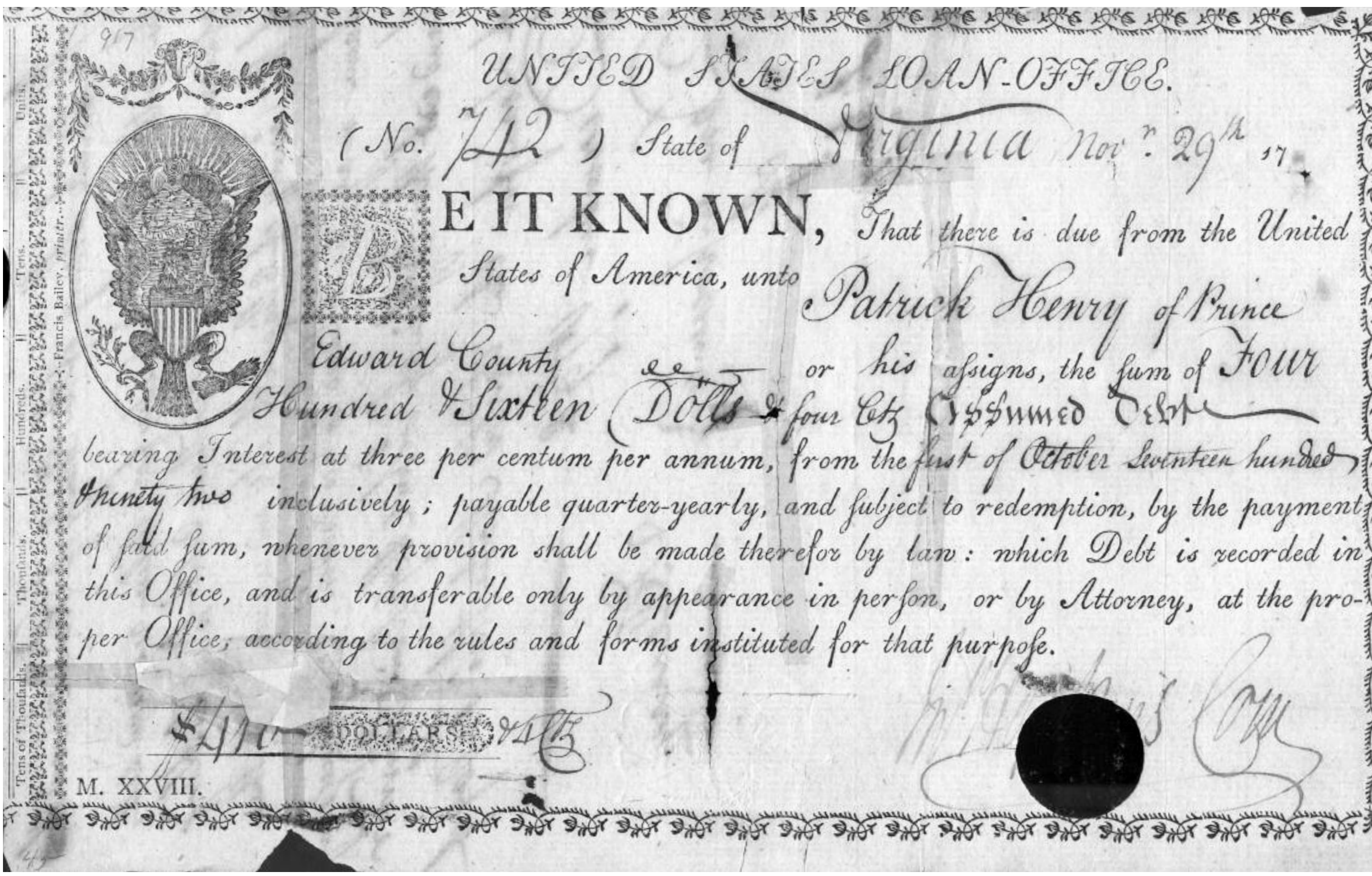
# ALEXANDER HAMILTON and the Birth of a Capital Market

By Robert E. Wright


UNITED STATES LOAN-OFFICE.

(No. 742) State of Virginia Nov^r. 29^th, 17

BE IT KNOWN, That there is due from the United States of America, unto Patrick Henry of Prince Edward County or his assigns, the sum of Four Hundred & Sixteen Dolls & four Cts Assumed Debt bearing Interest at three per centum per annum, from the first of October Seventeen hundred ninety two inclusively; payable quarter-yearly, and subject to redemption, by the payment of said sum, whenever provision shall be made therefor by law: which Debt is recorded in this Office, and is transferable only by appearance in person, or by Attorney, at the proper Office, according to the rules and forms instituted for that purpose.

$416 DOLLARS 4 Cts

M. XXVIII.

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*This certificate issued to Founding Father Patrick Henry in 1792 indicates that he invested in America's first bond issue.*

Capital markets are wondrous things. No nation with a good one is poor; no nation without one is rich, unless one counts as wealth the income reaped by the temporary exploitation of oil and gold, blood and bone. Alas, institutions as complex as capital markets do not usually arise of their own accord. To flourish, as they have in America, they typically require, at a minimum, political stability and a helpful hand from on high. Alexander Hamilton provided both.

Few doubt the importance of the Constitution, or Hamilton's seminal role in its ratification, but many scholars, like their Jeffersonian and Jacksonian forbears, routinely question the efficacy of Hamilton's financial reforms. Such debates, which raged even before Hamilton's untimely demise in 1804, were fueled by a dearth of hard evidence. In Hamilton's time, the depth and liquidity of the new financial markets were clear to all not blinded by partisan rage, but the ultimate effects of the financial revolution of the 1790s remained obscure.

Today, we know that Hamilton's revolution did not create the exploitative financial oligarchy that many feared it would. The founding generation's intimate understanding of the economic efficacy of the early financial system, however, was lost long ago. In recent decades, most historians ignored the early financial system entirely or hinted that it did more harm than good. The prevailing sentiment to this day appears to be that a few, rich speculators dominated the early debt markets and turned them to their own, greedy ends.

Recent work, however, is proving that such views are questionable. A few years ago, two colleagues and I completed a large data set of early securities prices. The data, gathered from early newspapers, suggested the early appearance of vigorous capital markets in each of the new nation's major coastal cities. Where there are prices, there are transactions, and where there are transactions, the forces of supply and demand ensure the economically efficient allocation of resources. Data on trading volumes, however, remained scarce, so stalwarts, who are always too plentiful, clung tenaciously to the old view that the "markets" were little more than the playthings of the rich and powerful few.

Even the most steadfast supporters of the old, anti-Hamiltonian view, however, will have difficulty deflecting the data currently emerging from an in-depth study of the recently (re)discovered national debt transfer books. Those account books list the owners of U.S. national bonds, often provide the accountholder's place of residence and occupation, and invariably reveal the date, type, and face value of bonds that they purchased and sold. In short, scholars will soon know precisely who owned the national debt and how frequently the various bonds created by Hamilton's funding plans traded in the secondary markets. Although results are preliminary, they are highly encouraging to those who argue that Hamilton's financial reforms played an important, if not crucial, role in forging America's economic greatness.

The initial data come from the Charleston, SC transfer books. Charleston was chosen for first study because price and anecdotal evidence suggested that it possessed the smallest and thinnest of the early U.S. securities markets. Logically, if the Charleston debt market was an active one, the findings from Boston, New York, Philadelphia, and Baltimore should prove even more encouraging. Here is an overview of the findings:

Between November 1790 and January 1797, the Charleston transfer books list 854 accountholders. This is not the same as the number of persons who owned bonds. Some accounts listed several people as owners; some people controlled several accounts. The former were generally partners in mercantile firms; the latter were typically attorneys who held bonds in trust for minors, the estates of the deceased, etc.

Of those 854 accountholders hailed most resided in Charleston or its environs; but they included people from at least 87 different places, from Amsterdam to Bermuda, from Bordeaux to Bristol, and from Massachusetts to Georgia. The accountholders included members of 48 different occupational groups, including bricklayers, gunsmiths, innkeepers, and painters.

The size of transactions ranged from $1.40 to almost $804,000. The average sale, of which there were 2,148 over the period, was for $1,359.10. The median transaction size was only $540.07, however, and 25 percent of the transactions were for bonds the face value of which was $173 or less, a sum well within the reach of "middling" households.

As Table 1 shows, merchants were major participants in the market, but they were so numerous, and so geographically dispersed, that it is highly unlikely they could have systematically manipulated the market for their own benefit. Moreover, in aggregate, miscellaneous holders (women, estates, trusts, partnerships, and organizations) were more numerous than merchants and purchased a greater face value of bonds.

**TABLE I**

| Group | Number of Accounts | Percentage of Accounts | Face Value of Bonds Purchased ($millions) | Percentage of Bonds Purchased |
|---|---|---|---|---|
| Non-merchants | 253 | 29.54 | 1.033 | 13.09 |
| Merchants | 234 | 27.40 | 3.043 | 38.56 |
| No Occupation Given | 367 | 43.06 | 3.816 | 48.35 |
| **Occupation Analysis** | **854** | **100.00** | **7.892** | **100.00** |
| Non-Charleston U.S. | 211 | 24.71 | 2.049 | 25.96 |
| Charleston | 375 | 43.91 | 2.991 | 37.90 |
| Foreign | 84 | 9.84 | .728 | 9.23 |
| No Location Listed | 184 | 21.54 | 2.124 | 26.91 |
| **Location Analysis** | **854** | **100.00** | **7.892** | **100.00** |
| Estates | 112 | 13.11 | .349 | 4.42 |
| Trusts | 39 | 4.57 | .223 | 2.83 |
| Organizations | 20 | 2.34 | 1.692 | 21.45 |
| Partnerships | 61 | 7.14 | .957 | 12.12 |
| Females | 89 | 10.42 | .208 | 2.64 |
| **Miscellaneous Accountholders** | **321** | **37.58** | **3.429** | **43.46** |

Moreover, as Table 2 suggests, the market for government bonds was quite liquid, both in terms of number of trades and the face value traded.

**TABLE 2**

| Month–Year | Amount Sold | Number of Sales | Average Sale Size | Month–Year | Amount Sold | Number of Sales | Average Sale Size |
|---|---|---|---|---|---|---|---|
| November 1790 | $2,876.39 | 10 | $287.64 | January 1794 | $10,654.39 | 18 | $591.91 |
| December 1790 | $4,667.92 | 4 | $1,166.98 | February 1794 | $34,178.08 | 28 | $1,220.65 |
| January 1791 | $10,739.25 | 10 | $1,073.93 | March 1794 | $5,189.63 | 12 | $432.47 |
| February 1791 | $15,704.86 | 3 | $5,234.95 | April 1794 | $17,706.84 | 21 | $843.18 |
| March 1791 | $16,261.23 | 10 | $1,626.12 | May 1794 | $2,500.12 | 2 | $1,250.06 |
| April 1791 | $17,260.66 | 29 | $595.20 | June 1794 | $4,414.35 | 9 | $490.48 |
| May 1791 | $1,800.68 | 5 | $360.14 | July 1794 | $54,982.84 | 35 | $1,570.94 |
| June 1791 | $1,686.01 | 6 | $281.00 | August 1794 | $7,619.83 | 9 | $846.65 |
| July 1791 | $17,122.78 | 23 | $744.47 | September 1794 | $9,987.14 | 14 | $713.37 |
| August 1791 | $7,759.47 | 21 | $369.50 | October 1794 | $3,029.57 | 10 | $302.96 |
| September 1791 | $3,407.02 | 7 | $486.72 | November 1794 | $27,266.70 | 18 | $1,514.82 |
| October 1791 | $26,841.11 | 26 | $1,032.35 | December 1794 | $1,526.72 | 4 | $381.68 |
| November 1791 | $254,830.71 | 107 | $2,381.60 | January 1795 | $12,453.91 | 18 | $691.88 |
| December 1791 | $104,626.72 | 75 | $1,395.02 | February 1795 | $27,711.80 | 30 | $923.73 |
| January 1792 | $58,103.70 | 54 | $1,075.99 | March 1795 | $21,973.90 | 25 | $878.96 |
| February 1792 | $113,527.63 | 64 | $1,773.87 | April 1795 | $35,455.43 | 39 | $909.11 |
| March 1792 | $52,697.30 | 68 | $774.96 | May 1795 | $44,045.29 | 25 | $1,761.81 |
| April 1792 | $98,032.16 | 91 | $1,077.28 | June 1795 | $17,679.84 | 7 | $2,525.69 |
| May 1792 | $260,086.57 | 166 | $1,566.79 | July 1795 | $82,982.47 | 53 | $1,565.71 |
| June 1792 | $74,815.37 | 65 | $1,151.01 | August 1795 | $78,518.71 | 40 | $1,962.97 |
| July 1792 | $60,232.27 | 73 | $825.10 | September 1795 | $11,443.35 | 10 | $1,144.34 |
| August 1792 | $46,229.91 | 54 | $856.11 | October 1795 | $43,156.04 | 26 | $1,659.85 |
| September 1792 | $18,701.02 | 34 | $550.03 | November 1795 | $17,149.88 | 13 | $1,319.22 |
| October 1792 | $44,650.38 | 60 | $744.17 | December 1795 | $12,437.45 | 7 | $1,776.78 |
| November 1792 | $53,419.74 | 52 | $1,027.30 | January 1796 | $18,784.21 | 7 | $2,683.46 |
| December 1792 | $11,337.71 | 21 | $539.89 | February 1796 | $15,331.31 | 19 | $806.91 |
| January 1793 | $43,398.47 | 32 | $1,356.20 | March 1796 | $15,341.32 | 9 | $1,704.59 |
| February 1793 | $40,686.19 | 51 | $797.77 | April 1796 | $20,574.70 | 20 | $1,028.74 |
| March 1793 | $13,088.07 | 18 | $727.12 | May 1796 | $79,066.64 | 23 | $3,437.68 |
| April 1793 | $124,353.24 | 63 | $1,973.86 | June 1796 | $15,875.23 | 9 | $1,763.91 |
| May 1793 | $20,516.04 | 17 | $1,206.83 | July 1796 | $158,145.36 | 42 | $3,765.37 |
| June 1793 | $6,228.97 | 12 | $519.08 | August 1796 | $37,559.98 | 22 | $1,707.27 |
| July 1793 | $16,097.78 | 11 | $1,463.43 | September 1796 | $10,273.87 | 13 | $790.30 |
| August 1793 | $66,272.57 | 36 | $1,840.90 | October 1796 | $28,426.54 | 12 | $2,368.88 |
| September 1793 | $16,145.93 | 15 | $1,076.40 | November 1796 | $30,709.57 | 14 | $2,193.54 |
| October 1793 | $85,467.64 | 29 | $2,947.16 | December 1796 | $14,503.65 | 15 | $966.91 |
| November 1793 | $64,334.76 | 16 | $4,020.92 | January 1797 | $4,804.81 | 13 | $369.60 |
| December 1793 | $11,047.36 | 18 | $613.74 | | | | |

Over time, the market in Charleston for the bonds that Hamilton's Treasury issued starting in late 1790 became somewhat smaller. Several factors account for the decline. First, by the late 1790s new varieties of U.S. bonds, tracked in separate account books not yet studied, became available, as did other securities, including shares in business corporations. Second, in the early decades of the 19th century the federal government rapidly paid down its debt, so there were fewer bonds available to trade.

Third, securities have a tendency to end up in the possession of one of two types of owners – long-term holders like widows and estates, and short-term traders. The former did not trade frequently, and the latter tended to send their bonds to the larger markets of the Northeast.

Fourth, the original southern holders liquidated their U.S. bonds, often selling them to northerners, to reinvest in the South's booming agricultural economy and foreign trading ventures. Such asset redeployments are among the advantages conferred by good capital markets.

So, by April 1, 1809 only 163 accountholders are listed on Charleston's books. They owned a total of only $1,900,797 face value worth of Hamiltonian bonds. The median accountholder owned $780.35 worth. Moreover, as Table 3 indicates, accountholders now represented fewer communities and fewer occupations.

| TABLE 3 | | | | | |
|---|---|---|---|---|---|
| Residence | Number | Percentage of Face Value of Bonds Owned | Occupation | Number | Percentage of Face Value of Bonds Owned |
| Beaufort, South Carolina | 1 | 0.47 | Attorney | 1 | 15.24 |
| Bermuda | 7 | 1.28 | Broker | 1 | 0.02 |
| Camden | 1 | 0.48 | Factor | 2 | 1.91 |
| Charleston | 64 | 61.75 | Grocer | 1 | 0.89 |
| Chester, Great Britain | 1 | 17.62 | Merchant | 18 | 46.65 |
| Georgetown | 1 | 0.79 | Merchant Tailor | 1 | 0.07 |
| Georgia | 1 | 0.01 | Physician | 2 | 2.93 |
| Great Britain | 4 | 8.14 | Planter | 19 | 19.07 |
| James Island | 2 | 0.53 | Reverend | 3 | 0.66 |
| New River | 1 | 0.02 | Spinster | 6 | 1.31 |
| Newberry district | 1 | 0.78 | Surveyor | 1 | 0.48 |
| Ninety Six district | 3 | 1.13 | Tanner | 1 | 0.06 |
| Peedee | 1 | 0.02 | Treasurer of the State | 1 | 5.96 |
| Pendleton County | 1 | 0.68 | U.S. Navy | 1 | 0.15 |
| Redland, near Bristol | 1 | 0.09 | Widow | 15 | 4.60 |
| South Carolina | 2 | 4.47 | **Total** | **73** | **100.00** |
| St. Eustatius | 2 | 0.10 | | | |
| St. Helena | 1 | 0.80 | | | |
| St. James Santee | 1 | 0.05 | | | |
| St. John's Parish | 1 | 0.10 | | | |
| St. Paul's | 1 | 0.03 | | | |
| St. Thomas Parish | 2 | 0.63 | | | |
| Winyaw | 1 | 0.03 | | | |
| **Total** | **101** | **100.00** | | | |

Charlestonians owned decreasing numbers of Hamiltonian bonds until the first U.S. national debt was completely paid off during Andrew Jackson's administration. The redemption of the bonds, or their sale to northern and foreign markets, was a gradual process. Some Charlestonians consumed the proceeds of the sales and redemptions or invested them directly in productive assets like land and slaves. Others undoubtedly reinvested in state and local bonds, private bonds and mortgages, and corporate securities. Thanks to the helping hand that Hamilton provided the nation's nascent capital markets, Charlestonians, and indeed all Americans, enjoyed a variety of long-term investment options, and a greater ability than before to reallocate capital to take advantage of new and profitable investment opportunities.

Two hundred years after Hamilton's death, scholars studying the long-dormant early U.S. transfer books are finally poised to understand with clarity, depth, and precision the importance and complexity of the Treasury Secretary's accomplishments in creating liquid capital markets. These markets were a major advantage of the United States in comparison with almost all other nations at the start of the 19th century. Prevailing notions that capital markets were unimportant and "dens of thieves" need to be tempered with factual knowledge of their nature and depth, and how they contributed to the efficient allocation of scarce capital resources. FH

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