

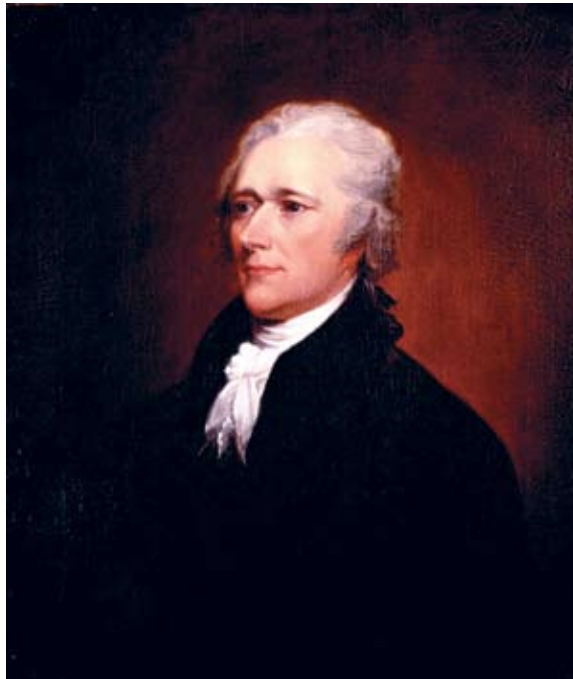
A MATTER OF PRINCIPLE

Alexander Hamilton's Economics Created Our Constitution

by Nancy Spannaus

Dec. 6—Contrary to the views of nearly all economic experts, there is a simple reality which thinking Americans must face in the midst of this unprecedented breakdown of the financial and physical economy: First, that the key to reversing this global crisis, which threatens civilization itself, can be found in the principle behind the economic measures of America's first Treasury Secretary, Alexander Hamilton. Second, that that principle is firmly embedded in the U.S. Constitution itself.

There will be those who yell and scream about this assertion. Both Wall Street financiers and unwashed populists will insist that Hamilton was an elitist who copied the British System, and that his institution of national banking and government promotion of manufactures and internal improvements was a violation of the free-trade system which has supposedly been responsible for our prosperity as a nation. But, they lie. For Hamilton was the intellectual author of the



The principles behind first Treasury Secretary Alexander Hamilton's economic policies, were embedded in the U.S. Constitution, and must be used to solve our bankruptcy crisis today. Here, Hamilton as painted by John Trumbull in 1806.

U.S. Constitution itself, and its unique principle of using a credit system, based on national sovereignty, to foster capital formation for technological progress.

Hamilton's genius in economics was evident from almost immediately after he came to America's shores in 1772. By 1774, he was already writing anti-British tracts which contained the germ of the concept of national physical economy, in which he asserted that the development of the nation was dependent upon the promotion of agriculture and manufactures together. As he developed his ideas later, especially in his three famous government Reports—two on Public Credit, and one on Manufactures—Hamilton

asserted clearly that the chief driver for economic development was the inventiveness, or power of the human mind, which expressed itself through the increase in the use of "artificial labor" (i.e., machinery), and was enhanced by the development of infrastruc-

ture. This concept he summarized as the “productive powers of labor.”

This intellectual foundation, which stands in the sharpest contrast to the bestial “free-trade” ideas of Adam Smith, was strongly informed by the political-economic ideas of the great German scientist Gottfried Leibniz, especially as they were expressed in the works of one of Leibniz’s sponsors, French Finance Minister Jean-Baptiste Colbert, and the Swiss promoter of Leibniz, Emerich Vattel.

Hamilton, and his collaborators, most emphatically including Benjamin Franklin and George Washington, faced an enormous struggle to establish the institutions which would permit the realization of their vision of human progress. Faced with British determination to suppress any such development, they knew they had to fight not only for independence politically, but to establish institutions that would support such independence and economic growth. The result was the U.S. Constitution, which embodies the principle of the credit system, as well as its necessary complements—the National Bank and the manufacturing policy which, although defeated in the short term, eventually took off under the presidencies of John Quincy Adams, Abraham Lincoln, William McKinley, and Franklin Delano Roosevelt.

Today, ignoramuses and Tories rave against an activist government, and can’t tell the difference between debt incurred by speculation, and credit issued for long-term capital development. They claim our Constitution calls for giving free reign to the markets, and that the “government that governs least governs best.” Their ideas, like those of the political forces in the United States who opposed Hamilton and his collaborators in the 1780s and ’90s, serve none other than the British Empire, although today that empire functions as a financial system, not a colonial system policed by a massive army and navy. Thus, we have reached the point where patriots have no choice but to master the principle of Alexander Hamilton, now!



Hamilton’s concept of economic value followed that of the continental philosopher Gottfried Leibniz, who insisted that it was man’s creative mental powers that permitted breakthroughs in science and technology, which created real wealth.

Hamilton’s Concept of Economic Value

The most elaborated presentation of Hamilton’s basic economic ideas must be found in his *Report on the Subject of Manufactures* (1791). There, he makes a devastating argument against British economist Adam Smith’s assertion that the development of an economy must be left to the marketplace (“comparative advantage”), insisting instead that an integrated agro-industrial economy, in which the government promotes infrastructure development (canals and roads, at that time), ensures all necessities for its population, and aids in developing advances in machinery, is essential to the national security and prosperity.

To come to this conclusion, Hamilton rejects the worldview

that wealth is measurable in land, or precious metals (including specie), or even power over other nations. Rather, the wealth of the nation is dependent upon the physical economic development of the nation, including, most emphatically, the intellectual capabilities of its population for carrying out that development, more and more efficiently. In his listing of why manufactures must be promoted, Hamilton expresses this belief directly, when he writes: “To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted.”

Hamilton’s argument bears directly on the question of capital, which is required for establishing manufacturing, as well as advanced agriculture. Under Smith’s British System, the classes in society which have happened to amass capital—by inheritance, thievery, or otherwise—are given virtually free reign to use it for their profit. Hamilton insists that the government provide the conditions to encourage, and *create*, capital, for the higher purposes of the happiness and security of the population.

When discussing the powers of the Federal government to encourage necessary industries, and necessary permanent improvements in infrastructure, in the con-

cluding portion of the *Report on Manufactures*, Hamilton, one of the authors of the Constitution, spells it out clearly, while discussing the concept of the General Welfare:

“The terms ‘general welfare’ were doubtless intended to signify more than as expressed or imported in those which Preceded; otherwise numerous exigencies incident to the affairs of a nation would have been left without a provision. The phrase is as comprehensive as any that could have been used; because it was not fit that the constitutional authority of the Union, to appropriate its revenues shou’d have been restricted within narrower limits than the ‘General Welfare’ and because this necessarily embraces a vast variety of particulars, which are susceptible neither of specification nor of definition.

“It is therefore of necessity left to the discretion of the National Legislature, to pronounce, upon the objects, which concern the general Welfare, and for which under that description, an appropriation of money is requisite and proper. And there seems to be no room for a doubt that whatever concerns the general interests of *learning of Agriculture or Manufactures* and of *Commerce* are within the sphere of the national Council *as far as regards an application of Money.*”¹

It was to be able to create capital—which would be used to produce physical economic growth—that Hamilton initiated his first two official reports, the *Report on Public Credit* (1790), which led to the assumption of state war debts, and the second Report on Public Credit, commonly known as the *Report on the National Bank* (1790). I will detail the fight over the implementation of these reports later, but here outline the concept. Rather than rely on those with already accumulated wealth, mostly from abroad at the time of the American Revolution, Hamilton proposed to centralize the debt of the nation under the Federal government, to use it as a basis for credit. The means for using it he laid out in his National Bank proposal, which specified how it would lead to “the augmentation of the active or productive capital of a country.” Hamilton was not interested in increasing the nation’s hoard of gold or silver, which he called “dead Stock,” but in creating physical economic wealth.

In sum, Hamilton argued that a national bank, tied

1. Joanne B. Freeman, ed., *Alexander Hamilton, Writings* (New York: The Library of America, 2001), p. 703. Freeman’s book can also be used for other quotations from Hamilton’s major reports.

intimately to the government’s national debt, would help cement together the nation, and serve as the nursery for national wealth.

It is seldom understood how this concept differs from that of national banking in the countries of Europe, especially Great Britain’s Bank of England, but the difference, as at least one prominent writer on Hamilton, Prof. Forrest McDonald,² understands, is profound. For, whereas the Bank of England—which has certain superficial similarities to what Hamilton proposed—functions to provide funds to (and control) the government, Hamilton’s Bank of the United States was explicitly, and actually, devoted to providing capital for the industrial and agricultural growth of the nation, including by providing funds for the infrastructure development required for that growth.

Hamilton, like Leibniz and Colbert before him, understood the necessity for the nation to ensure investment in technological progress, for the sake of the welfare of its population, the real source of wealth. The Public Good was the aim of Public Credit.

Hamiltonian forces did not succeed in implementing his entire program, certainly not in his lifetime. But, it must be stressed, that this program is embedded in the U.S. Constitution itself, where the principle of support for Public Credit through Congressional control of the currency, and through responsibility for the General Welfare, is clearly enunciated, and only waits to be put into effect, once again.

A Blow-by-Blow Account

The battle for turning the American colonies into a unified nation dedicated to the development of the productive powers of labor, and technological progress, began at the time of the Massachusetts Bay Colony in the early 17th Century. That development was temporarily stymied by the British oligarchy, but the fight continued into the 18th Century, in a movement centered around Benjamin Franklin, himself a product of the leading Massachusetts thinkers, the Mathers and the Winthrops. Franklin had tried to create a continental union at the Albany conference of 1750, but the British outflanked him. Following 1763, as the East India Company became synonymous with the Empire itself, the British went on the offensive to crush the movement for fulfilling the aspirations of those Massachusetts Bay

2. Forrest McDonald, *Alexander Hamilton, A Biography* (New York: WWNorton & Company, 1979).



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Hamilton's economic system was geared toward promoting advances in manufacturing and agriculture, advances which the British imperialists had long determined to stymie. Here, an interior view of the reconstructed forge at Saugus, Massachusetts, which was home to the world's most productive iron works in the mid-17th Century.

pioneers, and their allies, starting with prohibitions such as the Iron Act (preventing production of iron in America), and proceeding into the taxation policies which are so well known as the proximate causes of the American Revolution.

Franklin had formed a continental network dedicated to creating the basis for a nation, which network was a tremendous resource in the life-or-death struggle which ensued. But it took the addition of a younger cadre, of which the West Indies-born Alexander Hamilton was the most prominent, to bring the institutional solution to the fore.

Initial unity of the colonies was achieved in the calling of the 1774 Continental Congress, in support of the Massachusetts colony's resistance to British depredations. Soon after, that unity was intensified with the creation of a continental military command under George Washington. Following the Declaration of Independence, that Congress began to act as the representative of a nation internationally, sending representatives to Europe for support in its war against England, and effectively contracting, as a nation, for loans which would enable it to win the war, as well as matériel. Congress specifically intended the costs of the war to be its re-

sponsibility, but it had no funds, except what the states, or individuals, would provide.

Thanks to the revolutionary spirit of the population, and the enormous generosity of many wealthy patriots, the war effort was supported materially and financially—but just barely. Increasingly, the resources fell devastatingly short, and the Congress, which had passed the Articles of Confederation in 1777, but didn't see them ratified until 1781, did not have the funds, or the power to meet the crisis. Funding had to be carried out by requisitions from the states, many of which were never fulfilled, even if agreed to.

By 1779-80, Hamilton, then in his early 20s, and serving as Commander George Washington's aide-de-camp, began agitating for decisive action to deal with the potentially crippling financial prob-

lem. He began to write letters to members of Congress, primarily James Duane and Robert Morris, advocating the creation of a national bank, as the only means by which the solvency of the struggling nation could be achieved. "It is by introducing order into our finances, by restoring public credit, not by winning battles, that we are finally to gain our object," he told Morris. To accomplish this purpose, Hamilton called for a national convention of the states.

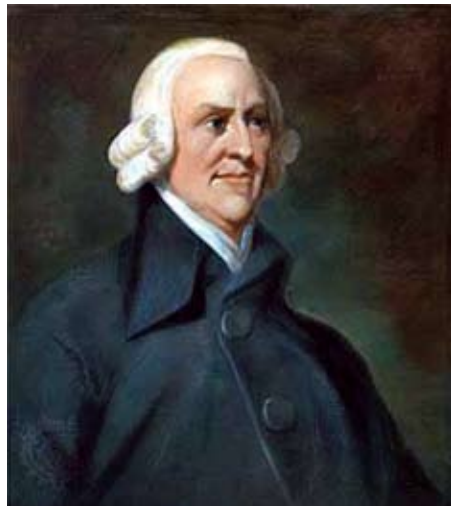
Both Duane and Morris acted on Hamilton's proposals, in partial ways. Duane succeeded in getting the Congressional committees responsible for various departments, such as Finance, turned over to single executive officers, rather than committees, and Morris worked with Rep. James Wilson of Pennsylvania to charter what became the first actual national bank, the Bank of North America. The BNA's purpose was to function as a tool of the Continental Congress, but the Congress did not have the ability to command the resources required for it to function, and much of the funding for the BNA came from Morris personally, and whatever he was able to beg or borrow.

Hamilton escalated. In July 1781, he started a campaign with a series of newspaper articles called the

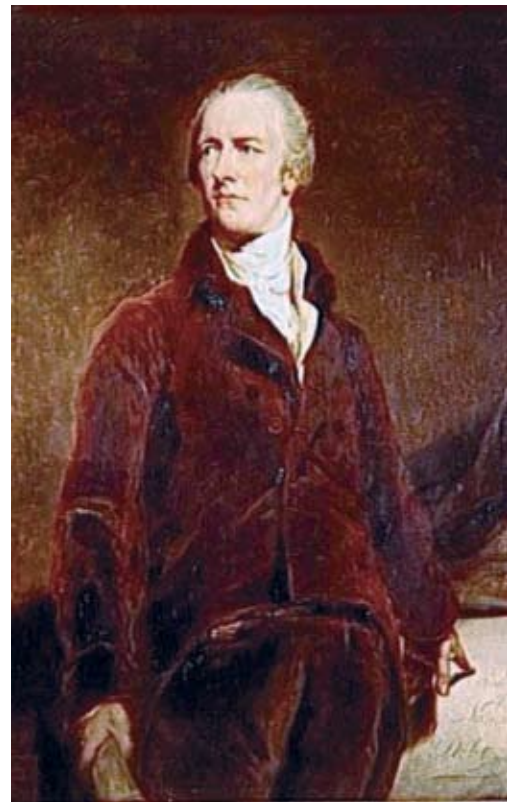
“Continentalist.” In them he addressed the need for increasing the powers of the Congress to deal with lack of revenue. At the time he started, the war was still raging—although it began to wind down after Yorktown in October 1781. Hamilton continued his propaganda/educational campaign through to July 1782, excoriating the states for fighting among themselves with trade wars, citing the precedent of Colbert’s dirigist development of national resources in France, and demanding measures that would lead to Federal regulation of currency and trade.

Congress was generally paralyzed. Although the Articles of Confederation were finally ratified by all the states, the requirement for unanimous consent of the states to the proposition of an impost to raise revenue, led to its defeat (in Hamilton’s home base of New York, where Hamilton’s enemies ruled), and the income situation was dire for the nation. Ironically, however, one action was taken that would ultimately be of major importance for Hamilton’s system. In response to the demand by Maryland, which would not approve the Articles without it, all the colonies with claims on the Western lands (all land west of the Alleghenies, up to the Mississippi) gave them up, and declared that the Western lands were the property of the Confederation itself. This gave the emerging national government an asset of its own—a huge chunk of national territory, which would be available for development, sales (income), and defense.

1782 was a pivotal year, in which the British stance shifted from military assault, to financial warfare. While peace negotiations were going on in Paris, the British government was taken over by a pair of Liberal scoundrels, Lord Shelburne (William Petty), and William Pitt (Marquess of Lansdowne), sequentially. Shelburne, in particular, had long been publicly opposed to the military assault on the American colonies, but he was no



*The attempt to destroy the United States by free trade and other modes of financial warfare was led by British politicians and ideologues, such as Chancellor of the Exchequer William Pitt (right), and “economist” Adam Smith (above). Smith’s economic poison was commissioned by Pitt’s close ally, the Marquess of Shelburne, in 1776, and was directly countered by Hamilton in his **Report on Manufactures**.*



friend of the aspirations for agro-industrial nationhood by the colonies. Rather, he proposed to wield the weapon of free trade—economic warfare—as the means for maintaining Britain’s imperial rule. After all, it was Shelburne who had commissioned the work of Adam Smith back in 1776, with the explicit intention of seducing any potential rivals into destroying themselves.

Hamilton probably had the most acute understanding of the threat this new tack represented. In the resolution that he wrote, and his father-in-law, Philip Schuyler, passed, for the New York State Legislature in July 1782, calling for a General Convention of the states to form a new, more powerful government, he referred to the British policy as “seduction in America,” and insisted that Congress act to gain the power it so desperately needed in order to win the peace: *credit*.

Hamilton also had ample opportunity to experience the bankruptcy of the nation during 1782, as he accepted the one-year appointment as Receiver of Tax Revenues for New York State. He reported, at one point in that experience, having not a single dollar in the treasury.

The New York State resolution was followed by one drafted in the Congress in 1783, but this failed of passage.

Meanwhile, thanks to the British free-trade policy, manipulations by British agents remaining in America, and the exhaustion of the land and other resources by the war, the 13 former colonies were in a state of increasing bankruptcy and chaos. As outlined at length in an 1888 book by John Fiske,³ there was a real danger of dissolution of the Confederation. There was the threat of a military coup by British agent Horatio Gates, which George Washington personally thwarted, and other military unrest as well. There was trade war between the states, and raging territorial disputes, such as the one between Connecticut and Pennsylvania over the Western Reserve, which led to many deaths. There were also fights over paper currency versus specie (coin) in each state, with farmers (generally) demanding “easy money” and other powers-that-be resisting. In Rhode Island, this reached the point of a farmer boycott against the cities, which caused serious food shortages.

It would be a huge mistake to see these disturbances as simply “natural” ones. The British hand was ever-present in creating the troubles. Historian Forrest McDonald asserts that there is evidence that the British actually paid the insurgents in the famous Shays’ Rebellion, an armed uprising against a tax increase in Massachusetts. The British manipulated trade privileges, state by state, to encourage trade wars. And then there were the Barbary pirates, who perpetrated kidnappings and other assaults against American shipping—pirates whom John Adams said the British would have invented if they didn’t exist, and whom London’s Lord Sheffield found “useful” in dealing with America.

As the chaos grew, Hamilton and Washington took new measures. In 1785, Washington—who had consistently advocated a *continental* nation, and spent much of his time after the war travelling around the country to promote plans for infrastructure development—at James Madison’s instigation, called a meeting of representatives from Virginia and Maryland to his home to discuss the idea of establishing uniform duties and regulation and currency, in the context of plans to develop the Potomac Canal. As a followup, Maryland called for a meeting of all the states at Annapolis, in September 1786.

At Annapolis, Hamilton comes to the fore again. Since the meeting failed to bring together sufficient

representatives to hold the proceedings, the participants decided to issue a new call, this time for a convention of the states in Philadelphia, the second Monday in May 1787. Hamilton, the official New York delegate, drafted this address, which noted that the attendees had expanded their original mission, to adopt that presented by New Jersey, namely, that the Convention should “consider how far a uniform system in their commercial regulations, and *other* important matters, might be necessary to the common interest and permanent harmony of the several States; . . .” (emphasis in original).

The address urged all states to meet in order “to take into consideration the situation of the United States, to devise such further provisions as shall appear to them necessary to render the Constitution of the Federal Government *adequate to the exigencies of the Union*, and to report such an act as, when agreed to by them, and confirmed by the legislatures of every state, would effectually provide for the same.”

Agreement to attend the Convention was not reached without a fight in many states. The last to agree was Virginia, but the conditions of growing chaos forced the issue, and the Constitutional Convention convened in May 1787.

The role of Hamilton from this point on, is oft-discussed, but frequently misunderstood, as most of his work was behind the scenes, but for his famous, or infamous, June 18 speech at the Convention, on the question of the composition of the government. As the Convention was all held behind closed doors, and the two popular reports of this speech were by his avowed enemies, there can be no surety on what he said. However, his hand is clearly visible in the sections of the Constitution on the powers of Congress regarding the economy, including the question of sovereign debts of the United States, Congress’s control over the currency, and also the double commitments to the principle of the General Welfare (in the Preamble, and Article 1, Section 8). Interestingly, Hamilton was included on the Committee of Style and Arrangement, which did the final drafting, and is credited, according to the historian Catherine Drinker Bowen, with the emphasis on “public good.” Hamilton was one of the 36 signers of our founding document.

After the Convention, of course, no one fought more publicly, or harder, for the ratification of the Constitution than Hamilton, who wrote 51 of the 85 *Federalist Papers*, mustering all his powers to win support for a Federal government that would have all the necessary

3. John Fiske, *The Critical Period of American History 1783-1789* (Boston and New York, Houghton Mifflin Company, 1888).

powers to “form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity.” He fought the populists of New York State, led by Gov. George Clinton, to the end, and finally triumphed.

But, the war for establishing a sovereign republic was to continue, with Hamilton at the center.

Bankruptcy Reorganization for a Credit System

President Washington appointed his former aide-de-camp as his Secretary of the Treasury in September 1789, and Hamilton went to work immediately. The bankruptcy of the nation was near total. Much of the agricultural land had been heavily damaged by the war, the British were interfering with the use of the fisheries, and commerce had been choked by the British as well. There was no national currency worthy of the name, just coins of various other nations circulating. The use of barter was escalating, even for such transactions as payment of taxes.

On top of the collapse of the physical economy, there was debt, an enormous amount of debt.

There were three categories of debt, plus arrears in interest on debts. The largest amount was money owed by the Confederation to individuals, including Army veterans, or states, amounting to approximately \$40 million. This debt had explicitly been taken over by the Federal government, as prescribed in the Constitution. The second-largest category of debt was that owed by the states, incurred for their ability to function during the war, which amounted to approximately \$25 million. The third category was foreign loans, which amounted to approximately \$10 million—an amount also assumed by the incoming government. Interest on this debt—with rates between 4 and 6%—was several million dollars in arrears.

To service this debt, Hamilton figured, would cost over \$1 million a year—more than the revenue projected to be available to the Federal government from the one major source, the tariff that had been passed two



The core commitment of the U.S. Constitution to the Welfare, and the responsibilities of Congress to ensure it, appears in the Preamble and Article 1 Section 8 of that document, which Alexander Hamilton played a decisive role in shaping, and getting ratified.

months before.

So, what did Hamilton propose? He proposed to *add* to the debt owed by the Federal government, by assuming the debts of the states—and then to turn that debt, in the form of bonds, into a pool of capital for a National Bank, which would provide the basis for beginning to build up the physical economy of the nation! That, he emphasized in his first *Report on Public Credit*, would be the means of securing the public credit of the bankrupt country. His second *Report* went into the particulars of the formation of the National Bank, and the benefits that it would accrue to the nation.

Hamilton’s first *Report* proceeds from the first principle, of course, that the debt from the war is a moral obligation of the nation (“the price of liberty”), and must be repaid. But to do that, there are certain urgent measures that had to be taken to support public credit. He summarized the objectives as follows:

“To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and commerce; to cement more closely the union of the states; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy. These are the great and

invaluable ends to be secured, by a proper and adequate provision, at the present period, for the support of public credit.”

Yet this could obviously only be done by increasing the productivity of the nation! Thus the debt—most of which fortunately did not include any due date for the principal—had to be turned into annuities, or bonds, monetized, in such a way that it provide funds for real, physical-economic development. This funding of the debt would provide for regular interest payments, but turn the debt into capital.

To kick off the implementation of his plan, he needed (and got) another loan from France. He also opened subscriptions for a new loan to cover the domestic debt, but at 4% interest rather than the going rate of 6%, sweetening the deal with additional options, including a certain amount of public land. He also increased revenues by an increase in excise taxes on liquor, and created a sinking fund which would perform the functions of a national bank until that could be established.

Hamilton outlined in detail the benefits which would accrue upon his plan to fund the debt. It would extend trade, by making available greater capital. It would promote agriculture and manufactures. It would also reduce the interest on money, by putting more into circulation. It would also be a blow against speculators, who were counting on the depressed values of land and overall instability in the economy, to profit at the expense of the nation.

The response to Hamilton’s first proposal was an uproar. To a large degree, that uproar focussed on his plan to assume the state debts. Some of the states had already paid off their debts, while others were in great arrears—a situation which led the richer states to resist assumption, on the alleged grounds of inequity. More seriously, the representatives of those states, especially New York and Virginia, saw clearly that increasing the size of the national debt, and funding it, would increase the power of the Federal government, and its ability to advance the aims of industrial and technological development—rather than the plantation system (Virginia) or largely commercial system (New York)—an outcome which Hamilton, Washington, and their collaborators were clearly driving for.

The tool for agitating against Hamilton’s plan was primarily the plight of the war veterans, who had been forced to sell the promissory notes (or “indents”) from the government for their pay, at a cut rate, over the recent period of near-financial anarchy, and now would

not benefit, while the individuals who bought them out would receive full value from the Federal government. Hamilton was not unsympathetic to those who lost out, but insisted that there could not be created two categories of such paper. It would just be too chaotic and time-consuming.

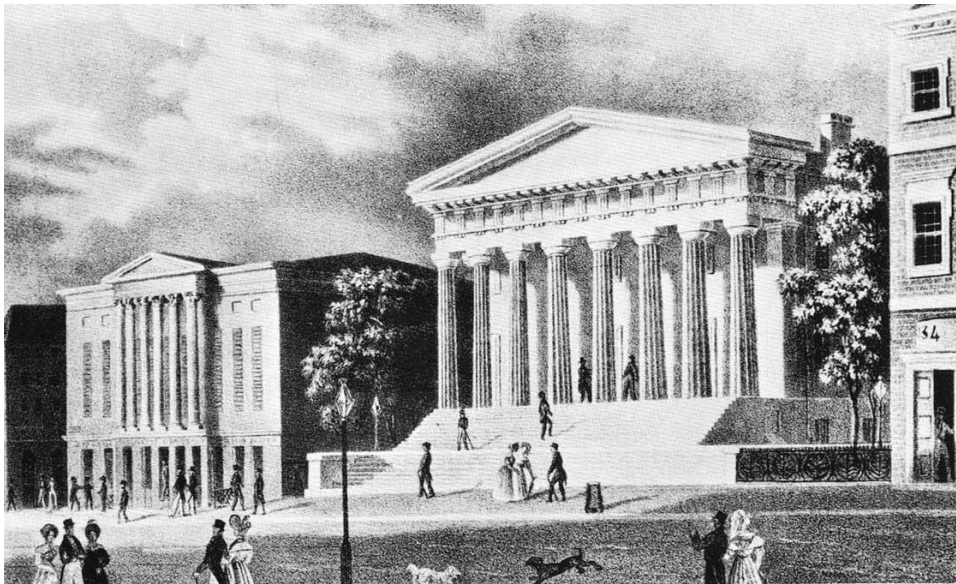
The spokesmen for the opposition were primarily the Virginians, House of Representatives leader James Madison, and Secretary of State Thomas Jefferson. Both waged a propaganda campaign against Hamilton’s plan, and it was only through a private bargain, in which Hamilton agreed to support moving the nation’s capital from Philadelphia to the Maryland-Virginia border along the Potomac, creating the Federal District of Columbia, that they agreed to let the first *Report on Public Credit* be adopted, although its provisions had to be passed in four different pieces of legislation. The whole process took until August 1790, a full eight months after it had been submitted.

But, even though clearly the second *Report* was an integral implementation sequel to the first, Madison and Jefferson decided to oppose that report, known as the *Report on the National Bank*, as well.

Hamilton submitted his *Report on the National Bank* in December 1790. The Bank of the United States, as he dubbed it, was to be capitalized with \$10 million, making it a monolith compared to the three other existing banks in the country—the Bank of North America, the Bank of Massachusetts, and (Hamilton’s) Bank of New York. Two million dollars of the initial capital was to come from the Federal government, and \$8 million by public subscriptions, which were payable one-quarter in specie, and three-quarters in 6% securities of the Federal government. Thus, these government securities (debt) formed the basis for extending credit.

The bank’s income would come from interest on the Federal securities, and its loans to what we would call today the “private sector,” for development of the physical economy.

While Hamilton did not make a point of differentiating his plan for a National Bank from the Bank of England, not only its intent—as outlined above—but its entire functioning was different. First, the Bank was not to deal with public debt—i.e., buy government bonds—after the initial funding. It could provide short-term loans to facilitate collection of tax revenues and be a depository for government funds, but its major function was to provide a money supply for financing the physical economy: agriculture and industry.



Hamilton succeeded in establishing the Bank of the United States, which converted the mass of Revolutionary War debt into a base of credit for the prosperity of the nation. Here, a drawing of the First Bank of the United States, which was located in Philadelphia.

From this standpoint, it is not hard to understand why Hamilton specified that the Bank of the United States was to be run by private individuals, although it was responsible to report to the Federal government on its functioning, and was subject to the government's regulations. Hamilton insisted upon tying the public credit to the growth of the nation, not to serve as a piggy bank for the Federal government, which he feared would be a source of corruption, just as it clearly was in England.

The Bank bill came to the Congress in January 1791—and a major war began. The bill passed the Senate easily, and even after some extensive Constitutional arguments by Madison, it passed the House. But then, Madison, backed by Jefferson and Attorney General Edmund Randolph (also a Virginian), despite the fact that the previous deal on the location of the national capital had been struck, decided to try to block Hamilton's plan. The tack Madison took was that which we still hear today: the claim that the Constitution did not permit the Federal government to create a corporation, namely the Bank of the United States. The three Virginians launched a full-scale assault to get President Washington to veto the Bank bill.

Washington was in danger of being railroaded. The pressure on him was so great, that he actually had Madison, who was considered a Constitutional authority, draft a veto message. But, in fairness, Washington also

sent a note to Hamilton, requesting his response to the challenge on the constitutionality, which had been written by Randolph. With the deadline for the veto looming, Hamilton penned what has become the nearly definitive document on the meaning of sovereignty under the U.S. Constitution, in his "Opinion on the Constitutionality of the National Bank." The paper was extensive, but we will quote it in summary. The core argument is this response to the argument that the U.S. government cannot erect a corporation:

"Now it appears to the Secretary of the Treasury, that this *general principle* is *inherent* in the very *definition* of *Government* and *essential* to every step of the progress to be made by that of the United States: namely—that every power vested in a Government is in its nature *sovereign*, and includes by *force* of the *term*, a right to employ all the *means* requisite, and fairly *applicable* to the attainment of the *ends* of such power; and which are not precluded by restrictions & exceptions specified in the constitution; or not immoral, or not contrary to the essential ends of political society."

Hamilton proved beyond the shadow of a doubt that the establishment of the Bank was *necessary* and *proper* for meeting the basic objectives of the U.S. government: creating a prosperous nation, with an efficient tax system, and with the institutions that would support its credit and the expansion of its future productive power, through its investments in agriculture and industry, all for the General Welfare. Washington was convinced, and the Bank bill was signed into law on Feb. 25, 1791.

The Supreme Court affirmed Hamilton's view in its 1819 opinion upholding the constitutionality of the National Bank, *McCulloch vs. Maryland*, written by Hamilton's collaborator, Chief Justice John Marshall. That decision has never been overturned, and thus, is part of our Constitutional law.

The National Bank was to survive for its chartered

20 years, and make substantial progress on its mission, despite the subversion of its aims by President Jefferson and his Treasury Secretary Albert Gallatin, who did their best to use it to pay off debt, rather than use the debt for capital formation. The vote to prevent its re-chartering, on the eve of the War of 1812—just like the killing of the Second National Bank by Andrew Jackson in the 1830s—was a deliberate, effectively treasonous act to subvert the economy, and even the existence, of the United States.

So far, however, such traitors have not succeeded. In fact, leading members of Jefferson's own party, centered on Mathew Carey, recognized that Hamilton's economic principles were indeed the principles enshrined in the Constitution, and required for the survival of the nation, and kept them alive into the 19th Century, where they eventually bore fruit in the administrations of patriots. There is still a vestigial institutional impulse toward the Hamiltonian approach, but it is waning fast.

Time To Act on Principle!

Today it is the *principle* which Hamilton embedded in the Constitution, and carried out in his own economic measures, which we must bring to bear, at a moment of fearful crisis. Our adversaries are essentially the same as his were, but much more desperate. And they have played on the ignorance, and desperation, of many of our people, in order to get them to demand the very destruction of sovereign government, and its essential economic measures, which will destroy them, and the nation.

Like Hamilton, we must realize that the road out of crisis requires action to restore the productive powers of labor, and that the powers to embark on that road exist within the U.S. Constitution. Our government has the sovereign power to free itself of a money system, and use credit, based upon its own commitment to develop the industrial and agricultural capabilities of the country. That credit, which may represent the immediate incurring of a debt, must be used to create an explosion of capital formation, especially in large infrastructure projects, starting with the North American Water and Power Alliance (NAWAPA).

Hamilton's bankruptcy reorganization, of course, had some fundamental differences with what we require today. While he was dealing with overwhelming debt from the war, we are dealing with trillions in speculation—which can and must be ruled invalid altogether. But like him, we are compelled to look beyond

the question of “money” per se, and judge the financial conduct of the Federal government from the standpoint of the physical economy. Where “money” considerations conflict with the General Welfare, they must take a back seat—with full knowledge that the extension of credit for productive investment will ultimately put the nation's fiscal, as well as physical, house in order.

It is in light of that principle, that we face the urgent necessity of re-instating FDR's Glass-Steagall legislation, which separated the speculators from the commercial bankers who tied their pursuit of profits to improving the welfare of their communities. Hamilton may not have had such a law, but the Constitution itself, in Article 1, Section 8, *mandates* that Congress regulate the creation and value of currency—and that in line with the General Welfare—which should rule out imposing casino debts on our nation. Note also that Hamilton spent his every day as Treasury Secretary fighting the speculators—including Aaron Burr, their representative at the Bank of Manhattan, a bank founded on fraud, and expanding on it. Hamilton paid for that opposition with his life.

In principle, we must also apply the example of Hamilton's National Bank. This is particularly apt in the case of the extreme indebtedness that we, as a nation, have incurred with nations such as China and Japan, all of which is verging on explosion, under the current hyperinflationary policy of Federal Reserve chairman Ben Bernanke, the Bank of England, et al. That legitimate debt can be turned into credit, which will enhance the productivity of nations, and, under a renewed fixed-exchange-rate regime, create a stable environment in which technological progress can take off once again.

It's time to put the monetarists, of the Tea Party and the Liberals, in their place. The current treasonous alliance between British puppet Barack Obama and the radical Adam Smith Republicans, is a de facto assault on the very existence of the nation. When they invoke “Constitutional principle,” in support of dismantling the Federal government, they are actually spitting on the principles of that founding document.

It is the concept of the General Welfare which Hamilton, Franklin, and their allies espoused, and put in the Constitution, that must rule our economic policy, and that means using government power to enhance the productive powers of labor. Now is the time for all patriots to rally to that cause, so consistently and ably outlined by Hamilton's greatest successor, Lyndon LaRouche.