



“Our Whole System
Is in Disorder”¹

Alexander Hamilton as a
Revolutionary Reformer

Museum of the City of New York/Bridgeman Images

By Richard Sylla

By 1781, the Revolutionary War had dragged on for five grueling years. Congress's Continental Currency, first issued in 1775 and issued to excess by 1779, was quickly becoming worthless. Congress pegged these "Continental" one-to-one to the Spanish peso, but never indicated when that redemption might happen. Congress didn't have enough Spanish dollars—as the pesos generally were called in the English-speaking world—to redeem the Continentals they had printed, so the money swiftly morphed into a fiat currency that hemorrhaged value.

When Hamilton wrote his first surviving letter on finance in late 1779 or early 1780, he noted that it took 20 paper dollars to buy one silver dollar.² In March 1780, Congress revalued the Continentals at a rate of 40 paper to one silver. A year later, that rate was plummeting to 100 to one.

The Power to Tax

Individual states also issued paper currencies, which did little better. Unlike the Confederation Congress, the states could levy taxes. In fact, they were *supposed* to do that to meet their own fiscal needs as well as Congress's national needs—mainly financing the war at this point. State taxes were supposed to support the value of paper currencies, their own and the Continentals, by making them acceptable for tax payments. But state taxes and revenues collected proved woefully inadequate. It turns out that Americans didn't like taxation with representation any more than they liked taxation without representation.

Borrowing, an alternative to taxation and printing money, proved difficult both at home and abroad. Hyperinflation undermined lender confidence. After all, rebel governments demonstrating fiscal irresponsibility tend not to have good credit!

Hamilton's first letter notes that prices were rising much faster than the quantity



Tin pattern for a silver dollar planned by the Continental Congress, 1776.

of paper money that Congress and the states were issuing. He had stumbled onto the modern concept of the velocity of money, or how fast people spend it. Rising inflation makes people realize that money is declining in value, so they spend it as fast as they can before prices rise further. It's all well and good to note the behavior, but Hamilton wisely turned to solutions: "The most opulent states of Europe in a war of any duration are commonly obliged to have recourse to foreign loans and subsidies. How then could we expect to do without them?"

In other words, Congress needed cash from abroad. That much was obvious, but how to shore up the nation's finances with that loan?

The only plan that can preserve the currency is one that will make it the immediate interest of the monied men to cooperate with the government in its support. This country is in the same predicament in which France was previous to the famous Mississippi scheme projected by Mr. Law. Its paper money like ours had dwindled to nothing, and no efforts of the government could revive it, because the people had lost all confidence in its ability...

Article 1st The plan I would propose is that of an American bank, instituted by authority of Congress for ten years under the denomination of The Bank of the United States.

2d A foreign loan makes a necessary part of the plan, but this I am persuaded we can obtain if we pursue proper measures. I shall propose it to amount to 2,000,000 £ Sterling. This loan to be thrown into the Bank as part of its stock.

3 A subscription to be opened for 200,000,000 of dollars and the subscribers erected into a company called the company of the Bank of the United States.³

“Americans didn't like taxation with representation any more than they liked taxation without representation.”

Plan for the Bank of the United States

Hamilton's proposal to use a foreign loan to capitalize the Bank of the United States also included establishing a sound currency to replace the discredited Continentals and state-issued paper currencies. The bank would issue an entirely new currency convertible into specie, or coin money. With this new money, confidence would rise. Private investors would augment the bank's capital and share in its profits with the government, and the bank would lend to both the government and individuals.

Hamilton in the Uniform of the New York Artillery,
by Alonzo Chappel.

“We may therefore by means of this establishment carry on the war three years,” Hamilton noted.⁴

A public authority would review the bank’s books, and Congress wouldn’t grant it exclusive privileges that might “fetter the spirit of enterprise and competition on which the prosperity of commerce depends.”

Significantly, this new bank—really a central banking corporation—wouldn’t have monopoly privileges, leaving the door open to form more banks and a fully fledged banking system. The only financial pillar that Hamilton didn’t mention was a securities market to trade the bank’s stock and government debt to increase the liquidity of both, an idea that became part of his grand plan a decade later.

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Then it happened. The Continental currency collapsed. In response, Congress appointed Robert Morris, one of the country’s leading merchants and patriots, as Superintendent of Finance. Shortly thereafter, Hamilton sent an essay to Morris in April 1781.

Hamilton wrote the letter as he was transitioning from Washington’s aide to his field command in the Army. He stressed the importance of finance to the revolution: “’Tis by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object.”⁵ Then he shared some ideas he had on financial administration.

“Hamilton had figured out why the war had dragged on for so long.”

First he estimated the revenue capacity of the country, comparing it with an estimate of necessary civil and military expenses. No great shock: The latter greatly exceeded the former, leaving a deficit. Foreign loans might help, but they certainly couldn’t heal the shortfall. Hamilton’s solution once again was a national bank. He discussed the pros and cons of national banks in theory and in history, including how banking development and the expansion of credit promoted both state power and economic growth:



Robert Morris, the Superintendent of Finance for Congress.

Pennsylvania Academy of Fine Arts, Philadelphia/Bridgeman Images

The tendency of a national bank is to increase public and private credit. The former gives power to the state for the protection of its rights and interests, and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consist the true wealth and prosperity of a state.

Most commercial nations have found it necessary to institute banks and they have proved to be the happiest engines that ever were invented for advancing trade. Venice, Genoa, Hamburg, Holland and England are examples of their utility. They owe their riches, commerce, and the figure they have

made at different periods in a great measure to this source. Great Britain is indebted for the immense efforts she has been able to make in so many illustrious and successful wars essentially to that vast fabric of credit raise on this foundation. ’Tis by this alone she now menaces our independence.⁶

In this letter, Hamilton had figured out why the war had dragged on for so long: The British were better financed and had better credit. This point underscored his plan to make better finance and a credit-based economy one of the cornerstones of American power.

The rest of Hamilton’s letter consists mostly of articles that comprise the national bank’s charter and a discussion of same. The bank would be a corporation,



\$3 Continental Currency note, 1776.

for example, which seemed so obvious to Hamilton and to a businessman such as Morris that it “needs no discussion”—although in America, as elsewhere, few corporations existed then.

The National Debt

The letter ends with a brief look at the national debt once the war ended. It wouldn’t pose a problem, Hamilton said, because good financial administration and the country’s growth would enable America to pay the debt in a matter of decades. In fact, the debt had benefits:

A national debt if it is not excessive will be to us a national blessing; it will be a powerful cement of our union. It will also create a necessity for keeping up taxation to a degree which without being oppressive, will be a spur to industry....We labor less now than any civilized nation of Europe, and a habit of labor in the people is as essential to the health and vigor of their minds and bodies as it is conducive to the welfare of the State. We ought not to suffer our self-love to deceive us in a comparison upon these points.⁷

Here we catch a glimpse of one reason that Hamilton later became the least loved of the founders. He spoke his mind frankly, in this case saying that he didn’t think Americans worked very hard. If they had to pay taxes to service the national debt incurred as the price of their liberty, they would have an incentive to work harder. To Hamilton, that was good for them and the country regardless of whether they liked it.

The letter to Morris was a private communication, but it shows the same candor that marks Hamilton’s public speeches and writings. His often polemical public work, whether over his own name or various pseudonyms, provoked strong reactions—both favorable and unfavorable. The other founders paid greater heed to what they said and wrote as it affected their public images. This tendency haunted Hamilton in later years.

Morris replied to Hamilton that he had been thinking along similar lines, although the Bank of North America that he proposed had a less ambitious scale and scope than the national bank that Hamilton recommended. Much of the capital for the Bank of North America—which Congress chartered in 1781—came from

a loan that year from France, which, as Hamilton foresaw, wanted to destabilize Britain. Morris used the loan to purchase most of the bank’s shares for the US government, a necessity because private investors, given the shakiness of America’s finances, largely refrained from buying the shares that Morris offered.

The bank opened in Philadelphia in 1782 and offered considerable aid to the government during the two-year transition from war to peace. Morris then sold the government’s shares to private investors, and the Bank of North America continued as an ordinary commercial bank.⁸ \$

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Dr. Richard Sylla is the chairman of the Museum of American Finance and was formerly the Henry Kaufman Professor of the History of Financial Institutions and Markets at the NYU Stern School of Business. He is one of the nation’s leading Hamilton scholars.

Notes

1. Alexander Hamilton, “The Continentalist No. III,” *Papers of Alexander Hamilton*, vol. II, p. 661.
2. We know neither the exact date nor the addressee—likely a member of Congress—of this letter. Only the draft of the letter exists in the Hamilton Papers at the Library of Congress.
3. *Papers of Alexander Hamilton*, vol. II, p. 245–45.
4. *Papers of Alexander Hamilton*, vol. II, p. 248.
5. *Papers of Alexander Hamilton*, vol. II, p. 606.
6. *Papers of Alexander Hamilton*, vol. II, p. 618.
7. *Papers of Alexander Hamilton*, vol. II, p. 635.
8. After a number of mergers over the years, America’s first bank now forms part of Wells Fargo.