

**Alexander Hamilton’s Economic Vision for America:  
Impacts of Hamilton’s Elitism on the Creation of Financial Systems**

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*“The subject speaks its own importance; comprehending in its consequences  
nothing less than the existence of the UNION”*

—Alexander Hamilton, The Federalist 1<sup>1</sup>

Regarding the Constitution, Alexander Hamilton believed its consequences for the organization of the American state would be profound. Moreover, Hamilton believed that the Union’s continuance depended on the creation of sound financial institutions. In his mind, anything less than these changes would put the nation’s fledgling economy—even its very existence—at risk. The United States left the Revolutionary War a nation in question. Would a new, untested republican form of government survive, much less become the most prosperous country in the world? These questions of America’s future prompted far-reaching visions from one of the nation’s youngest architects—Alexander Hamilton. Hamilton’s distrust of America’s common man led him to support a strong central government, thus leading to his loose interpretation of the Constitution. His vision for America is not only found in his work on the Constitution and the Federalist papers, but it also resonates throughout our nation’s current economic system. As Secretary of the Treasury, Hamilton laid the foundation for America’s economic triumphs through his economic vision involving said strong central state, namely his funding and assumption plan, the creation of a National Bank which provided a rudimentary groundwork for the Federal Reserve, and a policy of reasonable tariffs that would provide the nation’s primary source of revenue while encouraging infant industries.

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1. Alexander Hamilton, “Federalist 1.” [avalon.law.yale.edu](https://avalon.law.yale.edu/18th_century/fed01.asp). Yale Law School. Accessed March 1, 2020. [https://avalon.law.yale.edu/18th\\_century/fed01.asp](https://avalon.law.yale.edu/18th_century/fed01.asp).

## HAMILTON'S ASSUMPTION PLAN

The fledgling nation left the war with a huge national debt and large state debts. It had but one bank—the Bank of North America, chartered by both the Confederation Congress and the states of Pennsylvania and Delaware. Hamilton proposed the funding and assumption of the public debt, claiming, “A national debt, if it is not excessive, will be to us a national blessing.”<sup>2</sup> The foundation of his plan was if investors—namely the American people—had a financial incentive to see that the government would succeed, they would support it.<sup>3</sup> Yet, his plan—primarily the assumption of state debts—met vehement opposition from Republicans. Thomas Jefferson and James Madison believed that Hamilton’s plans would allow the federal government an unconstitutional level of power, while further devolving the country into aristocracy. Hamilton triumphed in his assumption plan, as he coupled the passage of his plan with the relocation of the nation’s capital on the Potomac River.<sup>4</sup>

## THE NATIONAL BANK

Resulting from fractured state financial systems from the Articles of Confederation, the act of acquiring capital was more complicated in the U.S. than in other nations. Hamilton looked to the success of America’s European counterparts in their creation of national banking systems. Hamilton believed Union could prosper with a national bank, writing in 1781, “Most commercial nations have found it necessary to institute banks; and they have proved to be the happiest engines that ever were invented for advancing trade.”<sup>5</sup> Influenced by his desire for institutions with strong English influence, Hamilton wanted to create a national bank based on the Bank of England. Hamilton’s vision for this institution included issuing banknotes, providing a safe place for public funds, and serving as the government’s fiscal agent to collect taxes.<sup>6</sup> Hamilton’s bank

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2. Alexander Hamilton to Robert Morris, 30 April 1781. [founders.archives.gov](https://founders.archives.gov). Columbia University Press. Accessed March 1, 2020. <https://founders.archives.gov/documents/Hamilton/01-02-02-1167>.

3. Steven O’Brien, *Alexander Hamilton*. New York: Chelsea House Publishers, 1989.

4. “Residence Act.” [loc.gov](https://www.loc.gov). Library of Congress. Accessed February 29, 2020. <https://www.loc.gov/rr/program/bib/ourdocs/residence.html>.

5. Andrew Hill, “The First Bank of the United States: A Chapter in the History of Central Banking.” [philadelphiafed.org](https://www.philadelphiafed.org). Federal Reserve Bank of Philadelphia. Accessed February 28, 2020. <https://www.philadelphiafed.org/-/media/publications/economic-education/first-bank.pdf>.

6. Hill, “The First Bank of the United States,” [philadelphiafed.org](https://www.philadelphiafed.org). Federal Reserve Bank of Philadelphia. Accessed February 28, 2020. <https://www.philadelphiafed.org/-/media/publications/economic-education/first-bank.pdf>.

however brought strong opposition from Republicans, who believed the federal government did not have the constitutional authority to create a bank. Jefferson found numerous faults with the bank in the Constitution, claiming that the power to make a bank had not “been delegated to the U.S. by the Constitution.” He further added the bank’s functions would be convenient, however, would not be “necessary and proper” to the nation.<sup>7</sup> Jefferson’s concerns were met with Hamilton’s opposition; he argued that the bank’s existence would fall under the Constitution’s implied powers.<sup>8</sup> Hamilton’s vision for a loose interpretation of the Constitution was cemented into jurisprudence, with the landmark 1819 *McCulloch v. Maryland* case. While the National Bank temporarily failed to gain a new charter in 1812, it was re-chartered as the Second Bank of the United States only a few years later thus setting the rudimentary monetary policy leading toward the creation of the Federal Reserve almost a hundred years later.<sup>9</sup> Hamilton’s idea of a strong national government set precedent for the creation of the Federal Reserve, which allows a strong Federal role in the regulation of the economy.

#### ENCOURAGEMENT OF INFANT INDUSTRY

Marked as a protectionist, Hamilton is often assumed to support high tariffs while the Republicans sought free trade. However, this image of a manufacturing friendly Hamilton does not hold up when comparing Hamilton and Republican trade plans. Writing in 1782, “Experience has shown that moderate duties are more productive than high ones,” Hamilton posits high bounties would hurt American manufacturing by encouraging inefficiency and the development of monopolies.<sup>10</sup> In his 1791 Report on Manufacturing to the Congress, Hamilton described his

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7. Thomas Jefferson, “Opinion on the Constitutionality of the Bill for Establishing a National Bank (1791).” <http://press-pubs.uchicago.edu/>. University of Chicago. Accessed March 1, 2020. [http://press-pubs.uchicago.edu/founders/documents/a1\\_8\\_18s10.html](http://press-pubs.uchicago.edu/founders/documents/a1_8_18s10.html).

8. Alexander Hamilton, “Founders Online: Final Version of an Opinion on the Constitutionality of an Act to Establish a Bank, [23 February 1791].” National Archives and Records Administration. Columbia University Press. Accessed February 29, 2020. <https://founders.archives.gov/documents/Hamilton/01-08-02-0060-0003>.

9. David J. Erickson, “Before the Fed: The Historical Precedents of the Federal Reserve System.” [federalreservehistory.org](http://federalreservehistory.org). Federal Reserve Bank of San Francisco, December 4, 2015. [https://www.federalreservehistory.org/essays/before\\_the\\_fed](https://www.federalreservehistory.org/essays/before_the_fed).

10. Alexander Hamilton, “Federalist 35.” [avalon.law.yale.edu](http://avalon.law.yale.edu). Yale Law School. Accessed March 1, 2020. [https://avalon.law.yale.edu/18th\\_century/fed35.asp](https://avalon.law.yale.edu/18th_century/fed35.asp).

economic vision for America through means of protectionism.<sup>11</sup> Meanwhile, idealistic Republicans supported free-trade in principle. Yet, Jefferson and Madison were willing to resort to more draconian measures by passing retaliatory trade measures on Europe much more severe than Hamilton proposed.<sup>12</sup> Jefferson even continued this protectionist trade policy during his presidency as demonstrated by the Embargo Act. While generating controversy, Hamilton's proposed moderate tariffs succeeded in Congress. The influence of Hamilton's trade policies continued after his death. Under Republican president Madison, the Secretary of the Treasury wrote proposals to Congress regarding manufacturing in a Hamiltonian fashion.<sup>13</sup> Hamilton's vision succeeded through his infant industry trade policy—America industrialized. America has succeeded in Hamilton's visions of low tariffs, as import duties only continue to fall through the 21st century.

In recent years, the depiction of Hamilton has risen to that of a socially powerful immigrant hero. This couldn't be further from the truth. Elitism pervaded Hamilton's work as a public servant. He criticized the work of Jefferson and Madison, fearing republicanism would result in "faction and anarchy," while favoring a less accountable government to the public.<sup>14</sup> As a result of this belief, Hamilton's bank was elitist in nature, promoting a hierarchical system of crediting and finance which benefitted elites. While Hamilton did succeed in the creation of financial systems that stabilized the country and his ideas continue to shape American economic policy, the question arises—to whom were these institutions established for?

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11. Alexander Hamilton, "Founders Online: Alexander Hamilton's Final Version of the Report on the Subject of Manufactures, [5 December 1791]." National Archives and Records Administration. Columbia University Press. Accessed February 29, 2020. <https://founders.archives.gov/documents/Hamilton/01-10-02-0001-0007>.

12. Douglas A. Irwin, "The Aftermath of Hamilton's 'Report on Manufactures'," Dartmouth University. Accessed February 28, 2020. <https://www.dartmouth.edu/~dirwin/docs/ham.pdf>.

13. "Introductory Note: Report on Manufactures." [founders.archives.gov](https://founders.archives.gov). The National Archives. Accessed March 1, 2020. <https://founders.archives.gov/documents/Hamilton/01-10-02-0001-0001>.

14. Alexander Hamilton to Edward Carrington, 26 May 1792, <http://teachingamericanhistory.org/library/document/letter-to-edward-carrington/>.

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