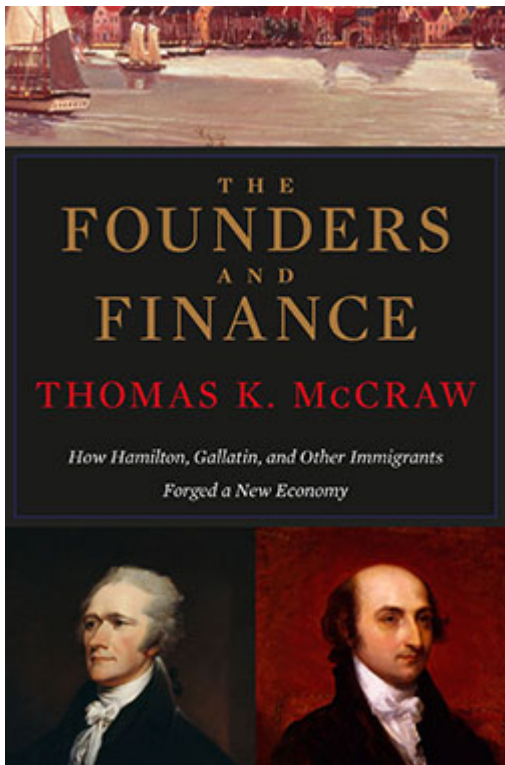


Aliens



✘ Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy*. Cambridge, Mass.: Harvard University Press, 2012. 496 pp., \$35.00.

In *Founders and Finance*, the late Thomas McCraw provides biographies of the first U.S. Treasury secretary, Alexander Hamilton, and of Albert Gallatin, the first Jeffersonian-Republican to hold the post. The two biographies also narrate the political history of the United States during the quarter-century from September 11, 1789, when Hamilton became treasury secretary, to February 8, 1814, when Gallatin, who had served under Jefferson and Madison, stepped down en route to Europe to help negotiate the treaty ending the War of 1812. In fourteen chapters on Hamilton and thirteen on Gallatin (and in four somewhat-redundant concluding chapters), McCraw makes two principal arguments: (1) that Hamiltonian finance saved the country from the recession that followed the Revolutionary War and then paved the way for the economic boom of the nineteenth century, and (2) that much of the credit for the early republic's financial success is owed to immigrants: not just Hamilton (who grew up on St. Croix) and Gallatin (who was born in Geneva), but Robert Morris (the Liverpool native who was in effect secretary of the treasury during the first four years of the Articles of Confederation, 1781 to 1784) and two of Gallatin's antebellum successors.

McCraw's claim that immigrants were somehow uniquely poised to instruct the native-born in the mysteries of finance is sure to encounter skepticism.

Hamilton certainly did not come to America from some sophisticated financial hub, and McCraw found no evidence that Gallatin learned anything about finance in Geneva before striking out for America in 1780. Moreover, if Atlantic history has taught us anything, it is that ideas and even know-how can cross oceans and continents with or without human hosts. Still, some of McCraw's statistics give one pause:

During the first fifty years under the Constitution, only six cabinet secretaries were immigrants—and five of these six served as Secretary of the Treasury (2).

Whereas “four of the first six secretaries of the treasury were born overseas” (3), only two of the next sixty-seven (now seventy) were.

Maybe there is something to McCraw's assertion that American immigrants tend to identify with their nation rather than their state. Certainly Hamilton and Gallatin were not as devoted to New York and Pennsylvania as, say, Adams was to Massachusetts or Jefferson was to Virginia. But of course Washington, who never left the British empire before 1776 or the United States afterwards, was as nationalist as his treasury secretary, and Franklin prided himself on being a citizen of the world.

It also remains unclear how Hamilton's and Gallatin's status as immigrants made them better financiers. McCraw's notion that “Being rootless themselves, they were better able to appreciate the intrinsic rootlessness of money” (6) ignores their many contemporaries who understood the fluidity of money without traveling very far (and the many migrants whom money mystified). One thing McCraw does prove is that these two immigrants were *perceived* as different by many of their contemporaries, especially by their political enemies, who tried to use their foreign birth against them. For example, Henry Clay insisted that Gallatin was “at heart an alien” (321), and John Adams once called Hamilton “a bastard and as much a foreigner as Gallatin” (217). Perhaps all those years of being treated differently eventually caused Hamilton and Gallatin to act differently, if only to confound their adoptive countrymen's expectations.

After the remarkable migration claims in McCraw's introduction, Part I, his biography of Hamilton, comes as something of an anti-climax. Little additional evidence is offered for the immigrant-financiers thesis. Nor does McCraw supply much in the way of other original claims. On the other hand, his 165-page version of the Hamilton story is beautifully crafted and a real pleasure to read. If you are not sure you will ever make it through Ron Chernow's acclaimed but 800-page Hamilton biography, you will find most of the highlights here.

Part I of *Founders and Finance* may be most significant as yet another milepost on the road to Hamilton's rehabilitation—and, it would seem, his impending apotheosis. No one is more devoted to Hamilton than Robert E. Wright, the Nef Family Chair of Political Economy at Augustana College, who wrote “Alexander Hamilton Was” on his first-born son's birth certificate so that his full name

would be Alexander Hamilton Was Wright. But Wright is by no means alone in believing that Hamilton saved the country with his unique grasp of high finance, and that perspective permeates every page of *Founders and Finance*.

Like other modern-day Hamiltonians, McCraw assumes that James Madison's 1790 proposal to make bond speculators split Congress's largesse with the original holders of their bonds—the soldiers and suppliers whose sacrifices had won the war—would have done irreparable harm to the federal government's credit rating (even though Congress did essentially repudiate the Continental currency, without ill effects). In true neo-Hamiltonian fashion, McCraw suggests that the notorious Funding Act of 1790 paid bond speculators less than they deserved—only two-thirds of the value of their bonds. Actually, Congress replaced the principal of each investor's war bonds with two new bonds—one, in the amount of two-thirds of the original bond, paying 6 percent interest immediately, and another, equal to one third of the original bond, on which the 6 percent interest would kick in ten years later. (A third security compensated the bondholder for back interest.)

McCraw mentions his hero's affair with Maria Reynolds, but he cannot resist the temptation to ascribe it, in part, to "[t]he extreme pressure" on Hamilton "from continuous opposition by figures as formidable as Jefferson and Madison" (119). Is this any different from Newt Gingrich's famous declaration that his own adultery was partly "driven by how passionately I felt about this country"?

My one big beef with the Hamilton devotees (and I am not just talking here about Professor McCraw—who, sadly, did not live to participate in the ongoing debate over his book—but about the whole congregation) is their blithe assumption that Hamilton's economic principles can be divorced from his elitism. Aren't they actually two halves of the same walnut? By 1789, when he took over the treasury, Hamilton was convinced that the major problem confronting the nation was that the state assemblies had defrauded the holders of government securities—those issued by Congress as well as those given out by the state governments. (Before the Constitution gave Congress the power to levy taxes, federal bondholders could be paid only out of congressionally requisitioned state funds.) The new treasury secretary was sure he knew *why* the state governments had left bondholders in the lurch: they were too susceptible to pressure from their farmer constituents. That explains why Hamilton had famously advocated for an elective king and for life terms for members of the upper house of Congress at the Constitutional Convention in 1787: he did not trust ordinary American voters.

Perhaps if the Hamilton biographers devoted more scrutiny to his elitism, they would end up explicitly arguing what they implicitly assume: that the secretary's depiction of American farmers as selfish and irresponsible was spot-on accurate. But maybe they would at least be willing to acknowledge that there was an alternative explanation for the terrible recession that (by all accounts) afflicted the United States between the Peace of Paris in 1783 and the ratification of the Constitution in 1788. Anti-Hamilton economists blamed

the post-war downturn not on the thirteen state governments' eagerness to relieve the distress of debtors and taxpayers, but on something like the opposite of that: state legislators' initial determination to lay heavy taxes—on average three or four times higher than what their colonial counterparts had levied—primarily for the benefit of government bondholders. These high taxes were accompanied by deflationary monetary policies, and the thirteen state assemblies were widely accused of having taxed the economy into recession. If this alternative analysis is correct, then Hamilton had things exactly backwards: local legislators had wrecked the economy not through slavish devotion to their farmer constituents, but by ignoring them.

The most eloquent modern explication of this alternative perspective on the economic crisis that led to the Constitution is Terry Bouton's 2007 *Taming Democracy*, but at least one bit of evidence in support of this populist rejoinder comes from a surprising source: Hamilton himself. Economic and political elitists such as Hamilton viewed paper currency as the classic device by which state assemblymen allowed taxpayers as well as debtors to escape their obligations. So it comes as no surprise that as a New York state representative, he fought doggedly against a 1786 proposal to ease the state's monetary crisis with an emission of paper money. The currency was nonetheless printed, amid warnings from Hamilton and others that it was sure to depreciate. In February 1787, Hamilton acknowledged that "The event has, however, turned out otherwise." New York's paper money had held its value. Hamilton's gracious acknowledgement that he had been wrong about the New York currency emission did not cause him to reconsider his elitist economic and political worldview, but I wish it would provoke some reevaluation from his modern-day fans.

Early in *Founders and Finance*, McCraw sets up an interesting bit of tension that kept me turning pages. He makes it clear that he admires *both* Hamilton and Gallatin. But how can he, given that they were, respectively, the first treasury secretaries of the bitterly opposed Federalist and Jeffersonian-Republican parties? The tension is resolved in the second part of the book, where we learn that while Gallatin was of course much more Jeffersonian than the first treasury secretary, he was a lot more Hamiltonian than his fellow Jeffersonians. McCraw repeatedly shows Gallatin schooling Jefferson and then Madison in Hamiltonian economics. For instance, Gallatin surpassed both of the presidents he served in his willingness to spend money developing the West, notably with internal improvements. Jefferson thought he needed a constitutional amendment to build national roads—and also to buy New Orleans (and then all of Louisiana) from Napoleon. But in both cases, Gallatin provided the Hamiltonian advice (to which Jefferson eventually acceded, at least in these two arenas) that the president should just interpret the existing Constitution loosely. Gallatin once informed "a disappointed Jefferson" that Hamilton "did nothing wrong" (232). When McCraw is forced to choose between his two subjects—say, when Gallatin criticizes Hamilton's *Report on Public Credit* (1790)—he almost always sides with Hamilton.

For many readers, the most significant difference between these two figures is

that Gallatin is much less well known, and I suspect the second part of *Founders and Finance* will likely acquire more dog-ears and yellow highlighting than the first. I for one did not know that Gallatin had composed a *Table of Indian Languages of the United States* in 1826. And I was astonished to learn that he once proposed to Thomas Jefferson that he fill some positions in his administration with women. ("The appointment of a woman to office is an innovation for which the public is not prepared, nor am I," the president of course replied [230].) *Founders and Finance* is unlikely to provoke a wholesale reevaluation of either Hamilton or Gallatin, but it brims with surprising facts such as these.