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The American Civil War: a Conflict between the Economic Policies of Alexander Hamilton and Thomas Jefferson

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In the formative years of the United States of America, two prominent figures dominated the political scene: Alexander Hamilton and Thomas Jefferson. Alexander Hamilton was the creator and leader of the Federalist Party, which supported having a strong federal government that would dominate those of the individual states (Finseth 1998). He proposed the creation of a national bank, which, apart from bringing financial stability to the new republic, also served as a promoter of industrial growth by issuing loans to entrepreneurs. Hamilton's economic policies were meant to stimulate growth in American manufacturing. He believed that international power derived from a nation's strong economy. Thomas Jefferson, Hamilton's main political rival, regarded the national bank with suspicion (Finseth 1998). Jefferson feared that the bank would gain too much power and put a stranglehold on the federal government. He believed that individual farmers were the epitome of liberty and that if the nation was to truly be a showcase of freedom, the economy should be agrarian in nature (Finseth 1998). Jefferson was a leader of the anti-federalists, a political bloc in support of states' rights, who sought to counter the influence of Hamilton's Federalist Party. Though Hamilton died in 1804 and Jefferson died in 1826, their economic policies clashed many times after they physically disappeared from the political scene. The powers of both economic philosophies would come in bloody conflict in the 1860s during the American Civil War, with Hamilton's policies manifesting themselves in the Union and Jefferson's in the Confederacy. From a nationalistic and militaristic standpoint, Alexander Hamilton's economic vision is superior to Thomas Jefferson's economic vision, as is affirmed by the Union's victory over the Confederacy during the Civil War.

The northern states that constituted the wartime Union benefited the most from Henry Clay's American System. “This 'System' consisted of three mutually reinforcing parts: a tariff to protect and promote American industry; a national bank to foster commerce; and federal subsidies for roads, canals, and other “internal improvements” to develop profitable markets” (Byrd 1994); the plan itself was inspired by Hamilton's economic policies. During the war, the National Bank Acts of 1863 and 1864 were passed. These established a national banking system, raised money for the Union's fight against the Confederacy, and ensured financial stability by putting the finance and money-making of the nation into the trusty hands of the government. Lincoln, the president of the United States of America at the time of the Civil War, established a Hamiltonian protective tariff early in his tenure. “Hamilton recommended that tariffs be levied on foreign imports to protect domestic industries and discourage imports, as well as raise government revenue” (History Central). The tariffs upheld by the government in the early 1800s were favorable to northern industries while they were unpopular among southern suppliers and consumers, because the southern consumers supplied the northern manufacturers with raw products and had to pay more for the finished products. American manufacturing developed quickly in the north; by the dawn of the Civil War, the northern Union was an industrial powerhouse. The wartime Union typified Hamilton's economic vision.

The Confederate States of America had an agrarian economy. Almost “three quarters of all southern whites owned no slaves ... and scratched a simple living ... as subsistence farmers” (Bailey, Kennedy, and Cohen 1998). Industrial output and railroads were lacking, and these very technological innovations that had allowed the Union's supply curve to shift drastically to the right had a smaller impact on the Confederacy's supply curve's rightward shift. The government of the Confederacy was based on a weak central government with power being held by the individual states, and in totality, the Confederate States of America adhered to Jefferson's economic vision.

During the war, the Confederacy had trouble shifting from a peacetime cotton-based agrarian economy to a wartime grain-based agrarian economy. Furthermore, because “the southern states only had 8% of the nation's manufacturing output” (Bailey, Kennedy, and

Cohen 1998), the Confederacy produced much less in armaments than did the Union. The few railroads of the Confederacy were not adequate enough to transport men and materiel, in contrast to the great versatility in railroad transportation that the Union enjoyed. The Confederate economy depended on waterways for shipping, but the Union navy was able to blockade and eventually patrol the Confederate waterways because "mass production [of ironclad warships] was much easier in the North than in the under-industrialized South" (Jenkins 1998). The Confederate government could not establish a solid currency, and as a result, states, cities, and organizations in the South circulated their own paper monies. The Confederate dollar inflated ridiculously towards the closing years of the war, and "during a period of hyperinflation, the economy collapses into barter exchange" (Thornton and Eckelund 2004). The Union utilized a Hamiltonian national banking system to fund the war and to prevent wartime financial chaos. The Confederacy's strict observance of states' rights complicated the weak Confederate central government's control over its own armies and supplies. The Union, having a strong Federalist-style central government, had a firm grip on its military activities. Thus, Jefferson's ideal agrarian state slowly choked to the stranglehold of the Hamiltonian industrialized state.

In today's America, where divisive issues such as the Iraq War, social security, and abortion threaten to throw our nation into chaos, Hamiltonian economics should be applied to maintain stability. The federal government should expand and take a strong grip on the economy, implementing tariffs and higher excise taxes to boost revenue. Massive deficit spending on the military, as seen in light of the Iraq War, should be continued; Hamilton's policy of having the federal government assume the debts of each individual state should be used to keep the nation intact.

A nation's greatness is mostly determined by its military might and its dominance over other nations. In regard to the American Civil War, Hamilton's economic philosophy of industrialization and centralized financing triumphed over Thomas Jefferson's economic philosophy of agriculture, weak government, and individual financing. Thus, Hamilton's economic vision was greater than Jefferson's, and in order for a nation like the United States to maintain military supremacy and international prominence, Hamiltonian economic policies must be enacted.

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