

# EIR The American System

## Hamilton's Economics Were About Mind, Not Money

by Nancy Spannaus

Two contemporary developments prompt this renewed treatment of the contributions of First Treasury Secretary Alexander Hamilton to the intellectual tradition of the United States, most specifically its American System of political-economy. The first is the multimillion-dollar promotion of Hamilton through the New York Historical Society's recently concluded exhibit, an exhibit which will soon begin to travel throughout the United States. The second, more important, is the increased necessity for Americans to master the *principles* underlying Hamilton's economics, a subject which has been virtually buried over the past 70 years, if not more, but which is crucial to the ability of political leaders today to get out of the deepening depression, and onrushing financial breakdown crisis.

One can only rejoice that the Lehrman Institute, unsavory as its own economics may be, has decided to fund "Alexander Hamilton, The Man Who Made Modern America," the six-month exhibition at the New York Historical Society which ended on Feb. 28. The exhibit celebrates Hamilton as an immigrant who made good, a military hero, a fighter for the Constitution, a financial genius, a brilliant legal mind, an ardent opponent of slavery, and a prolific journalist, who founded the *New York Post*. The curators brought together a broad collection of artifacts from Hamilton's career, and placed him within the non-idealized context of the battle to establish the American Republic. Fortunately, those who put the exhibit together did not try to claim Hamilton as a champion of the New York Stock Exchange, or other such free-market idiocy, and their presentation will surely stimulate many to pursue an acquaintance with the great founder of the American System. That's very good.

On the other hand, the exhibit essentially sidesteps the

core of Hamilton's economic and philosophical beliefs, in favor of his individual accomplishments or, worse, the sensationalism of Hamilton's affair with Maria Reynolds, and his violent end at the hands of Aaron Burr (who is not even identified as the traitor he was).

There is no way, within the confines of the New York Historical Society exhibit, that one can understand why Hamilton was the mortal enemy of Burr, or why Hamilton's ideas are so important for today. To do that, Hamilton must be presented from the standpoint not of the events of his life, *per se*, but the principles for which he fought, and for which all the great Presidents of the United States—George Washington, John Quincy Adams, Abraham Lincoln, and Franklin Delano Roosevelt—also fought, by trying to implement Hamiltonian economics.

To fully understand Hamilton's economic system, you have to proceed from the standpoint Lyndon LaRouche has put forward in his recent economic writings. For, unlike the leading economists of his day, and today, Hamilton did not believe wealth came from money, or land or raw materials, or from a pragmatic adaptation to the circumstances of America's fight against the East India Company. Rather, Hamilton based his economic system, and the legal-governmental policies which supported it, on a Leibnizian tradition which asserted the idea that wealth was created by the creative powers of the human mind. To him, money was a servant of human development, and government had to use its sovereign powers to make sure that the money system was used in order to protect the nation, and those who were prepared to produce in order to improve the condition of the nation.

Let's elaborate.

## Hamilton and the Economic Principle of Powers

LaRouche's recent writings on economics have focussed on the concept of *powers* (*dynamis*), a concept derived from those ancient Greeks who identified role of the unseen, but very real and knowable mental and physical forces which determine activity in the physical world. Hamilton's approach to economics must be located in this tradition, which LaRouche describes thus in his paper, "Franklin Roosevelt's Miracle"<sup>1</sup>:

"From the standpoint of experimental physical science, since the ancient Pythagoreans, the distinction of man from beast is the power of the human species to increase the standard of living of all members of society, in a way which is not possible for lower forms of life, through the discovery of universal physical principles. These are principles, called 'powers,' as by Leibniz, which can not be seen directly through sense-perception, but which can be known and proven for practice by a crucial form of experimental method."

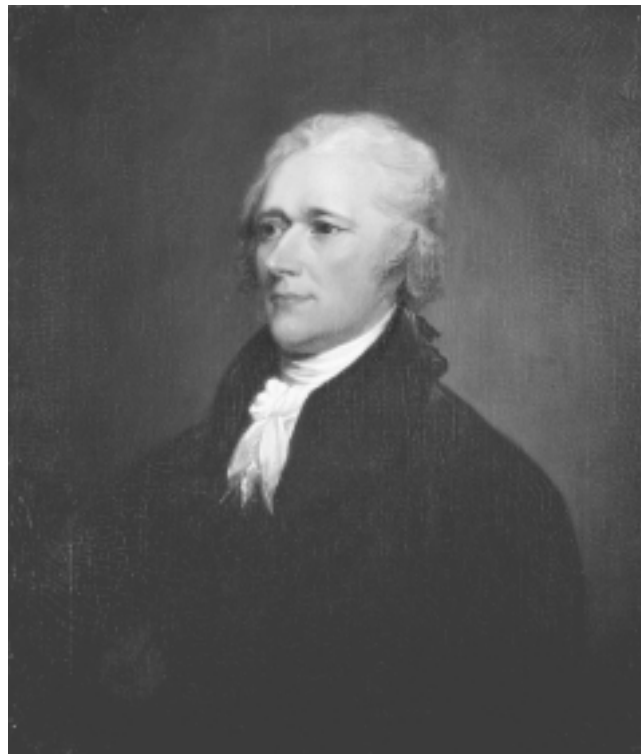
"The discovery and use of such powers was implicitly denounced as a Promethean evil, by the tradition of the Olympian Zeus, and, by the modern empiricist," LaRouche writes. Numbered among those enemies of real economic science are those like Adam Smith, or the later Friedrich von Hayek, who deny the legitimate role of a government (or sovereign) committed to the general welfare to govern the economy, because they deny the reality, the existence, of the general welfare itself.

LaRouche puts the issue this way:

"Yet, it has been through the discovery and adoption of such discovered powers, that the potential relative population-density of the human species has been increased from the mere millions of any mere higher ape, to a world population-level of more than six billions today. This conception has been the central feature of all my own work in economics over the recent six decades.

"The first goal of the pro-Leibniz American System of political-economy, is the promotion of the discovery and use of discovered powers, such as scientific technology, to increase the standard of living, and the potential relative population-density of the human species. The correlated notion is that the standard of living of the individual person in society must be increased over successive generations, as through investment in the discovery and application of discovery of new fundamental physical principles.

"In the American System as described by Hamilton, attention is focussed upon defining the ways in which willful action among individuals can be coordinated in such a way as to promote the role of free-will individual human activities in



Alexander Hamilton, as portrayed by artist John Trumbull in 1804, based on his own 1792 sketch of the Secretary of the Treasury.

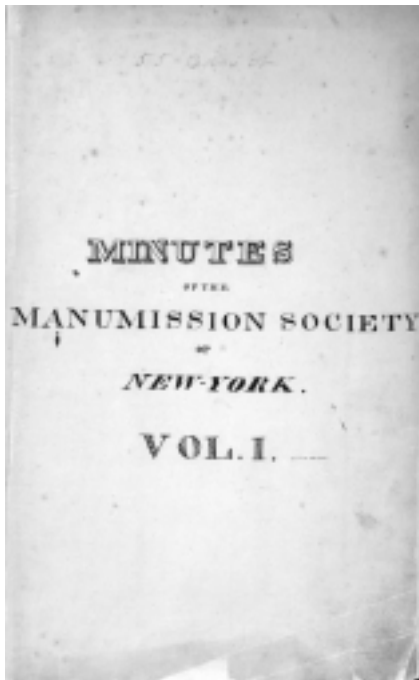
ways which lead to that desired overall result for present and future generations.

"In this system, the creation of lawful money, for this use and purpose, is an exclusive function of the sovereign nation-state. The constitutional state is therefore responsible to regulate the generation and circulation of money by those means which ensure the desired result of the combined action of large institutions, including government, and individual free will. This is done by aid of the regulation of the circulation of money, regulation accomplished by means including the use of the power to set tariffs and to tax, or subsidize."

Ah, but for what purpose should the government use its powers to regulate and control the flow of money? What, to take a term from Platonic scientists like Kepler, was Hamilton's *intention*? Without understanding this, it is impossible for anyone to understand Hamilton or the American System of political-economy.

Hamilton lays out his idea most thoroughly in his third major state paper as Secretary of the Treasury, the 1791 *Report on Manufactures*. There he makes it clear that the starting point for all of his economic measures is his determination that the economy should foster the "creative powers of the human mind," and that it is those creative powers which are responsible for the health and growth of any economy. It is Hamilton's assertion of this truth, which he shares with

1. Lyndon H. LaRouche, Jr., "Franklin Roosevelt's Miracle," in *Earth's Next Fifty Years*, LaRouche PAC, March 2005. See [www.larouchepac.com](http://www.larouchepac.com). Also published in *EIR*, March 4, 2005.



Hamilton was a vigorous, life-long opponent of slavery, and the Historical Society exhibit features that point with two artifacts: the minutes of the Manumission Society of New York, of which Hamilton was a founding member; and a set of slave shackles, clearly manufactured for the limbs of a child.

Leibniz and the Platonic school of economy before him, that differentiates him fundamentally from his opponents, no matter what superficial elements of similarity might appear between his institutions, and those of other systems.<sup>2</sup>

To get the point, you have to read the *Report on Manufactures* thoroughly, but the idea which Hamilton expounds there can be found all the way back to when he wrote *The Farmer Refuted* at the age of 18. Put simply, it is that the creative powers of the human mind are what create wealth. Thus, from Hamilton's standpoint, the fact that the East India Company-run British Empire was attempting to prevent the American colonies from developing industry and manufacturing, and was imposing taxes and other measures in order to enforce this status on the colonies, meant that it was acting to *enslave* the Americans by treating them as little better than beasts. Mankind's natural rights, to which Hamilton so eloquently attested, included his right to exercise his creative powers in discovering new modes of production,

2. Hamilton's *Report on the Subject of Manufactures* is a thoroughgoing attack on the doctrine of free trade, and impassioned argument for a government policy promoting the general welfare through advancing manufactures, internal improvements, and the arts and sciences, as means of advancing the productive powers of labor. Indicative is the following statement, listed by Hamilton as one of several reasons why manufactures should be promoted: "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."

and putting them into practice.

Hear how Hamilton argues in *The Farmer Refuted*, which rips to shreds the idea that the interests of the farmers lay with the British, as opposed to the urban residents who were leading the Revolution. Hamilton attacks his Tory opponent as a Hobbesian, who shows "total ignorance of the natural rights of mankind." The "supreme law of every society . . . [is] its own happiness," Hamilton argues. And as for man's rights, they are not a matter of a social contract: "The Sacred Rights of Mankind are not to be rummaged for among old parchments or musty records. They are written, as with a sunbeam, in the whole volume of human nature, by the Hand of the Divinity itself, and can never be erased or obscured by mortal power."

Thus, should it really be a surprise that Hamilton was a leading campaigner against the institution of slavery? Having been subjected to proximity with this bestiality from the time of his childhood, Hamilton knew what he was talking about when he condemned slavery. He revolted against the idea that human beings of another race were to be used as pack animals, or worse, just as he

opposed the idea that all white Englishmen living in America should be consigned to the status of beasts of burden for the British Empire.

When the creative powers of mind are translated into new forms of "artificial labor" (i.e., technology), as Hamilton calls it in the *Report on Manufactures*, they increase the "productive powers of labor." This, then, is what must be protected, and enhanced, through the use of the powers of government, powers that must definitely include control over credit, so that the production of real physical wealth is increased in the society. Hamilton's *Report on Public Credit* number two, the one which established the National Bank, can only be adequately understood if one proceeds from the understanding of what I have just said. On the one side, the *Report on the National Bank* (1790) was written to protect the young United States from creditor-predators, who were already in the process of attempting to tear it apart through trade war, border war, and subversion. Before its establishment, the citizens and entrepreneurs in the United States were almost totally dependent upon their enemies, the major trading companies and financial institutions of their trading partners, for long-term credit, and even the day-to-day currencies to do business. By establishing the bank, Hamilton was able to convert the short-term demands for payment from creditors, to long-term debt, which could be paid as the nation grew.

But, on the positive side, the Bank of the United States provided the means for turning the national debt into a source

of long-term capital, which could then be put at the disposal of private industry, or public agencies, for both increasing physical production, and building the infrastructure required to enhance the productivity of the economy as a whole. Hamilton was crystal clear about the purpose of the bank: It was to augment the production of wealth in the physical economy, to increase the output of farms and factories. “By contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth.”

To those who said that the wealth of the economy depended upon the accumulation of precious metals, silver and gold, Hamilton responded that this was not the case, although the sound functioning of the bank would not reduce this form of wealth in the society. Hamilton also asserted that the Bank would function as a means of reducing usury, indicating, in contradistinction to the likes of Jeremy Bentham, not to mention other British imperialists of various stripes, that he considered usury an undesirable activity for the banks, because it was destructive to the productive activity of the economy as a whole.

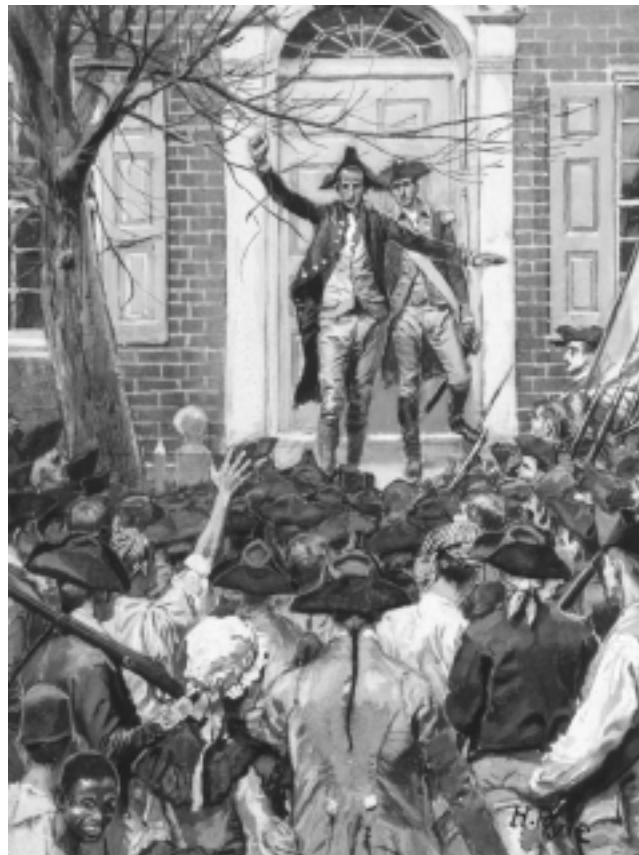
Hamilton’s National Bank provided the basis for a national currency, and did play a role in combatting speculation and other excesses in the economy of the young United States. But it did not achieve the power to do this without a fight.

## National Sovereignty

To many it seems a paradox. For the individual inventor, or farmer, or entrepreneur to have the ability to turn his ideas into a productive enterprise, and to pass on the fruits of progress to his posterity, requires that the *state* have the power to regulate the economy. In other words, there is no danger to liberty in providing the Federal government of the republic with the power to control the currency; in fact, the danger to liberty lies in keeping the power over finances in private hands.

Yet, Hamilton—with his ally President George Washington and a strong nationalist grouping around him—had to fight hard to get this idea across. Immediately after he had won the vote in Congress to establish the National Bank, he was faced with opposition from Thomas Jefferson and his allies, who told President Washington that the creation of the bank was unconstitutional, going beyond the powers of the Federal government, because the right to establish a corporation was not explicitly delineated in the Constitution. Hamilton responded with a letter on the constitutionality of the Bank, whose argumentation stands the test of time, as a principled defense of the power of the Federal government to take the necessary measures to defend the General Welfare, and against the textual literalism which is frequently used by those who wish to put the gain of private interests, above that of the population as a whole.

Hamilton’s argument was based upon the assertion of national sovereignty, as implicit in the establishment of the Federal government, for the purposes for which the govern-



*In May 1775, even as he was pamphleteering for the Revolution and serving in the militia, Hamilton intervened to stop a mob from tarring and feathering King’s College’s loyalist president, Myles Cooper. This painting of the event was done in 1884 by Howard Pyle.*

ment was brought into being. He outlined how the functioning of the Bank would not only facilitate the operations of the government per se—i.e., by the payment of taxes—but would also benefit the economic activity of the nation. Two quotes from the decision give the flavor:

“Every power vested in a government is in its nature *sovereign* and including 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,” as long as those ends are not immoral. And the “powers confined in a constitution of government, especially those which concern the general administration of the affairs of a country, its finances, trade, defense, etc., ought to be construed liberally in advancement of the public good.”

Arguments against the Federal government’s legitimate role in regulating credit, as in the period of Franklin D. Roosevelt’s New Deal, or today, provide a parallel, in principle, to what Hamilton was up against, and should further amplify his reasoning for why a National Bank was not only useful, but necessary.



*Passaic Falls, New Jersey, home of a powerful source of hydro-power, was the site Hamilton chose for establishing the Society for Useful Manufactures, which he had hoped would serve as a model for industrial enterprise.*

As FDR forthrightly argued, he was asserting the power of the Federal government in order to defend the citizens against the powers of private cartels, which were prepared to utterly destroy the security and standard of living of millions, in order to pursue their own profit and power. And indeed, the measures enacted by FDR did provide a defense against evictions, job loss, denial of electricity, and many other measures that private industry considered their prerogative in the “free enterprise” system before FDR. Today’s wildly rampaging “markets” represent a potentially worse repeat of the pre-FDR days, with the cartels in banking and other industries even more globally powerful than they were in the 1920s. In fact, only the sovereign power of the U.S. Federal government can provide the protection, and hope, for American citizens now facing joblessness, bankruptcy, homelessness, and lack of protection from disease.

But, as we invoke the tradition of FDR in seeking emergency government action to deal with crises such as the collapse of vital infrastructure, and the bankruptcy of major national machine-tool assets such as General Motors, we should be aware that we are harkening back to the principles established by Alexander Hamilton, founder of the American System.

## The Hamilton Exhibition

From the standpoint which I have just outlined, the exhibition of Hamilton’s life which appeared at the New York Historical Society proves to be both an exemplification, and a disappointment. This young Founder comes across as a passionate patriot who played a critical role in establishing our

national institutions, but *not* as the founder of the American System of Economics, a tradition one suspects the assemblers wished to ignore.

The exhibit starts with a presentation of Hamilton as an immigrant, and constantly stresses the fact that he was forced to rely on his mind and hard work, in order to play the decisive role he did in shaping the institutions of the United States, and that he was constantly under attack because of his “outsider” status. Such an approach ignores the intellectual heritage upon which Hamilton relied—specifically, the Continental school of natural law and physical economy, epitomized by Emmerich Vattel and Jean-Baptiste Colbert, upon which Hamilton clearly drew in order to carry out his Leibnizian policies; as well as the grouping of collaborators he had in the United States which facilitated his rise to power.<sup>3</sup> But Hamilton did have a tough struggle, as the exhibit indicates.

Hamilton’s role in the Revolution as a youth in New York City, and in the military, is also stressed. His personal bravery in protecting even his political enemies, such as King’s College President Myles Cooper, from a mob, is depicted, as well as his significant role in a number of crucial battles.

The exhibit’s stress on Hamilton’s opposition to slavery is useful, and runs counter to the popular slander of him as “upper-crust.” But the implications of his attack on slave society—in the fight to create an industrial economy—are by no means drawn out, and, in fact, both his attack on slavery and his establishment of the Society for Useful Manufacturers, the Passaic, New Jersey experiment in establishing a manufacturing complex, are presented as evidence of his being a “visionary,” with the clear insinuation that such initiatives were impractical. The presentation of Hamilton’s crucial role in winning the battle for the Constitution is straightforward, but, because the curators do not connect his economic program, his foreign policy role, or his political battle against Burr with this principled effort, Hamilton’s role is ultimately banalized. Instead, one is provided with a panoply of images of personal crises—such as his decision to reveal his love affair with Maria Reynolds, in order to clear his name as to charges of financial wrongdoing, and his decision to carry out the duel with Burr.

3. See Robert Trout, “Life, Liberty, and the Pursuit of Happiness, How the Natural Law Concept of G.W. Leibniz Inspired America’s Founding Fathers,” *Fidelio*, Spring 1997; and Nancy Spannaus and Christopher White, eds., *The Political Economy of the American Revolution* (Washington, D.C.: Executive Intelligence Review, 1995).

The misfocus is most evident in the fact that the most dominant artifact in the exhibit itself (not counting the huge \$10 bill with Hamilton's face which was wrapped around the outside of the Museum), was a set of wrought-iron, life-sized statues of Burr and Hamilton aiming their pistols at each other on Weehawken Heights. Once one recovered from the shock of seeing this image of re-enactment, one could look at the actual pistols which the antagonists used, which had been provided for the display.

## The Hamiltonian Tradition

Anyone fortunate enough to have a real understanding of American history, and the true nature of our republic, however, knows that Hamilton's ideas were not only not killed on the duelling field, but that they were the touchstone for the unique American approach to economic policy, as opposed to the British System of economics, up through FDR, to LaRouche today. While Hamilton himself was known as a "Federalist," and therefore opposed politically by many in the immediate aftermath of his death, his American System of Economics was soon recognized as being beyond party, and the hallmark of the patriotic tradition which extended from the Founders on down.

Mathew Carey, the Irish revolutionary turned Philadelphia publisher, played a major role in elevating Hamilton to his true, principled stature. This he did in the 1814 *The Olive Branch*, a mass-circulation tract which argued for the creation of a new political alliance, which would bring together the democratic principles of the Jeffersonians, with the economic principles of Hamilton into a nationalist party for the preservation and advancement of the nation. Hamilton's outlook on labor, and the role of the government in protecting and advancing it, was generally expressed in a program that called for the National Bank, the protective tariff, and the promotion of internal improvements (which we today call infrastructure). This program, Lincoln scholars will recall, is precisely what Abraham Lincoln described as his platform, when he first ran for public office. When Lincoln established the Morrill Tariff, the land-grant colleges, and the Transcontinental Railroad, and then went to war and eventually abolished slavery, he was clearly acting on the principles that had been laid out by Alexander Hamilton two generations before him.<sup>4</sup>

Nor did Hamilton's tradition die with Lincoln. It was carried on not only by the grouping around Lincoln's former economic adviser Henry Carey (son of Mathew), but was spread all around the world: in Germany, through Friedrich List; in Japan, through students of Hamilton, List, and Carey, led by Yukichi Fukuzawa; in Russia, through Dmitri Mendeleev and Sergei Witte; and all throughout South America.<sup>5</sup>

4. See Allen Salisbury, *The Civil War and the American System* (Washington, D.C.: Executive Intelligence Review, 1992).

5. "200 Years Since Hamilton's 'Report on Manufactures,'" *EIR*, Jan. 3, 1992.



*The mural of which this is a detail, commissioned by President Franklin Delano Roosevelt, shows the pro-Constitution contingent at the Poughkeepsie Constitutional Convention of 1788, whose ranks include Alexander Hamilton (left, with hand outstretched), and FDR's great-grandfather (and Hamilton collaborator at the Bank of New York) Isaac Roosevelt, second from the right.*

Wherever you found a people determined to escape colonialism, and build an industrial republic, they would turn to the man whom they saw as the founder of the economic system of the most successful republic in the world, the United States of America—Alexander Hamilton.

In the United States, the Hamilton tradition continued to be passed down, through to the 1930s, both in academia and political families. The Roosevelt family, for example, honored the fact that its ancestor, Isaac Roosevelt, was a cofounder of the Bank of New York, and fighter for the U.S. Constitution, alongside Alexander Hamilton. Thus it was, that Franklin Delano Roosevelt was not only schooled in the work of Hamilton, but that he once against resurrected his ideas in the time of deadly crisis for the nation, which was the Great Depression, and the worldwide threat of fascism.

Unfortunately, FDR's enemies have been all too successful in wiping out the intellectual underpinnings of his rescue of our nation. Reviving FDR's and Hamilton's ideas has fallen to Lyndon LaRouche, and his political movement, especially the young generation which shares the young Hamilton's enthusiasm, as well as his principles for building an economy to protect and enhance the "creative powers of mind." Just as Hamilton rejected the slave economy, in favor of one which would promote industrial and agricultural development, so we, at the very moment that this "money economy" is on the edge of destroying civilization itself, fight to revive his principles, which have been tried and tested many times through the history of our republic.

Reviving these ideas will save our minds (though not our money)—and create the basis for a future for all mankind.