

Alexander Hamilton: America's Financial Genius

In America's infancy, Alexander Hamilton had a profound effect on the American economy through his position as George Washington's Secretary of the Treasury. In his *Reports on the Public Credit*, Hamilton proposed that the federal government fund all national and state debts at par, thereby giving America good credit with other countries. He later proposed the creation of a national bank, which helped steady the economy by controlling inflation. Hamilton also encouraged governmental influence on industry through his *Report on Manufactures* ("Report on Manufactures"). His efforts in initiating a national bank, debt assumption, and a protective tariff helped establish a stable economy through which the newly created United States could grow and prosper.

When Hamilton was appointed Secretary of the Treasury in September of 1789, the nation owed more than \$50 million to foreign countries for loans to finance the war, and the American citizens, for bonds issued during the war (Uschan 86). The American economy was at a crucial point in its existence and needed a solution to its financial problems. He sent his first part of his plan for the nation's economic success, the *Report on the Public Credit*, to Congress in January of 1790 (Sylla). It proposed that the nation's debts be funded at par, meaning completely paid. The debt was categorized into types: the national debt, the states' debt, and the domestic debt. Congress agreed that the debts to foreign countries had to be paid off in order to establish good federal credit ("National Debt"). The federal assumption of the states' debts; however, was a harder pill for Congress to swallow. Most of the southern states had already paid most of their debts and did not want to assume the debts of the northern states that still owed a hefty sum (Finseth). The first time that the assumption bill was voted on in Congress it was defeated 31-29 (Wise 156). Then Hamilton made a deal with Thomas Jefferson whereby the Federalists would support the movement of the capital to Virginia if the Virginia delegates would support assumption (Wise 156). The assumption

bill passed, ensuring that the state's debts would be paid (Wise 156). The domestic debt was not fully paid because Hamilton believed that if the government owed its citizens money, the citizens would work hard to make sure that the government was prosperous. Hamilton himself said, "A national debt, if it is not excessive, will be to us a national blessing" (Finseth). His debt reduction plan fulfilled his goal to "...restore the faith in the government and public credit, attract foreign capital to the United States, and increase the effective stock of money, thereby stimulating the economy" (Sylla).

The second part of Hamilton's plan for the success of the American economy involved the creation of a national bank. His proposal, *Supplemental Report* of 1790, provoked opposition from the strict constitutionalists, i.e. Thomas Jefferson and James Madison (Wise 157). In defense of the bank, Hamilton used the "necessary and proper" clause of the Constitution, which gives Congress the power to enact laws that are "necessary and proper" for the welfare of the country (Wise 159). Hamilton believed that the bank was necessary for the success of the young American economy. Congress formed The Bank of the United States in 1791 and gave it a twenty-year charter ("Bank of the United States"). The bank's main purpose "was the control of monetary policy," which included the prevention of inflation (Kindig). The necessity of the bank was demonstrated by the Panic of 1837. Andrew Jackson destroyed the national bank by removing federal funds and placing them in "pet" or state banks. Western banks, called "wildcat banks," had distributed more money than they had backed by gold and silver, causing inflation. To try to limit the inflation, Jackson declared Specie Circular (meaning government land could only be purchased with gold or silver). The Specie Circular made people rush to the banks to exchange paper money for specie (hard money). The problem was that the banks did not have enough gold and silver to exchange for the paper money that they had put into circulation, resulting in the Panic of 1837 ("Specie Circular"). The national bank, had it still been functioning, would have stopped the over speculation of the wildcat banks and prevented the Panic of 1837. Later in American history, politicians realized that the country still

needed a national bank. The Federal Reserve System, which was started by Woodrow Wilson, “...has the primary responsibility to keep the right amount of money circulating in the economy” (Watts).

Hamilton’s third major paper was the *Report on Manufactures* issued in 1791 (“Report on Manufactures”). This report outlined his plans for governmental support of American industry. He wanted a protective tariff, one that taxed imports, to nurture the nation’s industry by making imported goods more expensive than goods made by American industry (“Report on Manufactures”). Hamilton also advocated the implication of an excise tax, which is a tax on domestic goods or goods produced and sold in America (Kindig). Though Congress did not initially approve his plan, they did enact most of his tariffs in the next year (“Report on Manufactures”). “The tariff would be the most important tax laid by the federal government until the First World War, providing the majority of the government's revenue throughout that time, except during the Civil War years (Gordon). By protecting the infant manufacturing of early America, the tariff had a very positive effect on the growth of the economy.

Alexander Hamilton’s plan for funding the national debt positively affected the economy by establishing America’s good credit with other nations and stimulating the economy through trade. His idea for a national bank, a necessity for the control of inflation in the eighteenth century, is still in use today in the form of the Federal Reserve System. Hamilton’s influence on enacting tariffs provided the primary source of revenue for the government for many decades and still provides some revenue today. Alexander Hamilton saved the nation from bankruptcy and helped to create a stable financial system that encouraged the growth of the American economy.

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