Hamilton's Legacy and the Great Man Theory of Financial History

EDWARD PETER STRINGHAM

Is Hamilton as important and visionary as most people say or an overrated mashup of often contradictory elements? It depends on whether we are talking about *Hamilton* the musical or Alexander Hamilton the politician. I must admit that I am not generally a fan of Broadway shows or anything related to hip-hop (Johann Strauss II is about as close to contemporary as I get), but I actually think *Hamilton* the musical is brilliant in multiple ways. It showcases the life and times of someone who was becoming an increasingly forgotten Founding Father, and it presents many details of his life and the history of America's Founding. As an art form, it is pathbreaking, and I can understand why it has won so many awards. In addition to its innovative musical form, I love its message about how an impoverished immigrant and an upstart nation can overcome barriers. In the words of the main character,

> I'm just like my country,
> I'm young, scrappy and hungry,
> And I am not throwing away my shot.
> ("My Shot" [Miranda and McCarter 2016, 26])

I also very much appreciate its assertion that the principles of the American Revolution can be inclusive to all groups: "And when I meet Thomas Jefferson . . .

Edward Peter Stringham is the Davis Professor of Economic Organizations and Innovation at Trinity College, Hartford, and author of *Private Governance: Creating Order in Economic and Social Life* (2015).

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I'm 'a compel him to include women in the sequel!" (Angelica, "The Schuyler Sisters" [Miranda and McCarter 2016, 44]).

Even though I have no criticisms of this excellent work of theater, Alexander Hamilton the politician may not deserve as much praise. He was certainly an intriguing and important historical figure, but we must be careful not to ascribe too much importance to him or to any other one person for founding America or American financial markets specifically, as the *Economist* has done by calling Hamilton the "founder of 'Wall Street'" and a "visionary of capitalism" ("Hamiltonian America" 2011).

Although I believe that individuals, including Hamilton, have influenced historical outcomes, saying that a politician founded Wall Street is far off the mark and an unfortunate example of the great-man theory in action. In *Heroes, Hero-Worship, and the Heroic in History* ([1843] 2000), Thomas Carlyle advanced the theory that "the history of the world is but the biography of great men" (29). Early famous critics of the great-man theory included Leo Tolstoy ([1869] 2008) and Herbert Spencer (1873), who argued that societal outcomes are determined by the totality of individuals in society, not just by a few great men. Using more modern economic language, market outcomes are a spontaneous or emergent order—a product of the choices and interactions of billions of people (Stringham and Curott 2015). Each person makes conscious choices to advance his own wishes and desires; each person can influence outcomes; and some people can influence outcomes more than others. But societal or market outcomes are not the products or inventions of one great man or even of a few great men. To attribute modern American capitalism to Hamilton greatly exaggerates his importance. *Hamilton* is an amazingly creative adaptation of the life of an interesting person, but *Hamilton* mania should not be used to advance the narrative that politicians are responsible for inventing our financial system or American capitalism itself.

Does *Hamilton* Overemphasize the Importance of Politicians?

It would be unfair for a tweed-wearing professor to criticize a musical for lacking footnotes or the long meandering caveats found in academic journals or for containing rap battles with lines that are not 100 percent historically accurate. So nothing in this article should be interpreted as anything close to a critique of this excellent musical. But what people think about a particular topic or take away from a particular work of art is nevertheless important. *Hamilton* does not present the characters, including the lead, as flawless, and many characters, including George Washington, James Madison, Thomas Jefferson, and Aaron Burr, advance good arguments at various points. Besides King George III—whom everyone should dislike—the musical does not come across as preachy about who is right or wrong in any debate. In certain ways, the musical takes the Socratic discussion of old ideas to a new level. Even if most of the audience is there for the musical experience and is unable to follow all of the fast-paced arguments, they will at least be exposed to some of the important debates that took place before, during, and after the American Revolution.

As an economist interested in the historical growth of financial markets, in watching *Hamilton* I was most focused on the debates between Hamilton and Jefferson regarding Hamilton's plan to create a system of national debt.[1] During the American Revolution, many colonies issued bonds to finance the efforts to break free from England. After the revolution, although many state bonds seemed likely to be repaid, others were in a tenuous situation. Many holders of these bonds, who anticipated a lower probability of being paid, ended up selling them to speculators, who would assume the risk of default or the potential gain of any repayment. In modern times, we would call such bonds "distressed debt." A market for distressed debt exists because some people want to cash out now, whereas others are willing to assume more risk. At the time, Hamilton believed that having the federal government buy all state debt and redeem it at par would strengthen the federal government by enabling it to borrow more in the future. Much of this idea was based on the system of government debt in England, which was controversial to many who had just fought a revolution against such a relatively large centralized government.

Hamilton presents this economic debate in a way that I and most others never would have predicted: through a high-speed rap battle. After the musical's first half depicts the American Revolution, it then moves to a discussion of governance and Hamilton's financial plans, among other things. With Jefferson still basking in victory, singing, "Lookin' at the rolling fields / I can't believe that we are free," Madison gives a wake-up call:

> Thomas, we are engaged in a battle for our nation's very soul.
> Can you get us out of the mess we're in?
> . . . .
> Hamilton's new financial plan is nothing less
> Than government control.
> . . . .
> Where have you been?
> ("What'd I Miss?" [Miranda and McCarter 2016, 152–53])

In the scene "Cabinet Battle #1," Washington sets the stage: "The issue on the table: Secretary Hamilton's plan to assume state debt and establish a national bank. Secretary Jefferson, you have the floor." Jefferson then begins the debate:

> JEFFERSON: "Life, liberty and the pursuit of happiness."
> We fought for these ideals; we shouldn't settle for less.

1. For a detailed history of Hamilton's role in creating national debt, see Wright 2002, 2008 and Wright and Cowen 2006.

These are wise words, enterprising men quote 'em.
Don't act surprised, you guys, cuz I wrote 'em.
Jefferson /Madison: Oww.
Jefferson: But Hamilton forgets
His plan would have the government assume states' debts.
Now, place your bets as to who that benefits:
the very seat of government where Hamilton sits.

Jefferson then goes on to state:

Ooh, if the shoe fits, wear it.
If New York's in debt—
Why should Virginia bear it? Uh! Our debts are paid, I'm afraid.
Don't tax the South cuz we got it made in the shade.
In Virginia, we plant seeds in the ground.
We create. You just wanna move our money around.
This financial plan is an outrageous demand,
And it's too many damn pages for any man to understand.
Stand with me in the land of the free
And pray to God we never see Hamilton's candidacy.
Look, when Britain taxed our tea, we got frisky.
Imagine what gon' happen when you try to tax our whisky.
("Cabinet Battle #1" [Miranda and McCarter 2016, 161])

Here, we see two possible strands of criticism in Jefferson's arguments: one against central government and central debt and one possibly against banking in general. The Hamilton biography by Ron Chernow (2004), on which the musical is based, sometimes lumps these two positions together or at least does not get into the finer distinctions for future playwrights. As Jefferson suggests, having the federal government assume state debts would mean that the federal government would need to start collecting taxes from all. Those who bought New York bonds essentially lent that state money with the hope of being repaid. Default risk is built into the interest rate on any loan in case the borrower will not pay. As Murray Rothbard (1992) and Jeffrey Rogers Hummel (2012) describe, any time government creates debt, it creates a claim on future taxpayers' money, and the natural question is: Why should federal taxpayers pay for the losses incurred by investors who voluntarily assumed the risks of lending the government money?

Jefferson's next debate point can be interpreted in a libertarian or possibly not libertarian way, as condemning centralized government debt in particular or finance in general. Jefferson suggests that Virginians actually create, whereas northeasterners just move money around.[2] The musical later contains some anti–Wall Street sentiment from Jefferson and Burr. Describing Hamilton, Jefferson says:

> I get no satisfaction witnessing his fits of passion.
> The way he primps and preens and dresses like the pits of fashion.
> Our poorest citizens, our farmers, live ration to ration
> As Wall Street robs 'em blind in search of chips to cash in.
> ("Washington on Your Side" [Miranda and McCarter 2016, 199])

And at another point in the play, Burr criticizes Hamilton:

> Oh, Wall Street thinks you're great.
> You'll always be adored by the things you create.
> But upstate—
> . . . .
> —people think you're crooked!
> ("Schuyler Defeated" [Miranda and McCarter 2016, 191])

This exchange likely puts many Broadway show-goers in a difficult position. Although a *Rolling Stone* writer such as Matt Taibbi (2011) would likely reject the idea that we need to be farmers to create value, he argues at the same time that Wall Street finance is nothing more than "bubble machines, vampire squids, and the long con that is breaking America." The proper libertarian position, I believe, is to condemn a system of government bailouts where some people or corporations voluntarily assume risks and then discharge those risks onto unwilling taxpayers when things turn sour. Bailouts indeed shift money around without creating anything of value. But that does not mean we should condemn financial intermediation and Wall Street in general. Helping companies raise money from the general public expands the pool of available finance to help companies expand, and it lets regular people share in large corporations' success by giving them a small ownership stake and claim to some of the company's profits. Such financial intermediation is voluntary for all parties involved, and it puts the little guy on the same side as big business. Helping companies grow benefits consumers, too. Without a basic understanding of economics, any Occupy Wall Street–leaning viewer will miss this point and not know whom to root for in this debate.

Back in "Cabinet Battle #1," Hamilton responds:

> Thomas. That was a real nice declaration.
> Welcome to the present, we're running a real nation.

2. In subsequent commentary, Miranda writes, "The fun in writing these debates is of course articulating the perspectives of these men in a way that feels contemporary. Jefferson echoes the feelings of many critics of Wall Street when he says, 'We create. You just move our money around.' If I were watching that in a rap battle, I'd nod my head" (Miranda and McCarter 2016, 161).

Would you like to join us, or stay mellow,
Doin' whatever the hell it is you do in Monticello?
If we assume the debts, the union gets
A new line of credit, a financial diuretic.
How do you not get it? If we're aggressive and competitive.
The union gets a boost. You'd rather give it a sedative?
(Miranda and McCarter 2016, 161)

Hamilton goes on to discuss how the Virginians' debts are paid because they "don't pay for labor" and then speaks some lines best left out of an academic article.

The main character does not get into the importance of manufacturing or trade (whether free market or mercantilist),[3] but he definitely appears to be on the side of economic progress. But at what cost, and who is the driver? To many, economic progress depends on government expansion. Jefferson later criticizes Hamilton for being power hungry but still suggests he is advancing the economy: "Have you an ounce of regret? / You accumulate debt, you accumulate power" ("Cabinet Battle #2" [Miranda and McCarter 2016, 193]).

And the others complain about Hamilton:

Madison: So, he's doubled the size of the government.
Wasn't the trouble with much of our previous government size?
Burr: Look in his eyes!
Jefferson: See how he lies.
Madison: Follow the scent of his enterprise.
Jefferson: Centralizing national credit
And making American credit competitive.
("Washington on Your Side" [Miranda and McCarter 2016, 199])

After this, a great deal of drama happens—I will leave out any spoilers about whether anyone dies in a duel in Weehawken, New Jersey—but many people, including Hamilton's former adversaries, end up praising him. In a moment of reflection, Hamilton talks about what he has achieved:

I wrote about The Constitution and defended it well.
And in the face of ignorance and resistance,
I wrote financial systems into existence.
("Hurricane" [Miranda and McCarter 2016, 232]).

3. For an insight into Hamilton's pro-industry but not necessarily pro-free-market perspective, see Hamilton 1791. Lawrence White (2016) describes Hamilton as "a second-hand dealer in retrograde mercantilist ideas."

In the end, his former critics sing:

JEFFERSON: I'll give him this: his financial system is a
Work of genius. I couldn't undo it if I tried.
And I tried.
. . . .
MADISON: He took our country from bankruptcy to prosperity.
I hate to admit it, but he doesn't get enough credit
For all the credit he gave us.
("Who Lives, Who Dies, Who Tells Your Story?" [Miranda and McCarter 2016, 280])

Markets: A Creation of an Invisible Hand or of Politicians?

Viewers of the musical could come away with a pro-Hamilton and pro-government message, and politicians might like the musical for making them look important.[4] But economic analysis and economic history highlight how markets are not invented by one person. Describing the origins of the London Stock Exchange, the historian Harold Wincott writes, "It would be nice to start this book with a satisfyingly round sentence: 'on the –th day of —— in the year of our Lord ——, the Stock Exchange, London, came into being.' Alas for those with tidy minds, the Stock Exchange is a typically British institution. No-one can say with any certainty exactly when it started. Like Topsy, it almost seems it never was born, but just 'grow'd'" (1946, 1).[5]

Despite what the great-man theory of history would have us believe, markets are the product of countless people's choices. Markets also evolve often in spite of what government officials desire. In Amsterdam, London, and New York, stockbrokers saw the opportunity to make money and started conducting business hundreds of years before government gave them the official go ahead. One thus cannot attribute the invention of these markets to government or to any one politician.

4. This section draws from Stringham 2015 and Stringham and Curott 2015.

5. The stock exchange had various rules, and it documented them in its first written rulebook in 1812. The rulebook stated that although many disputes could be settled with existing rules, "many others (which, from their nature and extent, preclude the possibility of forming any general laws on the subject, so as to meet every contingency) may also be adjusted by the known custom and practice of the market" (Committee for General Purposes of the Stock-Exchange 1812, 10). The stock exchange had rules about admissions and membership and what would happen if someone defaulted or got into a dispute. The rules stated that "all disputes between individuals (not affecting the general interests of the Stock-Exchange) shall be referred to arbitration" (20). Defaulters would have their membership suspended and could have their membership renewed only if they made good on their debts and petitioned to have their membership reinstated. By excluding most of the unreliable people to begin with and kicking out anyone else who violated the rules, the London Stock Exchange created a system of privately generated order. It later adopted as its motto "My word is my bond."

People who have state-centric views of markets would argue that such contracts can exist only when government enforces them. It turns out, however, that from very early on government looked down on these types of contracts and refused to enforce them, but people engaged in them anyway. Since the earliest financial markets, political authorities have not understood them and have considered many transactions associated with the stock market as wasteful, manipulative, and immoral (De Vries and Van Der Woude 1997, 150; Garber 2000, 34). The first major stock market emerged in Amsterdam around 1600, but within a few years government officials started passing laws against much of the speculative trading that they called "trading in wind" (Kellenbenz [1957] 1996, 34–35). Even though brokers' contracts were now illegal, brokers were not punished for engaging in them, so people ignored the prohibitions. Not only did market participants engage in these forward contracts where one party had a long position and the other had a short position, but they also developed many other advanced contracts, including hypothetication (pledging securities as collateral for a loan), options, and derivatives. All of these contracts were complex, and none was enforceable in court.

How did unregulated markets work? Rather than relying on law, brokers relied on market mechanisms, including the discipline of continuous dealings to induce contractual performance (A. Smith [1766] 1982; Klein 1997). One seventeenth-century stockbroker, Josef Penso de la Vega ([1688] 1996), describes how trade, repeat dealings, and reputation mechanisms work. Although anyone could show up to the market, he could not necessarily find trading counterparts. De la Vega outlines the consequences of building a reputation (201). People who were new to the market had to start off small and gradually build up their reputation before they could engage in larger transactions. Anyone who defaulted, whether intentionally or by accident, would be badmouthed and boycotted by others.[6] The market became wildly successful, and the Dutch East India Company and the Dutch West India Company helped create capitalism for the masses. The Dutch Golden Age was made possible by companies that were not even intended to be around for more than a few years. Henry Hudson's voyage in 1609 to what is now known as the Hudson River in New York was financed by the Dutch East India Company, and New Amsterdam (New York) was a trading post of the Dutch West India Company.

Almost a century later in England, the government was also hardly supportive of the stock market and passed various rules and regulations interfering with it. In 1696, officials passed an act "To Restrain the Number and the Practice of Brokers and Stockjobbers" and effectively banned stockbrokers from trading at the Royal Exchange (Harris 2000, 225). In the Bubble Act of 1720, officials all but outlawed

6. De la Vega writes, "Since the status, the insignificant capital, the low reputation, and the limited trustworthiness of such people are well known, they do not dare attempt to carry on any considerable business" (1688, 201). For more illustrations about the importance of reputation, see also de la Vega 1688, 150, 172, 176.

the formation of new joint stock companies,[7] and a bill in 1734 intended "to prevent the infamous Practice of Stock-jobbing" also banned options, futures, and margin trading. Government animosity toward stock traders persisted for well more than a century (Harris 2000, 225).

Despite the law, stock markets persisted, and stockbrokers continued trading. Although much of their trading was illegal, government did not actively punish them and essentially left them alone. Without an official home, stockbrokers met around Change Alley and in Jonathan's and Garraway's Coffee Houses. Intentional or unintentional default is bad for business, so brokers decided to transform coffee houses into private clubs to create and enforce rules and exclude defaulters. At first, they put defaulters' names on a chalkboard, and later they had stricter membership requirements. By excluding unreliable parties, the market became more dependable. As Thomas Mortimer wrote in 1761, "The gentlemen at this very period of time . . . have taken it into their heads that some of the fraternity are not so good as themselves . . . and have entered into an association to exclude them from [Jonathan's] coffee-house" (quoted in C. Smith 1929, 215). The name of their trading venue evolved from "Jonathan's Coffee House" to "New Jonathan's" to "Stock Subscription Room" to "Stock Exchange," and it is now known as the London Stock Exchange. So who "designed" the London Stock Exchange? Many people and the market itself.

Financial markets in America have a similar history, with no one party creating them. When Hamilton was twenty-two years old, in 1779, George Washington wrote, "Stock jobbing, speculating, engrossing, &ca. &ca., seems to be the great business of the day" (1939, 73), and when Hamilton was around thirty-four, in 1791, James Madison wrote, "[S]tock jobbing drowns every other subject. The coffee house is an eternal buzz with the gamblers" (1865, 538). The precursor to the New York Stock and Exchange Board and later the New York Stock Exchange was the Tontine Tavern and Coffee House, created by merchants in 1792.

As much as one might admire Hamilton's singing or rap-battle prowess, he did not invent financial markets. At best, he helped issue new government debt. Libertarians and others can debate whether issuing this new debt was good or bad. But looking at an issuer of debt and concluding that this person created financial markets would be equivalent to looking at Anheuser-Busch's recent large bond issue and saying that the company invented the first bonds or beer itself. The great-man view of history tends to overlook the actions of the multitude and to say that markets were created by one man or a particular set of men. But that is not how markets work.

7. The Bubble Act was passed in the midst of a government scheme to convert government debts into shares of the South Sea Company. Shortly thereafter, the price of South Sea Company stock plummeted, and, of course, government blamed the market for this bubble.

Conclusion

Although I think *Hamilton* is great, it should not be used to advance a great-man theory of history or let politicians claim that modern markets are attributable to their forebears. At a time when most people hold politicians in such low regard (Kessler 2013), I can easily envision politicians watching the musical and projecting their own importance onto the main character. I do not fault the musical for having a main character and focusing on his achievements. A musical starring an invisible hand would not be popular. Nevertheless, we can question enablers of politicians who want to overstate their importance in the creation of positive outcomes in the economy.

In contrast to the line that states Hamilton "doesn't get enough credit / For all the credit he gave us" ("Who Lives, Who Dies, Who Tells Your Story?" [Miranda and McCarter 2016, 280]), I think the credit should go to the countless people who worked behind the scenes to make modern markets possible and whom history has forgotten. Whereas government debt truly shifts money around and does not create value, financial markets help funnel money from investors to productive companies, which benefits all parties. Such outcomes are not the invention of one man, such as Hamilton, but instead are made possible by the 450,000 New Yorkers currently working in finance and their countless contemporaries and precursors around the world.

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