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## Alexander Hamilton, 1790

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# 'Report on a National Bank'

To the Speaker of the House of Representatives:

The Secretary respectfully reports

. . . That a National Bank is an Institution of primary importance to the prosperous administration of the Finances, and would be of the greatest utility in the operations connected with the support of the Public Credit. . . .

The following are among the principal advantages of a Bank.

First. The augmentation of the active or productive capital of a country. 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. . . . It is evident, for instance, that the money which a merchant keeps in his chest, waiting for a favourable opportunity to employ it, produces nothing, 'till that opportunity arrives. But if instead of locking it up in this manner, he either deposits it in a Bank, or invests it in the Stock of a Bank, it yields a profit, during the interval. . . . His money thus deposited or invested, is a fund, upon which himself and others can borrow to a much larger amount. It is a well established fact, that Banks in good credit can circulate a far greater sum, than the actual quantum of their capital in Gold and Silver. . . .

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. . . . The money of one individual, while he is waiting for an opportunity to employ it by being either deposited in the Bank for safe keeping, or invested in its Stock, is in a condition to administer to the wants of others, without being put out of his own reach. . . . This yields an extra profit, arising from what is paid for the use of his money by others, when he could not himself make use of it, and keeps the money itself in a state of incessant activity. . . . 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 all to the purposes of trade and industry, an absolute increase of capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become

nurseries of national wealth. . . .

Secondly. Greater facility to the Government in obtaining pecuniary aids, especially in sudden emergencies. This is another undisputed advantage of public banks, one which, as already remarked, has been realised in signal instances among ourselves. . . .

[T]hat Banks tend to banish the gold and silver of the Country . . . is an objection, which if it has any foundation, lies not against Banks, peculiarly, but against every species of paper credit.

The most common answer given to it is . . . that it is immaterial what serves the purpose of money, whether paper, or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals contained in it, but by the quantity of the productions of its labour and industry. . . . It is certain, that the vivification of industry, by a full circulation, with the aid of a proper and well regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a Nation. . . . A nation that has no mines of its own, must derive the precious metals from others; generally speaking, in exchange for the products of its labour and industry. The quantity, it will possess, will therefore, in the ordinary course of things, be regulated by the favourable or unfavourable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them; between the amount of its exportations and that of its importations. Hence the state of agriculture and manufactures, the quantity and *quality* of its labour and industry must influence and determine the increase or decrease of its gold and silver.

If this be true . . . well constituted Banks . . . augment in different ways, the active capital of the country. This, it is, which generates employment; which animates and expands labour and industry. Every addition, which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both: And, by furnishing more materials for exportation, conduces to a favourable balance of trade and consequently to the introduction and increase of gold and silver. . . .

The support of industry is . . . of more consequence towards correcting a wrong balance of trade, than any practicable retrenchments in the expenses of families or individuals: And the stagnation of it [industry] would be likely to have

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

The establishment of Banks in this country seems to be recommended by reasons of a peculiar nature. Previously to the revolution circulation was carried on by paper in great measure emitted by the several local governments. . . . This auxiliary may be said to be now at an end. And it is generally supposed, that there has been for some time a deficiency of circulating medium. . . .

The circumstances are . . . the vast tracts of waste land, and the little advanced state of manufactures. The progressive settlement of the former, while it promises ample retribution, in the generation of future resources, diminishes or obstructs, in the mean time, the *active* wealth of the country. It not only draws off a part of the circulating money, and places it in a more passive state, but it diverts into its own channels a portion of that species of labour and industry, which would otherwise be employed, in furnishing materials for foreign trade, and which, by contributing to a favourable balance, would assist the introduction of specie [currency]. In the early periods of new settlements, the settlers not only furnish no surplus for exportation, but they consume a part of that which is produced by the labour of others. The same thing is a cause, that manufactures do not advance, or advance slowly. . . .

[Hamilton then lists several reasons why some already extant private banks may not be made the National Bank and why a new Bank must be created.]

. . . The last inducement . . . is the want of precautions to guard against a foreign influence insinuating itself into the Direction of the Bank. It seems scarcely reconcilable with a due caution to permit, that any but citizens should be eligible as Directors of a National Bank, or that non-resident foreigners should be able to influence the appointment of Directors by the votes of their proxies. . . .

It is to be considered, that such a Bank is not a mere matter of private property, but a political machine of the greatest importance to the State. . . .

[T]he following plan of the constitution of a National Bank is respectfully submitted to the consideration of the House:

I. The capital Stock of the Bank shall not exceed ten Millions of Dollars, divided into Twenty five thousand shares, each share being four hundred Dollars; to raise which sum, subscriptions shall be opened. . . . Bodies politic as well as individuals may subscribe.

II. The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt, which according to the loan proposed by the Act making provision for the debt of the United States, shall bear an accruing interest at the time of payment of six per centum per annum. . . .

XIII. None but a Stockholder being a citizen of the United States, shall be eligible as a Director. . . .

XX. The bills and notes of the Bank originally made payable . . . in gold and silver coin, shall be receivable in all payments to the United States.

XXI. The Officer at the head of the Treasury Department of the United States shall be furnished from time to time . . . not exceeding once a week, with statements of the amount of the capital Stock of the Bank and of the debts due to the same; of the monies deposited therein; of the notes in circulation; and of the Cash in hand; and shall have a right to inspect such general account in the books of the bank as shall relate to the said statements. . . .

XXIV. And lastly. The President of the United States shall be authorised to cause a subscription to be made to the Stock of the said Company, on behalf of the United States, to an amount not exceeding two Millions of Dollars, to be paid out of the monies which shall be borrowed by virtue of either of the Acts, the one entitled "an Act making provision for the debt of the United States," and the other entitled "An Act making provision for the reduction of the Public Debt". . . .

The combination of a portion of the public Debt in the formation of the Capital, is the principal thing, of which an explanation is requisite. The chief object of this is, to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it. . . . But to collect such a sum in this country, in gold and silver into one depository, may, without hesitation, be pronounced impracticable. Hence the necessity of an auxiliary which the public debt at once presents.

This part of the fund [the Continental Debt] will be always ready to come in aid of the specie. It will more and more command a ready sale [i.e. the debt of the U.S., via the Bank, will become marketable]; and can therefore expeditiously be turned into coin. . . . This quality of prompt convertibility into coin, renders it an equivalent for that necessary agent of Bank circulation; and distinguishes it from a fund in land of which the sale would be far less compendious, and a great disadvantage. . . .

The debt composing part of the capital, besides its collateral effect in enabling the Bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum from the Government, which will enter into the half yearly dividends received by the Stockholders.

When the present price of the public debt is considered, and the effect which its conversion into Bank Stock, incorporated with a specie fund, would have in all probability to accelerate its rise to the proper point, it will easily be discovered, that the operation presents in its outset a very considerable advantage to those who may become subscribers; and from the influence, which that rise would have on the general mass of the Debt, a proportional benefit to all the public creditors. . . .