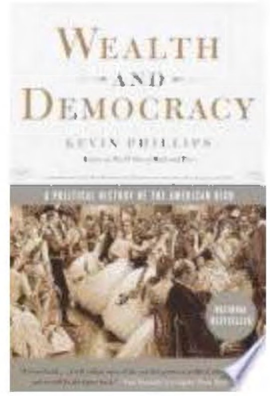
Kevin P. Phillips. (Jun. 18, 2002). Wealth and Democracy: How Great Fortunes and Government Created America's Aristocracy, eISBN: 978-0-7679-1151-1. Crown.



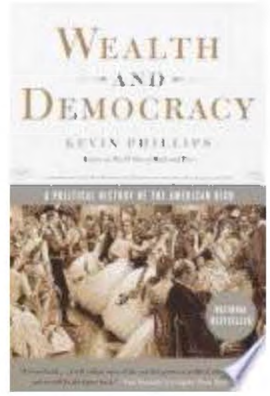
Ancient as these events may seem, they were living, breathing examples worthy of emulation to the three men who made their late-eighteenth-century names bringing similar practices to the United States: Robert Morris (born in England), Alexander Hamilton (born in Nevis in the British West Indies), and William Duer (born in England and educated at Eton). Well acquainted with the theory, practice, and speculative opportunities of Anglo-Dutch finance, all three rejected the typical "country party" views of the Virginia planters, who mostly echoed the concerns of William Blackstone and Adam Smith that funded debts led to executive tyranny and the eventual insolvency of the state, or both.

Funded debt, to Hamilton, was an engine of state and even a "national blessing." He and his allies sought to create a private class of "moneymen." It was also a first-class factional opportunity in addition to binding creditors to the interest of the new U.S. government, as earlier lenders had been to the political success of Dutch and English loan-issuers.

The mechanisms put in place from 1790 to 1792—the Bank of the United States, funded long-term U.S. debt, federal assumption of state and local debt, and the forerunner of the New York Stock Exchange—became the playground of the incipient speculator class. If these arrangements generally fulfilled Hamilton's promise of nation-building, they also justified Thomas Jefferson's sweeping condemnation of national banks and funded debt as agents of corruption. The first American wave of securities speculation came in New York and Philadelphia in 1791, as Bank of the United States shares climb from $25 to $60, peaking at $170 in some three months. Similar speculation developed in the new U.S. bond issues, and when the bubble around Bank of the United States and other bank stocks popped, Hamilton ordered the treasury into the market in March and April of 1792 to support the price of government debt. His allies sighed with relief over what by some accounts was the first U.S. financial bailout.

The profits to be made were large. Four men who may have constituted a succession of America's richest individuals between 1783 and 1848—Robert Morris, William Bingham, Stephen Girard, and John Jacob Astor—built at least part of their wealth on the proceeds of investment or speculation in state and federal debt and Bank of the United States stock. Government finance also produced the largest personal net worths in early-nineteenth-century France and Britain, those of Nathan Rothschild, James Rothschild, and Gabriel Julien Ouvrard, the French wartime paymaster and financier. Public debt in those days was arguably the principal *private* financial opportunity.

As the mass of government debt grew, it lent itself less to producing nations' leading personal fortunes. The principal financier of the North's triumphant road to Appomattox, the great bond-seller Jay Cooke, went bankrupt in 1873, pulled down by overextended railroad underwriting as well as by the scheming of the House of Morgan to gain the preeminent role in U.S. government finance. J. P. Morgan and a second financier also much involved in underwriting and



supporting government bonds, George F. Baker of New York's First National Bank, both appear among the wealthiest for 1901–14 in chapter 2, although the top of the list was dominated by oil and steel.

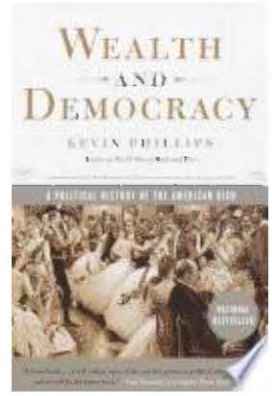
Post–Civil War era debt management, like its postrevolutionary predecessor, had substantial elements of a political reward system. Confederate bonds became, literally, not worth the paper they were printed on; wartime federal bonds, conversely, became something of a treasure trove. As Washington began its large-scale borrowing in 1862, Treasury Secretary Salmon P. Chase thought in the earlier vein of Dutch regents, London Williamites, and Alexander Hamilton. Banks that bought the new federal bonds in order to be able to issue federal banknotes, Chase wrote, would bind themselves politically to the Northern cause.

Once victorious, Washington delivered handsomely for the Northern banks and individuals who had purchased most of the war's $2 billion issuance of notes and bonds. Many had paid for the securities in greenbacks, which typically traded at a considerable wartime discount to gold. Treasury interest, however, had been temptingly payable in gold from the start, a good return. Then in 1869, Congress passed and President Grant signed the Public Credit Act, providing that federal debt securities, whether or not bought with below-par paper money, be redeemed in gold. While less egregious than the early 1790s speculative gains from assumption and funding, this windfall was on a much larger scale.

As both government and the national debt giantized in the twentieth century, the effects of debt had less to do with personal fortune and more to do with public spending and broader economic redistribution. Woodrow Wilson, Franklin D. Roosevelt, Harry Truman, and Lyndon Johnson all tolerated or could not stop wartime and postwar inflation that undercut the real value of many financial assets, especially mortgages and bonds, even as it supported domestic production and spending. Although this Democratic brand of wealth and income redistribution struck hard at certain assets and after-tax incomes, it usually produced enough economic growth and increased consumer spending to create new business opportunities and markets.

By contrast, the upward redistribution patterns of conservative governments in the 1920s and then again in 1980s and 1990s generally followed the contours of economic policy after the Civil War. This involved cutting some taxes and trying to abolish others, emphasizing deficit reduction or budget balance as a priority (if not always achieving it), and working to stymie farm price supports, block easy money, and reduce what later generations would call human resources spending. The genesis and recurrence of this GOP political economics is pursued in chapter 7.

Managed this way, the outcomes in the Gilded Age, the 1920s, and the Reagan and Bush administrations were highly favorable to financial assets, which were lopsidedly owned by the top 1 percent of the population. The benefits to upper-bracket wealth that flowed from these financial booms and their varying



contractions of government debt, taxation, and spending were broad, more widely distributed within the top tier than the concentrated debt repayment to loyal creditors and supporters after the wars of 1775–83 and 1861–65.

Federal debt politics and management took on a new nuance in the 1990s after the tax cut, defense spending, and budget deficit buildup of the 1980s. This flowed from the famous advice given to just-inaugurated President Clinton in 1993. Your success or failure, chief economic adviser Robert Rubin told Clinton, lies in the hands of a bunch of bond traders. Like many other national leaders during the 1990s, he had to submit to two new power centers: central bankers and increasingly global bond markets. Almost by definition, their influence, as we will see, worked to favor finance, the stock market, and continued concentration of wealth.

Ironically, Thomas Jefferson, Andrew Jackson, and several other early-nineteenth-century presidents had more or less predicted that a national debt buildup would ultimately mean loss of control to bankers and "papermen," although they erred in seeing it just around the nineteenth-century corner. Like the Dutch and British, the United States could never have achieved its global trajectory without a central bank and a funded national debt, but there was a price. Adam Smith had warned in 1776 that "the practice of funding [has] gradually enfeebled every state which has adopted it," citing Spain and Holland as cautions for Britain. The latter's own debt, in turn, did become a punishing weight by the 1930s and 1940s, and the international, national, and consumer debt levels of the United States were points of uncertainty as the twenty-first century opened, 1990s homage to the bond markets not withstanding.

Taxes, in some form, provide the revenue stream funded debt requires. This had been central to Dutch and English success, and Hamilton also knew revenues would be essential. The Federalist levies put into effect—principally the excise tax on whiskey, but also land taxes and stamp taxes—were unpopular enough in the 1790s to help defeat Hamilton's party in 1800. Revenue tariffs levied on thirty items from molasses and hemp to nails were better accepted. Jefferson quickly repealed all internal taxes in 1802, leaving tariffs as the principal revenue source of the U.S. government until 1911, save for the high tax emergency of the Civil War.

At the federal level, in short, taxes as opposed to tariffs were rarely a key to enlarging or redistributing wealth until the establishment of the permanent income tax in 1913. Tariffs, while also indirect taxes on consumers, were also tools for protecting and stimulating U.S. companies and industries and their wealth effects will be examined in that connection shortly.

Taxation during the nineteenth century, as we have seen, was principally local and property-based, which lent itself to favoritism. In many jurisdictions, not least New York City, the rich were widely able to convince officials to set extremely low assessments of real estate, personal property, or both. While the burdens