Alexander Hamilton on Public Credit and a National Bank: an economic and constitutional critique

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Alexander Hamilton was a controversial figure in his own time and continues to puzzle today. As a Federalist, his economic views did not align with many of his contemporaries. This is significant because he played an instrumental role in the formation of the economy of the new republic, even before he became the first treasury secretary of the United States. His vision for the economy reveals itself and shows its emphasis specifically in the “Report on the Public Credit” and the “Report on a National Bank.” These views were at odds with those of many of the other founders, and are partially based on unsound economic ideas.

During the American War for Independence, the new country accrued vast sums in war debt, both on the national and state levels. These were important issues in the formation of the economy and in the debate surrounding the system that the country should undertake. There was debate over the national government taking on the war debts of the states and whether these should be paid in full or discounted. The common belief was that all Americans benefited from the debt when they received freedom from the oppression of Britain. Therefore, it was permissible for the new government to refuse to pay a full return on the debts when doing so would put the economy at great risk of bankruptcy.\footnote{Miller, John C. *Alexander Hamilton: Portrait in Paradox* (New York: Harper & Brothers, 1959), 231.} Another form of the accrued war debts was the certificates issued in payment to veterans. Many of these had changed hands when the original owners sold them to speculators at discount rates. This raised the question of whether the original holders should be paid for their service as was intended, or whether the current owners should receive the payment. Was it permissible for a government seeking to establish
itself as just and moral to discriminate among the different holders, and was this even practical?\(^2\) Hamilton stated his views on these issues and his plans for the American economy in his “First Report on the Public Credit” to the House of Representatives on January 14, 1790.

Hamilton’s resolution in the document stated “That an adequate provision for the support of the public credit is a matter of high importance to the honor and prosperity of the United States.”\(^3\) He gave his reasons for the importance of a system of public credit in the new country. The first of these was the likelihood that the government would need to borrow money at some point in the future. The ability to have a public fund from which to take out loans was essential because of the small amount of capital in the country owned by private citizens. Establishing good credit was important to this, because poor credit prompts high interest and consequently worsens expenses.\(^4\) A good credit reputation was important for the prosperity of individuals and for the country as a whole: to escape embarrassment to citizens, to protect their character and that of the country, and to promote the good government of the country.\(^5\) Good public credit is achieved by the government’s commitment to keeping contracts in good faith, gradually building up investor confidence and public trust. Hamilton wrote that even when it is controlled, any breach of promise must have an adverse effect on the nation’s credit.

Aside from upholding confidence in the credit system for the future, basic moral principles require that a government keep its obligations. The war debts were the “price

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\(^2\) Miller, 231-233.
\(^4\) Hamilton, 3-4.
\(^5\) Hamilton, 4.
of liberty” and Hamilton believed they had not been upheld as they should have been. There was public confidence in the ability of the new government to retrieve a good credit reputation, however. From January to November 1789 the market value of securities rose 33 1/3%. From November to January 1790, when Hamilton presented his report, they experienced another increase of 50%. Hamilton believed that “the most enlightened friends of good government are those whose expectations are the highest.”

There were many advantages to the people of the establishment of good public credit, according to Hamilton:

“To justify and preserve their confidence; to promote the increasing respectability of the American name, to answer the calls of justice; to restore landed property to its due value; to furnish new resources, both to agriculture and commerce; to cement more closely the union of the States, to add to their security against foreign attack; to establish public order on the basis of an upright liberal policy.”

All citizens had an active interest in these issues.

The public credit served as a money substitute, since credit and stock passed in transactions as specie. Hamilton believed this increased amount of capital in circulation created an extension of trade. He said that merchants could afford to trade for less profit because they received interest on stock invested in the government. But in reality, an increase in the quantity of credit money does not increase society’s welfare. The new quantity of money raises prices but has no effect on industry or real output. The new

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6 Hamilton, 5-6.
7 Hamilton, 7.
8 Hamilton, 7.
9 Hamilton, 7.
credit benefits the first to receive it by increasing their buying power, but this increased
demand drives the prices up for all the other buyers. Therefore a few receive the benefit
at the expense of others.\textsuperscript{11}

Hamilton believed the advantages he described could only be realized when
public debt was adequately established and funded, otherwise there would not be enough
security and capital circulation. The increase in capital, he wrote, would increase the
current low value of land. Owners would have less need to sell their property, because
they could more easily take out loans to fund their debt. This supposition ignores the fact
that the increased money supply would raise prices, so that costs would be higher as well.
Hamilton conceded that these changes would not occur immediately, but he believed they
would be effective more quickly than many had previously thought. He pointed to a
recent rise in public securities as a possible indication of the changes that could be
expected.\textsuperscript{12}

The next question addressed in the report was the issue of how the war debts
should be paid, and who should receive the redemption value of the issued certificates.
Hamilton believed that the credibility and honor of the American economy and
government required that its debts be paid in full. The government must do justice to
domestic competitors, and the satisfaction of claims was necessary for the success of the
new Constitution. Hamilton quoted article VI of the Constitution: “All debts contracted
and engagements entered into before the adoption of that Constitution, shall be as valid

\textsuperscript{11} Hülsmann, Jörg Guido. “Monetary Policy and the Free Market.” [Ludwig Von Mises Institute. Oct. 10,
\textsuperscript{12} Hamilton, 9.
against the United States under it as under the Confederation.”

When considering the speculators who had bought securities from the original holders at discounted prices, Hamilton believed that the contractual obligations and promises for redemption written on the certificates still held. Dutch bankers purchased large amounts of the certificates based on the assurance of the Continental Congress that they would be redeemable once the new government was established. The very power to redeem the certificates was the basis of Hamilton’s plans for a central bank. His vision depended upon the idea that the bonds were completely transferable, so that they would serve as a supplementary media of exchange in transactions. Hamilton also valued and sympathized with the speculators who had purchased the certificates at great financial risk to themselves. According to Miller, “[m]en willing to risk their wealth on long chances he deemed indispensable to a flourishing capitalism; he liked his capitalism spiced with audacity and he found this particular ingredient abundantly among the purchasers of government securities.”

Discrimination between the original holders of certificates and purchasers would have been practically easier in the army, where there were records, than it would among other holders. Here, especially, the veterans had sold at much discounted prices, and thus did not receive adequate compensation for their service during the war. Hamilton decided against discriminating among these as well, however, in order to uphold the principle and the honor of the government.

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13 Hamilton 15, quoting article VI of the Constitution of the United States.
14 Miller, 233.
15 Miller, 233.
16 Miller 234.
Congress had announced similar views as Hamilton’s in an April 26, 1783 circular. It stated that the bearers of certificates had financed the country in its founding and that those who purchased them did so because of confidence in the new government’s ability to redeem the certificates. This confidence was important to the establishment of public credit. Aside from being unjust, discriminating between the original holders of the certificates and those who purchased them would undermine this goodwill.\(^{17}\) The circular said that “A wise nation will never permit those who relieve the wants of their country, or who rely most on its faith, its firmness, and its resources, when either of them is distrusted, to suffer by the event.”\(^{18}\)

The next question Hamilton discussed was over the assumption of the state debts by the national government. In his report, he called for assumption of $25 million in state war debts by the federal government. This was in order to gain the support of the wealthier creditor class for the government, which badly needed its backing and financial support.\(^{19}\) It would also increase public revenue under the control of the federal government and according to Hamilton it would “insure to revenue laws a more ready and more satisfactory execution.”\(^{20}\) The belief in the federal government’s ability to accomplish tasks and wield power more efficiently than the state and local governments is a common one. It is unfounded in many cases, however. Aside from the fact that the Constitution emphasizes the state’s rights to those powers not in the domain of the federal government, a lower level of government with less bureaucracy is more efficient. Any

\(^{17}\) Hamilton, 15.
\(^{18}\) Quoted in Hamilton, 15
\(^{19}\) Miller, 235.
\(^{20}\) Hamilton, 16-18.
problems are internalized, making them more personal and directly under the dominion of the state or local government.

Hamilton then laid out his plan for the payment of the debts. In exchange for a government pledge of security and prompt payment, he proposed to cut the interest rate the government owed on the principal amount. He considered this justified, because the creditors were among those who would be taxed in order to pay the interest. He planned to reduce the interest rate from 6 to 4.5 percent. Hamilton believed the interest rate on the market would fall over the years as well, reducing the amount of loss this change would entail for creditors.\(^\text{21}\) This is contrary to what Mises states will happen under monetary inflation. Unless the depreciation of the currency is sudden and unexpected, the creditors will adjust their interest rates to compensate for the loss in value. Borrowers will be willing to pay the higher interest because of the reduced supply in the loan market. Thus there is unlikely to be any benefit to the debtor.\(^\text{22}\) Hamilton proposed the measure as an “appeal to the self-interest of the public creditors,” stating that they were free to accept or reject the terms of the change. In this way he sought to avoid anything that could be viewed as coercion by the government.\(^\text{23}\) Hamilton wrote in his report that most of the creditors were well-educated, so that an appeal to them was often met by agreement of interest about the needed changes. This makes the contravention of contracts and promises by the government less likely to be required, since this was something which should be avoided as much as possible.\(^\text{24}\) In asking for a reduced

\(^{21}\) Miller, 236.

\(^{22}\) Von Mises, 252.

\(^{23}\) Miller, 236.

\(^{24}\) Hamilton, 5 and 25.
interest rate on the government’s loans, however, Hamilton was lowering his apparently high standards of government obligation to creditors.

The initial federal government debt was estimated at $54 million, aside from the amount Hamilton proposed it would assume from the states. Hamilton wanted to use a policy of sinking fund nominal redemption on the principal only.\textsuperscript{25} The revenues received from the post office would be used to pay off the principal, but the amount used for this was not to exceed $1 million.\textsuperscript{26} This small payment was mainly to sustain public confidence. The idea for paying off only the interest amount on the loans came from the French financial minister, Jacques Neckar. Using this method, the government would have less need to pay back loans, and thus resources from which to borrow more money as the need arose.\textsuperscript{27} This policy places the creditors at a disadvantage, and considering that Hamilton believed their financial backing was so important to the new government, this is unwise. It also sets a course for a government dependent on its continually increasing public debt.

The decision on assumption went partially according to Alexander Hamilton’s plans. The debate became involved with the politics surrounding the location of the planned capital city. Hamilton allowed the site of the new capital to bypass his own home state so that the funding system could go forward. Planning for the city instead went forward for the proposed site on the Potomac River, as George Washington wanted.

\textsuperscript{26} Miller, 45-46.
\textsuperscript{27} Swanson and Trout.
According to Hamilton, the price to his native New York of losing the location of the capital in New York City was “bad . . . but it will preserve the funding system.”

Later in the same year, on December 14, Hamilton presented his “Report on a National Bank” to the House of Representatives. There were only three existing banks at the time: the Bank of North America in Philadelphia, the bank of New York in New York City, and the bank of Massachusetts in Boston. The bank in Philadelphia was the only one that had been connected to the government at any time. It had recently received a new charter from Pennsylvania, however, which prevented it from serving the purpose of a national bank. It was now seen by citizens as a bank of the state of Pennsylvania.

Hamilton believed that a bank was needed for the “prosperous administration of public finances,” for the operation of public credit, and to hold the confidence of the public. He believed the accumulation of capital was the responsibility of the government, in order to stimulate the development of capitalism. This was necessary because of the lack of “large aggregations of capital” in the states. The government should actively contribute to wealth creation and make sure the wealth went to those who would best use it to stimulate economic activity. In a free and unrestrained market, however, money is best used to the advantage of the market when it is allowed to trade freely in the hands of entrepreneurs. The market mechanism decides which individuals are most likely to stimulate economic activity through their actions to satisfy consumer preferences. For the government to hold accumulated capital is unhelpful to the

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29 Hamilton, 73-74.
30 Hamilton, 53.
31 Miller, 233.
32 Miller, 233.
economy. For the federal government to do so would also increase its size and power over the states both politically and economically. Instead it should allow the free market to work without interference.

In the report, Hamilton called for a privately owned bank, with the government holding 1/5 of the shares.\textsuperscript{33} The money for this investment would come from proceeds on customs duties and excise taxes.\textsuperscript{34} Hamilton listed the characteristics and functions of the bank in his proposal. Management positions in the bank would be held by private individuals. It was an institution depending on the government, so Hamilton believed managers would avoid any actions that would remove them from favor or cause the bank to become “unworthy of public patronage.”\textsuperscript{35} The two entities would have a mutually beneficial arrangement, so the bank would always have an interest in complying with the government. The government could only hold shares and earn profits from bank revenues, but should not have a direct role in the running of the bank.\textsuperscript{36} However, any relationship between the bank and the government would be unhealthy for both. If the relationship is so beneficial to the bank, the managers would seek to comply with the government’s wishes, effectively canceling out the supposed independence and private management. The government could reasonably be expected to take advantage of an opportunity to involve itself in the bank’s affairs at some point as well, no matter how high the current standards and expectations.

\textsuperscript{33} Rothbard, Murray N. \textit{A History of Money and Banking in the United States: The Colonial Era to World War II}. (Auburn: Ludwig von Mises Institute, 2002), 68.
\textsuperscript{34} Brookhiser, 90.
\textsuperscript{35} Hamilton, 84-85.
\textsuperscript{36} Hamilton, 84-85.
Hamilton intended the bank to issue paper money in order to eliminate the current supposed scarcity of specie in the market. The government should not issue this credit, because as Hamilton said, “The wisdom of the government will be shown in never trusting itself with the use of so seducing and dangerous an expedient.”

He believed that bank currency was better than government paper because the bank is subject to more control. The government would be at the liberty of its own discretion. This is correct in theory, but as previously discussed, the close relationship between the bank and the government virtually removed any impediments. Hamilton said that the nature of credit was partially responsible for the fact that there would be circulation of a greater amount of capital. Some notes would be suspended in redemption by the owners and held for a time, because of investor confidence in the government’s ability to redeem the notes. These credit notes could be transferred many times. The gold and silver in which the notes were redeemable would still be held in the bank, so there would be increased capital to lend. The loans would thus be depending on only a fractional reserve in the bank. Bank notes would be legally redeemable on demand. The government would accept them in tax payment in order to keep them at par value with specie. Currency is easier to transport in credit form, thus making tax payments easier as well. The bank would house the public funds, and effectively multiply reserves by issuing loans. It could also be an important source of emergency loans for the government.

37 Brookhiser, 90.
38 Hamilton 72-73.
39 Hamilton 55-56.
40 Rothbard A History of Money and Banking in the United States, 68.
41 Hamilton, 58.
42 Rothbard A History of Money and Banking in the United States, 68.
that the bank would have more stake in the interests of the nation than other possible creditors, so it would be more willing to lend in times of need.\textsuperscript{43} But if investors had the faith in the abilities of the government that Hamilton hoped, it should not be necessary to have more willing lenders than those arising on the open loan market for competitive interest rates.

Hamilton’s report also discussed the possible problems of a national bank. There was a common concern that interest paid on foreigners’ investments would cause an outflow of money from the country.\textsuperscript{44} Hamilton argued that this objection overlooked the benefit the country derived from the investment and from the resulting capital production.\textsuperscript{45} This argument is correct because the Americans were benefiting equally with the investors. The American government received money in the form of loans for the growth of the economy, and the foreign investors received interest in exchange for the use of their money. Hamilton wrote that the problem of banks banishing gold and silver from the country was an argument that could be used against any form of paper credit. He said that common opinion claimed this was unimportant because the effects of hard and paper money on the economy are the same. The economy should be measured by the “quantity of productions of its labor and industry.”\textsuperscript{46} However, Hamilton considered the issue of gold and silver being traded out of the country important. It is the “commodity taken in lieu of every other, it is a species of the most effective wealth.”\textsuperscript{47} He believed that the nation should hold enough gold and silver to meet possible needs. Since the

\begin{footnotesize}
\begin{enumerate}
\item Hamilton, 57.
\item Brookhiser, 90.
\item Hamilton, 63.
\item Hamilton, 65-66.
\item Hamilton, 66.
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\end{footnotesize}
American states had no mines, precious metals were gained through trade; “Hence, the state of its agriculture and manufactures, the quantity and quality of its labor and industry, must, in the main, influence and determine the increase or decrease of its gold and silver.” 48 This economic activity would create a more favorable balance of trade by introducing more gold and silver into the domestic economy. 49 This argument ignores the fact that mutual exchange is necessary in a prosperous economy. The exchange will only take place if it is beneficial to both parties, so government intervention in the market to improve the balance and accumulation of capital by one side is unnecessary and undesirable. Another problem was that currency was unevenly distributed throughout the country and was especially lacking in the less settled areas. Hamilton believed a possible explanation for this was a deficiency in the amount of specie in circulation in the economy. 50 But in an economy with free exchange, the money will circulate where it is valued the highest. It will flow from places of lower to places of higher preference. Hamilton proposed to deal with the shortage of money through government intervention in the form of a national bank. This shows his emphasis on a stronger central government than was intended in the powers designated in the Constitution.

James Madison questioned the constitutionality of the bank when the bill had passed Congress and was before the House. He believed that chartering a corporation like a bank was not among the powers designated to the government in the Constitution. The argument for the right to establish a bank came under the clause that Congress can

48 Hamilton, 66. 
49 Hamilton 65-66. 
50 Hamilton, 71.
“make all laws which shall be necessary and proper” to carry out its powers. Madison himself had defended this clause in the Federalist papers, but now believed that it was too vague an idea and gave too much power to the Federal government. He was also concerned that allowing the bank a charter for twenty years in Philadelphia would keep the capital city there instead of at the site on the Potomac River.\footnote{Brookhiser, 91.}

President Washington requested a response to these objections in a letter to the Treasury Secretary on February 16, 1791, and Hamilton wrote a lengthy reply delivered on February 23. Hamilton believed that government is sovereign, and therefore has the inherent right to use any means necessary, within reason, to achieve that sovereignty. He believed that “ends encapsulate means” although any means that are prohibited in the Constitution or that violate morality should not be used. Hamilton focused on those prohibitions set out in the Constitution, instead of the powers actually named to the government.\footnote{Brookhiser, 91.} In response to the question of whether the bank has a connection to the allowed purpose of the government, Hamilton stated that the federal government had the authority to regulate taxes and trade. From this he deduced the authority to establish a corporation for this purpose. A bank was the best way to accomplish his ends.\footnote{Brookhiser, 91-92.} But this does not change the fact that the establishment of a bank was not one of the enumerated powers of the federal government. The tenth amendment to the Constitution clearly states that “The powers not delegated to the United States by the Constitution, nor
prohibited by it to the States, are reserved to the States respectively, or to the people.”\textsuperscript{54}

The establishment of banks was not one of those powers stated as belonging to the federal government, therefore it should have been left to the states to do as they saw fit.

Washington, however, was satisfied by Hamilton’s response. He signed the bank into law despite some reservations about the public credit policy and Hamilton’s views on the subject. In his Farewell Address, Washington wrote regarding the public credit that “One method of preserving it is to use it as sparingly as possible. . .”\textsuperscript{55} He advised against accumulating too much debt, warning that the liability would necessarily pass on to later generations, and reminding the reader that paying off a debt required taxes. He believed that it was important to avoid increasing the public debt when possible and that every effort must be made to pay it down, as well.\textsuperscript{56}

Congress established the national bank in February 1791 with a twenty year charter, during which it would hold the monopoly on that right. The bank issued millions of dollars in paper money and demand deposits for $2 million in specie. There was investment in government loans, and the government assumed $2 million in long-term debt, with a total of $6.2 million in temporary lending to the U.S. government by 1796. This resulted in price inflation, with the wholesale index rising 72% from 85 in 1791 to 146 in 1796. Speculation in government securities and real estate values also rose.\textsuperscript{57}

Throughout all the economic changes surrounding the reports and the reports themselves, Hamilton continued his theme of upholding the image of the country by and

\textsuperscript{55} Quoted in Carson, 239.
\textsuperscript{56} Carson, 239.
\textsuperscript{57} Rothbard A History of Money and Banking in the United States, 68.
for the purpose of building public confidence. His vision for American power and prosperity and his economic ideas deserve more attention from the standpoints of the Constitution and logical economic theory.

Many of Hamilton’s ideas are mercantilist and hence are contrary to correct economic ideas. This is evident in his views on the aggregation of capital by the government, on maintaining a favorable balance of trade in gold and silver, and on holding metals in the bank. These views are incorrect. The market mechanism makes the aggregation of capital by the government undesirable. On the market there will always be equal exchange of goods, and this principle applies to money as well. Each party in a transaction will receive the amount that satisfies his demand for the money, and the mutual exchange will equally benefit the other party. Otherwise, the transaction would not take place. Mises wrote that “. . . [A]ll economic goods, including of course money, tend to be distributed in such a way that a position of equilibrium between individuals is reached, when no further act of exchange that any individual could undertake would bring him any gain, any increase in subjective value.”58 A contemporary of Alexander Hamilton’s, Senator John Taylor of Virginia, wrote on mercantilist ideas in his book Tyranny Unmasked. He discussed the ills of the economic agendas of the Federalists and of Hamilton in particular. He believed the system would have a tendency to enrich the government at the expense of the people. “Protectionist duties, bounties, exclusive privileges, and heavy taxation” which Hamilton proposed more explicitly in his Report on Manufactures, were liable to result in economic

disaster. It was policies of this kind that Britain imposed on the American colonies, finally prompting their War for Independence. That Hamilton should seek to enact the same ideas instead of opting for freer trade is difficult to fathom after the great cost the young country endured.

Hamilton continued in a similar theme in the “Report on Manufactures” of December 1791. He declared that government aid to manufactures should be used to bring about an America economically independent of other nations, with a good division of labor. The thriving economy would draw immigrants, many of whom would bring capital to invest. Hamilton called for duties against foreign manufacturers, incentives to domestic entrepreneurs to establish new industries and achieve high production performance, and for the building of roads and other means of transporting goods. All of these entailed assistance from the government. The centrality that Hamilton intended for the government in his plans is unwise in many respects. Economically, it is much more desirable to allow the market to function independently. Politically, the Constitution was designed to limit the powers of the federal government, but when it begins to interfere in the business of the country these limitations will gradually disappear.

There are also economic issues with the policy of intended inflation implied by Hamilton’s plans for the public credit and banking systems. Mises writes that inflation caused by an issue of credit money would only result in a decrease in the purchasing

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60 Carson, 230.
power of money; otherwise the quantity of money in an economy has no effect on trade. The measures would not sustain the good effects that were intended. Any change will occur only while depreciation adjusts to affect all prices throughout the economy. A continued decrease in the purchasing power of money is necessary to maintain the effects.  

Thus it follows the pattern of the business cycle. The credit expansion stimulates a boom as entrepreneurs receive signals to increase production. Unlike on the market, however, these signals are artificially created by the increased credit, resulting in mal-investment of capital. During the crisis period the entrepreneurs discover that their investments have been unwise. These businesses go bankrupt during the depression phase because of their mal-investment. The factors of production shift from the higher stages of production in which they had been invested during the boom back to lower stages. Any attempt by the government to lessen the effects of the depression will only serve to prolong it. In particular the government may again expand credit in an effort to improve the economy, prompting another boom and creating an unending cycle.  

This problem will only occur under government interference in the economy, as normal market signals would not result in such a large body of entrepreneurial error at the same time. 

Mises warns of the tendency to excess in a policy of intentional inflation. Because a single inflation will not achieve long-run results, there will be political

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61 Von Mises, 255-256.  
disagreement over any increased inflation and the policies surrounding it.\textsuperscript{63} Gradually increased inflation translates to gradually increasing government intervention, and the economy would be better off without either. One of Mises’ statements stands out in particular regarding Hamilton’s views and situation: “Even in the case, say, of assisting ‘production’ or debtors after a serious crisis by a single depreciation of the value of money, the same problems remain to be solved.”\textsuperscript{64}

Hamilton’s influences in finance point to what his vision for the American economy could become. In the beginning of the Report on the National Bank, he refers to the fact that “public banks have found admission and patronage among the principal and most enlightened commercial nations” of Europe.\textsuperscript{65} The idea for the sinking fund that Hamilton proposed to fund the public debt came from the French financial minister, Jacques Neckar, who was looking at England’s public debt and creditor confidence.\textsuperscript{66} Hamilton’s thinking on the bank’s centrality in his plans underwent a change that could also be attributed to Neckar. In 1781 Hamilton considered the bank a central idea in establishing public credit, but by 1792 he considered it only a secondary means for accepting and lending out specie.\textsuperscript{67} Hamilton’s report also referenced the British experience with public debt. Miller writes that Hamilton’s hope “was to confer a similar immortality upon the credit of the United States government without, he lamented, the benefit of the British constitution and British capital.”\textsuperscript{68} Hamilton looked to Britain as an

\begin{itemize}
\item \textsuperscript{63} Von Mises, 258.
\item \textsuperscript{64} Von Mises, 258.
\item \textsuperscript{65} Hamilton, 53-54.
\item \textsuperscript{66} Brookhiser, 81.
\item \textsuperscript{67} Swanson and Trout.
\item \textsuperscript{68} Miller, 237.
\end{itemize}
example of a successful economy using debt and taxes while rising in status to become a European empire. Although it depended on debt, this was considered a sign of strength and skill because of the financing used.\textsuperscript{69} The British government also held complete public confidence in its ability to pay.\textsuperscript{70} England was a successful positive example of a system of highly developed national government that would encourage development of a prosperous economy.\textsuperscript{71} But the founders did not intend for America to have this kind of national government. These principles are contrary to the ideas on which the country was founded.

All of this leads one to believe that Alexander Hamilton had lost sight of the original republican intent. His Federalist views are clearly visible. Where he had to make a choice between individuals and the government, as when determining whether it was appropriate to discriminate among members of the military in paying off certificates, Hamilton decided in favor of the government. He would not compromise the public confidence, even though it appeared to many that the case was justified. “When he was compelled to choose between strengthening the authority of the government and inflicting inequities upon individuals, Hamilton never hesitated to act as the interests of the state dictated.”\textsuperscript{72} In this case compensating the original holders of certificates and overlooking the current owners would have been an inequity to the speculators. Perhaps it was mainly a sense of the justice due to the purchasers of the securities that prompted Hamilton to refuse to change his policies, even for his former comrades in arms.

\textsuperscript{69} Brookhiser, 81-82.
\textsuperscript{70} Miller, 237.
\textsuperscript{71} McCoy, Drew R. \textit{The Elusive Republic.} (Chapel Hill: University of North Caroline Press, 1980), 134.
\textsuperscript{72} Miller, 234.
Hamilton’s vision was for a “powerful national government, supreme over the states.”\textsuperscript{73} This view is contrary to the original intent of the Constitution, which applied to a union of states with less emphasis on federal than on the state governments. As much as Hamilton emphasized the government’s commitment to uphold its responsibility to creditors and citizens, Miller writes that “the highest law of the state [referring to the federal government], he admitted, was self-preservation.”\textsuperscript{74} This is a dangerous view considering the role the founders intended for the federal government. It leaves the door open for government intervention in many areas, and this will not yield good results. The Constitution sought to protect against this problem, but the defenses were already crumbling.

The constitutionality of Hamilton’s proposed banking system was a hotly debated issue, harkening back to the Federalist vs. Anti-Federalist debates. There were opposing views on whether the Constitution in fact allowed the establishment of a national bank, and the answer to this question depended on whether a person took a strict construction view or a more vague interpretation of the Constitution. Attorney General Edmund Randolph and Secretary of State Thomas Jefferson were both opposed to the creation of Hamilton’s bank. Randolph simply believed that the Constitution did not authorize the establishment of corporations, but Jefferson had broader constitutional concerns. He referred to the fact that all powers not set out as belonging to the federal government were to be maintained by the states or the people. Jefferson correctly believed that the powers prescribed to the federal government did not necessitate the establishment of a

\textsuperscript{73} Miller, 235.
\textsuperscript{74} Miller, 231.
Hamilton himself took a broad constructionist view of the Constitution, allowing the increased government power he sought.

These issues had a lasting effect on the government of the United States. The broad view of the Constitution represented by the Hamiltonians was upheld in the Supreme Court decision McCulloch v. Maryland in 1819, over the constitutionality of the Second Bank of the United States. Justice John Marshall’s decision cited Hamilton’s 1791 letter to Washington rebutting Madison’s objections to the first bank. This created precedent for increased government intervention in the economy throughout American history. There are many instances in which the natural adjustment of a free market would have produced better results, and each crisis paved the way for more government intervention in the economy.

Alexander Hamilton’s vision for America and its economy was not in line with the views held by the other founders and those themes in which the Constitution was purposefully established. The original intent of the states, when they united in opposition to the unjust policies of Great Britain, was not to form a similar government holding the same central power. The founders stated in the Declaration of Independence that the purpose of government was to secure the God-given rights of the people, and that “Governments are instituted among Men, deriving their just powers from the consent of the governed.” In strong contrast to this view, Alexander Hamilton wanted America to develop quickly into a country that was “a powerful, economically advanced modern

75 Carson, 228-229.
76 Brookhiser, 92 and Rothbard A History of Money and Banking in the United States, 70.
77 Carson, 511.
state much like Great Britain.” America was not intended to be the great trade nation that Hamilton wanted, especially if this meant increased emphasis on the power of the national government. This could lead to more international dependence and conflict, against which Washington explicitly warned in his 1796 Farewell Address. Washington wrote that the role of government was to keep order. He recognized in human nature the tendency towards corruption and warned that consolidation of power in the government leads to despotism. Hamilton was seeking to increase and consolidate the government’s power just as Washington warned, and in doing so he sought to remove the checks on government power placed in the Constitution. His motives were to make America a great nation, but the increased power had ill effects. The role of government in the new nation was to protect its citizens and keep order, thus enabling individuals to achieve financial success through their own innovation and incentives in a free and unregulated market.

Examining Alexander Hamilton’s views and vision for the American economy through two of his reports to Congress shows a view of an economy with central power in the federal government. There is also a great emphasis on the confidence the people place in that government to fulfill its obligations, when this should not be depended upon. In a free market system with little government interference in the economy, this implicit faith in the goodwill of the government would not be present. While it does have a certain role in the protection of rights to enable the free market to operate, that is the

78 McCoy, 133-134.
79 Carson, 236-240.
80 Carson, 236-237.
extent to which it should be involved in a prosperous and successful economy. Although far from perfect, the limited government that the founders intended was much superior to the strong central government that Hamilton sought. Alexander Hamilton was instrumental in the beginnings of the American economy and his influence is still being felt in the tendency of the United States towards government intervention in the economy. Despite his success as part of the initial American government, Hamilton’s example and influence is an undesirable one when viewed in light of the original intent of the Constitution and the economic ideas on which a successful and free nation is founded.
Bibliography


