9 The Political Economy of Alexander Hamilton

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If, as Talleyrand said, Hamilton divined Europe, it may be properly added that he also divined the system of *Machtpolitik* under which the European nations operated.

Charles A. Beard (1934/1966, pp. 48–9)

Mr Adams observed, ‘purge the British constitution of its corruption . . . and it would be the most perfect . . . ever devised by the wit of man’. Hamilton paused and said, ‘purge it of its corruption, and give to its popular branch equality of representation and it would become an *impracticable* government: as it stands at present, with all its supposed, defects, it is the most perfect government which ever existed’. Hamilton was indeed a singular character. Of acute understanding, disinterested and honourable in all private transactions, amiable in society, and duly valuing virtue in private life, yet so bewitched and perverted by the British example, as to be under thorough conviction that corruption was essential to the government of a nation.


As a child, in the West Indies, Hamilton doubtless found Europe a more agreeable vista than America’s trackless forests, punctuated by squalid settlements. In his prime, he was repelled by America’s intellectual disorder (see McDonald, 1979)—but not by its avarice, noted by Tocqueville and J. S. Mill, who coined the trope, ‘the almighty dollar’.

Perhaps Hamilton anticipated Henry James, Ezra Pound and T. S. Eliot—who gravitated towards an idealized Europe. Surely, he was reactionary: his economic ideas were out of touch with the theories of the British economists who would have so great a day; by 1832, the

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British system left him behind; by 1884, Hamilton's British model was out of sight.

Hamilton did not crave a reputation as an economist! Nor was the éclat of his success at the bar important to him. He sought glory; and found it. But his reputation falls short of the pinnacle because his glory lacks areté, the quality that makes Washington Washington. Why? A clue may be this. He thought Caesar history's greatest figure. Jefferson chose Bacon, Newton and Locke.

1 INTRODUCTION

Today Alexander Hamilton would be called Keynesian. And the substance of the financial systems of Thomas Jefferson and Andrew Jackson is classical. And state of the art research into competitive currencies, free banking and homeopathic properties of commodity-money systems, along with strict demarcation between issue and financial intermediation—leading Beyond the Banking Principle—is congenial to the Jefferson/Jackson system and incompatible with Hamilton's.

Before researching this study, I belonged to the consensus that Hamilton's financial acuity translated into sound economics and that Jefferson and Jackson were economic primitives—so that for Jefferson to carry off the palm in the first Bank debate would show that 'the last temptation is the greatest treason: to do the right deed for the wrong reason'. No longer. The essay will show why.¹

Origins of Hamilton’s System

Forrest McDonald (1974, p. 48) let the scales fall from my eyes: 'Hamilton set out to plant the British system in America, corruption and all'.

The British system was Walpole's, and Malachy Postlethwayt's Universal Dictionary, explaining the Walpolean system, was Hamilton's guide. The moment of creation of what became the Walpolean system was the formation of the Bank of England in 1694. Walpole's institutions—during his 1721–42 ministry—included the sinking fund and Bank of England stock (bond)-market interventions.

'The real purpose . . . [of the sinking fund] . . . was not to pay the debt but to convince people that it would be paid' (McDonald, 1974, p. 57). And Bank interventions in debt markets were meant to assure