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The Strategic Vision of Alexander Hamilton

THOMAS K. McCRAW

THE YEAR 1993 marked the 250th anniversary of Thomas Jefferson's birth. Celebrations began in January, when Messrs. Clinton and Gore and their spouses toured Monticello, then boarded a bus for Washington and the inauguration. It was a fitting way to begin a new presidency; Jefferson's appeal is as ageless as he himself was versatile. Who else, as one of his early biographers put it, "could calculate an eclipse, survey an estate, tie an artery, plan an edifice, try a cause, break a horse, dance a minuet, and play the violin"?

But nobody does everything well. And today, because national economic problems are so salient, Jefferson's career may be less timely for re-examination (questions of slavery and race aside) than is that of his rival, Alexander Hamilton (1757–1804). In many ways, Hamilton was Jefferson's inferior. He had no eye for art, no hand for drawing, no ear for music. He was a poor politician. But he was as good a writer, a better controversialist, and an immensely more sophisticated economic thinker. Hamilton's economics of national development has the same timelessness as Jefferson's politics of individual liberty. Consider these remarks Hamilton made in 1795 about the problems of taxation in a democracy:

To extinguish a Debt which exists and to avoid contracting more are ideas almost always favored by public feeling and opinion; but to pay Taxes for the one or the other purpose, which are the only means of avoiding the evil, is always more or less unpopular. . . . Hence it is no uncommon spectacle to see the same men Clamouring for Occasions of expense . . . [and also] declaiming against a Public Debt, and for the reduction of it as an *abstract thesis*, yet vehement against every plan of taxation which is proposed to discharge old debts, or to avoid new [ones] by defraying the expences of exigencies as they emerge.

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In our whole national history, it would be hard to find a comment more germane to fiscal concerns of the last fifteen years.

II

Most people know a little about Alexander Hamilton, but not as much as they do about Washington or Jefferson. They know that his portrait is on the ten-dollar bill, that he was the first secretary of the treasury, that he wrote most of *The Federalist Papers*, and that he was killed in a duel with Vice President Aaron Burr, a political enemy who had challenged him over an imagined personal insult. (Hamilton could easily have avoided the duel, and on the field of honor he threw away his own shot.)

Many Americans do not know that Hamilton was perhaps the greatest trial lawyer of his generation, that he was a key figure in the evolution of judicial review, and that he shaped the American economic system as it developed under the Constitution. Hamilton was the first systematic macroeconomic planner in the United States and one of the first in any country.

Of the six key Founding Fathers—the others being Benjamin Franklin, George Washington, Thomas Jefferson, John Adams, and James Madison—Hamilton alone was a “foreigner.” He was also much the youngest of the six: fifty-one years younger than Franklin, twenty-five than Washington, twenty-two than Adams, fourteen than Jefferson, six than Madison. He alone died violently, and young, at the age of forty-seven. He composed no autobiography, as did Franklin. He kept no detailed diary or journal, as did Adams and Jefferson. His absorption in public affairs was so obsessive that only small portions of his vast surviving manuscripts have to do with personal matters.

What he did write about himself was often defensive in tone. This was partly a consequence of the vicious assaults on his character and integrity that he suffered as Washington’s secretary of the treasury from 1789 to 1795. The acknowledged young genius of the government, the fountainhead of most of Washington’s own policies, Hamilton endured a ceaseless drumbeat of criticism from many quarters, particularly the Jeffersonian Republicans. His sometimes aberrant behavior, his readiness to dash off long essays for anonymous publication, his reckless charges against Jefferson, John Adams, and others—these cannot be understood apart from his feeling of being unjustly attacked himself, again and again, over a long period.

“Never was there a more ungenerous persecution of any man than of myself,” he wrote in 1800. “Not only the worst constructions are put

upon my conduct as a public man but it seems my birth is the subject of the most humiliating criticism." Certainly he had the most difficult childhood of any of the Founders. It is not even known for certain when or where he was born. The year was probably 1757, the place an island in the British West Indies, probably Nevis.

Hamilton's mother, Rachel Faucett, was a beautiful woman of French Huguenot descent. A native of Nevis, she had been married at sixteen to a middle-aged merchant named Johann Lavien and had moved to his home in St. Croix, one of the Danish Virgin Islands. After bearing a son, she left both husband and child and began living on the island of St. Kitts with James Hamilton, the ne'er-do-well fourth son of an aristocratic Scottish family. Rachel and James had two sons, of whom Alexander ("Elicks") was the younger. In 1765, when Elicks was about eight, the family moved to St. Croix. Shortly afterward, James Hamilton left the island and never again saw his family. Rachel, meanwhile, had been divorced by Johann Lavien, who had her briefly imprisoned for adultery. In 1768, Rachel died of typhoid fever, at the age of thirty-nine. Elicks, eleven, was now not only a bastard but effectively an orphan, and destitute.

But he was also supremely talented. In sheer drive and ability, few if any figures in American political history surpass Alexander Hamilton. Denied the affection of a close family circle, indeed of much real childhood at all, he developed in his early teens a habit of focused, unremitting work. None of the other Founders had greater powers of concentration. None allowed himself so little leisure. None had quite his insatiable appetite for work. And none except Franklin started so young.

At about the age of ten, Elicks was hired by the St. Croix branch of Beekman and Cruger, prominent New York-based merchants. Like many other Caribbean traders, they did a lively import-export business centered around the sugar economy. Young Hamilton worked in the firm until his middle teens. In the process, he absorbed valuable lessons about bookkeeping, money and credit, scheduling, inventory control, short-term finance, and the pricing of goods for sale. Again with the exception of Franklin, he was the only one of the Founding Fathers to have this kind of business experience at such an impressionable age; and he had a good deal more of it than did Franklin, though he lacked the older man's exposure to Europe.

Working in the Cruger mercantile house, he was propelled quickly into adulthood. During his bosses' frequent absences, the fourteen-year-old Elicks issued stern instructions to ship captains in the firm's employ:

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St. Croix Nov. 16, 177[1]

By all means take in a large supply of provender. Remember you are to make three trips this Season & unless you are very diligent, you will be too late as our Crops will be early in.

St. Croix Febru 1, 177[2]

Reflect continually on the unfortunate Voyage you have just made and endeavour to make up for the considerable loss therefrom accruing to your Owners.

Even before this, when Hamilton was twelve but already a little weary of clerking, he wrote a letter to his young friend Edward Stevens that captures his precocious self-awareness and drive. Of all his surviving letters, this is the one most revealing of his character:

Ned, my Ambition is prevalent that I contemn the grov'ling and condition of a Clerk or the like, to which my Fortune &c. condemns me and would willingly risk my life tho' not my Character to exalt my Station. I[']m confident, Ned that my Youth excludes me from any hopes of immediate Preferment nor do I desire it, but I mean to prepare the way for futurity. I[']m no Philosopher you see and may be justly said to Build Castles in the Air. My Folly makes me ashamd and beg you[']ll Conceal it, yet Neddy we have seen such Schemes successfull when the Projector is Constant[.] I shall Conclude saying I wish there was a War.

In good time, Elicks would get his war and would make the most of it.

III

When Hamilton was a boy, St. Croix had a population of about twenty-four thousand, more than 90 percent of whom were black slaves. The island, only eighty-two square miles in extent, was mostly given over to sugar plantations. (Tourists arriving in St. Croix today land at Alexander Hamilton Airport.) The capital city of Christiansted, where Elicks lived, contained about thirty-five hundred people. There were a few Danish officials, Denmark having acquired the island from France in 1733; but most of the whites were of English and Scottish descent. So Elicks grew up speaking English but, like many West Indians, learned French as well.

There is no record that Hamilton had much formal schooling in St. Croix. He was mostly self-taught. In addition to a gift for writing, he had a remarkably deep conceptual intelligence, plus a quick and cold-blooded facility with numbers. For several years during his teens he intended to follow his friend Ned Stevens into medicine, and to the end of his life he liked to prescribe for friends and family. (On

the dueling field in 1804, he immediately diagnosed as mortal his wound from Burr's bullet.)

In the eighteenth century, as today, it was the practice in the West Indies to send upper-class or gifted youths to Europe or North America for their education. Elicks, of course, had no family or private means. It is not clear how many sponsors contributed to his coming to North America, but they included the Reverend Hugh Knox, a radical, long-winded Presbyterian who had guided his reading, and Hamilton's older cousin Ann Mitchell. The Crugman mercantile connection also helped.

Bearing letters of introduction to some prominent New York and New Jersey families, the fifteen-and-a-half-year-old Hamilton sailed to North America in October 1772. Hugh Knox's friend William Livingston welcomed him as a temporary resident in his own mansion at Elizabethtown, New Jersey. Elicks studied briefly at a nearby Presbyterian school, tried unsuccessfully to get into Princeton, then enrolled as one of seventeen new students admitted to King's College (later Columbia University) in the fall of 1773. He was not a regular member of the class but worked as a private student of anatomy, Latin, and mathematics. At King's library, as his biographer Jacob Cooke reports, "he became acquainted with Pufendorf, Grotius, Berlamqui, Hobbes, Locke, Montesquieu, Blackstone, Plutarch, Postlethwayt, and Hume." The last five figured regularly in his writings for many years afterward.

During his first year at King's College, the major events in the American colonies were the Boston Tea Party and, in response to it, the British Coercive Acts. In 1774, the First Continental Congress took retaliatory non-importation measures against the British, and the battle for public opinion began to boil. Hamilton, now almost eighteen, eagerly joined in the pamphlet wars. In December 1774, he published a fourteen-thousand-word essay entitled *A Full Vindication of the Measures of the Congress*, an impressive but not astonishing debut. Two months later, he followed with a longer, more analytically mature, and much more powerfully argued piece entitled *The Farmer Refuted*. This new pamphlet was written in response to an attack on Congress's aggressive stance published over the signature of "An American Farmer." Hamilton's rejoinder came close to a full justification for decisive action against British colonial policy. It would have done credit to a learned writer with theoretical training and practical experience in politics. Coming from an unschooled eighteen-year-old, it was quite a performance. And the war Hamilton had wished for was now only two months away.

After years of simmering, the Revolution exploded on the fields of Lexington and Concord in April 1775. An exuberant Hamilton began

drilling daily with other volunteers in the yard of St. George's Church in lower Manhattan. Later in the year he helped in the evacuation of cannon from the Battery, and in that action he came under British fire. In January 1776, New York's Provincial Congress ordered that an artillery company be organized for the defense of the city, and soon Hamilton received his appointment as a captain. He did not see much action, but he made such a strong impression on his superiors that two major generals asked him to be their aide-de-camp. He declined because he wanted to achieve glory in combat. But early in 1777, George Washington himself requested his services, and this was an offer Hamilton could not refuse.

He was one of thirty-two junior officers who served as Washington's aides at one time or another during the eight years of war, and he was far and away the most talented. (Another of the junior officers was Aaron Burr, whom Washington disliked and who did not last long.) The only one of the aides who did not belong to an established colonial family, Hamilton became for three-and-a-half years part of the general's own "family," as the headquarters unit was called. Members of the family bunked in tents or in commandeered houses, eating together, working in close quarters, seeing each other constantly. Washington maintained an immense correspondence, with scores of messages daily into and out of his headquarters. Hamilton, a quick and articulate draftsman, wrote hundreds of these messages and orders. He developed a knack for anticipating Washington's wishes. He adapted his own prose to the precise and business-like style favored by the general.

As time went by, he grew as close to Washington as it was possible for a person to become. Doubtless he sensed something of the father he never had, and the childless Washington reciprocated in kind. On the other hand, given the upheavals of Hamilton's childhood, he was resolved to avoid relying on anyone besides himself. His chip-on-the-shoulder independence led to one bitter quarrel with the general over a trivial slight. As for Washington himself, even if he had been exceptionally warmhearted, which he was not, he could hardly allow himself to be seen as playing favorites. Circumspection, therefore, was maintained on both sides. Even so, the Washington-Hamilton relationship remained unusually close from 1777 until Washington's death in 1799. During this critical twenty-two-year period, it underlay what was perhaps the most productive collaboration in the history of American statecraft.

The two men perfectly complemented each other. Washington possessed the universal respect, maturity of judgment, and commanding physical presence lacking in Elicks, the impetuous wunderkind.

For his part, Hamilton brought a resourceful, innovative intelligence, an almost incandescent genius, that the sobersided Washington needed and knew just how to use. Unlike many other brilliant people, Hamilton always thought strategically. He dwelled on the big picture. Among Washington's aides it was always he who received (or sought out) assignments such as planning for systematic new regulations, for a reorientation of the inspector general's office, and, most remarkably, for the reorganization of the entire army.

All of this, of course, was heady stuff for a penniless, illegitimate West Indian orphan barely out of his teens. Yet Hamilton blossomed. He seemed able to do anything. He dealt routinely with public affairs at the highest levels. In an age unfamiliar with the elements of complex management, he proved a superlative administrator. He seemed instinctively to know how to run things. He issued orders to generals in the same tone he had used with Caribbean ship captains. As the ranking French speaker on Washington's staff, he negotiated with the interminable stream of presumptuous officers from France who showed up demanding to be placed at the head of American troops. (He did become close friends with the Marquis de Lafayette, who was nine months younger than Hamilton himself.) He kept an alert eye on the behavior of Congress. Like Washington and most other military men, he became frustrated to the point of distraction by the dilatoriness at Philadelphia, the manifest ineptitude of the national government.

Most of all, Hamilton simply wrote—hundreds, ultimately thousands of pages: orders, letters, reorganization plans, essays on the strategic situation, speculative ideas for ways to finance the war, the occasional political tract. Seated at his desk day after day, the weeks turning into years, he wrote out in his smooth, plain script a huge body of paperwork that, by itself, comprises the outlines of a documentary history of the American Revolution. During his entire time in military service, as the biographer James Thomas Flexner has pointed out, he never took a furlough. The army had become home, Washington's "family" his own. There was no other place to go.

The one missing ingredient was the very thing that had led him to join the army in the first place: glory in battle. He wanted more than a desk job, even if his desk stood at the epicenter of the Revolution. Thus there began a protracted struggle with his chief, who was loath to lose his unmatched administrative talents. As he wrote Washington, many times he had explained "candidly my feelings with respect to military reputation, and how much it was my object to act a conspicuous part in some enterprise that might perhaps raise my character as a soldier above mediocrity." To understand how strongly

Hamilton felt about this is to grasp the essence of his life. Now, and forever after, he was motivated by a passionate drive for “Fame,” or what we would call immortality.

He did take part in a skirmish at Monmouth, unnecessarily risking his life, and he had a second horse shot from under him during a courier’s mission. But his moment of real glory did not come until the very end of the war, after he had finally insisted on leaving Washington’s “family” for good. At the Battle of Yorktown, the last big action of the war, he led a successful charge on a British redoubt, again exposing himself to fire for no essential purpose. This behavior suggested to some observers then, and to historians later on, that his thirst for Fame was mixed up with a death wish.

Yorktown effectively ended the Revolutionary War. Satisfied with his measure of glory, Hamilton left the army. One of his last acts was to renounce, as he wrote Washington, “all claim to the compensations attached to my military station during the war or after it”—a reference to the entitlement of half pay for life that officers in the Continental army had been awarded by Congress. It is not clear why Hamilton did this. Perhaps he wanted to put the army behind him symbolically. Perhaps, because the war was not formally over, he felt bad about leaving, as his letter to Washington hinted. But he certainly could have used the money, having recently married and fathered a son. The gesture was typical of his rash temperament.

Despite Hamilton’s habitual round-the-clock work routines, he cut a dashing figure in society. He carried his slight frame with a ramrod bearing. The irascible John Adams spoke of him as “the Bloody Buoy,” an allusion to his love of battle and his perpetually adolescent appearance. Hamilton was five feet seven and exceptionally slender, probably weighing no more than 125 pounds. With his reddish blond hair and light complexion, he continued to look like a juvenile even into his forties. He dressed like a dandy and had impeccable manners. While still in the army, he carried on a number of flirtations with a succession of young ladies, such as the aristocratic Catherine Livingston.

Perhaps because of his mother’s disgrace, he had complicated feelings about women that were never completely resolved. Many times he went out of his way to help women who seemed to be in trouble. Some of them, it turned out, were exploiting his well-known gallantry for their own purposes: for example, the very clever Peggy Shipton Arnold (wife of the traitor Benedict Arnold), whose false tales of her own betrayal reduced the young Hamilton to jelly.

Hamilton’s brief but intense extra-marital affair with Maria Reynolds, a beautiful twenty-three-year-old swindler, remained the most notorious liaison of its kind in the history of American politics

until the aftermath of the Kennedy administration some 175 years later. It produced an immense harvest of contemporary gossip. It damaged Hamilton's reputation permanently. During the height of the scandal in the late 1790s, the acerbic President Adams wrote that Hamilton had "as debauched morals as old Franklin." The younger man's boundless ambition, Adams surmised, could be traced to a "superabundance of secretions" that he "could not find whores enough to draw off." (Of the many Hamilton biographies, the ones by James Thomas Flexner, Noemie Emery, and Jacob Cooke are strongest on psychological dimensions.)

Adams's judgment on this question was completely inappropriate and wrong, revealing more about himself than about Hamilton. There is no evidence, and not much reason to believe, that Hamilton ever strayed except with Maria Reynolds. He was a devoted husband and father, deeply in love with his wife Betsey, the younger daughter of General Philip Schuyler, an upstate New York patroon and head of one of the most prominent families in North America. It was an ideal match for Hamilton, not only because his love was genuine but also because the Schuyler connection gave him a social standing that he could have attained in no other way. Miss Schuyler was wealthy, but Hamilton's extreme sense of independence required that he never take a penny of her money. It also required that she herself understand his situation. As he wrote to her shortly before the marriage: "Do you soberly relish the pleasure of being a poor man[']s wife? Have you learned to think of a home spun preferable to a brocade and the rumbling of a waggon wheel to the musical rattling of a coach and six? . . . Your future rank in life is a perfect lottery."

Betsey Schuyler Hamilton helped her husband in a thousand ways. She indulged his mania for work, organized their household in a long succession of rented accommodations, and even took some of his dictation for *The Federalist Papers*. During the agonizing Reynolds affair of the 1790s she said nothing, though even a murmur from her would have ended Hamilton's career. She bore eight children, endured the deaths of both her husband and oldest son in senseless duels, and acted with courage and dignity throughout her life. Of the entire Revolutionary generation, she survived longest. In Washington, D.C., as late as the 1850s, she was still attending dinner parties, looking after her husband's reputation a half-century after his death, when she herself was past ninety. Marrying her was one of the wisest things Hamilton ever did.

After the Battle of Yorktown and Hamilton's departure from the army, he and Betsey went to Albany, where he began to study law. In the state of New York, the privilege of practice was restricted to men

who had passed the bar, a step that normally came after a three-year clerkship as an apprentice to an established lawyer. Because Hamilton was seeking to avoid the required apprenticeship, it was necessary for him somehow to master the complex procedures of New York courts. To do this, he began one of his crash programs of study, and in the process of organizing his notes, he produced the first manual of civil procedure ever written in the United States. It ran to seventy printed pages, and for years thereafter was used by innumerable law students.

In November 1782, he wrote Lafayette, "I have been employed for the last ten months in rocking the cradle [of his and Betsey's new son] and studying the art of fleecing my neighbours. I am now a Grave Counsellor at law, and shall soon be a grand member of Congress." Within a year he had moved his family to lower Manhattan and set up a law office in his house at 57 Wall Street. With so much history already behind him, he was still just twenty-six. For the next five years, he pursued a lively law practice, while participating heavily in New York politics and the affairs of Congress at Philadelphia.

IV

After Hamilton began to attend sessions of the Continental Congress, he wrote to Washington describing the situation within the legislature. "There are two classes of men Sir in Congress of very Different views," he reported, "one attached to state, the other to Continental politics. The last have been strenuous advocates for funding the public debt upon solid securities, the former have given every opposition in their power." The delegates who emphasized the emerging national interest more than loyalty to their states, Hamilton concluded, were "in a word . . . the men who think continentally."

Nobody thought more continentally than did Hamilton himself. As he wrote in 1782 in one of his pamphlets, "There is something noble and magnificent in the perspective of a great Federal Republic, closely linked in the pursuit of a common interest, tranquil and prosperous at home, respectable abroad; but there is something proportionably diminutive and contemptible in the prospect of a number of petty states." By the time Hamilton reached his middle twenties, his fundamental political and economic ideas had already matured. There is not much in *The Federalist Papers* of 1788 or in his great *Reports* of the 1790s that was not foreshadowed in his writings of a decade before. Because these ideas were so important to the policies he promoted in the early 1790s as the architect of the early American economy, it is worthwhile to take a close look at their evolution during the years 1779–1782.

They concerned four interrelated subjects: economics, politics, the optimal nature of the American union, and the kind of conscious national strategy that would best achieve it. Hamilton relentlessly sought to work out the precise set of policies that would direct the natural currents of economics and politics to the nationalist ends he envisioned.

During the 1770s and 1780s, the situation confronting all would-be designers of policy was the problem of a new nation emerging from a colonial past. There had never before been a successful revolution against a mother country. There was no precedent, no template, no obvious series of steps to take. The Declaration of Independence was an eloquent manifesto, but it was not a plan for governing, nor even for the definition of a nation. The words used in the Declaration—"These United Colonies"—were a little misleading. The states continued to have separate governments. Some had their own tariffs. Even under the Articles of Confederation, which were not ratified by the requisite number of states until six years after the battles of Lexington and Concord, the national government consisted almost solely of Congress. There was no executive branch, no federal court system. There was no unambiguous power to tax, none to regulate interstate trade. No bureaucracy existed. Congress and the army were mostly dependent on the individual states for funds and the other trappings of legitimate government.

The states themselves were so radically diverse in size and population (tiny Rhode Island versus mighty Virginia), and economy (shipping in Massachusetts, plantation staples under a slave regime in South Carolina) as to make a coordinated economic strategy impossible. Even individual states were at odds within themselves. Hamilton's own New York was divided between the emerging Manhattan metropolis and the Dutch estates of the Hudson Valley. Then there was the vexing question of foreign relations. Throughout the war, a good deal of trading with the enemy went on. The British army in North America, the largest expeditionary force in human history up to that time, had to be fed, and it conducted a regular business with the erstwhile colonists in North America, some of whom profited handsomely. Most other Americans, accustomed to subsistence and plantation agriculture and to a vigorous maritime trade with Britain and the West Indies, found these economic patterns disrupted.

What the ex-colonists hoped for was some form of free trade. They wished to move beyond the exclusivity of imperial mercantilism. They particularly wanted open markets in Europe and the West Indies. In April of 1776, the Continental Congress dramatically ended traditional mercantilistic restrictions by opening American ports to the

ships of all countries. As the historian Drew McCoy has argued, this was a radical step, rooted in military exigency but also in revolutionary idealism. But free trade failed to materialize. The great powers of Europe were not about to abandon their closed imperial systems. As a result, American commerce was simply bottled up, shut out from some of its best markets. Throughout the 1770s and 1780s and well into the 1790s, the whole problem of foreign trade remained unsettled in America. It taxed the minds of all the Founders. Its seeming intractability made the long-term success of this first colonial revolution problematical in the extreme. It affected the livelihood of every commercial center in North America. It showed up for the country as a whole in a series of balance-of-payments crises that seemed to become worse with each passing year. An adverse trade balance meant a chronic outflow of specie and in turn a steady downward pressure on the money supply. At several points during the 1780s, it meant general economic depression. And since the country was not yet a nation in anything but name, it inevitably meant the danger of political disintegration—of a stillborn United States of America.

The war itself had cost about \$160 million, an immense amount of money at that time, especially considering the small size of the country. (It was more than the total expenditures of the future national government over the first twenty years of its existence, from 1790 to 1810.) Per capita military and civilian casualties, the historian John R. Nelson argues, were probably greater than in any other American conflict except the Civil War. Economic disruptions were severe, especially in New York and the southern colonies, where most of the fighting took place. By late 1779, unreimbursed confiscations by the Continental army had become unavoidable, and this made the disruptions much harder for citizens to endure. Even after the war was won, the external economy was still tied to the British Empire. Between 1787 and 1792, more than 90 percent of all manufactured goods imported into the United States came from Great Britain. Meanwhile, the export trade stagnated. Overall shipments remained down. As against the incoming flood of British imports, only 43 percent of American exports went to Britain and its empire; 25 percent went to the French Empire, 10 percent to the Dutch Empire, 8 percent to the Spanish Empire, 6 percent to the Portuguese Empire. At none of these destinations were American traders as welcome as they wished to be. In none were they selling nearly as much as they could have in the absence of imperial restrictions. Nor, back home, could the states agree on what to do about it. Sectionalism remained a baffling problem for public policy. Continued political unity was not a foregone conclusion.

For generations, historians argued that the decade of the 1780s either was or was not a “critical period.” But recent research suggests that it was a very grave time indeed. John J. McCusker and Russell R. Menard in their authoritative work, *The Economy of British America, 1607–1789*, conclude that “if the results of current research stand future scrutiny, something ‘truly disastrous’ happened to the American economy between 1775 and 1790.” General economic performance may have fallen between 40 and 50 percent, an amount comparable to that experienced during the Great Depression of the 1930s.

Certainly a disastrous outcome to the crisis was not beyond the imagination of Alexander Hamilton. A pessimist from experience, he knew from his own tragic boyhood that things could fall apart on short notice. He had seen during the war, from his special vantage point at headquarters, how everything that could possibly go wrong often did. Soldiers weren’t paid. Supplies failed to materialize. There was nothing to wear. Troops went home in disgust. Congress issued paper money that quickly became worthless. The government was impotent. “Our countrymen,” he wrote his friend John Laurens, “have all the folly of the ass and all the passiveness of the sheep in their compositions. . . . Don’t think I rave; for the conduct of the states is enough most pitiful that can be imagined.”

With the American economy in shambles, the question was how to organize for recovery and long-term growth, given the dystrophy of government under the Articles of Confederation. Hamilton’s own approach was set forth in a series of letters and articles written during a brief period from 1780 through 1782. In these documents (their total length is equivalent to a small book), he laid out in systematic fashion both a diagnosis of the American situation and a prescription for its reform. His thinking is perhaps best summarized in a seven-thousand-word letter he wrote on September 3, 1780, to James Duane, a delegate to the Continental Congress who had asked for his views. Considering that the war was not yet over and the Constitutional Convention was still seven years in the future, the letter seems remarkably prescient. At the time of its writing, Hamilton was still Washington’s aide-de-camp:

To James Duane [Liberty Pole, New Jersey, September 3, 1780]

The fundamental defect is a want of power in Congress. . . . The idea of an uncontrollable [*sic*] sovereignty in each state, over its internal [policy], will defeat the other powers given to Congress, and make our union feeble and precarious. . . . Without a speedy change the army must dissolve; it is now a mob, rather than an army, without clothing, without pay, without provision, without

morals, without discipline. We begin to hate the country for its neglect of us; the country begins to hate us for our oppression of them. . . .

Congress should have complete sovereignty in all that relates to war, peace, trade, finance, and to the management of foreign affairs, . . . of regulating trade, determining with what countries it shall be carried on, granting indulgencies laying prohibitions on all the articles of export or import, imposing duties granting bounties & premiums. . . .

The second step I would recommend is that Congress should instantly appoint the following great officers of state—A secretary for foreign affairs—a President of war—A President of Marine—A Financier—A President of trade. . . .

The only certain manner to obtain a permanent paper credit is to engage the monied interest immediately in it by making them contribute the whole or part of the stock and giving them the whole or part of the profits.

Little in Hamilton's systematic program of the 1790s was not foreshadowed in this letter of 1780.

During the same period, he wrote a series of six newspaper essays collectively entitled "The Continentalist." He was still only twenty-three, but it may be seen how expertly he mixes economic theory, as it was then understood, with the application of policy to economic affairs:

There are some, who maintain, that trade will regulate itself, and is not to be benefitted by the encouragements, or restraints of government. Such persons will imagine, that there is no need of a common directing power. This is one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations. . . .

To preserve the ballance [*sic*] of trade in favour of a nation ought to be a leading aim of its policy. The avarice of individuals may frequently find its account in pursuing channels of traffic prejudicial to that ballance, to which the government may be able to oppose effectual impediments. . . . The contrary opinion, which has grown into a degree of vogue among us, has originated in the injudicious attempts made at different times to effect a REGULATION OF PRICES. It became a cant phrase among the opposers of these attempts, that TRADE MUST REGULATE ITSELF. . . . In this sense the maxim was reasonable; but it has since been extended to militate against all interference by the sovereign. . . .

General principles in subjects of this nature ought always to be advanced with caution; in an experimental analysis there are found such a number of exceptions as tend to render them very doubtful; and in questions which affect the existence and collective happiness of these states, all nice and abstract distinctions should give way to plainer interests and to more obvious and simple rules of conduct.

In "The Continentalist" of 1782, as in his famous *Report on Manufactures* written a decade later, Hamilton was speaking in conscious and direct opposition to the theory and prescriptions of *laissez faire* contained in Adam Smith's *Wealth of Nations*, published in 1776.

By nature Hamilton was most at home as a staff executive, an

administrator. His disposition ran far more to action than to prolonged discussion. He was particularly frustrated by the fecklessness of the Continental Congress, and during his two years' service there, he never took a prominent part. In Madison's notes of the proceedings, he is recorded as disliking "every plan that made but partial provision for the public debts; as an inconsistent & dishonorable departure from the declaration made by Congs. on that subject." He was forever chafing for something more, agitating for a definitive engagement of the new nation's problems. He became a key player in organizing the Convention at Philadelphia in 1787, yet he played only a minor role in the great adventure of drafting the Constitution. Although now thirty years of age, he still showed the wunderkind's jitters with drawn-out proceedings.

From time to time he also exhibited a candor bordering on indiscretion. Had the meetings at Philadelphia not been closed to the press and public, some of his remarks praising the British and attacking American state governments might have ended his political career. As the convention began to drag into its second month, Hamilton became impatient with the inability of some of the delegates to look beyond states' rights and start to think continentally. On one very hot day in mid-June of 1787, he rose to speak on this subject and proceeded to hold forth for more than five hours. Here is Madison's record of what Hamilton said on that day:

In his private opinion he had no scruple in declaring, supported as he was by the opinions of so many of the wise & good, that the British Govt. was the best in the world: and that he doubted much whether any thing short of it would do in America. . . .

[On the proposed tenure of office of the Senate and President of the United States, he said:] Let one branch of the Legislature hold their places for life or at least during good behaviour. Let the Executive also be for life.

[Hamilton] sees the Union dissolving or already dissolved—he sees evils operating in the States which must soon cure the people of their fondness for democracies.

All communities divide themselves into the few and the many. The first are the rich and well born, the other the mass of the people. The voice of the people has been said to be the voice of God; and however generally this maxim has been quoted and believed, it is not true in fact. The people are turbulent and changing; they seldom judge or determine right. Give therefore to the first class a distinct, permanent share in the government. They will check the unsteadiness of the second, and as they cannot receive any advantage by a change, they therefore will ever maintain good government.

As sometimes happens with compelling orators, Hamilton had become caught up in his own rhetoric. It has never been certain that he completely believed or would have publicly stood by what he said in

the secret proceedings; there are some significant differences between his remarks at the convention and what he wrote in *The Federalist* a few months later.

With little hope that the delegates would do the right thing, he left the Philadelphia Convention in late June of 1787 and stayed away for nearly six weeks. During this time he wrote Washington, who was presiding in Philadelphia and exasperated with Hamilton for leaving: "I am more and more convinced that this is the critical opportunity for establishing the prosperity of this country on a solid foundation. . . . There has been an astonishing revolution for the better in the minds of the people. The prevailing apprehension among thinking men is that the Convention, from a fear of shocking the popular opinion, will not go far enough."

Hamilton returned in August of 1787 and participated briefly in the remaining debates. When the final draft of the Constitution was ready, he insisted that all delegates sign it even though many, not least he himself, still had powerful reservations. The appearance of unanimity was critical for what lay ahead. As Hamilton understood better than most others, the battle in Philadelphia was now over, but the battle for ratification had hardly begun.

To this effort he contributed one of his lasting monuments, *The Federalist Papers*. With his allies Jay and Madison, he composed in almost white heat eighty-five essays that collectively analyzed and defended every part of the Constitution. The effort was addressed to public opinion in New York, where a flood of anti-Constitution propaganda had issued forth beginning in September of 1787. Hamilton wrote about two-thirds of the essays, and many of them show him at the very height of his rhetorical powers.

At the New York Ratifying Convention he took a conspicuous part, speaking long and often. Again his theme was that the new nation must be made to hang together or centrifugal forces would pull it apart. "We love our families, more than our neighbours: we love our neighbours, more than our countrymen in general. The human affections, like the solar heat, lose their intensity, as they depart from the center; and become languid, in proportion to the expansion of the circle, on which they act. On these principles, the attachment of the individual will be first and forever secured by the state governments." In consequence, the centripetal pull of the new Constitution must be supported as a countervailing force. If it weren't, the Union would disintegrate.

In the end, much to the surprise of most observers, New York ratified the Constitution by a narrow margin. Within a short time the required nine states affirmed the document, and it went into effect in

1789. Hamilton's long quest for a workable national government now stood on the brink of achievement. The next steps would be administrative in nature. As secretary of the treasury he would come into his own as the nationalist par excellence, the major player in the drama about to unfold.

V

For many years Hamilton had believed that good administration demanded individual accountability. Although no direct evidence exists, there is some reason to believe that he helped draft the act of Congress that created the Treasury Department and gave its chief unusual latitude. The Secretary of the Treasury was going to be far more of an executive officer than a European-style finance minister. Hamilton saw himself almost as a prime minister to Washington's king-president. He sometimes wrote of "my administration" and "my commercial system."

He had a much larger staff than did the rest of the cabinet officers. (At this time there were only three others: Attorney General Edmund Randolph, Secretary of War Henry Knox, and Secretary of State Thomas Jefferson.) Hamilton's biographer Broadus Mitchell has calculated that the Secretary of the Treasury employed in his immediate office 39 staff members, including his assistant and 5 clerks. The auditor, who worked directly under Hamilton, had 12 clerks of his own. Jefferson's State Department had a total of 4 clerks and a messenger; Knox at the War Department only 3 clerks. Outside the capital city, Hamilton had charge of 297 inspectors and others who worked under the revenue collectors, plus 15 supervisors and 20 inspectors, 31 officers of the revenue cutters, 13 keepers of lighthouses, and assorted others. The total number under his supervision was 570. Almost the entire national civil government, such as it was in the 1790s, worked for Alexander Hamilton.

Of course, the American public sector remained minuscule compared to those of the European powers. Hamilton did an inordinate amount of work with his own hands. Numerous surviving state papers of this period are in Hamilton's own handwriting. A French visitor to the Treasury Department found the secretary sitting "in a long gray linen jacket" at an unadorned pine table covered with a green cloth. The visitor estimated that the entire furnishings of the office, where files lay on crude shelves, cost perhaps ten dollars.

What Hamilton cared most about was "energy" in government. *The Federalist Papers* are full of references to the need for activism, and the word *energy* occurs again and again. In one passage, he quotes his

favorite poet, Alexander Pope: “Though we cannot acquiesce in the political heresy of the poet who says—‘For forms of government let fools contest— / That which is best administered is best’—yet we may safely pronounce, that the true test of a good government is its aptitude and tendency to produce a good administration.” This emphasis, the defining element in Hamilton’s entire approach to government, contrasts strikingly with the themes evident in the writings of Jefferson. Where Hamilton extolled energy and administrative activism, Jefferson remained preoccupied with liberty, equality, the necessity for reflective leisure, and the virtues of agrarian living.

Of course, the question may properly be asked: Good and energetic administration toward what end? Here, as usual, Hamilton had an answer: the good of the nation. He was the quintessential national economic strategist. Better than any of the other Founders—in fact better than any other American of his generation who left enough records to judge—Hamilton saw how everything in the making of economic policy is related to everything else. In a remarkably modern way, he conceived policy in terms of aggregates. He thought not only continentally but macroeconomically as well.

Of the many students of Hamiltonian state building, one of the most penetrating is Willard Hurst, the foremost scholar of American legal history and himself the founding father of that sub-discipline. Hurst’s work focuses on economic policy making through the shaping of the legal system. His comments highlight Hamilton’s differences with Jefferson and Adam Smith, both of whom emphasized individualism in politics and consumption in economics. Hamilton stressed nationalism in politics and production in economics. As Hurst puts it:

[Hamilton’s] concern was almost exclusively with promoting overall capacity to produce goods and services. Conversely, he showed almost no concern with the quantity or quality of consumer satisfactions. . . . So far as he took account of consumption functions in the economy it was only in ways which underlined his preoccupation with production. . . . His official recommendations dealt with the condition of the factors of production appraised as wholes—the labor supply, the available stock of investment capital, the sum of farm production. . . . Aptly for his prime interests, he focused his analysis of public policy on what he termed “aggregate” concerns of commerce and industry.

Hamilton, a first-class student of administration, saw that not everything could be done at once. It was necessary to follow a particular sequence, a planned step-by-step strategy. That is what he now proceeded to do as Washington’s Secretary of the Treasury.

VI

As a teenaged pamphleteer, Hamilton had derided Britain's huge national debt: "Luxury has arrived to a great pitch; and it is an universal maxim that luxury indicates the declension of a state. Her subjects are loaded with the most enormous taxes. . . . With all their present resources, they would not be able to discharge the public debt, in less, than *one hundred and twelve years*, should the peace continue all that time." Yet Hamilton came to change his mind. In 1781, six years after lampooning the British debt in his pamphlet, he wrote Robert Morris: "A national debt if it is not excessive will be to us a national blessing; it will be powerfull cement of our union. It will also create a necessity for keeping up taxation to a degree which without being oppressive, will be a spur to industry."

The ambivalence evident in Hamilton's about-face reflects the eighteenth century's mixed attitude toward the subject of credit. As the historian Julian Hoppit has observed, even in Britain credit was often construed as a moral issue, and the verdict was usually negative. Many critics associated personal credit with usurious pawnbroking. Commercial credit was seen as encouraging wild projects and leading to ruin. And government-associated "public credit" was perhaps worst of all. It seemed dangerous on many counts: making it possible to fight unjust wars with borrowed money, forcing an unfairly high tax rate, promoting corruption in the legislature, enriching dishonest financiers who traded on inside information.

The agrarian bias of most Americans caused them to look askance at credit. Debt was seen as compromising one's independence. Benjamin Franklin often railed against it in *Poor Richard's Almanack* ("He that goes a borrowing goes a sorrowing"). The plantation South held very hostile views toward commercial and public credit. Because of the seasonal nature of farming, planters were forever borrowing to get from the spring and summer to the fall harvest. Yet, in the eyes of such Virginians as James Madison, credit was a diabolical tool used by British tobacco factors to divert American trade from its "natural channels."

When Hamilton entered office and addressed the question of American public credit, he was pushing against heavy adverse forces, made worse by the peculiar nature of the public debt. It was a huge and motley concoction of paper instruments. To holders of the many different kinds of bills and securities issued by the Continental Congress during the 1770s and 1780s, the national government owed \$29 million principal plus \$11.4 million in back interest. To French and

Dutch creditors who had helped finance the Revolution, the government owed almost \$12 million, including about \$1.8 million of arrears in interest. The debts owed by the individual states were of indeterminate amounts. Hamilton estimated them at about \$25 million, but they proved to be a little less.

The actual sum of all federal and state debt was \$75.4 million, at face value. This worked out to less than \$25 per person—not much, apparently, in comparison with today's per capita federal indebtedness of more than \$16,000. But the annual income of the national government during the 1790s was only about \$5 million, a mere one-fifteenth of the national debt. In the early 1990s, the annual income of the federal government was about \$1 trillion, or a much healthier one-fourth. But there is really no satisfactory way to compare these numbers. The whole basis of the American economy was fundamentally different in the 1790s, since most people worked most of the time at subsistence agriculture, a cashless economy. The fact is that a national debt of \$75 million was so large that paying it seemed impossible.

The actual market value of the debt could not be determined with precision, but, as the historian E. James Ferguson has shown, it was very much less than the sum of the face value of all outstanding instruments. Congress had issued paper money, loan certificates, "indents" (promises in lieu of interest payments), and a variety of other notes, to all kinds of creditors: foreign bankers, wealthy American merchants, Revolutionary War soldiers, military contractors, farmers, and craftsmen. Some of these debts carried clearly defined interest rates and maturities. Many did not. On the open market, a few cents on the dollar would have sufficed to purchase many types of securities, perhaps fifty cents on the dollar for some others, and par value for practically nothing except a portion of the foreign debt.

As the new government took office in 1789, nobody knew by just how much, if at all, the debt should be scaled down to reflect the country's ability to pay. It remained unclear whether any of the principal was to be paid, and, if so, when. No one knew what interest rates should be applied in case all or part of the debt were to be refinanced. Nor did anyone know what would be done about the state debts. Throughout the 1780s, Hamilton and other nationalists had argued that the federal government should take priority over the states in its claim on the taxing power. Following this logic, he and his allies (men such as Robert Morris) had resolutely opposed plans of the individual states to pay off their own debts. Reasoning that the power to tax was an indispensable element of national sovereignty, they wanted to preserve all debts, state-incurred ones included, until

such time as the national government gained the power and resources to fund them. “Funding” meant providing for the payment of interest, not necessarily of principal as well.

By 1789, this argument between nationalists and advocates of power for the states had been going on for well over a decade. The Federal Constitution of 1787 represented a big victory for the nationalists, but actual implementation of a nationalist fiscal policy was something else again. In the short and medium term, there was no conceivable way to pay the principal on any of the debt, except through another huge borrowing and rollover.

Here is what Hamilton did to meet this extraordinary situation. He recommended, and after seven months’ debate Congress passed, legislation providing for:

1. A complex plan to consolidate all domestic debts of the national government and refund them at par (that is, pay interest on their face value, while leaving unclear when the principal would be repaid). Hamilton decided to reduce the overall interest rate by about one-third, which meant a huge reduction in the amount the government had to pay. In order to justify this move, and so as to avoid continuing strife over annual appropriations, he suggested that import duties be earmarked for paying interest on the debt. This earmarking provision proved to be crucial for reassuring creditors and strengthening future public credit.

2. Assumption by the federal government of the entire war debts of the states and funding of those debts, too, at par.

3. Immediate payment of the foreign debt and arrears of interest by means of another foreign loan.

4. Payment of interest in specie. Given the shortage of hard money in North America, this provision was in some ways the most radical and unexpected element of Hamilton’s entire plan.

5. A sinking fund providing at least some monies for the eventual extinguishment of the debt.

Of these elements, the first and second listed above became extremely controversial. While nearly everyone in Congress agreed that something had to be done about public credit, members were divided on whether to refund the federal debt at par and whether to assume the debts of the states. On the first question, critics angrily pointed out that the market value of outstanding securities was nowhere near their face value. Funding the new debt at par therefore seemed to be the equivalent of the Treasury’s making a huge and thoroughly pointless donation to speculators. So there was much talk in favor of “discrimination”: preferential treatment for original holders of the debt. These original holders were portrayed as deserving contributors to

the war effort, in contrast to speculators who had bought up the certificates at a small fraction of face value.

Hamilton, who could foresee the administrative nightmare that discrimination would entail, opposed it on principle anyway because he wished to establish the nation's credit on the soundest possible basis. He very much wanted to tie "the monied interest" to the new government, and funding the debt at par would do this. It was a basic goal of the nationalists; and Hamilton was incredulous when the leader of the discrimination movement in Congress turned out to be James Madison, his longtime ally, fellow nationalist, and *Federalist* collaborator. Madison was beginning to pay more attention to his Virginia constituents, and he was honestly horrified by the prospect of rewarding speculators.

Objections to Hamilton's plan for refunding at par without discrimination were not confined to southerners. Because of the hostile attitudes toward debt and credit so widely held by the American people, negative responses were inevitable, and they appeared in many different forms. A typical complaint (recently unearthed by the historian Ruth Bogin), came from the pen of one William Manning, a self-taught farmer from Massachusetts, who diagnosed the problem as follows: "[T]he Grate Question is how Shall Restitution be Made & Justis Done in this Case when Nither Congress nor the States have Either Mony nor Credit to Do it with." Manning proposed that Congress redeem "their Domistick Securities" not at par but at eight shillings to the pound. The remaining twelve shillings would go to original creditors. This would avoid the "Measures so Glareingly unjust" embraced by Hamilton's plan. The world, Manning went on to say, is divided between the wealthy few and the laboring many, and "their is nothing which excites Jelocye betwen these few & Many More than the alterations of Money affaires."

Hamilton understood all of this only too well. "It is easy to perceive," he wrote a little later, "that such a heterogeneous mass of opinions not merely speculative but actuated by different interests and passions could not fail to produce embarrassment to the person who was to devise the plan." Time, however, was short. "Had a single session [of Congress] passed . . . without some adequate provision for the debt the most injurious consequences were to have been expected." But there was no perfect solution. Hamilton believed (and often said) that decisions simply had to be made, right or wrong. The task of the administrator was not to seek perfection but to find and execute the best alternative among lists of unattractive options.

In 1790, this proved to be especially true of the assumption issue. Hamilton's proposal that the national government assume state debts

so outraged some members of Congress that his entire plan was endangered. Debate on assumption continued for month after month. On Hamilton's funding plan as a whole, Congress deliberated from February 8 to August 9, 1790, almost the entire session.

Despite the adamant opposition of James Madison, the ablest and most respected member of the First Congress, Hamilton held firm. Assumption of state debts was the keystone of his grand scheme to force the American "confederation" into a tighter union. The power to fund the debt of the Revolution carried the moral authority of first call on tax levies, and he was not about to let it slip into the hands of state governments. But Congress simply refused to go along. Hamilton had almost enough votes to pass his assumption bill, but not quite. Deadlock resulted.

After weeks of struggle, the logjam was finally broken by a famous bargain between Hamilton and the Jeffersonians. Under its terms the national capital, then in New York, would move to Philadelphia for ten years. Thereafter it would be relocated in the South, adjacent to Virginia along the Potomac River. In return, the Virginians would provide enough votes to swing the House of Representatives in favor of Hamilton's assumption bill. The bargain was consummated, the House members polled again. What had been 29 votes for, 33 against, was now reversed. Hamilton would have his assumption bill. And the national capital would be in a hot, muddy new city on the Potomac, fulfilling a long and, it had been thought, utterly impractical dream of George Washington himself.

The second part of Hamilton's master plan for the new American economy came in his *Report* proposing a new Bank of the United States. He had accurately identified the lack of an adequate money supply as one of the economy's main problems. The funding and assumption plans had created large blocks of new securities, which were quickly subscribed by domestic (and, increasingly over the next decade, foreign) investors. In effect, Hamilton had monetized the entire federal and state war debts, using a form of what economists later called "rational expectations" to convert debt securities into money. With his plan for a Bank of the United States, Hamilton proposed to facilitate this process. Far better than most of his contemporaries, he saw that a new money supply could simply be created out of government instruments, that a positive psychology of money was wrapped up with prospects for business confidence, and that both were essential for economic growth. Thus he was never persuaded by the vociferous Jeffersonian opposition that the profiteering of speculators was in itself sufficient reason not to fund the debt at par.

Hamilton's bank proposal triggered a bitter exchange with Jef-

person, who appealed directly to Washington to stop the bank's incorporation on grounds of unconstitutionality. Hamilton's long and meticulous response to Jefferson's protest was so devastating that it made the rupture between the two cabinet officers permanent. It is, in fact, one of the most eloquent and closely argued state papers in American history. Almost thirty years later, it formed the basis for Chief Justice Marshall's landmark opinion in the case of *McCulloch v. Maryland* (1819), establishing broad implied powers under the Constitution.

So Hamilton got his bank, just as he had got his funding and assumption plans. He seemed to be conquering every obstacle. The American economy was beginning to boom, government securities were selling above par, and he was running circles around the opposition. At the end of his second year in office, late in 1791, he presented the most ambitious and far-reaching of all his state papers, the *Report on Manufactures*. This document represents, as the economist Joseph Schumpeter once wrote, " 'applied economics' at its best." The same might be said of Hamilton's three great reports as a group. The *Reports* on Public Credit, the Bank, and Manufactures total about ninety-five thousand words, the length of a medium-sized book. All three are models of lucid prose and clearheaded reasoning. Each is strikingly modern in its analytical framework.

The Report on Manufactures called for a full-blown industrial policy designed for a developing country. Unlike Jefferson (and Adam Smith, who also thought America should stick to farming), Hamilton was determined that the United States be more than an agrarian country. Although Congress never enacted the systematic program outlined in his *Report on Manufactures*, an unexpected series of events over the next three decades brought many of Hamilton's plans to fruition. Economic pressures deriving from the Napoleonic Wars, the embargo under President Jefferson, and the tariffs enacted by Congress in 1816 and the 1820s all had the effect of promoting commerce and, even more so, manufacturing. The overall result constituted just the kind of diversification of the American economy that Hamilton was aiming for.

Some of the most perceptive students of this issue, such as the biographer Forrest McDonald and the economists Richard Sylla and John James, have noted that Hamilton was almost alone in his modern understanding of the interdependence between present solvency and future prosperity. In the pivotal years 1790 and 1791, he had made a carefully calculated reciprocal wager. He had bet the viability of his monetary and fiscal system on the country's capacity for economic growth. And he had reinforced the potential for that growth with this very same system. Both bets came through in grand fashion.

Hamilton's fiscal system lasted for many years. Until the income taxes of the twentieth century, most federal revenues came from customs duties, except during periods of war. (For the 1790s as a whole, customs provided well over 90 percent of federal income.) Until the national debt was temporarily extinguished during the 1830s, and again except for periods of war or preparation for war, interest payments almost always comprised the largest single use of federal revenues. The debt, which stood at \$75.4 million in 1791, neither increased nor shrank very much until the foreign loan connected with the Louisiana Purchase increased it to \$86.4 million in 1805. Under the Jefferson-Madison-Gallatin policies of retiring the debt quickly, it shrank to \$45.2 million in 1813, only to shoot up to \$119.6 million by 1815 because of the War of 1812. The size of the national debt in the United States has almost always been a function of war, including the Cold War.

Hamilton himself left office early in 1795, having endured enormous abuse from baseless charges that he had profited personally from his management of the Treasury Department—but also having seen most of “my commercial system” put firmly into place. It had all been a great adventure, a spectacular achievement of planning, execution, and administration. What his policies had done, in combination with events, was promote both short-term and long-term business confidence. In so doing, they had facilitated the release of immense economic energy in the private sector. They had helped to shape the distinctive American balance between political stability on the one hand and vast potential for economic growth on the other. They had made it plausible for entrepreneurs to think big thoughts and entertain risky new ventures. They had helped make it easier for energetic individuals, whatever their origins, to rise as Hamilton himself had done.

The historian Joyce Appleby, in *Capitalism and the New Social Order*, makes an interesting argument that this release of energy actually derived more from Jeffersonian individualism. She contends that the Federalist mind-set as exemplified by Hamilton and others was too upper-class in orientation to cause a broad release of energy throughout society. My own reading of the evidence is closer to the older views of Broadus Mitchell, John C. Miller, Bray Hammond, E. A. J. Johnson, Gerald Stourzh, and Willard Hurst, all of whom present powerful arguments for the wisdom and success of the Hamiltonian program. Drew R. McCoy, in *The Elusive Republic: Political Economy in Jeffersonian America*, posits a modern, technology-oriented, interdependent Hamiltonian capitalism against a backward-looking Jeffersonian ideal of agrarianism mixed with rudimentary manufactures,

leading to a household autarchy of the type Jefferson himself tried to create at Monticello. Burton Spivak, in *Jefferson's English Crisis*, sees a frustrated President Jefferson ultimately retreating into "an idealized and largely imaginary American economy" of self-sufficient isolationism. One of the broadest analyses of these issues, particularly of their political and social aspects, is Gordon S. Wood's *Radicalism of the American Revolution*, published in 1992. All of these books present sophisticated variations on the Hamilton-Jefferson split and its implications for the American polity.

VII

Because of the economic nature of his achievement, Hamilton as a statesman is best compared historically not with his contemporary rival Jefferson—the peerless apostle of political liberalism—but with the builders of modern economies in other countries at other times. He was the direct intellectual descendant of Jean Baptiste Colbert, the great French minister who devised a system for the promotion of manufactures during the reign of Louis XIV. He was a legatee also of Charles Montagu (later the Earl of Halifax), the Chancellor of the Exchequer who fashioned England's innovative strategy of public credit in the 1690s. In turn, Hamilton was himself an inspiration to Friedrich List, who envisioned and tirelessly promoted the German customs union, national railway network, and other measures leading to the eventual unification of the German Empire of 1871, long after List's own death. In breadth of vision and in sheer audacity, Hamilton invites comparison with Bismarck as well.

In Japan, the program of forced modernization carried out by the Meiji reformers of the late nineteenth century was almost purely Hamiltonian in its economics, though not in its repressive politics. Hamilton's *Report on Manufactures*, written nearly a century before, could have served as a blueprint for Japan's phenomenal leap into a modern industrial economy. Even the post-World War II Japanese economic miracle, based on a deliberate, focused development of competitive domestic manufacturing in selected strategic industries, was fundamentally Hamiltonian in its conceptualization and execution. So too with the more recent development of the economies of Korea and Taiwan.

In less successful examples of industrial planning and national finance—and there are legions of them—the departures from Hamiltonianism usually came in a failure to appreciate or act on the interconnectedness of things. In many countries, despite admirable progress on some fronts, there were very frequent failures to control public

credit, as in Brazil during the post-World War II period. In other countries, problems arose when policies of import substitution turned into prolonged insulation and protectionism, as in the case of India during the 1970s and 1980s.

Taken together, these examples show conclusively that government promotion of economic development, in and of itself, provides neither a guarantee of success nor a recipe for disaster. As in most other kinds of human activity, the outcome depends on the wisdom of the action and the possibility of success in a particular set of circumstances. The practical lesson of Alexander Hamilton is that such success requires a combination of unusual talent and rare opportunity, but also that the possibility of great achievement exists if things are done right.