In the earliest years of the U.S. government, the man whom many considered the second-most powerful man in the nation was neither a landowning Southern gentleman nor an experienced Northern statesman. Instead, the unofficial title belonged to Caribbean-born Alexander Hamilton. His career followed a steep trajectory as he progressed from George Washington’s trusted aide-de-camp to co-author of the Federalist Papers to the first Secretary of the Treasury. This ascent from obscurity to intensive involvement in the formation of the new government provoked discord. By Courtney Peter
Hamilton’s nationalist politics also proved to be divisive. Employing a knowledge of financial markets that few Founding Fathers could match, Hamilton advocated for the federal government to assume the states’ Revolutionary War debt, establish a national bank, implement domestic taxes, and choose England, not France, as the nation’s primary trading partner. His fiscal policies were highly successful, but because they were introduced at a time characterized by widespread suspicion of powerful institutions, resistance to taxation and anti-British sentiment, they were also highly controversial.

“He was the clear-eyed apostle of America’s economic future, setting forth a vision that many found enthralling, others unsettling, but that would ultimately prevail,” writes Ron Chernow in his book Alexander Hamilton (Penguin, 2004). “He was the messenger from a future that we now inhabit.”

Following the Revolutionary War, multiple factors threatened the survival of the United States. Hamilton summed up the situation in Federalist Paper No. 15, writing, “We have neither troops nor treasury nor government.”

President George Washington took charge of a weak federal government that had lacked power to control the states or to collect revenue. It may have seemed like a favorable situation for a country that had recently won independence from a distant government and its oppressive taxes, but for a nation deeply in debt it was a dangerous one. The United States’ cumulative debt was estimated at $79 million—$25 million in state debt and $54 million in national debt, approximately $12 million of which was owed to foreign nations. Federal revenues did not even cover the annual interest.

In September 1789, Washington chose Hamilton, his trusted military aide, as Secretary of the Treasury. “It turned out to be perhaps the most important decision that Washington made as president of the United States,” writes Peter R. Henriques in an essay included in Sons of the Father: George Washington and His Protégés (University of Virginia Press, 2013). “The success of his administration largely hinged on the adaptation of fiscal policies that would revive confidence in the fledgling nation.”

Although he was only in his mid-30s, Hamilton was equipped to handle the job. He gained an early introduction to the commercial world as a teenager while working as a clerk for a Caribbean merchant firm. And Hamilton’s Continental Army service alongside Washington helped shape both men’s ideas about the newly independent nation’s needs, namely a national army, centralized power over the states, a strong executive and national unity, Chernow explains.

A FRENZY OF FISCAL POLICY

In rapid succession, Hamilton presented segments of his multi-phase economic plan to meet those needs. “Instead of proceeding with small, piecemeal measures, he had presented a gigantic package of fiscal measures that he wanted accepted all at once,” Chernow writes.

The first phase called for the federal government to assume the states’ war debts, and also to fund the national debt using revenue from the sale of new securities. “He believed that consolidating state and national indebtedness would exhibit the power of the federal government,” John Ferling

The House of Representatives passed Hamilton’s funding bill on June 2, 1790—except for the assumption component. Assumption encountered strong opposition from Southerners such as Thomas Jefferson and James Madison, who saw it as a bailout for the North at the expense of the South, where many states had already retired their war debt. After Hamilton promised to support the Potomac River as site of the national capital in exchange for Southerners’ support of assumption, the assumption bill passed July 26, 1790.

Looking to diversify the federal revenue stream through the addition of domestic taxes, the treasury secretary proposed an excise tax on spirits and stills as the second phase of his master economic plan. Implemented in July 1791, the spirits tax was unpopular—so much so that it led to the Whiskey Rebellion of 1794—but also crucial, as it became the second-leading source of federal revenue.

The third pillar of Hamilton’s financial system involved the creation of a national bank that could issue legal tender, increase the currency supply and stimulate the economy. Fiscal conservatives and political adversaries erupted in criticism. The plan was attacked as unconstitutional and Anglo-centric. Some thought a national bank would favor Northern merchants to the detriment of Southern farmers. Others expressed a general distrust of large, powerful financial institutions.

Madison, a leading critic, accused Hamilton of exploiting the Constitution. In reply, Hamilton cited a clause in Article 1, Section 8, which gives Congress the right to pass any legislation deemed “necessary and proper” to exercise its listed powers, including the right to collect taxes, borrow money and regulate commerce.

It is true that Hamilton modeled his banking plan on the English financial system. But rather than position the United States as subservient to England, “His objective was to promote American prosperity and self-sufficiency and make the country ultimately less reliant on British capital,” Chernow writes. “Hamilton wanted to use British methods to defeat Britain economically.”

In late February 1791 Hamilton’s bank bill became law. By summer, the frenzy of trading in bank scrips issued at the initial public offering of the Bank of the United States led to a crash. An even more severe financial crisis that followed the next year proved damaging to the fourth phase of Hamilton’s economic plan.

Introduced in the fall of 1791, this phase encouraged the promotion of manufacturing through federal subsidies, liberal immigration policies, publicly assisted infrastructure improvements and other measures. Hamilton, who thought a purely agrarian society would always be subordinate to Europe, saw industrial prowess as the route to prosperity. The manufacturing bill he prepared failed to pass the House, becoming the only major pillar of Hamilton’s financial blueprint that did not result in legislation. But, ultimately, his vision for an industrialized nation was fulfilled.

**HAMILTON VS. JEFFERSON**

Even as these measures established a stable financial foundation that helped solidify the union, Hamilton’s political feud with Thomas Jefferson threatened to divide it. Hamilton’s rise to power coincided with Jefferson’s service abroad, first as trade commissioner and then as minister to France, where he lived from 1784–1789. Upon returning to the United States, Jefferson accepted his appointment as Secretary of State in early 1790.

Their ideological clash was such a pervasive topic in print and in conversation that politicians and citizens were moved to choose one of two emerging political parties, aligning themselves with either Jefferson’s Democratic-Republicans or Hamilton’s Federalists. The two men came from disparate backgrounds that helped form their worldviews. As a member of a landowning Virginia family, Jefferson was a product of the Southern plantation culture. Hamilton, as a poor Caribbean youth with neither an inheritance nor a trade, gained access to the business world through employers and benefactors. Considering the circumstances, it’s no surprise that Hamilton envisioned the United States as a manufacturing society, while Jefferson dreamed of a nation of citizen farmers.

They also held fundamentally different views regarding the division of federal power and the path to economic independence. Jefferson, author of the Declaration of Independence, believed in the people’s ability to govern themselves. His ideal government conflicted directly with Hamilton’s: The Virginian favored a small federal government, a strong Congress, a weak executive branch and state
sovereignty. While serving as governor of Virginia during the Revolutionary War, Jefferson’s main responsibility was to protect the interests of his state. Devoid of state allegiance and serving under the commander in chief, Hamilton believed the states’ prioritization of self-interest over the national cause nearly led to the loss of the Revolutionary War.

Hamilton and Jefferson fought for political territory as well. Because customs taxes resulting from trade with Great Britain accounted for a significant percentage of federal revenue, Hamilton closely monitored foreign policy. Jefferson viewed this attention as an encroachment on State Department affairs. During a February 28, 1792, meeting with Washington, Jefferson contended that “...the department of the Treasury possessed already such an influence as to swallow up the whole executive powers.”

“He was convinced that Hamiltonianism would in time lead to the Europeanization of America, leaving Americans prey to the evils he had observed firsthand during his five years in France—monarchy, rigid social stratification, concentration of wealth, poverty and urban squalor,” Ferling writes of the Secretary of State.

Whereas Hamilton’s public life was dedicated to erecting a sturdy framework of laws backed by viable government institutions, Jefferson preferred to keep government institutions to a minimum. “Jefferson was the poet of the American founding; Hamilton was the nation builder who infused the essential elements of permanence and stability into the American system,” writes Stephen F. Knott in Alexander Hamilton and the Persistence of Myth (University Press of Kansas, 2002).

Both men left their posts before the end of Washington’s presidency—Jefferson resigned at the end of 1783, Hamilton in early 1795. Hamilton originally planned to resign sooner but opted to extend his tenure, due in part to a desire to clear his name of accusations that he misused Treasury funds. The accusation was connected to his affair with the married Maria Reynolds and her husband James Reynolds’ subsequent blackmailing of Hamilton. The treasury secretary, who drew income only from his salary, having given up all outside enterprises during his term, was stricken by the suggestion of fiscal impropriety. He cooperated fully with the congressional committee created to investigate the matter, to the point of recounting lurid details of his affair, and was cleared of any professional wrongdoing.

After their resignations Hamilton and Jefferson continued to influence national politics. Jefferson owns an indisputable advantage in longevity, as Hamilton died in 1804 following his duel with Aaron Burr, while Jefferson lived to 1826. The third president remains one of the most prominent figures in the American historical narrative, and deservedly so.

Hamilton’s work was also invaluable to the success of the early Republic, and his visionary federal programs remain recognizable in the modern United States. “The foundation of America’s superpower status was laid in the early days of the Republic when Alexander Hamilton, who had a vision of American Greatness, battled with forces fearful of the concentrated political, economic and military power necessary to achieve that greatness,” Knott writes.

Notes on Legal Tender

The only two non-presidents whose portraits appear on American currency notes are Alexander Hamilton, who is pictured on the $10 bill, and Benjamin Franklin, pictured on the $100 bill. Thomas Jefferson’s portrait has graced the $2 bill since 1869, but the note featured Hamilton’s portrait when it debuted in 1862.