

## AMERICAN SYSTEM

### Alexander Hamilton and American Banking System

*Congressman Henry Reuss (D-Wisc) is once again trying to corral congressional support for passage of his revamped Monetary Control Bill which would require commercial banks to hold reserves at the Federal Reserve on 11 percent of their demand deposit holdings of over \$35 million. The Fed's G.W. Miller is already well-known for fostering credit policies that restrict industrial expansion. Reuss's bill amounts to a legislative mandate to do the same.*

*Such restrictive credit policies go hand-in-glove with the broader policy commitments of proponents of the British System to reduce the United States to a second rate nation.*

*Some 200 years ago, national banking and credit policy was set by Alexander Hamilton, the leading American System economist and first Secretary Treasurer, who proposed in his Report on a National Bank of Dec. 13, 1790 (excerpted below) that "banks become the nurseries of national wealth."*

... Gold and silver, when they are employed merely as the instruments of exchange and alienation, have been not improperly denominated dead Stock; but when deposited in Banks, to become the basis of a paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality. ...

The same circumstances illustrate the truth of the position, that it is one of the properties of Banks to increase the active capital of a

country. This, in other words, is the sum of them. ... there never can be danger of an intermission of demand, or that the money will remain for a moment idle in the vaults of the Bank. This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin are to all the purposes of trade and industry an absolute increase of capital. ... And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth: a consequence, as satisfactorily verified by experience, it is clearly deducible in theory. ...

If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described; they more frequently enable honest and industrious men, of small or perhaps no capital to undertake and prosecute business, with advantage to themselves and to the community; and assist merchants of both capital and credit, who meet with fortuitous and unforeseen shocks, which might without such helps prove fatal to them and to others; to make head against their misfortunes, and finally to retrieve their affairs; Circumstances, which form no inconsiderable encomium on the utility of Banks. ...

The support of industry is probably in every case, of more consequence toward correcting a wrong balance of trade, than any practicable retrenchments, in the expenses of families, or individuals: And the stagnation of it would be likely to have more effect, in

prolonging, than any such savings in shortening its continuance. That stagnation is a natural consequence of an inadequate medium, which, without the aid of Bank circulation, cases supposed, be severely felt.

The payment of the interest of the public debt, at thirteen different places, is a weighty reason, peculiar to our immediate situation, for desiring a Bank circulation. Without a paper, in general currency, equivalent to gold and silver, a considerable proportion of the specie of the country must always be suspended from circulation and left to accumulate, preparatorily to each day of payment. This necessity will be felt very injuriously to the trade of some of the States; and will embarrass not a little the trade of some of the States; and will embarrass not a little the operations of the Treasury in those States.

Banks are among the best expedients for lowering the rate of interest, in a country; but to have this effect, their capitals must be completely equal to all the demands of business, and such as will tend to remove the idea, that the accommodations they afford, are in any degree favours; an idea very apt to accompany the parsimonious dispensation of contracted funds. In this, as in every other case, the plenty of the commodity ought to beget a moderation of the price. ...

Every thing, therefore, which tends to lower the rate of interest is peculiarly worthy of the cares of Legislators. And though laws which violently sink the legal rate of interest greatly below the market level are not to be commended, because they are not calculated to answer their aim, yet whatever has a tendency to effect a reduction, without violence to the natural course of things, ought to be attended to and pursued. Banks are among the means most proper to accomplish this end. ...

—Barbara Gould