

Alexander Hamilton's Financial Program

The most pressing problems facing the new government were economic. As a result of the revolution, the federal government had acquired a huge debt: \$54 million including interest. The states owed another \$25 million. Paper money issued under the Continental Congresses and Articles of Confederation was worthless. Foreign credit was unavailable.

The person assigned to the task of resolving these problems was 32-year-old Alexander Hamilton. Born out-of-wedlock in the West Indies in 1757, he was sent to New York at the age of 15 for schooling. One of New York's most influential attorneys, he played a leading role in the Constitutional Convention and wrote 51 of the 85 Federalist Papers, urging support for the new Constitution. As Treasury Secretary, Hamilton designed a financial system that made the United States the best credit risk in the western world.

The paramount problem facing Hamilton was a huge national debt. He proposed that the government assume the entire debt of the federal government and the states. His plan was to retire the old depreciated obligations by borrowing new money at a lower interest rate.

States like Maryland, Pennsylvania, North Carolina, and Virginia, which had already paid off their debts, saw no reason why they should be taxed by the federal government to pay off the debts of other states like Massachusetts and South Carolina. Hamilton's critics claimed that his scheme would provide enormous profits to speculators who had bought bonds from Revolutionary War veterans for as little as 10 or 15 cents on the dollar.

For six months, a bitter debate raged in Congress, until James Madison and Thomas Jefferson engineered a compromise. In exchange for southern votes, Hamilton promised to support locating the national capital on the banks of the Potomac River, the border between two southern states, Virginia and Maryland.

Hamilton's debt program was a remarkable success. By demonstrating Americans' willingness to repay their debts, he made the United States attractive to foreign investors. European investment capital poured into the new nation in large amounts.

Hamilton's next objective was to create a Bank of the United States, modeled after the Bank of England. A national bank would collect taxes, hold government funds, and make loans to the government and borrowers. One criticism directed against the bank was "unrepublican"--it would encourage speculation and corruption. The bank was also opposed on constitutional grounds. Adopting a position known as "strict constructionism," Thomas Jefferson and James Madison charged that a national bank was unconstitutional since the Constitution did not specifically give Congress the power to create a bank.

Hamilton responded to the charge that a bank was unconstitutional by formulating the doctrine of "implied powers." He argued that Congress had the power to create a bank

because the Constitution granted the federal government authority to do anything "necessary and proper" to carry out its constitutional functions (in this case its fiscal duties).

In 1791, Congress passed a bill creating a national bank for a term of 20 years, leaving the question of the bank's constitutionality up to President Washington. The president reluctantly decided to sign the measure out of a conviction that a bank was necessary for the nation's financial well-being.

Finally, Hamilton proposed to aid the nation's infant industries. Through high tariffs designed to protect American industry from foreign competition, government subsidies, and government-financed transportation improvements, he hoped to break Britain's manufacturing hold on America.

The most eloquent opposition to Hamilton's proposals came from Thomas Jefferson, who believed that manufacturing threatened the values of an agrarian way of life. Hamilton's vision of America's future challenged Jefferson's ideal of a nation of farmers, tilling the fields, communing with nature, and maintaining personal freedom by virtue of land ownership.

Alexander Hamilton offered a remarkably modern economic vision based on investment, industry, and expanded commerce. Most strikingly, it was an economic vision that had no place for slavery. Before the 1790s, the American economy--North and South--was intimately tied to a trans-Atlantic system of slavery. States south of Pennsylvania depended on slave labor to produce tobacco, rice, indigo, and cotton. The northern states conducted their most profitable trade with the slave colonies of the West Indies. A member of New York's first antislavery society, Hamilton wanted to reorient the American economy away from slavery and colonial trade.

Although Hamilton's economic vision more closely anticipated America's future, by 1800 Jefferson and his vision had triumphed. Jefferson's success resulted from many factors, but one of the most important was his ability to paint Hamilton as an elitist defender of deferential social order and an admirer of monarchical Britain, while picturing himself as an ardent proponent of republicanism, equality, and economic opportunity. Unlike Jefferson, Hamilton doubted the capacity of common people to govern themselves.

Jefferson's vision of an egalitarian republic of small producers--of farmers, craftsmen, and small manufacturers--had powerful appeal for subsistence farmers and urban artisans fearful of factories and foreign competition. In increasing numbers, these voters began to join a new political party led by Jefferson.