to support the federal government. Combining the debt would also help to eliminate competition between the new central government and the states for tax revenues.[5]

Hamilton's notions about the importance of public finance to the United States' ultimate economic success ran parallel to his belief that the country also needed a national bank.

Creating a National Bank

To further enlist support for a strong central government, in December 1790, Hamilton submitted a report to Congress in which he outlined his proposal for creating a national bank. He argued that such an institution could issue paper money (also called ***banknotes*** or currency), provide a safe place to keep public funds, offer banking facilities for commercial transactions, and act as the government's ***fiscal agent***, including collecting the government's tax revenues and paying the government's debts.



Looking across the Atlantic Ocean once again for ideas, Hamilton used the charter of the Bank of England as the basis for his proposed national bank.[6] Although similar to the Bank of England, Hamilton's proposed bank differed in several ways. For one thing, each shareholder in the Bank of England had one vote. Under Hamilton's plan, the number of votes would be determined by the size of each shareholder's investment. Also, the proposed national bank would have a maximum ratio of loans to ***specie*** (gold or silver), whereas the Bank of England had no such requirement.

Furthermore, the government would own 20 percent of the U.S. bank; the Bank of England was privately owned. However, both institutions were prohibited from trading in commodities, and both were required to obtain legislative approval before making loans to states or local governments.[7]

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[4] Although estimates vary, in today's dollars, $5 million would be over $100 million and $25 million would be over $500 million, according to John McCusker's composite commodity price index. See his publication, with updated estimates using CPI data between 2000 and 2008.

[5] See Chernow, p. 299.

[6] According to Ron Chernow, Hamilton "kept a copy of the [Bank of England's] charter on his desk as a handy reference, as he wrote his banking report" (Chernow, p. 347).

[7] See Chernow, p. 15.

Reaction to Hamilton's Proposal

Not everyone agreed with Hamilton's plan for a national bank. Indeed, it met with violent opposition in some quarters. Secretary of State Thomas Jefferson, for one, was afraid that a national bank might undermine state banks and might adopt policies that favored financiers and merchants, who tended to be creditors, over plantation owners and family farmers, who tended to be debtors.

Two checks written by Jonathan Dayton, the youngest man to sign the United States Constitution and the fourth Speaker of the U.S. House of Representatives, in 1796 and 1803. These checks are written on First Bank check blanks.
The Library Company of Philadelphia

He argued that creating such an institution was unconstitutional. Also, such an institution clashed with Jefferson's vision of the United States as a chiefly agrarian society, not one based on banking, commerce, and industry.

James Madison, who represented Virginia in the House of Representatives, opposed the bank for similar reasons.[8] In particular, he objected to the bank's proposed 20-year charter, arguing that two decades was too long a period for an untried entity in a country so young.

Other opponents felt that the bank was an affront to states' rights and would make the states too subservient to the new federal government. Moreover, agreeing with Jefferson, many of the people who opposed the bank said that the Constitution did not grant the government the authority to establish banks. Still others thought that a national bank would have a monopoly on government business, to the detriment of the state-chartered banks.[9]

Despite the opposing voices and much debate in Congress, Hamilton's bill cleared both the House and the Senate in the winter of 1791. Most support for the bank came from the New England and Mid-Atlantic states. Southern states, which feared the federal government's encroachment on their rights, were less inclined to support the bill.

President George Washington, however, was undecided as to whether he should sign the bill or veto it. He sought advice from Attorney General Edmund Randolph and Secretary of State Thomas Jefferson, both of whom told the president to exercise his veto power. But, still on the fence, Washington sent documents containing Randolph's and Jefferson's comments to Hamilton on February 16, 1791, giving the Treasury secretary one week to respond. Rising to the occasion, Hamilton went to work on countering the arguments set forth by his colleagues.

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[8] Madison's opposition to a national bank waned over time. In 1816, as president, he signed the bill chartering the second Bank of the United States.

[9] See Cowen, p. 138-39. At the time Hamilton proposed his bank, there were only three banks operating in the United States: the Bank of North America, the Bank of New York (of which Hamilton was a founder), and the Bank of Massachusetts.

1790
Alexander Hamilton submits a report to Congress outlining his proposal for a national bank.

1791
In February, President Washington signs the bill establishing the Bank of the United States.

1791
In July, Bank subscriptions of stock go on sale and sell out within hours.

1791
In December, the Bank of the United States opens for business in Philadelphia.

1792
Branches open in Boston, New York, Baltimore, and Charleston.

1792
Secretary of the Treasury Hamilton quells the panic of 1792.

1793
In July, Bank subscriptions are fully paid for.

1794
Bank acquires property on South Third Street on which it plans to build new headquarters.

1797
Bank moves into 116 S. Third Street; the building is still there today.

90 91 92 93 94 95 96 97 98 99 00

He spent most of that week gathering his thoughts, outlining his opinions, and consulting with others. Then he stayed up through the night on February 22 — the night before Washington's deadline — diligently working.[10] The next day, right on time, Hamilton delivered to the president a lengthy (almost 15,000 words) refutation of his fellow cabinet members' arguments. Washington signed the bill.

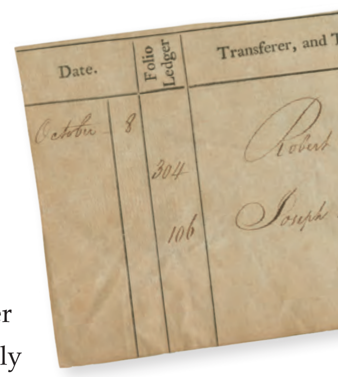
Bank Operations

The Bank of the United States, now commonly referred to as the First Bank, opened for business in Philadelphia on December 12, 1791, with a 20-year charter. The office was initially housed in Carpenters' Hall and remained there until the bank moved to new quarters on Third Street six years later. Branches opened in Boston, New York, Charleston, and Baltimore in 1792.[11] (See *The First Bank Building: Still Standing After All These Years,* page 11.)

[10] Economic historian David Cowen calls this "arguably the most important 'all-nighter' in American banking history." See Cowen, p. 7.

[11] Between 1800 and 1805, four more branches were established in Norfolk (1800), Savannah (1802), Washington, D.C. (1802), and New Orleans (1805).

The bank started with capitalization of $10 million, $2 million of which was owned by the government and the remaining $8 million by private investors.[12] By the standards of the day, this was a very large amount of money. The size of its capitalization made the First Bank not only the largest financial institution in the new nation but also the largest corporation of any type. The bank's sale of shares was the largest ***initial public offering (IPO)*** in the country to date. Many of the initial investors were foreign, a fact that didn't sit well with many Americans, even though the foreign shareholders could not vote.



Actually, the IPO did not offer shares for immediate delivery, but rather ***subscriptions***, or "***scrips***," that essentially acted as down payments on the purchase of bank stock. When the bank subscriptions went on sale in July 1791, they sold out so quickly that many would-be investors were left out, prompting fierce

[12] Although estimates vary, today $10 million would be more than $220 million according to John McCusker's composite commodity price index. See his publication.

1800
A branch opens in Norfolk.

1802
Branches open in Washington, D.C., and Savannah.

1805
A branch opens in New Orleans.

1808
Bank shareholders ask Congress to extend the bank's charter. The Senate forwards the request to Treasury Secretary Albert Gallatin.

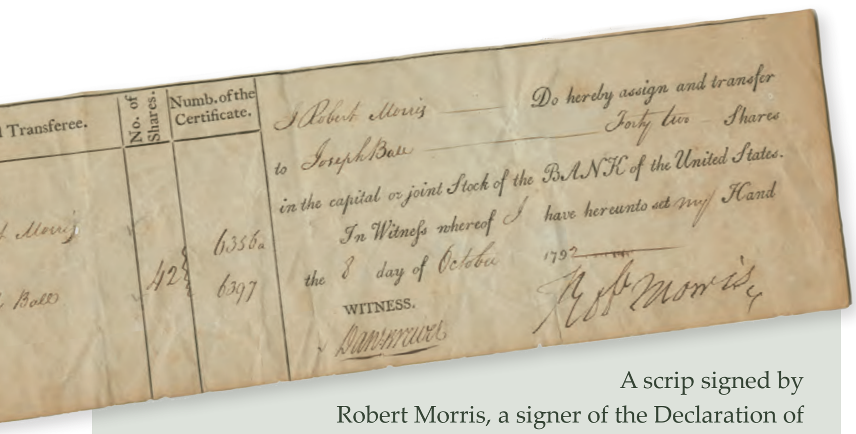
1809
Gallatin submits a report to Congress, recommending renewal of the bank's charter and expansion of its capitalization.

1810
Congress debates the charter renewal through the year, but efforts to pass a bill stall. Shareholders resubmit a request for renewal in December.

1811
In February and March, First Bank shareholders hold a meeting to arrange the liquidation of the bank.

1811
The First Bank closes its doors on March 3, 1811, the day before its charter expires, after the bill to renew its charter is defeated by one vote in each chamber of Congress.

bidding in the secondary market for scrips. Many borrowed money to do so. Indeed, demand for bank scrips accompanied by frenzied borrowing and buying soon contributed to a financial crisis. (See *The Nation Faces Its First Financial Crisis,* pages 6–7.)


Transferee. No. of Shares. Numb. of the Certificate.
I Robert Morris Do hereby assign and transfer Forty two Shares
to Joseph Ball
in the capital or joint Stock of the BANK of the United States.
In Witness whereof I have hereunto set my Hand
the 8 day of October 1792
WITNESS.
42 6356a 6397
Robt Morris

A scrip signed by Robert Morris, a signer of the Declaration of Independence, the Articles of Confederation, and the United States Constitution, transferring 42 shares of Bank of the United States stock to Joseph Ball on October 8, 1792. At the time, Robert Morris was a United States senator from Pennsylvania.
The Library Company of Philadelphia

The bank was overseen by a board of 25 directors, the majority of whom came from Philadelphia, New York, and Boston, but Maryland, North Carolina, South Carolina, Virginia, and Connecticut were represented as well. Board members included lawyers, merchants, and brokers as well as several senators and congressmen.[13]

Because of the great distances some board members would have to travel to get to meetings in Philadelphia, the presence of at least seven directors at any given meeting was deemed sufficient for conducting bank business.[14] Prominent Philadelphian Thomas Willing, who had been president of the Bank of North America, accepted the job as the national bank's first president.

The First Bank acted as the federal government's fiscal agent, collecting tax revenues, securing the government's funds, making loans to the government, transferring government deposits through the bank's branch network, and paying the government's bills.[15] The bank also managed the Treasury's interest

[13] See Cowen, p. 44.

[14] See Cowen, p. 45.

[15] In other words, as Cowen says, the bank acted as the "guardian of the public money" (Cowen, p. 138).

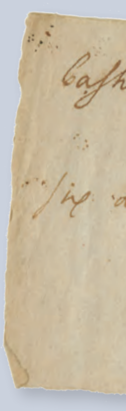
The Nation Faces
ITS FIRST FINANCIAL CRISIS[a]

At its initial public offering (IPO), the First Bank did not directly sell shares for immediate delivery, but rather ***"scrips,"*** which cost $25 each, payable in ***specie*** (gold or silver).[b] This money acted as a down payment on buying bank stock, which sold for $400 a share. Investors would then pay the balance due over the course of the next two years (until July 1793). One-quarter of the amount due would be paid in specie and the remaining three-quarters in U.S. debt securities.

Soon, bank scrips were selling at double the price as many people borrowed money in order to buy the scrips to obtain the bank's stock. Eventually, prices of scrips went even higher. The bank's IPO also pushed up the price of U.S. debt securities, since investors were required to use these securities to pay three-quarters of the full $400 per share purchase price of the bank's stock. However, after an initial surge in the prices of bank scrips and U.S. securities that appeared to be a ***financial bubble***, they fell just as rapidly, and by the end of August 1791, prices for both types of securities had fallen substantially, in some cases by more than $100.

Although reluctant to intercede in financial markets, Hamilton saw the need for intervention as the earlier financial bubble kept collapsing, credit was becoming less available, and the possible complete collapse of prices across the economy increasingly became a concern. Consequently, he met with his fellow members of the Treasury's ***sinking fund***[c] commission and asked them to authorize purchases of government securities in the marketplace. The commissioners agreed to do so. Thus, Hamilton managed to dissipate the effects of the collapse of this particular bubble during the late summer and early fall of 1791 and alleviate the ***credit crunch*** before it could do much more harm.

However, as Hamilton biographer Ron Chernow points out, the relief was only temporary. According to Chernow, "The very prosperity that



[a] The somewhat simplified discussion here draws heavily on accounts in Ron Chernow's biography of Alexander Hamilton and the book on the First Bank by David Cowen. See those publications and others in the reference list for more information.

[b] Terms in bold italics are defined in the Glossary.

[c] Hamilton had set up a federal sinking fund, which was a cash surplus that the Treasury could use to buy government securities in the open market to retire some of its debt earlier than at maturity (Nettels, p. 116). The commission consisted of Hamilton, Thomas Jefferson, Edmund Randolph, John Adams, and John Jay.

[Hamilton's] ebullient leadership engendered… generated effervescent optimism that fed yet another mad scramble for government securities and bank scrips, pushing their prices to new highs during the winter of 1791-1792."[d]

Among the speculators was William Duer, Hamilton's old friend and former assistant at the Treasury Department. In late 1791, Duer formed a partnership with a wealthy land speculator named Alexander Macomb. Their plan was to corner the market on U.S. government securities. According to economic historian David Cowen, Duer and Macomb then hoped to sell the appreciated assets to other investors at a significant profit.[e]

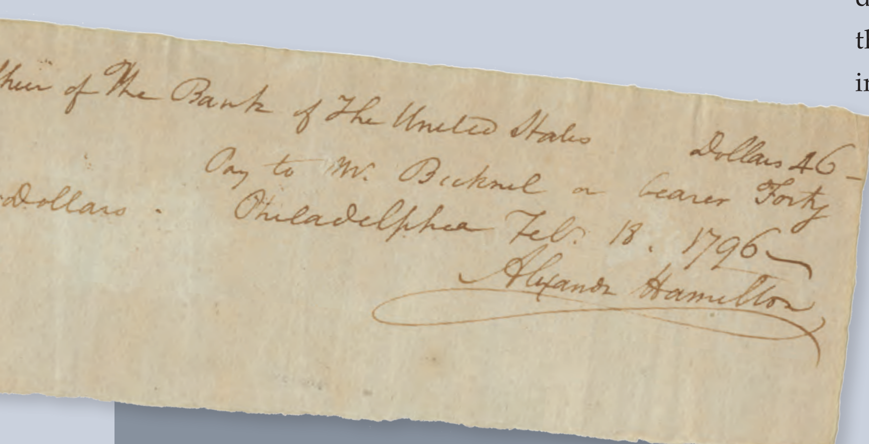
Another factor contributing to this wild speculation and subsequent crisis was the unforeseen impact that the First Bank had on the economy. The bank's effect had been substantial, and its subscription sale had led to a flood of loans and ***banknotes*** in the market as investors borrowed money from other banks to obtain shares in the First Bank and as the First Bank itself opened and began making loans and issuing its own banknotes.

In addition, Duer was borrowing heavily to pay for his investments. When in early 1792 the First Bank somewhat suddenly slowed the expansion of its loan pool and in turn slowed the number of banknotes it issued,[f] other banks followed suit, creating another credit crunch.

Unfortunately for Duer and other investors who had bought large amounts of U.S. government securities, their prices peaked in January 1792, then started to go rapidly downhill, leading to a sell-off of these assets in March 1792.[g] Duer, who had borrowed from anyone who was willing to lend, lost money on his security holdings and faced financial ruin, eventually landing in prison.[h] However, the amount of Duer's debt was so overwhelming and the number of people and companies he had borrowed from so large that his undoing, in turn, led to widespread ***financial contagion***. Other investors also started to sell off securities and default on their loans. This crisis has become known as the Panic of 1792.

Once again, Hamilton and the other commissioners authorized the use of monies from the Treasury's sinking fund to buy government securities in the open market. And, again, this activity calmed the markets and allowed the fledgling U.S. financial system to return to more normal operations.

In the end, the First Bank scrip bubble of 1791 and the Panic of 1792 did not stop the rapid development of the new nation's economy over the next several years, although it did temporarily interrupt the economy's growth. From today's central banking perspective, however, these episodes offer the first example of the use of rudimentary open market purchases of government securities to quell panic and provide liquidity to the financial system. And even though the panic was short-lived and the economy quickly recovered, these financial crises further tainted the First Bank's reputation in the eyes of some and added to the level of opposition to both the First Bank and Hamilton.


of The Bank of The United States Dollars 46
Pay to Mr. Becknel or bearer Forty
dollars. Philadelphia Feb. 18. 1796
Alexander Hamilton

Check written by Alexander Hamilton to a Mr. Becknel on February 18, 1796, a little over a year after Hamilton left office as Secretary of the Treasury.
The Library Company of Philadelphia

[d] Chernow, p. 379

[e] See Cowen, pp. 89–90.

[f] See the book by Cowen, especially pp. 89–91.

[g] Interest rates, which move in the opposite direction to the prices of securities, rose rapidly.

[h] His friend Alexander Macomb soon joined him (Cowen, p. 90).

MAP OF FIRST BANK AND ITS BRANCHES

payments to European investors in U.S. government securities.[16] Besides its activities on behalf of the government, the Bank of the United States also accepted deposits from the public and made loans to private citizens and businesses. However, the First Bank's charter required it to seek approval from Congress before making loans to any state or to foreigners. Also, the act capped interest rates the First Bank could charge on loans at 6 percent.[17]

Although the U.S. government, the largest shareholder, did not directly manage the bank, it did garner a portion of the bank's profits. The Treasury secretary also had the authority to inspect the bank's books, require statements of the bank's condition as frequently as once each week, and remove the government's deposits at any time for any reason. But, to avoid inflation and the appearance of impropriety, the bank was forbidden from buying federal government bonds.[18]

Indeed, the bank and the Treasury had a close relationship. It was Hamilton, acting as Treasury secretary, who calmed the markets during the country's first financial crisis. And many economic historians believe that the Treasury secretaries who served during the 1791–1811 period of the First Bank's 20-year charter were in effect acting in some ways as central bankers would act today.[19]

Because the First Bank also functioned as a commercial bank and made loans to individuals and companies, its banknotes (paper currency) most commonly entered circulation through the loan process rather than through the purchase of U.S. government securities. Economic historian David Cowen says that, when making a loan, the bank gave the borrower "banknotes, redeemable in specie," or credited the "borrower's account on the bank's books."[20] Cowen also points out that the prevailing philosophy of the time was that loans and deposits were related; more deposits meant more loans (and more paper currency in circulation). That's why many state banks envied the Bank of the United States: It received all of the government's deposits[21] and therefore could make more loans and issue more currency than any other bank in the nation. Although state banks issued their own banknotes when making loans, these banks did not have the size or geographic scope of the First Bank.

Unlike modern ***central banks***, the Bank of the United States did not officially set monetary policy. Nor did it regulate, hold the reserves of, or act as a lender of last resort for other banks. Nonetheless, its prominence as one of the largest corporations in America and its branches' broad geographic position

[16] See Cowen, p. 140.

[17] See Cowen, pp. 14–15.

[18] See Cowen, p. 14.

[19] See especially Cowen, pp. 161–163.

[20] See Cowen, p. 59.

[21] See Cowen, p. 139.

in the emerging American economy allowed it to conduct a rudimentary monetary policy. The bank's notes, backed by substantial gold reserves, gave the country what passed for a more stable national currency.[22] By managing its lending policies and the flow of funds through its accounts, the bank could — and did — alter the supply of money and credit in the economy and hence the level of interest rates charged to borrowers.

These 50 counterfeit $100 First Bank banknotes were certified as counterfeit by George Simpson, the cashier of the first Bank of the United States, after their surrender to William C.C. Claiborne, the governor of the Territory of Orleans (1804–1812) and subsequently governor of Louisiana from 1812 to 1816. The wrapper reads: "Five thousand dollars in Contourfeit [sic] notes delivered to Mr. Saul by Governour [sic] Claiborne, examined & cancelled by me Geo Simpson Jr. Cashr."

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These actions, which had effects similar to today's monetary policy actions, can be seen most clearly in the First Bank's interactions with state banks. 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 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 the state banks' notes, thereby increasing state banks' reserves and allowing those banks to issue more banknotes through their loan-making process.

In addition, banknotes issued by the First Bank were widely accepted throughout the country. And unlike notes issued by state banks, First Bank notes were the only ones accepted for payment of federal taxes. The First Bank's branches were all located in the fledgling nation's port cities. This made it easier for the federal government to collect tax revenues, most of which came from ***customs duties***. Locating the branches in ports also made it easier for the First Bank to finance international trade and help the Treasury finance the government's operations through sales of U.S. government securities to foreigners. Furthermore, the bank's branch system gave it another advantage: It could move its notes around the country more readily than could a state bank. In fact, the bank's branches also helped to fund and encourage the country's westward expansion. David Cowen tells us that "this transportation service did not stop at the coast: it extended far into the interior and back country."[23]

Closing of the Bank of the United States

Although the bank's charter did not expire until 1811, discussions about renewing it began

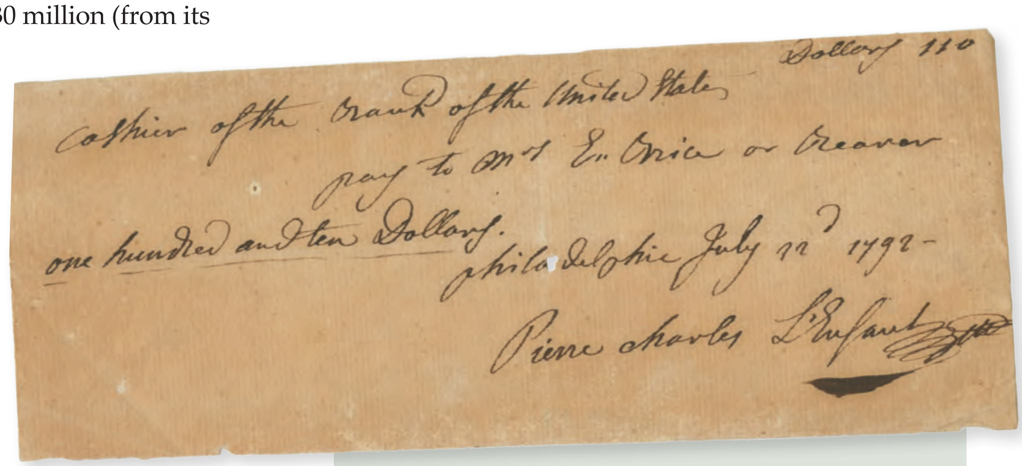
[22] Even in its earliest years, the First Bank, like its modern counterparts, had to worry about the counterfeiting of banknotes and check forgeries. Cowen notes that after the bank had been in operation for about six months, the bank's chief cashier, John Kean, warned tellers at the bank's branches to watch out for forgeries, since one criminal had recently tried to pass off a forged check in Philadelphia (see Cowen, p. 114).

[23] See Cowen, p. 139.

much earlier. In 1808, the bank's shareholders asked Congress to extend the charter. The Senate forwarded the request to Secretary of the Treasury Albert Gallatin, asking him for comment. Gallatin, who favored renewing the charter and expanding the bank's capitalization to $30 million (from its initial capitalization of $10 million), did not respond to Congress until March 1809 — almost a full year later.[24] Gallatin wanted to wait until Jefferson's term was at an end because of the third president's generally low opinion of the bank.

After receiving Gallatin's report, Congress let the matter of charter renewal languish until January 1810. At that time, the House gave the request for renewal a quick reading but took no action. Finally, in January 1811, both chambers of Congress engaged in a debate on whether to renew. Later that month, the House voted against renewal, the bill going down to defeat by one vote. In February, the Senate asked Gallatin for another report, and he complied, again recommending renewal. The Senate vote, however, resulted in a tie. The vice president, George Clinton of New York, cast the tie-breaking vote, and the charter renewal was again defeated by one vote.

By 1811, many of those who had opposed the bank in 1790–91 still opposed it for the same reasons and said that the bank's charter should be allowed to expire.[25] By this point, Alexander Hamilton was dead — killed in a duel with Aaron Burr — and the ***Federalists***, his party, who were generally staunch supporters of the bank, were out of power, and the ***Republican Party*** was in control. Furthermore, by 1811, the number of state banks had increased greatly, and those financial institutions feared both competition from a national bank and its power.[26]



A Bank of the United States check written by Pierre Charles L'Enfant, designer of the layout of Washington, D.C., on July 22, 1792.
The Library Company of Philadelphia

After the First Bank closed, the country soon found itself engulfed in economic woes once more. The War of 1812 had dampened trade to the point where prices on imported goods went up and even some domestic goods carried heavier price tags. Moreover, restrained trade meant that custom duties on imported goods — the main source of revenue for the federal government — also dropped sharply.

The war had also led the federal government to rack up significant debt. Without the First Bank, the government had to rely more heavily on state banks to help finance the war. The influx of federal government deposits to these institutions led them to issue greater quantities of banknotes and loans. The proliferation of banknotes increased money in circulation and resulted in inflation, because too much money was chasing too few goods. Without the First Bank's ability to limit the state banks' issuance of paper currency, there was no longer an entity that could control the amount of money created. In addition, strong demand for loans during the war increased interest rates and thus

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[24] Although estimates vary, today $30 million would be about $510 million, according to John McCusker's commodity price index. See his publication.

[25] Congress did not even give the bank an extension that would allow it to end its business affairs in an orderly manner. Consequently, the bank created a trust to help with the dissolution of its assets and to protect shareholders' investment in the bank.

The First Bank Building

STILL STANDING AFTER ALL THESE YEARS*

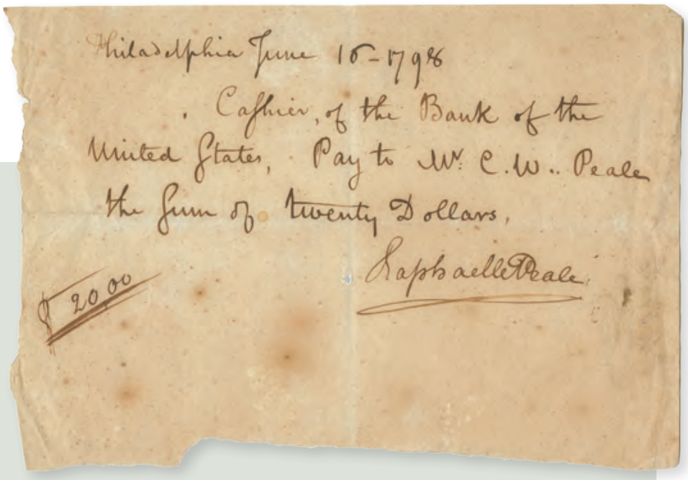
When the Bank of the United States opened for business in 1791, its offices were in Carpenters' Hall at 320 Chestnut Street in Philadelphia. In 1793, a fire that destroyed many buildings on Third Street near Chestnut threatened Carpenters' Hall. Consequently, the bank's directors, who had considered moving its headquarters, realized that perhaps now was the time to act.

The fire had created several vacant lots where buildings once stood, so property on Third Street was readily available and at fairly cheap prices. In 1794, the directors acquired a piece of property at 116 South Third Street and hired architect Samuel Blodget, Jr., to design the new bank building. The bank moved into its new home in 1797, and the building still stands there today. The structure has an exterior of brick and Pennsylvania blue marble. Inside, a double staircase leads to the second floor. At the time the First Bank occupied the site, an east-west corridor on the first floor connected the front and back doors. The main banking room consisted of a large barrel vault supported by eight columns. In addition, vaults in the cellar supplied not only structural support but a secure storage area.

Carpenters' Hall at 320 Chestnut Street in Philadelphia

When the First Bank's charter expired in 1811, Philadelphia merchant Stephen Girard bought the building and opened his own bank there, called Girard Bank. In 1902, bank officials had the interior completely remodeled. The financial institution vacated the building in 1926, after which it remained unoccupied until 1930, when the City Board of Trusts leased it to the American Legion. The National Park Service acquired the building in 1955. In 1967, the first floor temporarily became a visitors' center. The building is part of Independence National Historical Park, which is overseen by the National Park Service.

* This discussion draws heavily on information in John D.R. Platt, Penelope H. Batcheler, and Sarah M. Sweetser, "Historic Structure Report: Historical and Architectural Data," Philadelphia: Independence National Historical Park, April 1981.



A Bank of the United States check for $20 written by Raphaelle Peale to his father Charles Willson Peale on June 16, 1798. 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. His son Raphaelle is considered the founder of the American school of still-life painters. The Library Company of Philadelphia

bank profits. Without the restraining hand of the Bank of the United States, state banks became less cautious in their lending habits and credit expanded rapidly.

In effect, the country found itself in circumstances similar to those after the Revolutionary War: mounting debt from a war with England, soaring prices, and devalued money from rising inflation. These problems and the resulting economic consequences would soon lead the United States to make another attempt at creating a national bank.[26] In 1816, President James Madison signed the bill that would create the second Bank of the United States.

[26] See the book by Chester Wright, pp. 228–29.

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GLOSSARY

ARTICLES OF CONFEDERATION
Provided the 13 colonies with a system of government from 1777 until replaced by the U.S. Constitution in 1789. Among other things, the articles gave Congress the authority to make war and conduct foreign affairs. However, under the articles, Congress could not impose taxes or enforce laws.

BANKNOTE
A negotiable instrument; a promissory note (promise to pay) that is used as money.

CENTRAL BANK
A governmental institution responsible for issuing currency and monetary policy, which involves the overall growth of money and credit and the level of short-term interest rates. The Federal Reserve is now the central bank of the United States.

CONTINENTAL CURRENCY
The currency authorized by the Continental Congress to help finance the Revolutionary War. Continental currency was not redeemable for gold or silver.

CREDIT CRUNCH
A situation in which banks become unwilling or unable to supply additional credit.

CUSTOMS DUTIES
A form of tax levied on goods traded internationally.

FEDERALIST PARTY
Generally advocated a strong central government. Federalists were often accused of being elitist or acting in favor of the wealthy.

FINANCIAL BUBBLE
A market condition created by excessive buying of assets and a resulting run-up in prices.

FINANCIAL CONTAGION
When problems at one financial institution spill over to others and cause problems at other financial institutions or businesses.

FISCAL AGENT
An organization that handles finances for another organization. The First Bank acted as the government's fiscal agent. Today the Federal Reserve fills the role of fiscal agent for the U.S. government.

INFLATION
A rise in the general level of prices over a sustained period of time.

INITIAL PUBLIC OFFERING (IPO)
A company issues common stock or shares to the public for the first time.

MONETARY POLICY
A central bank's actions to influence the availability and cost of money and credit in the economy, as a means to promote national economic goals.

PUBLIC DEBT
Money (or credit) owed by the government — federal, state, or local. The government accumulates debt over time by running a deficit; it spends more than it receives in tax revenue. Governments borrow by issuing securities such as government bonds.

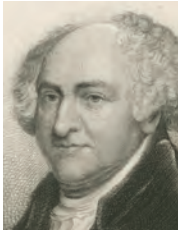
REPUBLICAN PARTY
In early U.S. history, opposed strong central government; generally wanted to keep the U.S. a nation of farmers. Originally called the Anti-Federalist Party and led by Jefferson. The party later became known as the Democratic-Republican Party, the predecessor of today's Democratic Party.

SUBSCRIPTIONS (OR SCRIPS)
Down payments on the purchase of new shares of stock in a company or bank; an initial partial payment of the full amount required to purchase a share of stock, with the remainder paid in installments over a period of time. Scrips were tradable and could be purchased after their initial issuance by others seeking to acquire the company's or bank's stock.

SINKING FUND
A cash fund established by a corporation or government to purchase debt it has issued in order to retire the outstanding debt more quickly.

SPECIE
Money in the form of gold or silver. In the colonial period and in the early years of the United States, specie often referred to gold or silver coins.

Biographical Sketches



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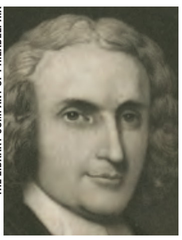
John Adams
(1735-1826)

Born in Massachusetts, John Adams served as a delegate to the Continental Congress and as George Washington's vice president. Although not a major player in the debate over the national bank, Adams was a Federalist who often supported Alexander Hamilton's policies, though the two men sometimes clashed personally. In 1796, Adams was elected president of the United States. Just before the election of 1800, Adams left Philadelphia for the new capital city, Washington, D.C. There, he became the first occupant of the new Executive Mansion, later known as the White House. Losing to Thomas Jefferson in the election of 1800, he did not serve a second term. He died on July 4, 1826, just a few hours after Jefferson died at Monticello.



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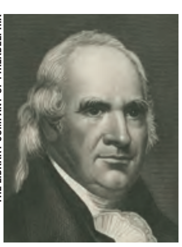
Aaron Burr
(1756-1836)

Aaron Burr was born in New Jersey, the son of the second president of the College of New Jersey (later Princeton). He fought in the Revolutionary War and was with the Continental army during its winter encampment at Valley Forge in 1777–78. He moved to New York in 1783 and shared a law practice with Alexander Hamilton. In 1800, Burr ran as vice president on the ticket with Thomas Jefferson. When both men received the same number of votes (at that time, people voted separately for president and vice president), Hamilton threw his support to Jefferson, who won the presidency. In 1804, Burr and Hamilton fought a duel in Weehawkin, New Jersey, in which Burr mortally wounded his former law partner.



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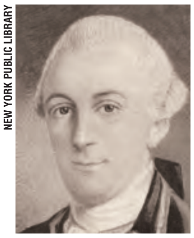
George Clinton
(1739-1812)

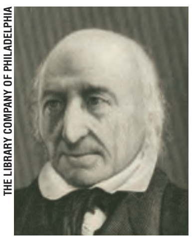
Born in Little Britain, New York, George Clinton was elected the first governor of his home state in 1777. In 1804, he replaced Aaron Burr as Thomas Jefferson's pick to run for vice president. He served as vice president under both Jefferson (1805–09) and James Madison (1809–12). As vice president, he cast the tie-breaking vote that defeated the First Bank's charter renewal. He died of a heart attack in 1812, the first vice president to die in office.



NEW YORK PUBLIC LIBRARY

William Duer
(1747-1799)

Born in England, William Duer came to the United States in 1773 and was a signer of the Articles of Confederation. In 1789, he became assistant secretary of the Treasury under Alexander Hamilton, a post Hamilton created for him. Duer had success as a speculator, but his talent for speculation proved to be his undoing. He went bankrupt during the Panic of 1792 and was thrown into debtor's prison, where he died in 1799.



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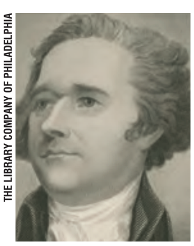
Albert Gallatin
(1761-1849)

Born in Switzerland, Albert Gallatin came to the United States in 1780, landing in Boston. He served in Congress from 1795 until 1801 and often found himself at odds with Treasury secretary Alexander Hamilton, although he ultimately supported Hamilton's plan for a national bank. In fact, when the Senate asked him to render an opinion on whether to let the First Bank's charter expire, Gallatin sent a report favoring renewal of the charter and expansion of the bank's capitalization to $30 million from $10 million.



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Alexander Hamilton
(1757-1804)

Alexander Hamilton was born on the island of Nevis in the British West Indies, the illegitimate son of Rachel Faucette Lavien and James Hamilton. After working as a clerk for a New York-based import-export firm, Hamilton made his way to the United States in 1772, landing in Boston. Eventually making his way to New York, he enrolled in King's College (now Columbia University).

Sympathetic to the American cause for independence, he joined a militia company in 1775, and two years later, General George Washington appointed him to his staff. When Washington was elected the nation's first president in 1789, he appointed Hamilton the first Secretary of the Treasury. The following year, Hamilton wrote "Report on a National Bank," in which he laid out his plans to establish a single national bank. One year later, Hamilton's proposed financial institution materialized in the form of the Bank of the United States. Hamilton died in 1804, one day after being mortally wounded in a duel with Aaron Burr.


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David Hume
(1711–1776)

A Scottish philosopher and economist, David Hume was an early proponent of empiricism, a theory that asserts that knowledge arises from experience. Among his major works are *A Treatise of Human Nature* and *Philosophical Essays Concerning Human Understanding*. Alexander Hamilton consulted Hume's writings when outlining his plans for a viable economic system for the United States.


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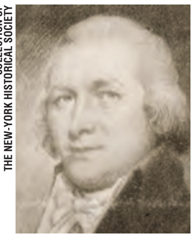
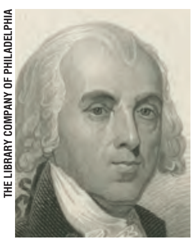
Thomas Jefferson
(1743–1826)

Born in Virginia, Thomas Jefferson had a distinguished career as a member of the Continental Congress, drafter of the Declaration of Independence, minister to France, secretary of state under George Washington, and vice president under John Adams. Jefferson, who believed that the U.S. should remain primarily a nation of farmers, argued that Alexander Hamilton's proposed national bank was unconstitutional. In 1800, Jefferson was elected the country's third president. As president, he secured the purchase of the Louisiana Territory from France and sent Meriwether Lewis and William Clark on their famous expedition to the Pacific coast. He died at his home, Monticello, on July 4, 1826, just a few hours before John Adams died in Massachusetts.


COLLECTION OF THE NEW-YORK HISTORICAL SOCIETY

Alexander Macomb
(1748–1831)

Born in Ireland, Alexander Macomb moved to the United States with his parents in 1755. While still in his twenties, he started a successful trading firm with his brother, William, in Detroit, then an outpost on the western frontier. The Macomb brothers prospered further during the Revolutionary War as suppliers of various scarce consumer goods and military materials. Eventually, Alexander made his way to New York City, where he had considerable success as a land speculator. Incurring increasing debt to maintain a life of luxury and to support a household of 17 children, Macomb formed a partnership with William Duer in 1792. They planned to corner the market in U.S. government securities. He joined Duer in debtor's prison, but unlike Duer, Macomb did not die in prison.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James Madison
(1751–1836)

Often called the Father of the Constitution, James Madison became the fourth president of the United States in 1808. Before that, he served in the Virginia Assembly and was a delegate to the Continental Congress. He was one of the authors of the "Federalist Papers," essays often credited with contributing to the ratification of the Constitution. He is also credited with helping to frame the Bill of Rights. Like his fellow Virginian Thomas Jefferson, Madison opposed the idea of a national bank, and in 1811, during his administration, the bank's charter expired. However, after the War of 1812, the government once again found itself with mounting debt and the country in increasing economic distress. But there was no central bank to help ease these conditions. In 1816, Madison signed the bill chartering the second Bank of the United States.

Biographical Sketches


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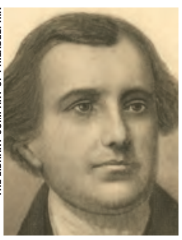
Jacques Necker
(1732-1804)

Born in Switzerland, Jacques Necker was sent to Paris by his father to become a bank clerk. Eventually becoming a partner in the bank, by the mid-1760s, Necker was a wealthy man. From 1777 to 1781, he served as director general of finances in the government of Louis XVI. In 1788, the king re-appointed Necker as a director of finances, a term that lasted until the outbreak of the French Revolution in 1789. He wrote several books about public finances, and some of his writings probably influenced Alexander Hamilton as he searched for ways to promote the economic development of the United States. He died at his Swiss estate in 1804.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Edmund Randolph
(1753-1813)

Edmund Randolph was a prominent name in both Virginia and national politics. Unlike his father, John, who supported the British cause, Edmund embraced the fight for independence, serving as an aide-de-camp to George Washington during the Revolutionary War. 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 that institution. Appointed attorney general by Washington, Randolph assumed the post of secretary of state after Jefferson resigned from that position. He retired from public office in 1795.


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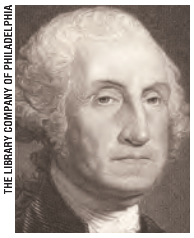
Adam Smith
(1723-1790)

Born in a village in Scotland, Adam Smith first pursued an academic career at the University of Glasgow. He left that post to take a job as private tutor to the stepson of a duke. In 1766, with that position at an end, Smith returned to his birthplace, where he spent the next 10 years writing what would become his masterwork, *The Wealth of Nations*, which was published in 1776. This volume is considered to be the first modern work on economics. When outlining his plans for the U.S. economic system, Alexander Hamilton consulted Smith's writings.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George Washington
(1732-1799)

George Washington, in his early career, was a surveyor and gentleman farmer. He served as a lieutenant colonel of the Virginia militia in the French and Indian War (1754–63). In 1775, he went to Philadelphia as a delegate to the second Continental Congress, which named him commander-in-chief of the Continental Army. After six years of war with England, Washington accepted the surrender of the British general Lord Cornwallis in 1781 at Yorktown, Virginia. He took the oath of office as first President of the United States in 1789 in New York City. In 1791, he signed the bill chartering the first Bank of the United States. He died at Mt. Vernon in December 1799.


COLLECTIONS OF THE UNIVERSITY OF PENNSYLVANIA ARCHIVES

Thomas Willing
(1731-1821)

A native of Philadelphia, Thomas Willing was educated in England. Although Willing was sympathetic to the colonists' cause, he stopped short of supporting separation from England. However, he did not leave the city when the British arrived, and he refused to take the oath of allegiance to the British monarch George III. In 1782, Willing was elected president of the Bank of North America, the first bank chartered in the United States. A staunch supporter of Alexander Hamilton, Willing resigned his position with the bank to accept the post of president of the first Bank of the United States.

Image of William Duer from the New York Public Library.
Image of Thomas Willing from the Collections of the University of Pennsylvania Archives.
Image of Alexander Macomb from the Collection of the New-York Historical Society.
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March 2021