
AMERICAN SYSTEM

Alexander Hamilton and solving the problems of debt and credit

In a special feature in the May 9 London *Financial Times* appears the British declaration that the U.S. banking system will be wrecked by inflationary excess credit creation and that the only solution is a complete reorganization of the system. As the British see it: "The U.S. is wallowing in debt. ... A recession could cause massive defaults ... so the U.S. needs foreign banking takeovers."

There are those in the United States who also see it that way, like the New York Council on Foreign Relations. The effect of a British takeover of the U.S. banking system on particularly U.S. industry fits the blueprint developed by the CFR's "Project 1980s" team. Their plan for the U.S. is to shut down advanced science and technology research and development as part of what they term a "controlled disintegration" of the economy.

In outlining their blueprint, the CFR goes out of its way to target Alexander Hamilton as the 19th century spokesman for "neo-mercantilist" opposition to the British "liberal" policies exemplified in the CFR's voluminous report. It was Hamilton who, as Secretary of the Treasury under George Washington, first delineated the economic policies commonly known as the American System.

Faced with massive debt, incurred during the American Revolution to free this nation from the yoke of British colonial policies, Hamilton determined exactly how to employ the public debt as the means to generate credit for manufactures, a policy that the British System has never stopped fighting.

The American System economy built by Hamilton is clearly characterized in his Report on Public Credit

to the House of Representatives in January, 1790, excerpted here.

"The Secretary of the Treasury, in obedience to the resolution of the House of Representatives, of the twenty-first day of September last, has, during the recess of Congress, applied himself to the consideration of a proper plan for the support of the Public Credit, with all the attention which was due to the authority of the House, and to the magnitude of the object. ...

"This reflection derives additional strength from the nature of the debt of the United States. It was the price of liberty. The faith of America has been repeatedly pledged for it, and with solemnities, that give peculiar force to the obligation. There is indeed reason to regret that it has not hitherto been kept; that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation, or non-compliance. But a diminution of this regret arises from the reflection, that the last seven years have exhibited an earnest and uniform effort, on the part of the government of the union, to retrieve the national credit, by doing justice to the creditors of the nation; and that the embarrassments of a defective constitution, which defeated this laudable effort, have ceased. ...

"A general belief, accordingly, prevails, that the credit of the United States will quickly be established on the firm foundation of an effectual provision for the existing debt. ...

"The benefits of this are various and obvious.

"First. Trade is extended by it; because there is a larger capital to carry it on, and the merchant can at the same time, afford to trade for

smaller profits; as his stock, which, when unemployed, brings him in an interest from the government, serves him also as money, when he has a call for it in his commercial operations.

"Secondly. Agriculture and manufacturers are also promoted by it: For the like reason, that more capital can be commanded to be employed in both; and because the merchant, whose prize in foreign trade, gives to them activity and extension, has greater means for enterprize.

"Thirdly. The interest of money will be lowered by it; for this is always in a ratio, to the quantity of money, and to the quickness of circulation. This circumstance will enable both the public and individuals to borrow on easier and cheaper terms.

"And from the combination of these effects, additional aids will be furnished to labour, to industry, and to arts of every kind.

"But these good effects of a public debt are only to be looked for, when, by being well funded, it has acquired an *adequate* and *stable* value. Till then, it has rather a contrary tendency. The fluctuation and insecurity incident to it in an unfunded state, render it a mere commodity, and a precarious one. As such, being only an object of occasional and particular speculation, all channels of circulation, for which the thing itself affords no substitute: So that, in fact, one serious inconvenience of an unfunded debt is, that it contributes to the scarcity of money.

"This distinction which has been little if at all attended to, is of the greatest moment. It involves a question immediately interesting to every part of the community; which is no other than this—Whether the public debt, by a provision for it on true principles, shall be rendered a *substitute* for money; or whether, by being left as it is, or by being provided for in such a manner as will wound those principles, and destroy confidence, it shall be suffered to continue, as it is, a pernicious drain of our cash from the channels of productive industry."

—Barbara Gould