The conflict over the establishment of a National Bank, under the new Constitution, would prove the first step in the formation of divisive political parties in the United States. On the surface, the proposal for a centralized system of credit and currency seemed straightforward and simple; however, the plan for a National Bank exacerbated the differences between the political philosophies of America’s founding fathers. A line was clearly drawn between the Federalists, represented by Secretary of the Treasury Alexander Hamilton, and the Republicans who counted Secretary of State Thomas Jefferson and Speaker of the House of Representatives, James Madison, among their numbers. The issue was ultimately not about the nation’s economic health, rather it became a question of governing philosophy.

In August 1790, President George Washington instructed Hamilton to create a series of reports on the public credit with accompanying recommendations for its improvement. Unpaid Revolutionary War debts and the effects of an economic recession had combined to make American investment a risky proposition. Hamilton presented his reports to Congress on December 13 and 14, 1790. The first report recommended a series of taxes that would be used to pay down the national debt. The second report proposed the establishment of a National Bank.

Hamilton’s bank proposal was heavily influenced by the British system, though it was not a carbon copy. Hamilton’s vision for the bank was based on what he saw as America’s two most critical fiscal needs. The first need was concerned with ready access to capital and credit for investment. Hamilton argued that a national bank would provide a central location for individuals to deposit securities and specie. Thus, a national bank would lead to a concentration of capital that could be made available to the entire business community, thus promoting economic growth. He also recognized the necessity for a dependable source of circulating currency in a country chronically plagued by scarcity of specie. The bank would issue circulating notes that would be accepted as legal tender in every state. At the time, any bank could and did issue notes, which made for a confusing hodge-podge of currency that could not be spent in every state. A side benefit of a National Bank was to raise American credit and specie levels to be on par with that of European countries, thus giving the United States increased status and power on the world stage. This would be capable through a $10 million capitalization, 80% which was to come from private investors

Supporters of the bank outnumbered opponents by two to one in the House and three to one in the Senate. The bank’s prospects for success appeared strong, and indeed it would eventually pass. However, the bank’s detractors were vocal in their opposition. James Madison led the charge against the bank. While writing the Constitution, Madison had been a fierce proponent of a strong, centralized government; however, issues such as the national bank gradually pushed him toward the Republican camp, which supported states’ rights over a strong national government. Madison’s strongest argument against the bank was on Constitutional grounds. Madison said that because the Constitution did not specifically authorize the creation of a bank, the bank was unconstitutional. He, and other opponents, further argued that the bank would centralize capital to an unacceptable degree. It would favor a small, moneyed class in the north and on the seaboards at the expense of less wealthy and well-connected citizens in the south and west. As capital gravitated towards the bank, the Republicans feared that many people would lose easy access to capital. Opponents also argued that the bank could undermine the economy due to its reliance on circulating bank notes. Borrowers would export specie to foreign countries in exchange for consumer goods—to sell in America—which would exacerbate the problem of already short gold and silver supplies, and in turn leave less specie to back the bank notes which would lead to inflation. Both sides of the issue presented strong economic and social arguments on the issue.

Some historians speculate that one of the most powerful forces against the bank was not economic but regional. The fight over the permanent location of the nation’s capital was both long and divisive. At the time, Virginia was the nation’s largest, wealthiest, and most powerful state; her citizens were protective of the prerogatives that this status granted. Virginians believed it was extremely important that the capital city be geographically convenient to them. However, northerners were equally desirous of retaining the capital city in their region (at the time of the bank crisis the capital city was Philadelphia). The Virginia congressional delegation traded its support for the federal government’s assumption of individual state debts arising from the Revolutionary War for a capital city situated on the Potomac River. Madison and many of his Virginia colleagues feared that if a national bank was chartered, its instant status as a powerful and influential institution would sway the nation into leaving the capital in Philadelphia. The benefits of a national bank were an unacceptable trade-off for losing the national capital for Madison and his supporters.

While the National Bank was eventually authorized and chartered, it proved an extremely divisive issue. On one side were strong Federalists, such as Alexander Hamilton, whose primary interest was in strengthening the United States’ position relative to the rest of the world. The Republicans, like Jefferson and Madison, were on the other side, and feared that an overly strong central government would lead to corruption and tyranny. As the United States continued to develop national policies, these differences became even more accentuated. Though George Washington was not officially allied with a particular party, and indeed decried the formation of parities as contrary to the country’s interests, he tended to side with Hamilton on many political issues. Washington’s primary concern was for the prosperity of the country as a whole and he hoped that it would become stronger relative to its European counterparts. Washington did not fear the tyranny of a strong central government, but rather the tyranny of smaller state governments that could selfishly place their regional interests over the good of all the people.