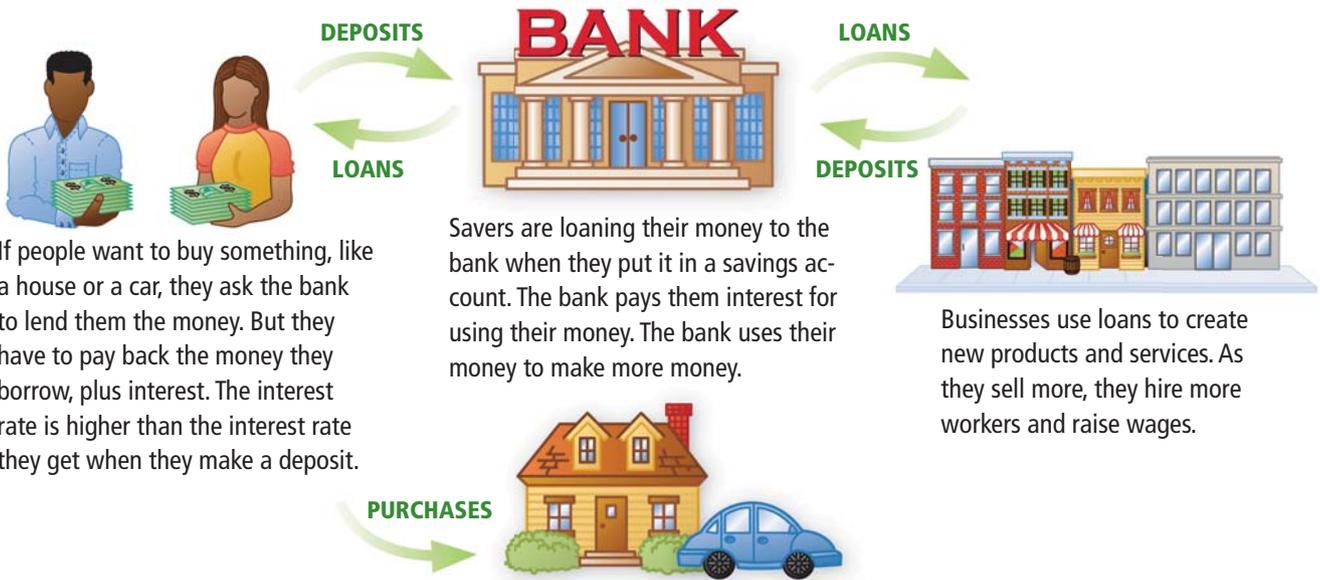


HOW BANKS WORK

Hamilton believed that a national bank could help the economy of the new nation. It would be funded by a partnership between the federal government and wealthy private investors. In that way, private money would be tied to the country's welfare.



If people want to buy something, like a house or a car, they ask the bank to lend them the money. But they have to pay back the money they borrow, plus interest. The interest rate is higher than the interest rate they get when they make a deposit.

Savers are loaning their money to the bank when they put it in a savings account. The bank pays them interest for using their money. The bank uses their money to make more money.

Businesses use loans to create new products and services. As they sell more, they hire more workers and raise wages.

CRITICAL THINKING

- Analyze Point of View** Do you think that the people who feared a strong central government supported Hamilton's idea of a national bank? Why or why not?
- Make Inferences** What are some ways that banks make money?

towards paying off their debts. Hamilton asked Thomas Jefferson of Virginia to help him gain Southern support. They reached a compromise by agreeing that the southern states would support Hamilton's plan and back payment of state debts. In return, northerners would support locating the capital in the South. The location chosen was on the banks of the Potomac River.

Building a Strong Government To raise revenue, the secretary of the treasury favored **tariffs**, which are taxes on imported goods. Tariffs serve two purposes: raising money for the government and encouraging the growth of national business. Americans bought goods from overseas in large quantities, including hemp, steel, and molasses. Tariffs on these goods kept a steady income flowing to the government. Since tariffs made foreign goods more expensive, they encouraged people to buy American goods.

Hamilton also called for the creation of a national bank. It would give the government a safe place to keep money. It would also make loans to businesses and government. Most important, it would issue bank notes—paper money that could be used as currency.