

What Would Alexander Hamilton Do?

Robert G. Duffett, President

Dakota Wesleyan University

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America hung by a thread:

- The government was bankrupt and the treasury empty.
- The currency was worthless.
- America owed more money than any nation on Earth.
- Not one penny was paid, principle or interest, on the deficit in more than 10 years.
- Congress was paralyzed.
- The president did not know what to do.
- Few Americans expressed any confidence in government.

Sound familiar? Such was the shambles of the American economy in September 1789 when President George Washington appointed Alexander Hamilton as Secretary of the Treasury. Within days of his appointment, Congress made an official request to the new treasury secretary. How shall America pay the deficit and stimulate the economy? Hamilton responded with an audacious, future--oriented economic plan.

RAISE TAXES TO PAY THE DEFICIT

Surprisingly, Hamilton's first order of business was to *increase* the federal deficit by assuming the debts of all 13 states from Revolutionary War. Since there was insufficient revenue to pay the foreign debt, let alone the state debts, Hamilton initiated another bold and creative measure. He tripled the existing tax on imported rum and levied a new tax on domestic liquor, especially whiskey, by the proof--the stronger the drink, the higher the tax. Hamilton estimated this additional "sin tax" would pay the entire foreign debt because as one historian noted, Americans then drank "prodigious quantities of whiskey."

CREATE WEALTH BY ENCOURAGING BUSINESS

Hamilton's economic policies were farsighted. If deficits were paid, credit would be restored. If the economy expands, wealth is created and the deficit extinguished. He rejected Adam Smith's notion of the economic invisible hand. The national economy is too important risking it to passive, impersonal forces. Rather, the chief role of the federal government was to encourage and actively assist business to succeed; i.e., make money. Depending on circumstances, Hamilton recommended protective tariffs for domestic business, subsidies to encourage entrepreneurship, government regulation to prevent fraud, and internal improvements that would promote business, banking, investments and commerce. He worried that business, once profitable, would become conservative and lose their entrepreneurial and profit-- making drive.

His policies were controversial. Owners of whiskey stills in Western Pennsylvania (half the population in some counties) refused to pay the tax and threatened tax collectors with violence and tar and feathers. Hamilton, along with President Washington, led a military force of 12,000 troops to crush what historians call the Whiskey Rebellion. Hamilton won and still owners paid the tax.

Thomas Jefferson and James Madison thought he sold out the ideals of the American Revolution to the highest bidder. Moneychangers, bankers, speculators and Wall Street were the new heroes not the gallant patriots of old. The Spirit of 1776 was replaced by the spirit of economic profit. But when he left office in January 1795, America enjoyed the highest credit rating in the world. Some government bonds sold at 10 percent above face value. Tax revenue was sufficient to fund the national budget and deficit. America's economy flourished.

HAMILTON TODAY

Hamilton is America's most distinguished Secretary of the Treasury and, in the view of some, the most indispensable founding father. His economic policies and actions challenge the tyranny of false choice so prevalent in current deficit and federal budget discussion. He *both* raised taxes significantly *and* created business--friendly policies. Profit was a lovely word to Hamilton. He would reject Grover Norquist's tax reform pledge not to raise taxes. It is anti-business. Hamilton also dispatches the false choice that a *strong* economy demands a *weak* federal government. The former treasury secretary could not conceive of a robust national economy friendly to business and commerce apart from a strong federal government.

The architect of America's financial system is buried in Trinity Church Cemetery, coincidentally, a short walk from Wall Street and the New York Stock Exchange. As President George Washington's financial quarterback, he led America out of its *worst* economic crisis. Perhaps he would have something to say about our present one.