EUROPEAN ORIGINS OF THE ECONOMIC IDEAS OF ALEXANDER HAMILTON

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ABSTRACT

THE EUROPEAN ORIGINS OF THE ECONOMIC IDEAS OF ALEXANDER HAMILTON

by Robert James Parks

The purpose of this thesis is to uncover the European influences on the economic ideas of Alexander Hamilton, and to relate them to the political, economic, and intellectual currents of the time. The term influence is used in a broad sense, including written, personal, and environmental factors.

The methodology used here is fourfold. First, Hamilton's papers were examined in an effort to discover preconceptions he may have held which would have caused him to alter the economic ideas he encountered. Second, Hamilton's economic papers were examined for acknowledged reliance on specific influences, and these influences were compared to other ideas which Hamilton held. Third, Hamilton's ideas which were not identified by the previous method were compared to those of prominent writers or to writers who, while not necessarily prominent, expressed ideas which were in marked contrast to most of the ideas of the time, and therefore could readily be identified in Hamilton's thinking. Finally, the results of the first three steps were placed in the broad environmental framework of the era.

Robert James Parks

The problem of isolating the specific sources of a man's ideas is risky, and the results of such investigation must always be regarded as tentative. Moreover, before the problem of sources is investigated, the historian of ideas faces a primary problem which must be solved. That is to isolate and analyze the criteria by which the individual under investigation accepted or rejected ideas. In Hamilton's case, two fundamental forces seem to have modified his thinking, nationalism and pragmatism. Hamilton's nationalism led him to accept ideas which were consistent with the goal of national greatness and its related economic necessities. His pragmatism led him to reject theoretical constructs, and to judge ideas by their factual verification. He placed great value on the lessons of experience, and used an emotional concept of man in his thinking. Hamilton's pragmatism reflects the influence of David Hume.

The sources of ideas are varied and often difficult to isolate. In addition to the books and pamphlets of an age, the subjects which men discuss as problems of common concern help make up its climate of opinion. In the case of Hamilton, as a statesman it is also possible that external pressures may have forced an expression of ideas which he did not quite believe. Finally, there is an element of personal creativity which can never be disregarded.

Even with these problems, it is possible to isolate several elements of influence. In the papers which Hamilton produced in the years from 1781 to 1783, Hume and Montesquieu seem to be the chief sources of his ideas. The First Report on Public Credit shows the influence of a group of writers, including Isaac Pinto and Samuel Gale, who were concerned with the beneficial effects of public debts. Finally, the Report on a National Bank and the Report on Manufactures reflect the influence of Adam Smith. It is important to remember, however, that Hamilton's use of Smith was conditional, and did not lead to the adoption of Smith's general system.

In addition to these written sources, it is possible to isolate several environmental influences which shaped Hamilton's thought. His pragmatism and preference for methods tested by experience led him to imitate institutions which had worked successfully for more advanced European nations. The expectations of foreign creditors added a pressure toward financial orthodoxy. And, the economic experience of the colonies resulted in the presence of certain prevalent ideas in Hamilton's writings. Finally, the Hamiltonian financial system was strongly influenced by the policy objectives of the nationalists who fought for the adoption of a strong central government in America.

An understanding of the sources of Hamilton's economics is important because it helps to dispel certain notions about the intent of his program. It shows the inaccuracy of attempting to make Hamilton into a bourgeois liberal by citing the presence of the ideas of Adam Smith in his work. And, it also shows that it is not possible to trace ideas to a single influence, for example, that of Dr. Richard Price, merely because the two men happened to share a few ideas. Above all, Hamilton was a pragmatist, and as such was eclectic in his choice of authorities which would buttress his objective: a powerful, unified, and self-sufficient America.

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CHAPTER I

THE PRE-REVOLUTIONARY PAMPHLETS AND THE CONTEXT OF HAMILTONIAN THOUGHT: 1775-1776

The ethics of historical writing are a sensitive problem. When men seek justification in the past, the past often changes to suit the needs of the present. And it is upon those who came first, the creators of institutions, that the process of historical adjustment falls most heavily. To be first is to set precedents, and men marshal precedents to justify or condemn that which they favor or oppose. Often, both the supporters and opponents of present conditions marshal the same precedents to sanction their cause.

Among those who have set precedents, Alexander Hamilton has received his fair share of attention and evaluation. The student of Hamilton and American economic history is justifiably confused by the variety of political and economic systems which Hamilton is said to have really intended to found, or to which he was absolutely opposed. And, too often, the interpretation is colored by the political hue of the interpreter. The spectrum stretches from Louis Hacker's presentation of Hamilton as an ardent eighteenth century bourgeois liberal and devout disciple of Adam Smith, to Broadus Mitchell's portrait of an eighteenth century economic nationalist relying upon mercantilist policy measures to establish a planned economy.[1] Between these polar opinions, the range of interpretation is limited only by the number of political and economic alternatives which modern writers can hope to justify.

It is not the object of this paper to decide which of the modern economic alternatives Hamilton preceptively sought to establish, but to attempt to solve a problem which has either been neglected by his biographers, or handled in such a way as to give a false impression of his economic objectives.[2] That problem is to determine the sources of Hamilton's economic ideas, particularly those of European origin. The approach of this essay will be both chronological and topical. In this chapter, covering the pre-Revolutionary years, Hamilton's thought will be placed in a conceptual framework. In the next chapter, his economic papers for the years 1780-1783 will be examined. In the final chapters, The Reports on Public Credit, The Report on a National Bank, and The Report on Manufactures will be examined in chronological order.

[1]Louis M. Hacker, Alexander Hamilton in the American Tradition (New York, 1957), p. 9; Broadus Mitchell, Alexander Hamilton (New York, 1962), II, x. Hereafter cited as Mitchell, Hamilton.

[2]For instance, Robert I. Warshow, Alexander Hamilton: First American Businessman (New York, 1931), p. 32, gives too much emphasis to the place of Adam Smith in Hamilton's thought.

The placement of Hamilton's thought in a conceptual framework is important because it explains his approach to economic thinking, and clarifies his modifications and reservations in adopting the ideas of others. Needless to say, an investigation of the sources of a man's thought poses problems of extraordinary complexity. It is difficult enough to probe the minds of living men. When the probe is extended to span a century and a half, one's conclusions can only be regarded as tentative and subject to careful reservations.

Students of the history of ideas must not only confront grave uncertainties in their identifications of the sources of thought. They must also face the difficult problems involved in attempts to relate the thought of a particular man to his system of values. Logic, whether economic or other, is not the sole determinant of the ideas a man permits to enter his system of thought. Values and goals are often the bases for decisions which do not seem to be formed by pure logic. If Hamilton's use of economic ideas is to be understood, it can only be within the framework of the values he used for determining the validity of the ideas he encountered.

The first element to be considered is the relationship of Hamilton's political objectives to his economic conclusions. While Hamilton wrote excellent economic reports, he was primarily a statesman, not an economist. As a statesman, he must be clarified with Pitt, Bismarck, and

Turgot, rather than with "pure" economists such as Smith, Ricardo, and Mill. Although the ever-present element of creativity must not be disregarded, it is as a statesman instituting practical economic programs, rather than as an abstract theorist that Hamilton is justly famous. As a statesman he had more considerations to take into account than the pure theorist, who, working within rigidly controlled assumptions, is concerned solely with economic maximization.[3] Throughout this paper, an attempt will be made to examine Hamilton's ideas within the specific political contexts in which they appear. But it will be necessary at the outset to inquire whether there existed any single, overall, non-economic objective which may have modified the economics of his Reports.

In the most recent and perceptive of the Hamiltonian biographies, Broadus Mitchell has presented the portrait of a driving nationalist.[4] It is precisely this nationalism, a vision of the potential greatness lying dormant in the human and physical resources of his adopted home, which seems to have modified the economic theories which Hamilton encountered. The detailed modifications this vision compelled will be presented later in the analysis of specific ideas. The task at hand is to develop and clarify the

[3] Edward C. Lunt, "Hamilton as a Political Economist," Journal of Political Economy, III (1895), 305-309.

[4] Mitchell, Hamilton, II, vii.

vision, and to show its consistency throughout Hamilton's life.

The earliest of Hamilton's reports and pamphlets were published prior to the Revolution.[5] A Full Vindication and The Farmer Refuted are not major economic papers, but revolutionary propaganda pamphlets designed to refute arguments advanced by Samuel Seabury under the pen name of "A Westchester Farmer."[6] Whatever their significance may be in this capacity, however, they are important for an understanding of Hamilton's later economic ideas. When Hamilton wrote them, he was a twenty year old student at Kings College,[7] and not yet as cautious in the public expression of his ideas or as hesitant in the citation of supporting authorities as he later became. The assaults of political opposition had not yet forced him to conceal his sources or to obscure his purposes. Similarly, while the colonies were still British, he could cite British sources without being labeled a monarchist. As a result, the works possess a unity, breadth, and openness which is not present in later papers.

[5] A Full Vindication of the Members of Congress . . ., and The Farmer Refuted; . . ., in Works of Alexander Hamilton, ed. Henry Cabot Lodge (New York, 1904), I, 3-52, 55-177. This edition of Hamilton's papers is hereafter cited as Lodge, Works.

[6] John C. Miller, Alexander Hamilton: Portrait in Paradox (New York, 1959), pp. 9-10.

[7] Lodge, Works, I, 3, n. 3.

The fact that Hamilton was deeply impressed by both the economic potentialities of the colonies and by the economic determination of human affairs is revealed by his attempt to explain the mother country's behavior in terms of these factors. He seriously believed that the repressiveness of British measures might be the result of fear that American opulence might lead to independence. As he phrased it in A Full Vindication, "the boundless extent of the territory we possess, the wholesomeness of our climate, the luxuriance and fertility of our soil, the variety of our products, the rapidity of the grwoth of our population, the industry of our countrymen, and the commodiousness of our ports naturally lead to a suspicion of independence, . . ."[8] Again in 1775 he shows his vision of a country destined for greatness because of its rich endowment. This is the vision which was the real basis of Hamilton's statesmanship in later years.[9]

Among the criteria for greatness, product diversity played a key role. This "variety of our products" was important because it meant self-sufficiency, the very foundation of national independence. Hamilton went to some length to prove the possibility of self-sufficiency for the colonies. In A Full Vindication, he took up the question of the result of a total stoppage of trade. He insisted

[8] Ibid., 71.

[9] Joseph Dorfman and Rexford G. Tugwell, Early American Policy: Six Columbia Contributors (New York, 1960), p. 17. Hereafter cited as Dorfman and Tugwell, Early American Policy.

that "we can live without trade of any kind."[10] The colonies could provide food and clothing, while the hands made idle by the stoppage of commerce could be diverted to manufacturing and internal improvement. Indeed, an area with such varied climate, soils, and resources as the colonies possessed ought always be able to be self-sufficient by diverting trade to internal markets. Sufficient labor could be provided from workers displaced in foreign commerce and from immigration.[11] It would seem then that at this stage Hamilton had set a guiding rule for American statecraft. That is, that national independence depends on national self sufficiency, which the development of internal markets for the exchange of the nation's rich and diverse resources would make possible.

This idea consistently dominated Hamilton's thinking, from the Revolutionary pamphleteering days to the close of his term as Secretary of the Treasury. Talleyrand, in memoirs written years later, remembered his words: "As for us, we need only two markets, but they are indispensable to us: one for the Northern and one for the Southern States. When these markets are established, commerce will be able to resume its regular course; . . ."[12] International trade

[10] Lodge, Works, I, 18.

[11] Ibid., 157-162.

[12] Memoirs of the Prince de Talleyrand, ed. The Duc De Broglie, trans. Raphael Ledos de Beaufort (New York, 1891), I, 184-185. Hereafter cited as Talleyrand, Memoirs.

and specialization were to wait for the development of large internal markets in the United States. Then, and only then, could America take her place with the great commercial states of the world. In twenty years of public life, Hamilton seems never to have abandoned this vision of potential greatness and its prerequisite conditions.

One other aspect of Hamilton's conception of the economic basis of national greatness was his belief in the role of economic interest in human affairs. This idea was narrower and more specific than a simple acknowledgement of the role of resources in national greatness; it was the oft-noted Hamiltonian view that good government is predicated on a linkage between government and the personal interests of the wealthy and powerful. Two students of Hamilton have traced this idea to his wartime observation of monied people deliberately forcing currency depreciation for personal profit, and have credited this experience as the source of his belief that government can only succeed by acting in the best interests of the wealthy.[13] Whatever the impact of wartime experience may have been, however, it was not the origin of the concept. At best it provided only a reinforcing mechanism, because the belief can be traced to a pre-war period. In both of his pre-war pamphlets, Hamilton made a point of the fact that in the Stamp Act crisis American petitions went unheeded. It was only when the

[13]Dorfman and Tugwell, Early American Policy, pp. 17-19.

commercial interests of Great Britain were injured that pressure was placed on Parliament for repeal.[14] The redress of grievances, that is to say, was only achieved when it was in the best interest of a wealthy class to do so. Clearly an idea which was destined to play a controversial role in the new republic was either implanted or reinforced by the actions of the British government prior to the Revolution.

Hamilton's primary preconceptions--the geographic and economic basis for national power, and the economic motivation of human behavior--thus formed the basis for his vision of the nation's potential greatness, and for his emphasis on the need for self-sufficiency and internal markets to realize it. These preconceptions may be seen in Hamilton's pre-Revolutionary pamphlets, but their origins are extremely difficult to trace. Even in those works which Hamilton himself often credits as sources of his ideas, one finds no positive clue to their origin. Any attempt to credit them to a particular intellectual influence would be speculative. The most that can be said is that they were familiar notions out of which he wove nationalist values which in turn determined the validity of the economic ideas he encountered.

If the vision of national greatness with its concomitant economic requirements was the policy objective

[14] Lodge, Works, I, 9, 138.

which served as the matrix for Hamilton's economic thought, it was not the sole factor which influenced him. An understanding of the epistemological reservations with which Hamilton approached economic ideas is equally important. Every man has within himself a system of values by which he determines the truth or falsehood of the ideas he encounters. The problem which poses itself is to discover the values Hamilton held--criteria for determining the nature of truth--which served him as standards for evaluating the validity of economic ideas. Moreover, values of this nature do not evolve in a vacuum; they grow and draw sustenance from the climate of opinion in the world surrounding them. In Hamilton's case, it is useful not only to define these values, but to relate them to the general climate of opinion and to the differing schools of thought within that climate of opinion.

The sweeping intellectual current which washed the eighteenth century is of course known as the Enlightenment. Unfortunately for American historiography, the long ascendancy of Jefferson in historical interpretation of the early national period, coupled with his extreme involvement in the Enlightenment, and the use of Hamilton as a foil for everything Jeffersonian, has led to an extreme distortion and diminution of Hamilton's intellectual stature. Surprisingly, it is not one of Hamilton's detractors, but one of his most devoted admirers, who has carried the myth to an extreme by attempting to convert it into a virtue.

According to Louis Hacker, Hamilton's interests were narrow, and the opening Newtonian world held no fascination for him. He knew of antiquity, but his mind lacked the range of his contemporaries. Hacker considers this a quality to be admired.[15]

This characterization of the Hamiltonian mind is incorrect. The available evidence does not support the imputation of narrowness and lack of interest in the Newtonian world or Enlightenment. It is true that he did not immerse himself in the intellectual currents of that world to the extent that was possible for a man of greater leisure. A man whose efforts are constantly divided between the cares of government and the support of an ever-growing family has little time for philosophy. Hamilton consistently channeled his energies into government and politics, directing them to the completion of the revolution he had helped to create, without the periodic withdrawals from life and society which mark Jefferson's career. Both Franklin and Jefferson were supported by independent incomes which gave them leisure time. Neither Hamilton's means nor vocation provided leisure.

If one examines those few years in Hamilton's life which were not consumed by politics and the business of

[15]Hacker, <u>Alexander Hamilton</u>, p. 17. Hacker's interpretation itself suffers from internal inconsistency, since he attempts to show that Hamilton was "profoundly" influenced by John Locke and Adam Smith (p. 9), who were both key figures in the Enlightenment.

earning a living, another pattern emerges. Hamilton in his last years, was building a country estate. He developed an interest in horticulture, and was an enthusiastic supporter of a project for building a botanical garden in New York City proposed by his friend Dr. Hosack, a noted Columbia botanist.[16] And, as we shall see shorthly, he also considered a project for a large scale social analysis. Thus, the early "narrowness" of Hamilton's mind was not a matter of choice, but a condition forced upon him by the necessities of his career.

Yet the charge of disinterest in the Enlightenment cannot be sustained, even for Hamilton's early years. It is essential in this instance to inquire whether it was necessary to be a philosopher to be enlightened, and what it meant to be enlightened. According to Carl Becker, the philosophers of the Enlightenment were not formal academic philosophers, but men of letters writing books on all subjects which were designed to spread new ideas to mankind. Enlightenment was a state of mind, rather than a level of intelligence or education. "To be enlightened was to understand this double truth, that it was not in Holy Writ, but in the great book of nature, open for all mankind to read, that the laws of God had been recorded."[17] The

[16] Allen McLane Hamilton, Intimate Life of Alexander Hamilton (New York, 1910), p. 345.

[17] Carl Becker, Heavenly City of the Eighteenth-Century Philosophers (New Haven, 1961), p. 51. Hereafter cited as Becker, Heavenly City.

philosophers were writers who shared a common view of nature as the source of truth. The feature which separates them from the twentieth century is their reliance on logic, reason, and natural law, which, Becker observes, all play a subordinate role to fact in the present era. Becker views the Enlightenment as a climate of opinion which combined faith and reason in certain characteristics common to the eighteenth century mind. One of these characteristics was the revelation of truth through nature and natural law. Indeed, in the eighteenth century nature was the test of all truth. Nature was physical reality and encompassed the whole universe, with its truth revealed in the order and mechanistic perfection with which God the Prime Mover regulated the universe.[18] Thus it would appear that investigation of any subject, as long as the investigation was secular and logical, rather than theological, was proper to an enlightened search for truth.

Economics and statecraft were proper subjects for investigation, not only because they were a part of nature, but because the reformation of society was of primary importance to the philosophers. In economics, the Enlightenment took the form of a sustained attack on artificial restrictions and a plea for a return to the natural law of self interest. Economic explanations became orderly and secular, and the different subjects of

[18] Ibid., pp. 25-35, 6-8, 17, 35.

economic analysis began to be integrated in a systematic framework. Samuel Gale, a writer on public finance, found the study of fiscal policy to be simply a case in the study of nature:

> The Studious reader will have observed, that the same immutable laws and principles that were given to the UNIVERSE by its GREAT CREATOR; pervade and govern all things throughout all nature, on one and the same general and universal BASIS.
>
> It is not public credit alone that is supported by the preservation of a balance or equilibrium in CIRCULATION;--the animal, the vegetable, and every other thing in the creation, is supported on the self-same principle; and each equally declines, whenever the necessary circulation discontinued to proceed in equilibrio.
>
> The planetary system or universe is supported solely by the balance or equilibrium which is preserved among the heavenly bodies, by their respective motions or circulations in their respective orbs:--The primum mobile of that circulation is the conjunct power of GRAVITATION AND REPULSION which the Great Creator implanted:--while that continues, the universe must be immortal: . . .
>
> In like manner, the PUBLIC REVENUE is the primum mobile of the circulation which preserves the balance or equilibrium necessarily required for the support of public credit: . . .[19]

It was possible for Gale to be enlightened and a philosopher, and to be interested solely in public credit. Even history was a subject of profound interest to enlightened men, and some of them engaged actively in writing it. History was rewritten and rationalized as an examination of society and morality in the past, in order to help men avoid repeating mistakes in the future. In such a climate of values it is no coincidence that the

[19] Samuel Gale, An Essay on the Nature and Principles of Public Credit (London, 1784), pp. 166-167.

great triumverate of Robertson, Hume, and Gibbon appeared when they did, or that they were so widely read.[20]

It was not even necessary to be French, or pro-French, to be enlightened. The Enlightenment was not a peculiarly French phenomenon, but an international climate of opinion. Locke, Hume, Adam Smith, Price, and Priestly, as well as Jefferson and Franklin in America were all true children of the Enlightenment.[21] As Becker has aptly described it: "The philosophical empire was an international domain of which France was but the mother country and Paris the capital. Go where you like--England, Holland, Italy, Spain, America--everywhere you meet them, Philosophers speaking the same language, sustained by the same climate of opinion."[22]

It is precisely this international quality which impresses the student of the eighteenth century. There existed an international intellectual community which disregarded national boundaries in matters of the mind. It is Hume writing to Montesquieu to tell him that he has found something good, however small, about the national debt, and Franklin sitting in a London inn suggesting revisions in a rough draft of The Wealth of Nations, that convinces the student that new ideas could not be confined, but circulated throughout the intelligent world.[23] On

[20]Becker, Heavenly City, pp. 52, 93.

[21]Ibid., p. 33. [22]Ibid., p. 34.

[23]John Rae, Life of Adam Smith (New York, 1895), pp. 264-265; David Hume, Writings on Economics, ed. Eugene Rotwein (Madison, 1955), p. 189.

a priori grounds alone it would be surprising if a man of Hamilton's intelligence, education, and social position missed all this. Available evidence shows that he did not.

Hamilton came to the colonies for one purpose, to gain a formal education. He was admitted to Kings College and allowed to study at his own pace. Kings was then under conservative management, and students were taught to regard prevailing conduct and ways of thinking as the proper conduct of men and nations. This doctrine was based on self evident truths and right reason according to natural law. For argument, they relied heavily upon Hugo Grotius and Samuel von Puffendorf. When Hamilton defied the college by joining the New York rebels, he used the same sources and patterns of reasoning to come to the opposite conclusions.[24]

When Hamilton attacked the Westchester Farmer (Samuel Seabury), he urged him to discover natural rights and natural law. He recommended Grotius, Puffendorf, Locke, Montesquieu, and Burlamaqui as the proper sources; later he utilized Blackstone.[25] Hamilton occasionally quoted Montesquieu, including one recorded instance at the Federal Convention.[26] And in the closing years of his life, in a letter to Lafayette, he gave Montesquieu credit for a basic political belief.[27]

[24]Dorfman and Tugwell, _Early American Policy_, p. 21.

[25]Lodge, _Works_, I, 61, 63.

[26]_Ibid._, 61, 185, 374. [27]_Ibid._, X, 337.

Books contained in Hamilton's library at his death suggest that Hamilton's interest in the Enlightenment was more than a casual one. Among the writers listed are Hume, Frederick the Great, Chastellux, Diderot's Encyclopedie Methodique, Chesterfield, Voltaire, Bacon, Hobbes, Robertson, and Gibbon.[28] A list of authors that Hamilton's son found in his father's old company pay book duplicates many of these writers, and adds Rousseau. Hamilton had either read these writers during the war, or intended to read them after the war.[29] The appearance of these books in his library some twenty-five years later creates the presumption that he carried out his earlier intentions.

Hamilton himself was not without personal friends in the international intellectual world. One of the most outstanding was Chastellux, author of De la Félicité publique, and contemporary of Helvetius and Holbach. In the role of French speaking aide-de-camp to Washington, Hamilton met many important French officers, including Chastellux and Lafayette. Chastellux later visited the Schuylers in Albany when Hamilton was there.[30] A letter which Hamilton sent him in 1784 evinces his interest in the intellectual world. He wrote that "learning is the common concern of mankind; and why may not poor republicans, who can do little

[28] Allen McLane Hamilton, Intimate Life, pp. 74-75.

[29] Works of Alexander Hamilton, ed. John C. Hamilton (New York, 1850), I, 4.

[30] Allen McLane Hamilton, Intimate Life, p. 209.

more than wish her well, send abroad to solicit the favor of her patrons and friends."[31] Finally, among the refugees from the French Revolution who arrived in America with letters of introduction to Hamilton were Priestly and De Rochefoucauld-Liancourt.[32]

All this suggests that Hamilton was aware of the Enlightenment, and more than casually interested in it. However, all this really means very little. The terms which have been used to describe the Enlightenment have been too broad and too general. Even the term Enlightenment is itself deceptive, because it is used as a blanket term to cover the cross currents and changes in a century of intellectual development. The Enlightenment is not Rousseau, or Montesquieu, or Jefferson, but the sum of all its parts. And the parts are diverse enough to strain the use of a single term to cover them. This essay will attempt to establish that Hamilton belonged to a particular strain of enlightened thought which helped to modify his approach to economic ideas and set him apart from his contemporaries. It will attempt to place him in the intellectual tradition founded by David Hume, and to show that the values or criteria of truth which Hamilton held stem directly from Hume.

[31]Lodge, Works, IX, 403-404.

[32]Allen McLane Hamilton, Intimate Life, pp. 301, 36-37.

Other writers have noted a change in the tone of Hamilton's arguments after his early pamphlets. From an early position bordering on Rousseau's emphasis on natural law, Hamilton became more pragmatic. In his later works he does not show the respect for natural law which was evident earlier.[33] It is this change which leads to the suspicion that some influence exerted itself, causing Hamilton to alter his conceptual framework.

By the middle of the eighteenth century the philosophers of the Enlightenment had developed an elaborate doctrine of natural social law, reason, human rights, voluntary civil obedience, and self centered men governed by reason, pleasure and pain. At the very time this doctrine was reaching full bloom at mid-century, it suffered devastation from a general attack launched upon it by David Hume. Hume insisted that logic, fact, and value were separately distinguishable elements which should not be encompassed in the concept of reason. Furthermore, he argued, the deduction of conclusions from fundamental axioms based on faith, axioms which the philosophers called natural law and assumed to be good, was only one kind of reason. Another kind of reason which he advocated was the inductive process of arriving at conclusions by building theories from a base of empirical

[33] Dorfman and Tugwell, Early American Policy, pp. 16-17; Virgle G. Wilhite, Founders of American Thought and Policy (New York, 1958), p. 231. Hereafter cited as Wilhite, Founders.

evidence. Unfortunately, according to Hume, such empirical evidence was often not available in the social sciences because of the complexity of the factors involved. Having thus discarded deductive reasoning, and limited the social applications of inductive reasoning, Hume was forced to find alternative tools for social decision making. The tools which he chose were value judgments and subjectivity. That is to say, men should act according to personal opinions of the desirability of measures. These opinions, in turn, should be framed by the general values held by mankind. Even though the method was subjective and non-scientific, it was preferable to the results of logical deduction from natural law, because deductive thinkers were likely to force society into an unnatural structure by assuming objectivity and recommending their conclusions as courses for social action. Deductive analysis was likely to lead society to actions which experience had proven to be disastrous. As a result, Hume cast a cloud of doubt on the validity of the self-evident social truths championed by the enlightened, and established the necessity for value judgments and empirical study in the social sciences.

Hume rejected the hedonistic, pleasure seeking-pain avoiding concept of man which the enlightened called upon to regulate behavior in conjunction with natural law. The concept called for too much careful calculation for Hume's idea of man. For Hume, man was complex, emotional, and impulsive.

While Hume valued the lessons of experience and distrusted the application of deductive reason to society, he also challenged the sacredness of laws and governments. To Hume, they were sacred only so long as they fulfilled some utilitarian function. If change satisfied some social need, it was justified. The virtues Hume held up were justice, veracity, integrity, and fidelity, all of which are conducive to greater social satisfaction. He also recognized altruism in man, as well as self centered elements.[34]

Although Hume began his attack at mid-century, his impact was not felt until the century had nearly passed. Most people were unwilling to accept Hume, because he was such a shock to the standard preconception of the eighteenth century. His works were so poorly received that he turned from philosophy to writing history, and his Dialogues Concerning Natural Religion lay unpublished in his desk for twenty-five years. Thus, while some Americans were aware of Hume, debate was not vital until after the formation of the union.[35]

Hamilton was no stranger to the writings of David Hume. A copy of his essays was found in Hamilton's library after his death, and Hamilton frequently relied upon Hume to support his arguments. A detailed examination of his use of Hume's economic ideas will be made later. What it is important to establish here is the extent of Hamilton's

[34] Wilhite, Founders, pp. 80-86.

[35] Ibid., pp. 85-86; Becker, Heavenly City, pp. 72, 73.

explicit reliance on Hume, as well as to establish the qualities of his thought which are closely related to those of Hume.

Even in his first propaganda pamphlets, which reflected a heavy reliance on natural law, Hamilton used Hume to support his arguments. He quoted Hume to the effect that politically every man should be considered a knave who must be governed by a system of checks and balances. Man is controlled by his own self interest, and can only be directed by institutions which appeal to his self interest.[36] Hamilton seems to have accepted Hume's view completely, although it must be remembered that a political propaganda pamphlet is no place to express doubt about one's sources. However, one of the features of Hamilton's thinking which was explored earlier was precisely this belief that government must appeal to the self interest of the governed. Certainly Hume is a possible source for this idea, and, Hamilton's possession and use of Hume's work considerably strengthens the possibility.

One of the protests which Hume had registered against the philosophers was that they used deductive logic to derive principles from natural law, and Hamilton registered the same protest. In attacking the Westchester Farmer, Hamilton wrote that "the best way of . . . . investigating truth is by ascending to elementary principles.

[36]Lodge, <u>Works</u>, I, 73-74.

Any other method may only bewilder and misguide."[37] Hamilton apparently shared Hume's belief in the validity of inductive logic, which is an important point to note in his approach to knowledge.

One of Hamilton's views which appalled the Jeffersonians was the idea that sometimes a little corruption is good for government. According to Madison's notes on the Federal Convention, Hamilton told that body that reliance on pure patriotism is the source of many errors, and that it is impossible to calculate the effect reform would have on Great Britain. "It was known that ⟨one⟩ of the ablest politicians (Mr. Hume) had pronounced all that influence on the side of the crown, which went under the name of corruption, an essential part of the weight which maintained the equilibrium of the Constitution."[38] Dorfman and Tugwell maintain that Hamilton drew this opinion from Hume's Tory History of England.[39]

[37] Ibid., 75-76; Papers of Alexander Hamilton, ed. Harold C. Syrett (New York, 1961), I, 96. The Lodge edition does not use "ascending" but "descending," as the original is printed. However, Syrett, in the latest edition of the Hamilton papers, has pointed out that the word "descending" was corrected to "ascending" in "Errata" in the original. The liberty was taken here to correct the original because this printer's error reverses the basic idea of the sentence, and the correction is too important to risk in a footnote.

[38] Records of the Federal Convention of 1787, ed. Max Farrand (New Haven, 1911), I, 376. Yates account of the same event (p. 381) conflicts with Madison's. According to Yates, Hamilton quoted Hume to say that a body of patriots will always step forward to shake a corrupt administration.

[39] Early American Policy, pp. 24-25.

Nor was this the last time Hamilton would use Hume to support his political arguments. Significantly, he used Hume in the closing paragraph of Federalist No. 85 to support his arguments for ratification. The passage is especially important because it lists criteria which both Hamilton and Hume considered vital. In attacking attempts to amend the Constitution before ratification, Hamilton quoted a writer "equally solid and ingenious: . . ." This writer had warned that "to balance a large state or society, whether monarchical or republican, on general laws, is a work of so great difficulty that no human genius, however comprehensive, is able, by mere dint of reason and reflection, to effect it. The judgments of many must unite in the work; EXPERIENCE must guide their labor; TIME must bring it to perfection, and the FEELING of inconveniences must correct the mistakes which they inevitably fall into in their first trials and experiments."[40] In this instance, Hamilton was close to Hume in his attack on reason as the tool for regulating human behavior. Instead of reason he preferred to think that judgment, experience, and the process of time should regulate human behavior.

Even with this reliance upon time and experience, the forms of government were hardly sacred to a man who helped to overthrow two governments and create a third. While Hamilton was conservative by nature, as was Hume,

[40]This quotation is footnoted to Hume's Essays, Vol. I, p. 128: "The Rise of Arts and Sciences." In the Federalist Papers, No. 85, ed. Clinton Rossiter (New York: The New American Library of World Literature, Inc., 1961), pp. 526-527.

he lacked the horror of change which haunts the Burkean conservative. An interesting illustration of this attitude is displayed in a letter to James Duane, in which Hamilton suggested that novelty might even be useful in human affairs. "There are epochs in human affairs when novelty even is useful. If a general opinion prevails that the old way is bad, whether true or false, and obstructs or relaxes the operations of the public service, a change is necessary, if but for the sake of change."[41] Change for the sake of change is hardly a conservative concept.

So far as the social sciences were concerned, Hamilton shared Hume's distrust of general theory. A remark made to Washington in a cabinet paper about the supposed tendency of paper money to drive specie from the country is a classic illustration. "This is a mere hypothesis, in which Theorists differ. There are no decisive facts on which to rest the question."[42] Another letter written to Lafayette at the beginning of the French Revolution illustrates the same distrust. "I dread the reveries of your philosophic politicians, who appear in the moment to have great influence, and who, being mere speculatists, may aim at more refinement than [is consistent] with human nature or the composition of your nation."[43]

[41]Lodge, Works, I, p. 238. (Hamilton's Italics.)

[42]Ibid., II, 449.

[43]Ibid., IX, 460.

Thus, while Hamilton was neither averse to change nor to indulging in change to satisfy public opinion, he was opposed to changes which were motivated by a desire to adjust human behavior to the requirements of abstract systems.

Moreover, if Hamilton distrusted too much theory, he was also dissatisfied with the state of political knowledge in his own time.[44] According to Chancellor Kent, Hamilton was considering a major work in 1804 when Kent visited him. He was thinking about a full investigation of the history and science of civil government, and the practical results of the various modifications of it upon the freedom and happiness of mankind. "He wished to have the subject treated in reference to past experience, and upon the principles of Lord Bacon's inductive philosophy."[45] He wanted to draw sound conclusions from a historical examination of the effects of various institutions upon the freedom, morals, prosperity, intelligence, and happiness of the people. He planned to work with six or eight collaborators, each writing a volume on a particular area and leaving the concluding volume for himself. If Hamilton ever got beyond the planning stage of this project there is no indication of it in his surviving papers. The most important thing is that it was a proper project for a

[44]John C. Hamilton, History of the Republic of the United States of America, as Traced in the Writings of Alexander Hamilton and His Contemporaries (New York, 1857), VII, 793.

[45]William Kent, Memoirs and Letters of James Kent, LL.D. (Boston, 1898), p. 328.

man of the Enlightenment, and it fits into the qualifications specified by Hume.

Often the standards and doctrines which a man professes and those which he follows in practice consciously or unconsciously differ. This fact in itself is no indication of hypocrisy, but merely of the gap between ideals and reality. Sufficient evidence exists that Hamilton did not lack criteria for the evaluation of truth. The question yet to be answered is whether he used them in practice.

In the course of editing Alexander Hamilton's Pay Book, E. P. Panagopoulos became interested in finding and evaluating the philosophic premises of Hamilton's thought. After a careful examination of Hamilton's papers, Panagopoulos determined the nature of Hamilton's criteria and charted their relative frequency. According to Panagopoulos, Hamilton placed a high value upon experience, and especially upon the lessons of history. At the same time, he was willing to test new measures, as a means of gaining experience.[46]

Hamilton consistently used the phrase "reason and experience," and it is evident that he valued the power of human reason as well as experience. However, as Hamilton used the word, it had two separate meanings. Sometimes it meant a universal quality revealing itself in the process of

[46]Epaminondas P. Panagopoulos, "Philosophic Premises of Hamilton's Thought," Alexander Hamilton's Pay Book (Detroit, 1961), pp. 74-82.

human thought. At other times it was a tool of logic by which facts could be formed into conclusions.[47] Significantly, he always distinguished between what he called right reason and wrong reason. Right reason was reason supported by fact.[48] He distrusted any abstraction not supported by fact, and he intensely distrusted abstraction for the sake of abstraction.[49]

There is, in sum, much to support the contention that Hamilton was not only interested in the Enlightenment, but that he belonged to a special branch of enlightened thought. Moreover, it appears that he utilized his consciously espoused criteria for evaluating truth in actual practice. But, while this is interesting in itself, the most important facts are those which concern Hamilton's approach to truth. They provide a basis for the expectation that inductive logic and empirical verification played important roles in his use of economic ideas. Yet while using experience to test the usefulness of ideas he did not altogether shun the untried. And, following the injunction of Hume that value judgments must compensate for the inadequacy of empirical testing, he can be expected to allow judgments, such as the desirability of national greatness, to exert a shaping influence on his economic thought.

[47] Ibid., pp. 82-84.

[48] Ibid., pp. 90-92.

[49] Ibid., pp. 98-100.

Moreover, in relating ideas to men, Hamilton thought in terms of a complex, self-centered, emotional, and impulsive creature who must be rewarded, rather than a cold, logical, calculating creature. These qualifications, coupled with Hamilton's basic goal of national greatness and its economic implications, present an interesting and complex pattern. If the pattern is valid, its definition is essential to an understanding of Hamilton's use of economic ideas. Perhaps now, with the definition completed, it is time to proceed with the specific analysis of his ideas and their sources.

CHAPTER II

THE MIDDLE YEARS: 1780-1783

The closing years of the Revolution are important in the history of Hamilton's economic thought because they give evidence of the formation of a skeletal outline of the system of finance which Hamilton instituted as Secretary of the Treasury. Moreover, placing the roots of his ideas at this early period destroys certain fallacies about their sources. The bulk of the material containing his economic thought is in three letters and three pamphlets covering the period from 1780 to 1783.[1]

It is difficult to establish the exact moment when Hamilton became interested in economics and finance. Even before the Revolution he was reading Malachy Postlethwayt's Universal Dictionary of Trade and Commerce. Hamilton mentioned this work in The Farmer Refuted, which was printed in February 1775.[2] At some time between 1776 and 1780,

[1]Hamilton to Robert Morris, April 30, 1781, Lodge, Works, III, 342-387; Hamilton to James Duane, September 3, 1780, Lodge, Works, I, 213-241; Hamilton to Robert Morris, ca. 1780, Lodge, Works, III, 319-341.

[2]Panagopoulos, Alexander Hamilton's Pay Book, p. 7; Malachy Postlethwayt, Esq., The Universal Dictionary of Trade and Commerce, 2 ed. (London, 1757). Postlethwayt's dictionary is a translation of a work by Jacques Savary des Bruslons. Because he so liberally corrected and added to his translation, most historians and economists give him credit for the text. Some libraries, including the M.S.U. Library catalogue the book under Savary's name.

Hamilton continued his reading of Postlethwayt, and took extensive notes on economic geography.[3] Aside from these facts, it is difficult to establish the point at which Hamilton began to formulate his economic ideas.

What is striking is the abruptness with which Hamilton's ideas appear fully developed in his papers. The last of the papers chronologically, a letter which Hamilton sent to Governor Clinton in May 1783, not only contains the most concise formulation of the ideas expressed in this period, but also the major points of his later financial system. Hamilton informed Clinton that the debts of the Confederation had to be supported to remain transferable. If they were not, he warned, it would prohibit the incorporation of banks backed by national obligations. And, if the formation of banks was curtailed, it would limit any increased issue of money, which would decrease circulation and make the payment of taxes difficult.[4] Apparently, the scheme which was later to become the Hamiltonian financial system was well formulated during this period.

It is not surprising, however, that Hamilton should display an interest in economic policy in the period 1780-1783. Indeed, it would be remarkable if he failed to show an interest in financial problems. Hamilton's occupation

[3]Panagopoulos, <u>Alexander Hamilton's Pay Book</u>, pp. 23-72.

[4]<u>Public Papers of George Clinton</u>, ed. Hugh Hastings (Albany, 1904), VIII, 180.

with these questions reflects the major problems facing America at that time. These years were years of crisis for the nation, and for the first half of the crisis the Revolution was threatened by failure.

From the outbreak of the Revolution to the winter and spring of 1780-1781, Congress had used four methods of finance: issuing bills of credit, domestic borrowing, foreign loans, and requisitioning money from the states. Bills of credit had been a temporary expedient issued in anticipation of taxes, but they had quickly become permanent.[5] In the winter of 1779-1780, the bills of credit, which were circulating as money, began to depreciate rapidly, and by March, Congress was attempting to call the old bills in at a forty-to-one ratio. By spring 1781, the bills cost more to print than they were worth as currency.[6] Domestic loans were lost as a source of finance when the pressure of inflation in the paper currency began to depress the value of loan certificates, and there was little prospect of another foreign loan. The situation was so desperate that it looked as if the armies would disintegrate from lack of pay and supplies. The tragedy of the crisis was that the real resources of the nation were far from exhausted; speculation was at least partially responsible for the currency depreciation.[7]

[5]Clarence L. Ver Steeg, Robert Morris: Revolutionary Financier (Philadelphia, 1954), p. 43.

[6]Ibid., pp. 44, 45.

[7]Ibid., pp. 46, 48, 49.

The crisis riveted the attention of Congress, which responded by creating an executive authority to replace committee administration. The office of Superintendent of Finance was established on February 7, 1781, and Robert Morris was appointed to the post.[8] The appointment of Morris was part of a general rise of the conservative nationalists to power. The program which the nationalists advocated in the crisis was similar to the later Federalist program, and such men as Washington, Hamilton, and Madison played a part in both movements. The people who supported the movement were generally conservative, mercantile, and nationalistic.[9]

Congress tended to divide on nationalist and anti-nationalist lines over the economic issues of the crisis. One of the issues was the advisability of giving Congress the right to lay a five per cent "impost" or tariff to provide for interest payments on the national debt. The issue centered on the power of the purse--whether Congress or the states should have the right to tax--rather than on the necessity of providing for interest payments. The issue of providing for the interest on the debt was generally a struggle between the nationalists, who desired a stronger national government, and the anti-nationalists, who opposed central power.[10] Thus, in reading the economic

[8] Ibid., pp. 57, 58.

[9] E. James Ferguson, The Power of the Purse (Chapel Hill, 1961), pp. 109, 114.

[10] Ibid., p. 117; Ver Steeg, Robert Morris, p. 173.

arguments of the times, it is important to remember that there are questions of the distribution of power involved in them.

The political conversation of the time was filled with the economic questions of the crisis. "The idea of some kind of a bank was figuratively 'in the air' at this time."[11] Hamilton, always a strong nationalist, gave his support to the conservative faction. His views on money and banking, closely paralleled those of Robert Morris,[12] and his efforts did not go unrewarded. After Yorktown, Hamilton was appointed Commissioner of Revenue for New York by Morris, and in July 1782 he was elected to Congress by the New York legislature.[13] Thus, the letters and pamphlets which culminated in the Clinton letter, reflect Hamilton's concern in the political and economic issues of the times.

According to the Clinton letter, the reason for maintaining the transferability of public funds was to permit the establishment of banks. Hamilton's goal of a great nation has already been discussed, but the relationship of banking to national greatness is not so readily apparent. Even in 1780 it was clear that the new nation would be a republic, and without exception, all of the

[11]Ver Steeg, Robert Morris, p. 66.

[12]Ibid., p. 102.

[13]Miller, Alexander Hamilton, pp. 83, 84.

great republics of the modern era had been commercial. National banks, according to Hamilton, tended to increase both the public and private credit by joining them. Increased public credit gave the nation expanded resources, giving it more power to defend its rights and interests. Increased private credit helped to expand commerce and industry, and multiplied the real wealth of the nation. This is the key to Hamilton's equation of banks with national greatness: the power of republics is in their commerce, and banks both increase the commerce of the nation and marshal its resources for the use of the state.[14] Banks, in fact, were such effective institutions for the promotion of national power that they could be safely established only in republics. "T'is in republics where banks are most easily established and supported, and where they are least liable to abuse."[15]

Whether Hamilton was aware of it or not, he closely paralleled Montesquieu in both ideas. Montesquieu also thought that commerce was the proper occupation for a republic. And, Hamilton's point on the danger of banks is precisely Montesquieu's. Montesquieu warned that banks are dangerous in a monarchy, because they give too much power to the monarch. But, he also felt that in commercial nations, banks created a new species of wealth. The design of such companies, according to Montesquieu, was to give

[14]Lodge, Works, III, 361-362.

[15]Ibid., 362.

private persons the weight of public riches, and as such, they were primarily designed for republics.[16]

When Hamilton designed his model for a bank, he turned to the experience of other nations for guidance. Hamilton's intention when he wrote to Robert Morris was only to outline his plan, but his remarks reveal the source of his ideas: "We shall find good models in the different European banks which we can accommodate to our circumstances."[17] Hamilton's model, then, was not necessarily the Bank of England, but the banks of all the great commercial states--Venice, Genoa, Hamburg, Holland, and England. And, in this instance as in the next, he turned to history and experience for models which he imported from Europe.

Hamilton was seriously impressed with the necessity for founding a bank on the "modern principle," or the joining of public and private credit. According to Hamilton, this kind of bank originated in Venice, and the Bank of England had raised a vast fabric of public credit which successfully enabled the British to finance wars. Another bank which Hamilton did not name had been similarly founded, and, he asked, "why cannot we have an American bank."[18]

The joining of public and private credit was not an end in itself. The ultimate goal was to increase the power

[16] Montesquieu, The Spirit of the Laws, trans. Thomas Nugent (London, 1914), I, 347.

[17] Lodge, Works, III, 381.

[18] Ibid., I, 284.

and commerce of the nation, and currency expansion by the bank was to be the method for expanding commerce. Historians have only recently succeeded in removing the image of Populism from the eighteenth century drive for currency expansion. And, it is in the light of this reinterpretation that Hamilton's support of currency expansion is the most meaningful. Contrary to the long prevalent idea, it was not the poor farmer and frontier elements, but the merchants, government officials, and men of welath who felt the effects of currency shortages and supported the use of paper money in the Colonial Period. Moreover, during the period, paper money had been fairly successful. What had to be fought after the Revolution was the bad impression given by the degeneration of the Continental issue of currency during the Revolution.[19]

Hamilton displayed ideas similar to those previously identified with merchants, government officials, and men of wealth toward paper money and currency expansion. He was convinced that America suffered from a shortage of specie. He wrote to Robert Morris that "we have not a competant stock of specie in this country, either to answer the purposes of circulation in trade, or to serve as a basis for revenue."[20] He was so convinced that the money supply

[19] Joseph Dorfman, The Economic Mind in American Civilization (New York, 1946), I, 142; Bray Hammond, Banks and Politics in America: From the Revolution to the Civil War (Princeton, 1957), pp. 12-17.

[20] Lodge, Works, III, 363.

was in an inadequate ratio to the value of the country's production that he advocated a tax in kind as a remedy to the situation.[21] This would decrease the need for cash because goods would be used for payment of taxes instead of money.

Hamilton was convinced that the Continental currency had depreciated because it was not founded on both public and private credit. He was equally convinced that a national bank would support a national currency.[22] Turning again to experience, he told James Duane that "paper credit never was long supported in any country, on a national scale, where it was not founded on a joint basis of public and private credit. An attempt to establish it on public credit alone in France, under the auspices of Mr. Law, had nearly ruined the kingdom." Similar effects had come from American attempts to found a currency on public credit. "The reason is that moneyed men have not an immediate interest to uphold its credit. They may even, in many ways, find it their interest to undermine it."[23] In order to induce individuals to lend to the government in proportion to the needs of the state and to keep it in their interest to uphold public credit, Hamilton proposed the creation of a national bank. A bank would create a mass of credit which

[21] Ibid., I, 230-231.

[22] Ibid., III, 365-366.

[23] Ibid., I, 233.

would serve both as capital and as money to finance trade. It would offer advantages to investors equal to those offered by investment in trade, and offer greater security. Thus, it would be a desirable investment. The bank, in turn, would engage in operations supporting the public credit, and its creation would benefit both the government and private individuals.[24] Hamilton never seemed to deviate from the conviction that government rested on the benefits it gave to its powerful supporters.

Hamilton prepared concrete calculations to specify the magnitude of the expansion he contemplated. Both his methods of calculation and his own statements reveal the influence of Hume and his empirical, pragmatic bias. According to Hamilton, "a great source of error in disquisitions of this nature is the judging of events by abstract calculations, which though geometrically true are false as they relate to the concerns of beings governed more by passion and prejudice than by an enlightened sense of their interests."[25] Illusion is a part of all the affairs of society, and the opinion of objects has more effect than their real nature. The present decline in the value of money was more than five times what it should have been, and the excess was due to opinion and lack of confidence. It is apparent that the criterion for currency reform was how it fit into public opinion, rather than how it fit into a system of mathematically precise calculation.

[24] *Ibid.*, III, 360.

[25] *Ibid.*, 328.

The estimates Hamilton sent to Robert Morris were an attempt to approach the problem scientifically. The letter was dated April 30, 1781, and ten days previously Hamilton had written to Timothy Pickering asking him for Price, Hume's Essays, Lex Mercatoria, and Postlethwayt, which he wanted for the Morris letter. Hamilton was in New Windsor, New York, and Pickering was in Newburgh.[26] Allowing two days for transportation, the maximum use Hamilton could have had would have been eight days. Hamilton apologized for the crude nature of his tract, and admitted that he lacked the time for mathematical calculations. He had to depend on memory for his facts and principles.[27]

Hamilton's calculations show quite simply the empirical and inductive method he preferred to use. He estimated the current cash of France to be from fifteen to sixteen hundred million livres, an amount which corresponds to Dr. Richard Price's estimates. And, his estimate of the revenue of France at three hundred sixty to four hundred million livres corresponds to Price's estimate of three hundred sixty-six million. Hamilton saw that in France, net revenue was approximately one quarter of the nation's currency supply.[28]

[26] Papers of Alexander Hamilton, ed. Harold C. Syrett (New York, 1961), II, 595-596.

[27] Lodge, Works, III, 344.

[28] Ibid., 345; Price, Observations on the Nature of Civil Liberty (Philadelphia, 1776), p. 78; Additional Observations on the Nature and Value of Civil Liberty, and the War with America (Philadelphia, 1778), p. 150.

When he had established the data for France, Hamilton turned to Great Britain and used both Hume and Price as sources. Hume, he said, in his essay "On the Balance of Trade," had supposed the circulating cash of Great Britain to be thirty millions.[29] In using these figures, Hamilton had taken Hume too literally. Hume did not suppose the currency of Great Britain to be thirty millions. What he said was "suppose that there are 12 millions of paper, . . . and suppose the real cash of the kingdom to be 18 millions; here is a state which is found by experience to be able to hold a stock of 30 millions."[30] Hume was setting up a hypothetical sum for a model to illustrate a point. Either Hamilton had an extreme amount of faith in Hume, or he needed Hume's example to make his calculations come out right, because he noted that other writers had estimated the cash of Britain to be fifty millions, had split the difference, and arrived at the figure of forty millions. By mis-quoting Dr. Price's twelve million pound estimate of Great Britain's net revenue as ten million, he again came to a ratio of net revenue as one fourth of circulating cash.[31] Thus, the conversion of Dr. Price's figures suggests that Hamilton

[29]Lodge, Works, III, 346.

[30]Hume, "Of the Balance of Trade," Writings on Economics, p. 68.

[31]Price, Observations on the Nature of Civil Liberty, p. 124, cited by Syrett, Papers of Alexander Hamilton, II, 608.

included Hume's figures because of his faith in Hume. Had he taken the estimate of fifty millions as valid, the estimate of twelve millions would have worked out at the proper ratio with only a slight alteration.

Next, Hamilton turned to Holland. Although he wrote that he had never seen a reliable estimate of Dutch cash and revenue, he made some rough calculations. By using the estimates of fifteen millions of gold deposits in the Bank of Amsterdam to calculate the value of the bank drafts, bills of exchange, and other instruments of credit serving as a medium of exchange in the Dutch economy, and adding two millions for cash in circulation, he concluded that the circulating cash of Holland was about seventeen millions. And, since Holland's revenue was a little over four millions, he again came up with the magic ratio of four to one. From these three examples, Hamilton formed the principle that a nation can afford a net revenue equal to one quarter of its circulating cash.[32] It follows therefore, that a nation may either expect a revenue of one fourth of its circulating cash, or expand its cash to four times its desired revenue. Hamilton used the sources he had asked Pickering for as statistical sources. The principle is his own.

One piece of Hamilton's economic writing for the period remains to be examined. This is a series of six

[32]Lodge, Works, III, 347.

articles entitled The Continentalist, which were published from July 12, 1781 to July 4, 1782. Of the six articles, the first three were concerned with the weakness of the Confederation and the current political situation. The remaining three are more economic in nature.[33] The significance of The Continentalist is that it was Hamilton's most systematic statement of his views on taxation and regulation of trade.[34]

In the fifth article, Hamilton discussed the possibility of vesting in Congress the power to regulate trade. His own opinion was that regulation was as essential to commerce as it was to revenue. Some people, he noted, imagine that trade, if left alone, will regulate itself, and that trade only suffers from government interference. His attitude toward the laissez faire doctrine of Adam Smith and the Physiocrats was decidedly negative. He attacked it as "one of those wildly speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations."[35] According to Hamilton, the notion of free trade is contradicted by the numerous institutions which exist for the benefit of trade, and whose removal would cause great evil. Hamilton's pragmatic bias had again asserted itself,

[33] Ibid., I, 243-287.

[34] Wilhite, Founders, p. 281.

[35] Lodge, Works, I, 267-269.

and measures tested by experience were the criterion for rejecting the free trade argument.

Hamilton's position is again similar to one taken by Montesquieu. It was Montesquieu's view that the freedom of commerce was not a power granted to merchants to do as they please. This was the enslavement of commerce, and constraint of the merchant would not be the constraint of commerce. Freedom of commerce comes when the government is neutral between its customs and its revenue, that is, when it does not expand its customs at the expense of its commerce, or its commerce at the expense of its customs. A country expands its commerce at the expense of its customs when it lowers duties to decrease prices, and expands its customs at the expense of its commerce when it raises duties and thereby raises commodity prices, assuming price to have an inverse effect on demand. Commerce, according to Montesquieu, has its fixed principles by which it must be regulated, and preservation of the balance of trade in its favor ought to be a leading policy objective. The avarice of individuals leads trade into channels prejudicial to the nation, and ought to be opposed by effective expedients.[36] This was exactly the point which Hamilton made, that freedom of trade does not mean license to individuals, and that preservation of the favorable balance of trade should be a primary objective of policy.

[36]Montesquieu, Spirit of the Laws, I, 348.

According to Hamilton, the reason many people were confused about free trade was that "the reasonings of a very ingenious writer, by being misapprehended, have contributed to this mistake."[37] The writer is identified in a footnote as Hume and the work in question as Hume's "Jealousy of Trade." Hume's argument, according to Hamilton, was not for free trade, but against regulation. Hume, he said, argued that trade will balance in the end according to the comparative moral and physical advantages of nations. The nature of government, its spirit, maxims, and laws in respect to trade were the moral factors. And, a temporary imbalance will always be corrected by these factors. According to Hamilton, this is the basic idea of Hume. He also asserted that all writers agreed with the doctrine of judicious regulation, and that no one has ever proposed a contrary doctrine.[38]

Hamilton seems to have been the one who misread Hume, because the doctrine of free trade is implicit in Hume's essay. Hume argues that nations should not be jealous of the economic growth of other states, that other states can buy more when they are prosperous and the advanced techniques they develop can be profitably imitated. The force of competition will reallocate factors to their most advantageous use, testing the industry and government

[37] Lodge, Works, I, 268.

[38] Ibid., 269-270.

of a nation. In short, Hume's essay contains all of the basic ideas upon which the case for free trade is built.[39] Hamilton seems to have misread Hume, just as he accused others of doing.[40]

After he had discussed the doctrine of free trade, Hamilton turned to taxes and the possibility of giving the tariff power to Congress. He strongly denied the possibility of abuse of a duty by Congress. Experience, he said, shows that moderate duties are more productive than high duties. When duties are low, imports and exports rise, and the aggregate revenue grows because the quantity of imports exceeds the revenue lost from a high duty. In short, he argued that imports and import revenue were price elastic.[41]

Hamilton's argument on this point is the same as Hume's, although he does not give Hume credit for it. In contrasting duties to other taxes, which can be abused, Hume saw an automatic check in the former, because a state will find that a high duty yields less revenue.[42] While Hamilton did not give credit to Hume for this doctrine, his use of Hume previously in the free trade argument gives support to the supposition that Hume was his source. Again,

[39]Hume, "Of the Jealousy of Trade," Writings on Economics, pp. 78-83.

[40]Dorfman and Tugwell, Early American Policy, p. 20.

[41]Lodge, Works, I, 272.

[42]Hume, "Of Taxes," Writings on Economics, p. 86.

the criterion of experience played a key role in his judgment.

Once Hamilton had developed his rebuttal of the possibility of abuse of a duty, he turned to a second idea. This was that since the consumer pays the duty, those states taking imports from their neighbors would be forced to pay their neighbor's taxes. Hamilton classed this argument as specious, and advanced two lines of counter-attack.

He clained that the doctrine that the consumer pays the taxes was too readily admitted. The incidence of an import duty depends on the competitive state of the market. When buyers compete for goods, they pay the tax. When sellers compete for buyers, they pay the tax. Often, the duty is divided between the two. Unfortunately, there is no resemblance to any doctrine advanced by the writers with whom Hamilton seems to have been familiar.[43]

In attacking the same idea, Hamilton used a second argument. He argued that "there is a strong reciprocal influence between the prices of all commodities in a state, by which they, sooner or later, attain a pretty exact balance and proportion to each other."[44] If the price of food rises, then manufacturers and merchants will have to raise their prices. The same effect takes place when any economic group raises its prices. If a state (A) obtains

[43]Lodge, Works, I, 273.

[44]Ibid., 274.

its foreign goods through a second state (B), and the latter places a tax on those goods, the former would be forced to raise its prices in response to increased import prices. Thus, prices on all goods imported by state B from state A would be increased, and state B would lose in proportion to the quantity of its imports from state A. Thus, if state B imported more from state A than state A imported from state B, state B would suffer from higher prices and a decline in its terms of trade. If imports were equal, both states would pay the tax. The incidence of the tax, then, depends on the balance of trade between the two states. This provides an automatic regulatory device in interstate trade, but the doctrine cannot be applied to international trade because too many local factors interfere with its proper functioning between nations. Hamilton claimed that the economies of the states were closely interrelated, and the effect could take place as he described it.

The source of Hamilton's argument is difficult to trace because the idea that prices were interdependent was fairly common. Both Postlethwayt and Price recognized the interdependence of prices, and their idea was similar to Hamilton's. They explained that labor cost would be increased by a rise in other prices, such as food, clothing, or housing, because laborers would be forced to increase their wages to maintain their level of living. As a result, the prices of all goods and services requiring labor would be increased.[45] Thus, Hamilton could have drawn the doctrine of inter-related prices from either writer, or perhaps from any number of other writers. Neither Postlethwayt nor Price applied this doctrine to regional or national trade, so Hamilton would have had to expand their ideas to create his arguments. In any case, the application which Hamilton gave the doctrine of inter-related prices in adjusting the incidence of a duty, resulted in a highly sophisticated model.

Hamilton felt obligated to prove one more point by attacking the Physiocratic doctrine that all taxes fall ultimately on land. Anticipating a position he would take years later in the Report on Manufactures, he denied the extreme application of the theory by attempting to prove that there was value created which did not stem from land. However, at this point he was still willing to admit that the largest portion of taxes came from land. The purpose of his analysis was to show the validity of taxing commerce by proving that there is value created in commerce. Characteristically, to prove his contention, he relied on empirical evidence rather than upon a theoretical development of his case.

The source of Hamilton's evidence was "the ablest master of political arithmetic, who about sixty years ago, . . ." calculated the product of the lands of England

[45] Price, Observations on the Nature of Civil Liberty, p. 71; Malachy Postlethwayt, Universal Dictionary, I, 663.

at forty-two million pounds, and England's total consumption at forty-nine million pounds. Therefore, a large part of all revenue must come from land, but there is taxable value independent of the land. In this case, some seven million pounds, or one seventh of the national consumption were created outside of the agricultural sector. Two million pounds of this came from the surplus of exports over imports. Hamilton did not explain the source of the remaining five million pounds.[46]

Panagopoulos has already discovered that Hamilton quoted Postlethwayt in using these figures.[47] While this is true, it should lead neither to the conclusion that he is the "ablest master of political arithmetic" referred to, nor to the conclusion that Hamilton drew his idea from him. Postlethwayt quoted other writers at great length in compiling the Universal Dictionary of Trade and Commerce, and Hamilton's sources were actually Sir William Petty, the father of political arithmetic,[48] and The British Merchant,[49] as quoted in Postlethwayt's section, "Landed Interest."[50]

[46]Lodge, Works, I, 280-281.

[47]Panagopoulos, Alexander Hamilton's Pay Book, p. 9, n. 16.

[48]Ibid., p. 8.

[49]The British Merchant is a pseudonym used by Charles King in An Answer to the Mercator; or Commerce Retriev'd (London, 1714), according to William Cushing, Anonyms: A Dictionary of Revealed Authorship (London, 1890), I, 83.

[50]Postlethwayt, Universal Dictionary, II, 13.

As further evidence of the fact that Hamilton knew he was quoting Petty and not Postlethwayt, he set the date of the figures as about sixty years before that on which he was using them, and Postlethwayt's work was only about thirty years old. Moreover, Postlethwayt supported the idea of a single tax on land on the next page of the same article, the very position which Hamilton was attacking.[51] All of this evidence indicates that while Hamilton used Postlethwayt, in this instance, the Universal Dictionary was used as a statistical source, rather than as a source of economic ideas.

Hamilton's position on the creation of value in the economy closely resembles a position of Hume. Hume, like Hamilton, had examined the Physiocratic doctrine that all taxes fall ultimately on land. Hume also contended that there is value created in the economy by manufacturing, labor, and trade, all of which pay taxes.[52] And this is exactly Hamilton's point, except that Hamilton sought to quantify it.

The fourth article of the Continentalist series contains only one idea of economic significance, that if the states had begun to fund their debts four years earlier, they would have avoided currency depreciation and its attendant evils. Hamilton was apparently aware of this practice as

[51] Ibid., 14.

[52] Hume, "Of Taxes," Writings on Economics, p. 87.

early as 1781.[53] Indeed, as early as 1780 he mentioned the purchase of lives by annuities as practiced in England.[54] Both practices were later proposed in the <u>First Report on Public Credit</u>.[55] Apparently Hamilton was already aware of these standard British financial practices, and cannot be said to have drawn the ideas from a particular economist. The criterion of experience in Hamilton's thinking has already been identified, and in this instance it is clearly English experience on which he was drawing.

The significance of these letters and <u>The Continentalist</u> is that they show the deep involvement of Hamilton in the financial issues of the crisis years of 1780-1783. The formulation of the financial system at this early date creates serious doubts about the validity of one interpretation of the source of Hamilton's ideas. According to Curtis Nettels, while Hamilton worked out the details, co-ordinated the parts, provided a theoretical base, and furnished cogent arguments, he originated neither the aims, policies, or basic ideas of the Federalist financial program. Nettels believes the program should be regarded as the work of the Federalist party leaders, particularly Washington, whose ideas Hamilton absorbed. He bases this interpretation

[53]Lodge, <u>Works</u>, I, 267.

[54]<u>Ibid</u>., 236.

[55]<u>Alexander Hamilton's Papers on Public Credit, Commerce, and Finance</u>, ed. Samuel McKee, Jr. (New York, 1934), p. 32.

on Broadus Mitchell's examination of Hamilton's tour of duty as Washington's aide-de-camp, in which Mitchell presents Hamilton as an aide who learned to think Washington's thoughts.[56]

The evidence which discredits Nettels interpretation is a letter from Washington to John Sullivan on February 4, 1781.[57] Sullivan, who was interested in appointing ministers for foreign affairs, war, marine, and finance, had asked Washington for Hamilton's qualifications for finance. Washington replied that: "How far Colo. Hamilton, of whom you ask my opinion as a financier, has turned his thoughts to that particular study I am unable to ansr. because I never entered upon a discussion of this point with him; but, this I can venture to advance from a thorough knowledge of him, that there are few men to be found, of his age, who has a more general knowledge than he possesses, ..."[58] It would seem that his own words tend to discredit any interpretation of Washington as the source of Hamilton's

[56]Curtis Nettels, <u>The Emergence of a National Economy</u>, Economic History of the United States, Vol. II (New York, 1962), pp. 105-106.

[57]Major-General John Sullivan was an American general officer from 1776 to November 1779, when he resigned because of ill health. At the time of this letter he was a member of Congress. In 1788 he was chairman of the New Hampshire convention to ratify the Constitution. Randolph G. Adams, "John Sullivan," <u>Dictionary of American Biography</u>, XVIII, 192-193.

[58]<u>The Writings of George Washington from the Original Manuscript Sources, 1745-1799</u>, ed. John Fitzpatrick (Washington, D.C., 1939), XXI, 181. Hereafter cited as Fitzpatrick, <u>Writings of Washington</u>.

economic ideas.[59] Moreover, it was in this same month, February 1781, that Hamilton resigned his commission as aide-de-camp and separated himself from Washington's headquarters.[60] The first letter to Robert Morris and the Duane letter were both written in 1780, and precede Washington's letter to Sullivan. The second Morris letter of April 30, 1781, falls between Morris' appointment and his acceptance of the ministry of finance on May 14.[61] Thus, the letter actually precedes Morris' term of office and the institution of the Morris program.

A letter which Washington addressed to Hamilton during his presidency reveals a surprising ignorance of the financial system, and tends to preclude the possibility that Washington was a source of the financial program at a later date. In 1792, after the program had been instituted, Washington was listening to criticisms of the administration while on a trip to Mount Vernon. He wanted to have explanations before him, as well as complaints, "on measures in which the public interest, harmony, and peace is so deeply concerned, and my public conduct so much involved; . . ."[62]

[59] In replying to Washington's letter, Sullivan said that he was glad to know that Washington shared his sentiments on Hamilton. The reason he gives for not nominating Hamilton is that shortly after he wrote on Feb. 4, all eyes turned to Robert Morris, and any nomination would have been in vain. Fitzpatrick, Writings of Washington, XXI, 181, n. 85.

[60] Miller, Alexander Hamilton, pp. 71-72.

[61] Ver Steeg, Robert Morris, p. 61.

[62] Fitzpatrick, Writings of Washington, XXXII, 99.

Among the criticisms which Washington sent to Hamilton were the objections that the nation's coin would be banished by the institution of a bank; that by borrowing at two-thirds of the interest rate at which the debt had been funded, the principal of the debt could be paid in two-thirds of the time; and that a corrupt squadron in the legislature was attempting to establish a monarchy on the British pattern by use of the debt. If Washington had been the father of the financial system, he would have been able to answer these questions. This is not to say that the plan which Hamilton advocated was not structured to fit within the general program of the conservative-nationalists of the 1780's. It merely means that the program which Hamilton advanced was not dictated by Washington, but was rather a result of the general climate of opinion among the nation's conservatives.

In sum, an examination of the years from 1780 to 1783 reveals several important facts. The basic principles of the Hamiltonian system of finance were formed in these years. While developing his ideas, Hamilton stayed within the modifying preconceptions of experience and empiricism. Therefore, the evidence indicates that the reliance on Hume carried over into his economic ideas, and that the criteria of experience and empiricism which he accepted from Hume continued to influence Hamilton's thought.

CHAPTER III

THE REPORTS ON PUBLIC CREDIT: 1790, 1795

The reports on public credit deal with the keystone of the Hamiltonian financial system. The plan which evolved from the financial reports is basically the same as that which he had briefly outlined to Governor Clinton in 1783. The debt was to be funded by providing taxes to pay the interest bill, and the funded debt of the United States was to serve as capital for both banks and commerce. The banks, in turn, were to increase the nation's money supply, and to support government financial operations.

The difficulty in tracing the origins of Hamilton's ideas on the economics of public debt is not in the lack of sources, but in their overabundance. Hamilton's awareness of British practices in public finance has already been suggested. What has yet to be examined is the degree to which this information was available, and the extent to which British controversy over public credit spilled over into American life.

The burdens of Britain's public debt had already played a key role in American history. Britain's victory in the Seven Years' War had been costly in many ways. Among the costs were the expense of administering an expanded empire, and the payment of a huge public debt created by wartime finance measures. The strained structure of

British finances was behind the determination of the Grenville ministry to force the colonies to pay a part of the cost of colonial defense and administration. In short, the British debt had been intertwined with many of the issues which had exploded into the American Revolution.[1]

If Americans had reason to be aware of British funding practices, they also had adequate sources of information. Talleyrand advised Hamilton that if he wanted to know the effects of public credit on money and commerce, he should read the debates of Parliament for 1737, particularly the discourses of Bernard, and of Robert Walpole.[2] The debates of Parliament carried many arguments on public credit, and at least one edition was printed in 1760.[3] Furthermore, James Postlethwayt had published a detailed statistical History of the Public Revenue in 1759.[4]

Not only were there public documents and statistical sources available, but it sometimes seems as if nearly every writer and pamphleteer in the eighteenth century had something to say about the public debt! Dr. Richard Price, a dissenting clergyman who specialized in the mathematics of probability, seemed never to write a book or pamphlet

[1] Richard B. Morris, The American Revolution: A Short History (Princeton, 1955), p. 15.

[2] The Papers of Alexander Hamilton, Library of Congress Microfilm (1st Series, 1915), reel 8, vol. 18, 2808.

[3] A Collection of the Parliamentary Debates in England From the Year M, DC, LXVIII to the Present Time (1760).

[4] James Postlethwayt, The History of the Public Revenue From 1688 to 1753, With an Appendix to 1758 (London, 1759).

without including an additional section on the public debt.[5] And Adam Smith, in writing The Wealth of Nations, included a history and criticism of the public debt.[6] Nor were these all the writers concerned with the public debt. Public debts were thus a common eighteenth century topic of discussion.

The sources of information were plentiful and open to Hamilton. Unfortunately, the very mass of this material presents a formidable problem, and Hamilton's method of discussing economic ideas is not particularly helpful in isolating his sources. As one writer has complained, "It is singularly difficult to determine Hamilton's attitude toward the fundamentals of economic theory or even to ascertain whether he had any well-developed doctrine of value, production, distribution, and other basic concepts. He nowhere sets forth any lengthy or systematic theories of wages, rent, interests, profits, or production. There are many references to these and other economic concepts but little exposition of the theory underlying his view of their nature and significance."[7] It is precisely these aspects of theory by which influence is traced. When Hamilton refers

[5]The most recent biography of Price is Carl B. Cone, Torchbearer of Freedom: The Influence of Richard Price on Eighteenth Century Thought (Lexington, 1956).

[6]Adam Smith, An Inquiry Into the Nature and Causes of The Wealth of Nations, ed. Edwin Cannan (New York: Modern Library, 1937), pp. 859-900. This reprint of the Cannan edition will be used for all citations of Adam Smith.

[7]Wilhite, Founders, p. 233.

to these concepts, his failure to explain their functioning mechanisms and causal factors often makes it impossible to trace them to exact influences.

Because of the lack of detailed exposition in Hamilton's reports, it is important to closely define both his position on public debts, and the nature and intent of his program. Hamilton did not consider unlimited public debt to be a blessing. In fact, he seems to have held the idea that a debt could be heavy enough to be oppressive and ruinous. In both of his pre-Revolutionary propaganda pamphlets, he pointed to the heavy debt of Great Britain as a sign of national decline.[8] And in both his First Report on Public Credit and his Report on Manufactures, he made it a point to place himself far from the position that "public debts are public benefits," or "the more the debt the more capital, the greater the blessings of the community."[9] Hamilton, in fact, was determined to pay off the existing debt of the United States. As early as 1782, when he was a member of the Continental Congress, his determination to pay off the debt appeared in his support of the attempts to force Rhode Island into voting for a five per cent tariff for debt payment.[10]

While Hamilton did not believe in unlimited public debts, and had resolved to pay off the United States debt,

[8]Lodge, Works, I, 22, 146.

[9]Alexander Hamilton's Papers on Public Credit, Commerce, and Finance, ed. Samuel McKee, Jr. (New York, 1934), pp. 45, 219-220. Hereafter, McKee, Hamilton's Papers.

[10]Mitchell, Hamilton, II, 289.

he was not hostile to the use of governmental borrowing as a form of finance in time of national emergency. In The Continentalist he argued that even the most wealthy and powerful nations were forced into debt in time of war. France, Britain, and Holland all had heavy debts from their war efforts. As far as the United States debt was concerned, he was convinced that it could be paid in twenty years, without burdening the people.[11] Ten years later, Hamilton still held the same opinion. He told Washington that the debt of the United States was really very light and could be paid if peace could be maintained. "The debt of the United States, compared with its present and growing abilities, is really a very light one. It is little more than 15,000,000 pounds sterling--about the annual expenditure of Great Britain."[12] In the world in which Hamilton lived, still in the throes of a century of war with its resulting debts, he was not particularly impressed with the relative magnitude of the American debt.

Hamilton's attitude on the public debt can be summarized quite simply. He considered deficit financing to be necessary for all modern nations in time of emergency. But, he did consider it possible for a national debt to become so large that it could become burdensome or even dangerous. At the same time, he was not impressed by the size of the American debt. His chief concern was handling

[11] Lodge, Works, I, 269.

[12] Ibid., II, 428.

it in a way which would preserve America's ability to borrow in the future. Therefore, he advocated the payment of the United States debt upon principles which would quickly and surely liquidate it.

When the <u>First Report on Public Credit</u> is shorn of its political and administrative elements, the remaining skeleton of economic ideas reveals itself to be nothing more than standard British financial practice. The economic effects which Hamilton envisioned are effects which many writers had observed and attributed to these financial practices.

The program which Hamilton advanced had two main goals: to preserve the honor and to support the prosperity and political independence of the United States. The goal of honor was equally as important as the goal of prosperity, because honor was equivalent to public credit. The country that honored its debts could borrow again cheaply. Credit was necessary for financing in emergencies, particularly in a country with little liquid capital. Good credit meant simply the ability to borrow at good terms, bad credit meant that emergency borrowing could be done only on extravagant terms. Good credit is effected by good faith; any breach of contract injures the public credit. Honor, then, was more than an abstract virtue. It meant easy credit for the United States.[13]

[13]McKee, <u>Hamilton's Papers</u>, pp. 3-5.

The goal of prosperity could be achieved only if the debt were properly funded. In eighteenth century usage, funding had a precise meaning. According to Adam Smith, and Smith is only one of many who could have been used for definition, funding refers to the practice of publicly mortgaging or earmarking the revenue from specific taxes to the payment of interest on specific issues of the debt.[14] The program Hamilton proposed was not quite as strictly constructed. He referred to the proper funding of debts, but he never quite defined what constituted proper funding in the Report. He proposed that Congress pass certain taxes, mainly taxes on imports and alcohol, and that this money should be used for payment of the interest bill on the debt.[15] Even if earmarking is not explicitly mentioned in the Report the intent of Hamilton's program is obvious, and statements which he made at other times confirm this interpretation of his intent. In his Address to the Electors of the State of New York, Hamilton explicitly defined funding: "What is this funding system? It is nothing more nor less than the pledging of adequate funds or revenues for paying the interest and gradual redemption of the principal . . ."[16]

The public debt in 1789 had several components, including both state and national loan certificates, and the certificates issued by administrative boards, commissioners,

[14] Smith, Wealth of Nations, p. 864.

[15] McKee, Hamilton's Papers, pp. 7, 8, 36-38.

[16] Richard B. Morris, Alexander Hamilton and the Founding of the Nation (New York, 1957), p. 317.

quartermasters, and commissaries.[17] Following the financial crisis in 1780, the prices of the various certificates of indebtedness were severely depressed, and they remained depressed throughout the existence of the Confederation. As late as February 20, 1788, New York prices were as low as 2s, 6d, on the pound, or slightly over ten per cent. By April, prices had doubled, and securities dealings increased as the new Constitution ran the gauntlet of the ratifying conventions. Late in 1789 and early in 1790, fluctuation continued in a general upward direction in response to rumors about the probable attitude of the new government toward its debts.[18]

The effect of proper funding is to stabilize the value of the debt. Funded, public securities would no longer be subject to wild fluctuations, and money would not be driven into other channels of circulation. Instead of being hoarded or employed in private ventures, money would be used for investment in public stocks, and returned to circulation. In fact, funding was to so stabilize the value of public stocks that they would answer the purposes of money, and increase the pecuniary wealth of the nation. Moreover, since the nearly worthless stock of the nation would be raised to its face value, the real wealth and capital funds of the nation would also be increased.

[17] Mitchell, Hamilton, II, p. 33.

[18] Joseph S. Davis, Essays in the Earlier History of American Corporations, Harvard Economic Studies, Vol. XVI, Nos. I-III (Cambridge, 1917), pp. 142, 185.

But the restoration of the value of public securities was not envisaged as the sole factor creating prosperity. The key to prosperity was in the transferability of public stocks, which made them serve as money. If stocks were transferable, they could be passed from hand to hand, or transferred, and used either as a medium of exchange or as security for loans. The public stocks (bonds) were to increase national trade, not only because the capital of the nation would be extended, but because merchants could invest idle funds in them. The money invested in stocks could be used by others, who sold their stocks in exchange for the merchant's money, while the merchant drew interest on his idle funds. The merchant's income from his idle funds would allow him to sell on a lower profit margin, thereby lowering prices and increasing national trade. Agriculture and manufacturing would be promoted both by the increase in national capital, and from the increase in trade.

A third benefit which Hamilton expected from the funding of the public debt is particularly interesting because it distinguishes Hamilton's economic thinking from that of most of the economists of his time. According to Hamilton, the market rate of interest in the nation should fall, because the rate of interest is always in a ratio to the quantity of money and the quickness of its circulation.[19] Although Hamilton did not explicitly say so, it is apparent that the ratio of interest to the

[19] Ibid., pp. 7-8.

quantity and velocity of money was inverse in his theory, because he expected the interest rate to fall when the money supply increased. The reason that this distinguishes Hamilton from most of the economists of his time, for example, Smith and Hume, is that he failed to include the price effect of an increase in the money supply, an effect which negates his conclusions under static conditions, and which most economists built into their models.[20]

Almost as an afterthought, Hamilton turned to one final effect which he expected from the funding of the debt. That effect was an expected rise in the price of land. According to Hamilton, the price of land in America had fallen almost by half since the Revolution, and he considered this to be a result of the scarceness of money. He expected the effect of the funded debt in increasing the national money supply would be a restoration of the value of lands. This effect, he said, had been seen in the decisive experience of Great Britain.[21]

[20]According to Adam Smith, several writers had been deceived by the coincidence of the influx of gold from the American mines and the decline of the European interest rate. Such writers as Locke, Law, and Montesquieu had come to the conclusion that the interest rate fell because of the increased money supply. Hume had exposed this fallacy by proving that the price effect of an increased money supply offset the effect of any increase in the money supply on the interest rate. Smith accepted Hume's model, claiming that it was so widely accepted that it needed no exposition. He explained it in detail, anyway. Smith, Wealth of Nations, p. 337.

[21]McKee, Hamilton's Papers, p. 9.

The long arguments Hamilton presented on assumption and discrimination are not particularly significant for analysis of his economic ideas. Assumption of the state debts by the national government was a political problem unique to a federal form of government. The arguments against discrimination between owners of the public debt would injure its transferability.[22]

Hamilton proposed that it ought to be a principle that no change should be made in the rights of creditors without their consent. The capital of the public debt was to be compared to an annuity, at a rate of six per cent, redeemable at the pleasure of the government. The fact that redeemability was at the pleasure of the government meant that the government would be able to take advantage of any fall in the market rate of interest to reduce the interest rate of the debt. Although Hamilton does not explain the exact mechanism of this effect, what he had in mind was again a standard British practice. In Britain, when the market rate of interest fell, the debt could either be refinanced at a lower rate of interest, or the creditors could be persuaded to voluntarily accept a reduction in interest by the threat of redemption.[23]

Hamilton expected that interest would fall from six per cent to four in a matter of twenty years. He expected

[22] Ibid., p. 11.

[23] Smith, Wealth of Nations, p. 868; Isaac De Pinto, An Essay on Circulation and Credit, trans. Rev. S. Baggs (London, 1774), pp. 75-79.

this to follow from the effect of seventy million dollars of funded debt in circulation as money, and from the flow of funds from Europe because of interest differentials since funding at six per cent would set the American interest rate two to three per cent above some European interest rates.[24] Premised upon the probable fall of the interest rate, Hamilton offered a series of six plans which Congress could consider for consolidation of the existing debt. None of the plans is particularly important for this analysis.[25]

The measures which Hamilton proposed for payment of the interest bill have already been discussed. In addition to the revenue from taxes and the tariff, Hamilton expected that the revenue from the Post Office could be used for interest payment.[26]

Hamilton proposed one final measure for providing for the debt. Although he was persuaded that benefits came from the funded debt, Hamilton was, as we have seen, far from the position that public debts are public benefits, a position which he saw as "inviting to prodigality and liable to dangerous abuse."[27] According to Hamilton, the true secret of public credit was always to provide a means of extinguishing it at the time of its creation. He proposed that a sinking fund be established from the Post Office

[24] McKee, Hamilton's Papers, pp. 25-27.

[25] Ibid., pp. 28-35.

[26] Ibid., p. 45.

[27] Ibid., pp. 45-46.

revenue, not to exceed one million dollars, which would be used either to discharge the principal of the debt, or to buy up the debt in the market.[28] It is important to note here that Hamilton did not go into a detailed discussion of the mechanism of his proposed sinking fund.

Hamilton's financial program rested upon two pillars, funding and sinking. Funding was to pay the interest on the national debt; sinking was to pay the principal. Thus, while the debt was being honorably discharged, the nation would reap economic benefits.

Before turning to an examination of the influence of Europeans upon Hamilton, it is essential to examine the influence of one of his American contemporaries. William Bingham, who has been seriously neglected by American historians, was a powerful figure in the early national history of the United States. Bingham, an unusually wealthy man, had been Continental Agent in the West Indies from 1776 to 1780, and was a joint owner in privateering and trading ventures. In 1780 he married Anne Willing, daughter of Thomas Willing, who was later the first president of the Bank of North America. From 1784 to 1786 he was in Europe, where he was friendly with Lord Shelburne. Under Willing, he was a founder and director of the Pennsylvania bank. He also founded Binghamton, New York, owned two million acres of land in New England, and was first president of the

[28] Ibid., p. 46.

Philadelphia and Lancaster Turnpike Corporation. In short, he was a wealthy and powerful man.[29]

Bingham had taken up his pen in 1784 to attack Lord Sheffield's proposals to cut off American Trade. Hamilton's "Second Phocian Letter" was published in the same pamphlet.[30] In the term of 1787-1788, Hamilton and Bingham had served in the Continental Congress together,[31] where Bingham was on a committee on the foreign debt.[32] Later, at the time of the scandal over the Reynolds affair in 1796, Hamilton apparently trusted Bingham enough to leave his papers relating to the affair with him.[33]

On November 5, 1789, Bingham again took up his pen, this time to write a letter to Hamilton.[34] Bingham's letter

[29]Charles H. Lincoln, "William Bingham," Dictonary of American Biography, II, 278-279.

[30]William Bingham, Letter from an American (Philadelphia: Robert Bell, 1784). This pamphlet also carried "Mentor's Reply" and the "Second Phocian Letter." The letter could have been pirated, and is no proof of overt collaboration between Bingham and Hamilton.

[31]Biographical Dictionary of the American Congress, House Document No. 607, 81st Congress (Washington: U.S. Government Printing Office, 1950), pp. 40-41.

[32]U.S., Continental Congress, Report of a Committee of Mr. Clark, Mr. Dane, Mr. Williams, Mr. Bingham, Mr. Baldwin, On the Interest Due on the Foreign Debt, by the U.S. in Congress Assembled, Wed. Aug. 20, 1788.

[33]Mitchell, Hamilton, II, 421.

[34]"Letters from two Businessmen to Alexander Hamilton on Federal Fiscal Policy," ed. James O. Wettereau, Journal of Economic and Business History, III (1930-1931), 672-683. Wettereau published these letters after finding them in the Wolcott papers.

makes reference to a previous letter from Hamilton which Bingham had received in October, and seems to indicate that Hamilton had asked for advice concerning points upon which he was not clear. The Bingham letter is extremely significant, because many of the ideas he presented appear later in the First Report on Public Credit.

One point in Bingham's letter exhibits a close resemblance to an idea of Hamilton's. Hamilton had envisioned a rise in the price of land because of the increased monetary supply from funding. According to Bingham, this effect would be achieved from the reduction of the interest rate which accompanied the increase in money supply from funding. Bingham seems to imply that the value of land is in an inverse proportion to the interest rate. That is, that return on investment in land is the equivalent of interest, and that the value of land is equal to the amount of capital necessary to produce an equal return in interest. Consequently, when the interest rate falls, with the return on land constant, the value of land must rise. Hamilton did not use this mechanism, but relied solely upon the increase in money supply to create a rise in the price of land because he traced the low price of land to the scarcity of money. However, the increase in money supply resulted in a fall in the interest rate in Hamilton's mind, so the effect fit logically into his system. Bingham's closing remark, that "this shows how the landed interest will be benefited by the Circulation of a funded Debt-- . . ." seems to indicate that Hamilton was looking for a way to make funding appeal to the agricultural interests.[35] Moreover, Bingham's detailed examples of this effect in Britain may have been the British experience Hamilton referred to in the Report.

The same effect was elaborated by Adam Smith. But Smith, while he linked the price of land to the interest rate, rejected the theories Hamilton held on the interest rate and money. Hamilton would have had to disregard all these factors to have borrowed his theory from Smith.[36]

Other similarities appear between Bingham's letter and Hamilton's Report. Bingham informed Hamilton of the British practice of incorporating arrears in interest in the principal of a debt at the time of funding, a practice which Hamilton recommended to Congress.[37] He also explained the effect of a drop in the market rate of interest in allowing the government to lower the interest rate on the public debt. The letter also included many less significant similarities. But it did not include many of the significant effects which Hamilton was to attribute in his Report to debt funding, such as an increase in commerce. If Bingham's ideas were incorporated into the Report on Public Credit, they formed only a part of the system Hamilton proposed.

It is impossible to trace the other ideas in the Report to a specific writer. The ideas are often too

[35] Ibid., p. 677.

[36] Smith, Wealth of Nations, p. 40.

[37] McKee, Hamilton's Papers, p. 22.

general to be traced through precise comparison with similar ideas, and when general similarities exist they relate only to parts of the theories advanced by other writers. Where a similarity exists, another theory exists upon which Hamilton and the writer were in basic disagreement. As we shall see in the case of Hume, Hamilton accepted Hume's idea that debts increase trade, but discarded his warning that they inevitably ruin the nation. In other cases, where the theories are generally similar, no evidence beyond the similarity of ideas exists to indicate that Hamilton had ever seen the source. That is to say, no mention of the writer exists in Hamilton's papers or library, and Hamilton did not use any quotations which could be traced to these sources.

The most accurate comparison it appears possible to make is with a group of writers whose ideas were similar to Hamilton's. Shutaro Matsushita, a modern writer interested in the development of the concept of economic uses for a public debt has identified a group of writers in this period who saw benefits in it. Some were strongly opposed to debt in principle, but they also saw a few good features. Matsushita identifes these writers as Blackstone, George Berkely, David Hume, Isaac Pinto, and Alexander Hamilton.[38] Another writer who fits into this group is Samuel Gale.

[38]Shutaro Matsushita, Economic Effects of Public Debts (New York, 1929), p. 26. Hereafter, Matsushita, Public Debts.

These men did not advocate the adoption of systems based on hypothetical models; rather, they described the effects of the economic practices of the time, and tried to determine their causes. Samuel Gale aptly illustrates this point: "The public debt of Great Britain has never been conducted on any regular preconcerted principle: the beforementioned happy effects were neither sought nor expected from it: and it cannot therefore be wondered at, that doubts should have arisen in many with respect to the cause from whence these effects flowed.--There were, however, many who maintained, that those effects must have been produced by means of the debt: . . ."[39] What Hamilton attempted to do was to use the observed effects which experience had shown to accompany proper funding as both a goal and a rationale for funding the United States debt on the British model.

Let us consider the case of Blackstone. It is almost certain that Hamilton, as a lawyer, was familiar with Blackstone. He had used him in an early pamphlet as a statistical source on British revenue.[40] Blackstone generally opposed public debt. He explained that debts in England were secured by pledging taxes to pay the interest on them. He argued that the quantity of property was only apparently increased. The money the debts represented was only an ideal form existing in name and faith. The

[39]Samuel Gale, An Essay on the Nature and Principles of Public Credit (London, 1784), pp. 187-188.

[40]Lodge, Works, I, 146.

only value of the debts was the property of the nation pledged to uphold them, and to the extent that this property secured the debt, by that amount was the value of all other property diminished. Hamilton could well have disregarded Blackstone's distinctions, because he was recommending measures to provide faith in public credit. Moreover, Hamilton's mind was quite capable of overriding distinctions between ideal and real if the ideal functioned satisfactorily.

The only advantage Blackstone saw in the public debt was that of an increased money supply and increased circulation. It created a new species of money which could be employed in any beneficial venture, and yet produced revenue while idle. This quality was due to its transferability. This idea is the same as the one Hamilton developed, but Hamilton went farther by claiming that this would create more trade by lowering the profit margins needed by merchants. Blackstone thought that a certain amount of public debt might be useful, although he was unwilling to estimate that amount. He was certain that Britain was well beyond the useful point in accumulating debts, however.

Blackstone was similar to Hamilton on another point. Blackstone praised the sinking fund because it reduced the debt by giving the government the ability to present holders of public stock the option of interest reduction or principal repayment, and they usually chose interest reduction.[41]

[41]Sir William Blackstone, "Of the Kings Revenue," Commentaries on the Laws of England (Philadelphia: Robert Bell, 1771), I, 326-329.

Hamilton displays a further similarity with Blackstone in his expectation of applying revenue from the Post Office to the debt. Blackstone praised the post office as an institution which provided revenue and a great public service. The source of this idea is not necessarily Blackstone, however, because Hamilton had a report from the Postmaster-General which reported an expected revenue of a hundred thousand dollars.[42] But it is apparent that Americans had good reason for expecting a solvent post office. The British Post Office provided an excellent example.

Blackstone, as in the case of Bingham, developed still other ideas present in the <u>First Report on Public Credit</u>. But they were not sufficiently elaborated to have formed a complete basis for the Report.

David Hume is another writer who saw some benefits in public credit, even though he viewed them paradoxically. Hume countered his citation of benefits with a longer list of disadvantages and pessimistically concluded that "it must, indeed, be one of these two events; either the nation must destroy public credit, or public credit will destroy the nation."[43] He can hardly be classed as a champion of public credit.

Hume listed two beneficial effects, the first of which closely parallels the first and second benefits listed

[42] <u>Ibid</u>., 321-323; McKee, <u>Hamilton's Papers</u>, pp. 45-46.

[43] Hume, "Of Public Credit," <u>Writings on Economics</u>, p. 102.

by Hamilton. Like Hamilton, Hume claimed that the benefits stemmed from the fact that public stock acts as money. This effect allowed capital to be stored without withdrawing money from circulation, while the debts themselves could be used as money to effect transactions. At this point, Hume went beyond Blackstone in an analysis which Hamilton adopted. As did Hamilton, Hume claimed that the debt, by allowing merchants to earn income from idle funds, also allowed them to do business on a lower profit margin, thereby lowering prices and stimulating trade. Hamilton's second point, that manufacturing and agriculture benefit from increased trade, is an expansion of Hume's statement that this benefit of debts reaches into all sectors of the economy. Two of the three beneficial effects observed by Hume appeared in Hamilton's Report in such detailed similarity that there is no doubt about their origin.

Hamilton did not use Hume's second point, that public stocks, as an alternative to investment in land, allowed merchants to specialize their labor, rather than dividing it between commerce and the management of estates. It is possible that Hamilton found no use for an article dealing with an excess of capital; perhaps he reasoned that it was unwise to present an effect which turned investment away from land.[44]

Hamilton's third point, that funding the public debt lowered the interest rate because it increased the

[44] _Ibid_., pp. 92-94.

quantity and velocity of money, is a violation of Hume's theory of interest determination. According to Hume, low interest was a sign of national prosperity, not a cause. The quantity of money in circulation affected only prices and left interest rates constant in Hume's analysis. For Hume, interest was determined by the supply and demand for loanable funds, and the rate of commercial profits. Supply was determined by saving or abstinence from consumption, while demand flowed from the state of commerce. The third factor, the profits of trade, was included because it tended to equalize with the profits of lending. Therefore, Hamilton's theory of interest was in direct contradiction with Hume's.[45]

Hume's works were not the only place Hamilton might have come across Hume's ideas. Malachy Postlethwayt quoted Hume's "Of Public Credit" in his section on public credit, giving Hume's arguments both for and against it. Hamilton might have seen the argument here. Moreover, at the end of Hume's two favorable benefits, that the debt increased trade and allowed merchants to specialize, Postlethwayt inserted a note to the effect that public debts tend also to lower the interest rate. His reason for this was quite simply that "the more the government borrows, the cheaper they expect to borrow; . . ."[46] The conclusions of Hamilton

[45]Hume, "Of Interest," Writings on Economics, pp. 47-59.

[46]Postlethwayt, Universal Dictionary, I, 580.

and Postlethwayt are the same, but the reasons for arriving at them are different.

One of Hume's arguments against public credit, though one which would have enlisted Hamilton's support of debts, does not appear in the Report. Hume thought that debts created a large class of debt holders who would converge on London. Hume considered London to be too large already, and feared that the debt would confer too much power and privilege on the city. At the same time, however, Hume saw an offsetting advantage because the city which already existed had created a "factious, mutinous, seditious . . ." spirit among the people, and the public debt tended to check this evil. "The first visible sign of eruption, or even immediate danger, of public disorders must alarm all stockholders, whose property is the most precarious of any; and will make them fly to the support of government, whether menaced by Jacobitish violence or democratical frenzy."[47] Hume applauded the effect of debts in creating support and stability for government.

In writing his Defense of the Funding System, Hamilton acknowledged the contribution of creditors to the success of the government. He felt that the creditors had been an important element working for the adoption of the Constitution, because of a sincere interest in good government "quickened by the sensibility of private

[47]Hume, "Of Public Credit," Writings on Economics, p. 95.

interest . . ."[48] Another large group supporting the government was composed of men who considered the principles of public credit analogous to the general principles supporting the security of property, on which orderly government rested. Thus, by supporting public credit, the new government had gained the support of holders of both securities and property, a powerful class which would be dangerous enemies of any government.[49]

Hume is like Blackstone in his influence. Two ideas in the First Report on Public Credit reflect Hume's influence, but a third is in direct conflict with his theories. Moreover, Hume's position on public credit kept him from elaborating a defense of credit detailed enough to have been responsible for all the ideas Hamilton presented. Hume could not have been a major source of the ideas Hamilton used in his Report.

Isaac de Pinto (d. 1787) was an influential Dutch citizen of Portugese-Jewish descent. His personal wealth put him in contact with important figures in Holland, and he became a financial consultant of the Stadtholder William IV. An authority on economics, finance, and colonies, he played an important part in reforming the Dutch East Indies Company. He was given credit for saving the nation during the crisis with France in 1748 by his large contributions

[48] Richard B. Morris, Alexander Hamilton, p. 142.

[49] Ibid., pp. 142-143.

to the treasury. Pinto fell from favor after the death of William IV in 1751, and spent several years traveling between Paris and London. A learned man, he belonged to several of the literary societies on the Continent. In Paris, he became involved in a long pamphlet war with Voltaire because of attacks Voltaire had made on the Jews. At the request of the Duke of Bedford, he wrote a report on the East Indies which materially advanced negotiations at the Peace of Fontainebleau. For this service he was awarded a life annuity by the British East Indies Company, and he spent much of the rest of his life trying to prevent quarrels between the British and Dutch East Indies companies. In 1771 he published the French version of his Essay on Circulation and Credit.[50]

Unlike Hume, Isaac Pinto was not hostile to public credit. Pinto had met Hume personally, and had read "Of Public Credit," but he did not agree with Hume. Pinto argued that public credit would not have the adverse effects predicted by Hume if it was properly administered. Modern nations could neither be run successfully without public credit, nor could Hume carry the world backward into days before it existed. Pinto's personal opinion of Hume was that Hume was a much brighter person than his essay indicated.[51]

[50]"Isaac De Pinto," Biographie Universal: Ancienne et Modern, ed. E. E. Desplaces (Paris, 1854-65), XXXIII, 383-385.

[51]Isaac de Pinto, An Essay on Circulation and Credit, trans. Rev. S. Baggs (London, 1774), pp. 103-106.

There is no indication in Hamilton's papers that he had ever read Pinto. Yet, at least two modern writers have noticed that Hamilton's views were similar to Pinto's.[52] The approach which Hamilton took tends to correspond to Pinto's on point after point.

The first part of Pinto's essay was written in 1761 with the object of recommending British practices of public finance to France.[53] Pinto was a great exponent of circulation. While he was aware that gold and silver were the only universally acceptable medium of exchange, he was also aware that the money of the kingdom was far short of equaling the value of its property, or even the annual purchases of society. The gap was filled by circulation. If one unit of currency changed hands fifty times, it had a power equal to fifty units exchanged once. He also noticed that bills of exchange often augmented the money supply.[54] The recognition of the power of circulation is an important element of Pinto's theory.

The system Pinto described and praised in England was similar to the one that Hamilton proposed. Pinto wrote that the credit of England was assured because each loan was annexed to a definite security for paying the interest.

[52]Matsushita, Public Debts, p. 26; Charles Bullock, Selected Readings in Public Finance (Boston, 1924), p. 824.

[53]Pinto, Essay on Circulation, p. xiii.

[54]Ibid., pp. 4-6.

Moreover, while the interest was guaranteed, the principal was redeemable at the government's pleasure. Thus, there were no financial crises in Britain from debts falling due, and her credit was assured by the scrupulous punctuality with which she paid her interest bill.[55]

Pinto next advanced the proposition that debt enriches the nation. According to Pinto, every new loan on which the government mortgages a portion of its taxes to pay the interest creates a new, artificial capital which is as permanent, fixed and solid as so much real treasure. The money which was taken from society to create the debt is subsequently spent within the nation, and society is enriched by holding both the money and the capital instruments. Moreover, these capital instruments circulate as gold and silver as long as the public credit is maintained.[56] This is much the same effect Hamilton attributed to public credit: augmenting the real wealth of society and acting as a medium of circulation.

Pinto maneuvered around the price effect of an increase in the money supply by introducing a dynamic element. He felt that while the increase tended to raise prices and depreciate the currency, it also created new demands for goods which would result in economic expansion, offsetting the price increase. For proof he used the influx

[55] Ibid., pp. 13, 15.

[56] Ibid., pp. 17-18, 22.

of specie from America as an example. He pointed out that while this had pushed up prices in Europe, it had also expanded trade and manufacturing so far that the same stock of specie was not sufficient to handle trade, and paper money had to be used to fill the gap.[57] Pinto managed to overcome the price effect in his model, an effect which Hamilton ignored in his theory of circulation and interest.

Another point which Hamilton had in common with Pinto was his lack of hostility to foreign capital. Both felt that a nation was lucky which could gain the use of foreign funds for its own purposes. Pinto even felt that people should not look down on stock jobbers, because they provided funds for the government and put securities into circulation.[58]

Pinto was not a proponent of unlimited public debt. The useful limit to public credit was the point at which it exceeded the amount necessary for circulation, or where the market became supersensitive and had excessive price fluctuations. Pinto did not estimate the quantity which would be useful.[59] He recognized that debts must also be discharged, and recommended a sinking fund for this purpose. The best way to finance a sinking fund was to use the

[57] Ibid., pp. 25-28.

[58] Ibid., pp. 31-35, 38-42; McKee, Hamilton's Papers, p. 48.

[59] Pinto, Essay on Circulation, p. 44.

excess of earmarked taxes for redemption. Except for the fact that Pinto included an explanation of the role of compound interest, his explanation of sinking funds is essentially the same as Hamilton's.[60]

Moreover, Pinto claimed that the circulation of public funds would reduce the interest rate. He pointed to this as a goal and a primary object of government finance. It was a sign of a flourishing credit.[61] This point, too, is similar to Hamilton's expectations of the effect of increased circulation on the interest rate.

According to Pinto, public credit can be reduced to regular principles. These are the regular payment of interest, and the establishment of a sinking fund based on excess revenue and the profits of interest reduction. Interest reduction, he asserted, would always be easier in practice than in theory, because a small sinking fund, paying off a few creditors, would persuade the rest to accept reduced interest.[62] The successful establishment of public funds depended upon five conditions: that they be national and backed by government, that a sinking fund be operated in a uniform and regular manner, that interest be secured by earmarking revenues, that financial operations be open to the public view, and that interest never be

[60] Ibid., pp. 50-51.

[61] Ibid., p. 53.

[62] Ibid., pp. 75-79.

reduced without offering to repay the principal as an alternative.[63] All of these points were present in Hamilton's Report, but there is no explicit proof that Hamilton used Pinto to build his case. The two effects which Hamilton seemingly borrowed from Hume are not present in Pinto's analysis. If Hamilton relied upon Pinto, he built a synthesis of Pinto and Hume. Although it is impossible to say that Pinto was the source of Hamilton's ideas, it is possible to say that they belonged to the same vein of thought.

Another writer who belongs to that vein is Samuel Gale. Gale wrote probably the best presentation of the time on how prosperity could be achieved by manipulation of the public debt.[64] Gale is a difficult man to trace, and the designation "European" fits him only loosely. Perhaps the best term to use is "displaced person." Gale was born in England in 1747, and was well educated. He came to America in 1770 as a paymaster in the British Army, and then settled in Cumberland County, New Hampshire Grants. A Tory Loyalist, he fled to New York in 1776 before Rebel antagonism. He went to Canada before the peace, and then to England. Here he published an essay on public credit of which Pitt is supposed to have approved. Later he returned to Canada, where he died in 1826.[65] Between Hamilton and Gale there is

[63] Ibid., p. 141. [64] Dorfman, Economic Mind, I, 229.

[65] Lorenzo Sabine, Biographical Sketches of Loyalists of the American Revolution (Boston, 1864), I, 452-453.

at least a slight basis for contact, even though no proof of actual contact exists. Gale had the friendship of James Duane, a powerful New York conservative, to whom Hamilton had earlier addressed a letter on economic and political matters.[66]

Gale's work on the public debt appears in four essays published from 1784 to 1787. Gale opened his first essay by presenting opinions for and against the public debt. Among the ideas which appeared in favor of public credit was Hume's thought that public debts pay interest on idle funds and allow merchants to trade on a lower profit margin. Gale also approved of the effect of public credit in binding creditors to the government.[67]

Gale, like Pinto, attacked the hypothesis of an automatic adjustment of prices to an increase in the money supply by introducing a dynamic element into his analysis. He argued that the price effect of a change in the money supply was reduced by changes in the velocity of circulation. Historically, the increase in prices since the discovery of the American mines had been nowhere near proportional to the increase in the money supply.[68]

The public stocks Gale discussed were the same basic kind that Hamilton proposed for America. These were such

[66]Dorfman, Economic Mind, I, 229.

[67]Samuel Gale, An Essay on the Nature and Principles of Public Credit (London, 1786), pp. 4-5, 9.

[68]Ibid., pp. 7-8.

that the capital or principal was transferable but not redeemable, and received an annuity or periodic interest payment.[69]

According to Gale, interest rates will always be higher in war than in peace, due to increased wartime demand for funds. The logical course for a nation to follow when it is forced to borrow in wartime is to reduce interest rates in peacetime. Interest can be reduced by forcing creditors to voluntarily accept reduction with the threat of refinancing the debt at lower peacetime rates. This was essentially the program Hamilton proposed.[70]

Gale's theory of interest is similar to the peculiar theory advanced by Hamilton. He is the only writer examined who had a similar interest theory. Gale theorized that the value of a given quantity of money was determined by its velocity ("circulating force"), rather than by the ratio of the quantity of money to the quantity of goods. But the rate of interest was not related to the value of money because interest was a comparison between capital and returns, both of which were in terms of money. Therefore, in a ratio of money to money, the value of money was not important. Gale realized that if the quantity of money, demand, and prices all doubled, the rate of interest would remain constant. But he concluded that the interest rate

[69] Ibid., p. 13.

[70] Ibid., pp. 15-16, 31.

was not determined by the quantity of money, but by its velocity. Interest was in an inverse ratio to velocity. For Gale, a high velocity of circulation and its consequent low interest rate was a result of good public finance and a sign of prosperity.[71]

Gale and Hamilton were similar in their conception of the role of public stock in increasing circulation. Gale laid down the rule that "there cannot be a more important consideration in the science of public finance, than that of preserving . . . a steady and regular value fixed in property."[72] This is important in a commercial nation because the stock creates a medium through which funds may profitably flow. Merchants, in times of plenty, can invest idle funds which other merchants can put to work. Circulation is facilitated and the interest rate will fall, encouraging commerce and industry. And, the state will be able to finance itself on favorable terms. Gale made a careful distinction between merchants, who move in and out of stocks for capital transfers, and speculators, who decrease circulation by causing price instability. He felt that excessive fluctuations in stocks caused normally respectable merchants to form a class whose interests would be contrary to the best interests of the state. Thus, Hamilton's conception of the role of public funds was quite

[71] Ibid., pp. 77-78.

[72] Ibid., p. 80.

similar to Gale's.[73]

Hamilton's conception of the importance of honor in public finance paralleled Gale's. According to Gale, the only reason gold and silver are to be preferred as a medium of exchange is the faith and credit that men place in them. To be effective, paper circulation would have to enjoy an equal faith and credit. Gale traced the failures in American paper money to their disproportionate and unsystematic nature: Their issues of currency had been greater than they needed to be, and the issues had been unsystematic because they were not based on regular and proper principles (Gale's). He was also convinced that the successful American war effort had proved that what the Colonies lacked was a circulating medium, not real wealth and resources.[74]

Gale's first two essays apparently attracted notice, because the third essay was written in reply to attacks in _The Monthly Review_ and _The Critical Review_.[75] Gale also proposed a sinking fund for discharging the debt. He argued that a sinking fund, if applied regularly, would grow geometrically because taxes earmarked for interest payments would be released into the fund by each repayment of principal.[76] Gale was not a proponent of unlimited public

[73] _Ibid._, pp. 81-85.

[74] _Ibid._, pp. 88-90, 228.

[75] Samuel Gale, _Essay III on the Nature and Principles of Public Credit_ (London, 1786), pp. 1-14.

[76] _Ibid._, pp. 19-20.

debt. He proposed as a primary aspect of policy that attention be regularly paid to reducing the debt.[77]

However, Gale attacked one argument which had been advanced for redemption of the public debt. This was the line of reasoning which proposed that the debt could be paid in a century if a million pounds a year were placed in a sinking fund at compound interest. He pointed out that the real cost would be the sinking fund plus the interest bill, which this reasoning had neglected to consider. He attacked the idea which accompanied this proposition, that the market interest rate should be forced up to make the sinking fund compound more rapidly. Gale pointed out that this would cost even more, because new taxes would have to be raised to pay the increased interest bill on the debt.[78]

The arguments which have been presented here do not completely outline all of the theories advanced by Gale. However, they do include those in which Gale and Hamilton exhibited similar patterns of reasoning. Many more points could be advanced which would clarify ideas which Hamilton presented in his Report, but the task here is to show a similarity of reasoning. One remaining aspect of Gale's work should be pointed out, however. Gale wrote a brief history of the financial practices of Great Britain, which

[77] Samuel Gale, Essay IV on the Nature and Principles of Public Credit (London, 1787), p. 2.

[78] Ibid., pp. 6, 10.

he presented as a condensation of a history by Sir John Sinclair.[79] Here, then, are two more sources by which Hamilton could have become familiar with standard British financial practices.

It is difficult to trace many of Hamilton's ideas to specific sources, but it is reasonable to suppose that a man of his interests was affected by a climate of thought in which most of his proposals were commonly discussed. While there is no apparent direct link to tie Gale and Pinto to Hamilton, linkage is not as important as it might seem. The ideas involved might have been drawn from any of a large number of books, pamphlets, and periodicals. What is important is that all three writers represent a school of thought including George Berkely and Melon the French mercantilist, which was emerging in the closing years of the eighteenth century. They were not hostile to public debt; they considered it an unavoidable feature of the world they lived in; they insisted it be used creatively. They had accepted the tool and were concerned with its most effective use, while others opposed it.

Opponents of the usages of a public debt turned their backs upon a rapidly changing world. They hated debt in any form, and feared bankruptcy of the state. They opposed not only debt, but the features which were associated

[79] Ibid., pp. 51-109; Sir John Sinclair, The History of the Public Revenue of the British Empire (London, 1785).

with it, commercialism, economic growth, developing industrialism, and cities. The public debt was merely a focal issue which included all of these features; it was what men talked about when they wanted to discuss the whole group of issues. The reaction of the opposition to the developing industrial world was to place obstacles in the path of its development. Their arguments were often characterized more by emotional and moral appeals than by use of analytical devices. This reaction, which modern writers on economic development recognize as typical of a traditional society feeling the effects of technological change, resulted from the fundamental threat of development to social stability.[80] Between these struggling forces, Hume and Blackstone represent a middle ground. However Hamilton's political beliefs may be classified by writers concerned with modern alternatives, in his own age he was not an economic conservative.

It should come as no surprise that Hamilton attempted to duplicate standard British financial practices, nor should this duplication be interpreted as a sign of malignant Anglophilia. Consistency with European ideas of public finance was a fundamental to credit. Hamilton had several radical courses open to him, but they would have created powerful opponents to the new government, including

[80]For an analysis of this reaction, see C. E. Ayres, <u>The Theory of Economic Progress: A Study in the Fundamentals of Economic Development and Cultural Change</u> (New York: Schocken Paperbacks, 1962), pp. 155-178.

the Dutch creditors.[81] Hamilton himself admitted this in a letter to Washington. He pointed out that Dutch adventurers did not start buying American public stock until they were assured of the soundness of American finance. As Hamilton asked Washington, "What would have been the state of our credit with them, if they had been disappointed, or indeed if our conduct had been in any respect inconsistent with the notions entertained in Europe concerning the maxims of public credit?"[82] A consistency with foreign financial practices was regarded as essential in persuading foreign capital to finance economic development in America.

One final writer remains to be examined before closing the analysis of the First Report on Public Credit. In the normal course of research, Dr. Richard Price would have been discarded as a possible influence, if several writers had not credited him with being the source of Hamilton's sinking fund. In an essay written in the last century, Charles F. Dunbar suggested that Hamilton's sinking fund was based upon Pitt's, and that Pitt's own idea came from Dr. Richard Price.[83] Broadus Mitchell has recently suggested that the similarity between Pitt and Hamilton was the result of the influence of Price on both statesmen, and Mitchell based

[81]Ferguson, Power of the Purse, p. 296.

[82]Lodge, Works, II, 442.

[83]Charles F. Dunbar, "Some Precedents Followed by Alexander Hamilton," Economic Essays (New York, 1904), pp. 82-83.

his argument on Dunbar's work.[84] Another writer used in this paper has also reached a similar conclusion.[85]

While a remarkable variety of evidence may be presented to prove that Hamilton and other Americans knew of Price and thought highly of him, it is not difficult to prove that he was not the source of Hamilton's sinking fund. Dr. Richard Price was a peculiar man. Minister, statistician, and opponent of the public debt, he belonged to the school opposing the growth of the modern world. From a comparison of narrowly-based mortality statistics, he affirmed the virtue of rural life and was a devotee of the cult of the "noble savage." Price advocated a back-to-the-soil movement, and argued that the ideal state was a nation of small property owners and yoeman farmers. He was an unyielding opponent of public debt, one who found a utopian solution in a sinking fund at compound interest.[86] Price saw several evils in the public debt: (1) increasing dependence on the crown, (2) rendering the nation tributary to foreigners, (3) raising the price of provisions and labor, (4) checking population growth, and (5) loading trade and manufacturing with unfavorable burdens.[87] All his books were a continuing

[84] Mitchell, Hamilton, II, 38.

[85] Matsushita, Public Debts, p. 22.

[86] Cone, Torchbearer of Freedom, pp. 44, 45, 50.

[87] Price, Observations on Reversionary Payments, 5th ed. (London, 1792), I, 204.

polemic against public debts and they endlessly repeated his favorite solution.[88] The scheme Price advanced was unique. He proposed that the sinking fund buy up the debt and hold it, collecting interest upon the securities purchased to buy up more securities, and so on to infinity. Price advocated a high interest rate to speed up the process of compound interest. The rate he hoped for was eight per cent, double the rate to which Hamilton hoped to reduce the American interest rate.[89]

From this examination of the ideas of Price, it becomes obvious that Hamilton did not base his plan upon them. Hamilton did not stress compound interest; he emphasized the desirability of a low interest rate; Price was obsessed with the importance of a high interest rate. Price considered debts as a burden to trade and commerce; Hamilton saw them as a boon. Finally, Price had a narrowly-conceived scheme based solely on compound interest in a sinking fund for paying off the total debt. Hamilton was concerned with a broad economic pattern. The fact that both men advocated a sinking fund is not an adequate basis for supposing one to have influenced the thinking of the other. It seems evident that Price played no role at all in Hamilton's economic program.

[88] Price, Observations on Reversionary Payments, I, 188-228; Observations on the Nature of Civil Liberty, pp. 61-68; Additional Observations on the Nature and Value of Civil Liberty, pp. 31-37, 118-20. All these books and pamphlets carry sections on the public debt.

[89] Price, Observations on Reversionary Payments, I, 186-197.

John Holland Rose, a biographer of William Pitt, suggests an answer in his denial of the influence of Price on Pitt. He thinks that Pitt's sinking fund was based on Walpole's earlier model, which used compound interest. Pitt's original intention was to pay off the debt by applying the annual surplus to a sinking fund, and not the strange scheme advanced by Price for paying off the debt at high interest rates. Rose found evidence which led him to believe that Pitt was influenced by a Mr. Gale, but he could find nothing about either Mr. Gale or his plan.[90] Perhaps the similarity between Pitt and Hamilton can be traced to a common reliance on standard British financial practice, or upon Samuel Gale.

The Second Report on Public Credit is not of major importance in the development of this analysis. With a single exception, the Report consists of bookkeeping proposals of ideas which have already been examined. The exception is a long argument against the right of the government to lay a tax on transfers of public stock. Since transferability was a key feature of the Hamiltonian program, he quite naturally opposed this proposal.

With a remarkable degree of uniformity, historians have failed to place the Report and this argument in their proper perspective. They have either ignored it, treated it descriptively, or presented it as words of wisdom from a

[90] John Holland Rose, William Pitt and the National Revival (London, 1911), pp. 189, 191, 194.

departing statesman.[91] In reality, the Report and this particular argument were responses to a specific stimulus. The importance of this response is that it gives insight into the effect of Congressional moods on the tone and content of Hamilton's Reports.

On Wednesday, March 26, 1794, the House appointed a committee to inquire into the need and methods of providing for additional revenue to support the public credit. In a violent attack on the Secretary of the Treasury, Representative Page made it clear that the House would not welcome suggestions from either the Secretary or the Senate on the matter.

The results of the investigation were reported to the Committee of the Whole House on Tuesday, May 1, 1794. Among the recommendations were two resolutions: a tax of five cents on every transfer of one hundred dollars of public stock, and a similar tax on transfers of stock of the Bank of the United States. A floor fight led by Fisher Ames and Elias Boudinot followed, but both taxes were accepted. The tax on public stock passed the Committee of the Whole with fifty-three yeas, nays not counted, and passage of the tax on bank stock was unanimous. A week later the recommendations were reported to the House by the Committee of the Whole. A resolution which would have stricken these provisions, among others, from the record, failed. On

[91]Even Broadus Mitchell, <u>Hamilton</u>, II, 362, merely describes the Report. He says that Hamilton saved for the end the proposal that the government should not tax its own funds. But, there is no attempt to determine causation.

May 10, the recommendations passed the House. A committee was appointed to bring in bills to implement these recommendations, and the Congress adjourned on June 9.

Bills were brought in on stamps, carriages, and other recommended articles, but bills for a tax on public stock and bank stock never appeared. This may have been the result of a time factor, because the five acts resulting from this set of resolutions were all passed in the last four days of the session.[92] When the next session of Congress met in November, the resolutions still awaited action. Once having been approved as a source of revenue, even if only by resolution, the expedient could be turned to when a necessity presented itself. It was against this resolution that Hamilton turned his pen when he submitted his report to the Senate on January 20, 1795.

Hamilton's argument against this measure is not easy to unravel. Many of the points are legal arguments or designed to show how this measure would injure transferability. Two of the points he makes, however, reveal an interesting aspect of Hamilton's use of economic reports and personal influence to support American credit abroad.

Hamilton made use of a definition of public credit which emphasized the "faculty to borrow, at pleasure, considerable sums on moderate terms; the art of distributing, over a succession of years, the extraordinary efforts,

[92] Annals of Congress, ed. Joseph Gales, Sr. (Washington, 1834), IV, 531-533, 616-621, 655, 658-667, 673, 783, 1322-23.

found indispensable in one; a means of accelerating the prompt employment of all the abilities of a nation, and even of disposing of a part of the overplus of others."[93] Discovery of the source from which Hamilton took this quotation does not reveal its original source. The quotation came from a paper submitted to him by Talleyrand, who also quoted the definition without citing his source.[94] Thus, even if the definition could be traced to the writer who coined it, it would not constitute proof of Hamilton's reliance on that writer. To Hamilton, it sounded good, and he used it. He was quite capable of taking a part of a man's idea, if it seemed useful.

A second point which Hamilton used seems to come from Talleyrand's essay. Hamilton argued that holders of public securities pay their share of taxes in consumption. He then argued: "But, without undue refinement, the lender to the public may be affirmed to have paid his tax when he lends his money."[95] This seems to refer to a lengthy argument by Talleyrand in the same paper that inflation caused by public borrowing falls most heavily on the creditor class, and acts as an automatic tax.[96] Hamilton

[93] McKee, Hamilton's Papers, p. 170.

[94] Talleyrand, "Essay on a Government's taxing its own Stock," The Papers of Alexander Hamilton, Library of Congress Microfilm, reel 8, Vol. 18, 2813.

[95] McKee, Hamilton's Papers, p. 164.

[96] Talleyrand, "Essay," Papers of Alexander Hamilton, Library of Congress Microfilm, reel 8, Vol. 18, 2812.

merely stated the conclusion "without undue refinement."[97] While Hamilton borrowed from Talleyrand in these two instances, the rest of the report reveals no reliance on Talleyrand's essay.

One of the aspects of American history which needs clarification is the Hamilton-Talleyrand relationship. Both the limits of this paper and the lack of evidence forbid a detailed examination here, except as the relationship concerned the Report. Talleyrand himself reported that "during the two winters I spent either in Philadelphia or New York, I availed myself of the opportunity this afforded me to see the chief personages whose names the American Revolution has handed to history, especially General Hamilton, whose mind and character placed him, I thought, on a par with the most distinguished statesmen of Europe, not even excepting Mr. Pitt and Mr. Fox."[98] Talleyrand revealed both familiarity and respect for Hamilton.

While he was in America, "Talleyrand seems to have set himself the task of bringing European capital to American opportunities by supplying information to Europeans."[99] In writing from Philadelphia to the London financial house of Bourdieu, Chollet, and Bourdieu on June 10, 1794,

[97] McKee, Hamilton's Papers, p. 164.

[98] Talleyrand, Memoirs, I, 81-82.

[99] Hans Huth and Wilma Pugh ed., Talleyrand in America as a Financial Promoter, 1794-1796, Annual Report of the American Historical Association for the Year 1941, Vol. II (Washington, 1942), p. 9.

Talleyrand guaranteed the exactness of the details he was sending on the condition of American business: "The manner in which I have been received here permits me to learn promptly of many affairs and no one has aided me more in gaining my information quickly and surely than Mr. Hamilton.[100] Talleyrand was already (June 10) using the details of the new revenues appropriated by Congress in the previous five days to gain acceptance for his schemes.[101] He tried to convince his correspondents that they should buy United States stock, even though its price had fallen, because the decline was due to the current war threat, not to fundamental unsoundness. He assured them that they could count on the peaceful nature of Jay's mission, because the country's prosperity depended on the maintenance of peace. "I can assure you that the intention of this government is to preserve peace with England. The instructions given to Mr. Jay were prepared with the most pacific disposition. . . . Count on the fact that Mr. Jay strongly desires peace, that his instructions express the intention of preserving it, and that on the maintenance of peace depends the whole political existence in this country of Mr. Jay, who is at present a very important figure."[102] Talleyrand's arguments sound very much as if they were being channeled directly from

[100] Ibid., p. 28.

[101] Ibid., p. 29.

[102] Ibid., p. 30.

Hamilton.

Another indication of this is in a letter to the same company on January 15, 1795. He assured the company that although Hamilton was resigning at the end of the month, his successor was hand-picked and would probably follow Hamilton's path.[103] In April, Talleyrand sent them a copy of the <u>Second Report on Public Credit</u>.[104] At least in this instance, a financial report and leaked information seem to have been used in an attempt to build and sustain American credit.

Hamilton's behavior in this instance is consistent with his general pattern of behavior whenever the financial system was threatened in the diplomatic crisis of 1794. When Hamilton revealed the Cabinet's decision against joining the League of Armed Neutrality to the British Ambassador, George Hammond, he seriously weakened Jay's power in negotiation with the British government.[105] In discussing Hamilton's behavior in the crisis, Samuel Flagg Bemis has defended Hamilton's action by reasoning that the United States was a new nation and still in danger of losing her independence. The power of the new government depended on the Hamiltonian financial system, and the financial system, in turn, depended on maintaining the flow of imports

[103] <u>Ibid</u>., p. 92.

[104] <u>Ibid</u>., p. 93.

[105] Samuel Flagg Bemis, <u>Jay's Treaty: A Study in Commerce and Diplomacy</u> (New York, 1923), pp. 246-248.

from which the government drew the majority of its revenues. If the Crisis of 1794 resulted in war with Great Britain, imports and import revenues would cease, and the federal government, unable to pay the interest on the debt, would fall with the financial structure which supported it. Bemis justifies Hamilton's behavior by proving that Hamilton was aware of this chain of consequences, and acted accordingly.[106] The information which Hamilton channeled through Talleyrand seems to be still another example of Hamilton's attempts to support public credit during the crisis.

[106] Ibid., p. 271.

CHAPTER IV

THE REPORT ON A NATIONAL BANK: 1790

The Report on a National Bank is probably the most brilliant of Hamilton's economic reports. Unfortunately for the purpose of this essay, it has yielded the least to analysis of its sources. About the only answer which the sparse evidence yields is an understanding of why it is almost impossible to trace the concepts involved to any particular writer.

It is not the function of this paper to give a detailed analysis of the economics of the Hamiltonian system, but to find the origins of the ideas involved. In many instances, analysis of the economics of his system has been used to clarify the relationship between Hamilton and a writer he utilized, or to provide a vehicle for linking ideas. But this has not been the primary purpose of this paper. The Report on a National Bank is a fascinating treatise on the functions of banking and its role in the Hamiltonian system. Nothing would be more pleasing than an exploration of its intricacies, and this would have been possible if enough sources had been uncovered to utilize this exploration as a vehicle for analysis. Since it has not, only those ideas traced to a specific source will be discussed.

Two features of Hamilton's ideas on banking have already been examined in the second chapter. Hamilton reaffirmed the idea that the primary purpose of a national bank is to aid the operation of public finances and to support the public credit. He also cited the fact that banks were a feature of the most enlightened commercial nations.[1]

In examining a list of arguments against banks, Hamilton supplied an interesting example of the difficulty involved in locating the sources of his ideas in this Report. He considered the last and most serious charge against banks to be that they tend to drive specie from the country. Against this idea, he launched two lines of attack.

First he gave what he considered to be the most common answer to the charge. It was that it did not matter what a country used as a medium, as long as its real wealth, the product of its labor and industry, remained unimpaired. He found this answer to be "not destitute of solidity, though not entirely satisfactory."[2] The idea seems to be taken directly from Adam Smith.[3] Smith applauded the idea that paper money drives gold and silver from the country. He argued that specie was only representative of real wealth, as was paper. As long as wealth was represented, it did not matter whether it was represented by gold or paper,

[1]McKee, Hamilton's Papers, p. 53.

[2]Ibid., p. 66.

[3]Smith, Wealth of Nations, pp. 274-277.

and paper was a cheaper, safer, and more convenient medium to handle. As far as Smith was concerned, it was a good thing for paper money to drive gold abroad, because gold could be used to purchase real wealth from foreigners and enrich the kingdom.

But Hamilton was not entirely satisfied with the first answer. He declared that no country could ever be indifferent to a positive increase or decrease in its stock of gold and silver, because they are the most effective and universally acceptable medium of exchange. Hamilton argued that banks, as a means of increasing the monetary stock and circulation of the country, tend to increase trade and industry. This generated increase in employment should cause more sales abroad, and offset the tendency of gold to be exported. In fact, Hamilton went so far as to argue that banks, by this process, tend to increase the nation's stock of gold and silver by creating a favorable balance of trade.[4]

A close analysis of both Smith and Hamilton shows two differences. Smith upheld the substitution of paper for specie on the ground that the produce of specie sold abroad would increase the real wealth of the nation and hence would increase employment. Hamilton attributed the increase in employment to the increase in "active capital" or money. It may well be argued that this distinction between real

[4]McKee, Hamilton's Papers, pp. 66-67.

wealth and money is not too real, and may have been linked by an association of the two concepts in Hamilton's mind. But the difference in their position on the effect of banks on the national specie supply is very real, for Smith never argued that paper money would offset or reverse a specie drainage. He applauded the effects of paper money in causing the outflow of specie.

Hamilton's conclusion in his second argument is a severe enough violation of Smith's ideas to cast strong doubts on the hypothesis that Smith was his source for either idea. Picking a sentence or a paragraph from context and attributing it to the influence of one another, when the total concepts of both authors are in conflict, places too great a burden upon the evidence. However, in this case, the influence is definitely Smith's.

In 1792, Washington wrote to Hamilton, directing him to answer a series of charges against the financial system.[5] Among these is the objection which Hamilton answered in the Report on a National Bank, that banks tend to drive specie from the country. The answer Hamilton gave is revealing in terms of his methods and his use of sources. He wrote that:

> This is a mere hypothesis, in which theorists differ. There are no decisive facts on which to rest the question.

[5] Fitzpatrick, Writings of Washington, XXXII, 95-100. For an explanation of the circumstances surrounding this letter, see p. 53 of this essay.

> The supposed tendency of bank paper to banish specie is from its capacity of serving as a substitute for it in circulation. But as the quantity circulated is proportioned to the demand for it in circulation, the presumption is that a greater quantity of industry is put in motion by it, so as to call for a proportionally greater quantity of circulating medium and prevent the banishment of specie. But however this may be, it is agreed among sound theorists, that banks more than compensate for the loss of the specie in other ways. SMITH, who was witness to their effects in Scotland, where too a very adverse fortune attended some of them, bears his testimony to their beneficial effects in these strong terms. (Wealth of Nations, Vol. I, Book II, Chapt. II, pages 441 to 444).[6]

Hamilton, in his presentation, posed two theories which cancelled each other, and then turned to Smith. But it was not Smith's theories he wanted, it was Smith's personal observation of banks in Scotland and their effects. Quite simply, Hamilton was using Smith for factual validification of his own conclusions.

Hamilton clearly had Smith in mind when he was writing the Report on a National Bank. The idea that it does not matter what a society uses as a medium of exchange was drawn from Smith, as were the economic effects he cited in his conclusions. The conclusions, however, were distinctly his own. His use of Smith is qualified: he tended to use Smith as an observer for empirical evidence. Hamilton did not regard Smith as an unquestionable authority on economics. In Hamilton's mind, he was merely another theorist.

The conclusion at which Hamilton arrived is surprisingly close to one formulated by David Hume. Hume agreed that

[6]Lodge, Works, II, 449-450.

banks drive specie from the kingdom, but he argued that the temporary increase in circulation and liquidity would cause an increase in industry. And, as long as industry was solid, money would always flow back again.[7]

Hamilton's first argument in favor of banks, that they augment the active or productive capital of the nation, seems in part to be based upon Adam Smith's Wealth of Nations. Hamilton believed that when gold and silver were used solely for the purposes of trade, they had been properly called "dead stock." Smith used this same terminology. He also believed that banks augmented the active or productive capital of the nation, and used the term "dead stock" to suggest the opposite of productive capital. The subsequent development of the idea is the same in both authors. Both Hamilton and Smith describe the drawing of idle reserve funds into banks, giving use and profit to one group, while earning interest for depositors and remaining at their instant call. Insofar as they described banking as a capital-gathering and capital-activating mechanism, Hamilton and Smith were quite parallel, even in their terminology.[8] But this must not lead to the error to which it has led Louis Hacker, that Hamilton knew Adam

[7]Hume, "Of the Balance of Trade," Writings on Economics, pp. 70-77.

[8]McKee, Hamilton's Papers, pp. 54, 57; Smith, Wealth of Nations, p. 304. This similarity has been previously examined by Harry E. Miller, Banking Theories in the United States Before 1860, Harvard Economic Studies, XXX (Cambridge, 1927), p. 30, and by Louis Hacker, Alexander Hamilton, p. 151.

Smith so well and leaned on him so much that he used his words and patterns of thought.[9] Though Hamilton appears to have used Smith, he did not follow him closely.

Even in this instance, Hamilton's development of the idea violates a fundamental tenet of Smith. Hamilton went on from the capital-gathering function of banks to describe the use of fractional reserves. The ability of banks to use fractional reserves allowed the expansion of paper currency in multiples of the bank's specie holdings. "This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin, are, to all purposes of trade and industry an absolute increase of capital."[10] Thus, Hamilton saw a power of banks which went well beyond the simple function of capital activation; he proposed that banks be used as instruments of capital creation by issuing notes in quantities greater than their specie reserves. This idea itself is substantially different from Smith's. The very sentence which Smith used to open the paragraph describing the capital-gathering function of banks begins, "it is not by augmenting the capital of the country, but by rendering a greater part of that capital active and production . . . [that] banking can increase the industry of the country."[11]

[9] Hacker, Alexander Hamilton, pp. 150-151.

[10] McKee, Hamilton's Papers, p. 57; Miller, Banking Theories, p. 30.

[11] Smith, Wealth of Nations, p. 304.

The reason for the difference is not difficult to isolate. It lies in the words "to all purposes of trade and industry." Hamilton's pragmatism had asserted itself again. As far as Hamilton was concerned, if bank currency performed the function of capital funds, it was capital. Hamilton's failure to distinguish between the forms of capital is one of the weakest points of his economic analysis. Strictly defined, capital is that part of current production set aside from consumption for use in future production. It may take the form of physical machinery, of inventories, or of money saved for future use. Hamilton's treatment of capital seems to include not only these elements, but also such non-capital items as money, government bonds, and the stock representing the physical machinery of production. Thus, Hamilton often speaks of an increase in the money supply or in the value of government bonds as an increase in national capital, when they do not actually represent an increase in capital. To Hamilton, the fine points of theoretical distinction were meaningless. However, the difference between Smith and Hamilton is greater than a difference in terminology. It was a fundamental difference in their conception of the role of paper money.

Another instance in which Hamilton appears to have used Smith gives more insight into the nature of his relationship with the father of classical economics, and their difference in ideas about the function of paper money. Hamilton agreed with Smith that bank paper was the best kind of paper money. His reasoning seems to follow Smith's closely. He defended bank notes because they had a standard of appeal by being defined in terms of gold, and could always be held at constant value by being redeemable in gold on demand. Hamilton also agreed with Smith on the ability of banks to maintain fractional reserves. Up to this point there is such a close resemblance to Smith that there is little reason to doubt Smith's influence. At this point, however, Smith and Hamilton separated in their theoretical approaches.

Smith maintained that the quantity of paper money could never exceed the quantity of gold it replaced. If it did, prices would rise, deteriorating the value of the paper money, and it would be returned to the bank for gold. Thus, the quantity of bank notes was always equal to the quantity of gold it replaced. Paper notes were merely a more efficient medium of circulation. The increase in efficiency came from the elimination of the peculiar cost of maintaining gold and silver as a medium of circulation. This cost came from the expense of gathering specie and its manufacture into coin, which contributed nothing to the real production of the nation. Paper currency was more efficient because it eliminated this cost. The quantity of gold remaining after reserves were provided for was to be shipped abroad and exchanged for goods, and national industry would be increased to the extent that these purchases included capital goods or raw materials. A fundamental assumption of Smith's reasoning, however, was that an adequate money supply already existed.[12]

Hamilton did not consider the American money supply to be adequate for its needs.[13] Consequently, he fought the idea that banks tend to drive specie from the country. In contrast to Smith, Hamilton chose to hold the entire national stock of specie as a fractional reserve for currency issued in multiples of the original specie supply; that is, banks were to be a vehicle for monetary expansion, a use which Smith did not sanction. It is this contrast in their conceptions of the role of paper money, Smith representing replacement of specie by paper and Hamilton representing the expansion of the money supply by the issue of paper money, which constitutes the main difference between them. Hamilton's idea is in reality only a different way of utilizing Smith's idea of fractional reserves, a difference created by different assumptions about the adequacy of the money supply.

The problem of who influenced whom, and how, becomes more complex here. It is possible that Hamilton might have been affected by an influence which influenced Smith, and was closer to home. The origin of the eighteenth century American paper currency movement in merchants and government officials was discussed in the second chapter. The most

[12]McKee, Hamilton's Papers, pp. 72-73; Smith, Wealth of Nations, pp. 273, 277, 309.

[13]McKee, Hamilton's Papers, p. 70.

famous advocate of paper money in America was Benjamin Franklin. Franklin supported paper money as a boon to trade, shipping, agriculture, and manufacturing. He had been an advocate of the successful banking system in Pennsylvania.[14]

John Rae, author of the standard biography of Adam Smith,[15] noted a statement that "Dr. Franklin once told Dr. Logan that the celebrated Adam Smith when writing his Wealth of Nations was in the habit of bringing chapter after chapter as he composed it to himself, Dr. Price, and others of the literati; then patiently hear their observations and profit by their discussions and criticisms, sometimes submitting to write whole chapters anew, and even to reverse some of his propositions."[16]

According to Rae, a considerable portion of the additions made to Smith's manuscript during his London period were based on Colonial or American experience. Franklin was a competent source, and Smith used the colonies as sources of experimental evidence to support his conclusions. Although there is no evidence of an enduring and intimate friendship between Hamilton and the Philadelphia printer, they met at the Constitutional convention and both

[14]Hammond, Banks and Politics in America, pp. 11, 15, 16.

[15]Burt Franklin and Francesco Cordasco, Adam Smith: A Biographical Checklist, Burt Franklin Series, III (New York, 1950).

[16]John Rae, Life of Adam Smith, pp. 264-265, quoting Annals of Philadelphia (Philadelphia, 1884), I, 556.

men supported the Constitution. Even more important than direct personal influence, was the shaping influence which Franklin exerted on the climate of opinion. The genius of Franklin had received international recognition, and respect for his mind was nearly universal. The economic ideas which he expressed must certainly have had a formative influence on the American economic mind. So, there is the possibility that Franklin, either directly or by way of Adam Smith, may have influenced Alexander Hamilton.

Hamilton may have used Smith in one more instance. He used the Bank of England as an example of the propriety of using the public debt to support bank funds. He pointed out that the Bank of England was originally chartered by incorporating the public debt. This example of the Bank of England may be a condensation of Smith's history, because Hamilton's figures coincide with Smith's.[17] But, Hamilton could also have obtained this information from the same source Smith used, James Postlethwayt's History of the Public Revenue.[18]

The few examples for which a source can be clearly determined illustrate the problem of attributing the ideas of Hamilton in this Report to specific sources. Where he used the writings of other men, he adopted their terminology and accepted their observations as sources of evidence. To

[17] McKee, Hamilton's Papers, p. 92. Smith, Wealth of Nations, pp. 302-303.

[18] Edwin Cannan, ed., Wealth of Nations, p. 302, n. 24.

a point, he followed their patterns of reasoning. But he made the conclusions distinctly his own. A part of the reason for this is that Hamilton was adjusting the ideas of others to American conditions. For example, the claim that there was a shortage of money to the point that some trade was conducted by barter led him to expand the use of banks and fractional reserves into money-creating institutions. When one writer takes another writer's model and changes the operational assumptions, the model becomes his own. This is precisely why the Report has been classes as Hamilton's strongest claim to fame as an economist by a writer who has ranked him as a statesman, rather than an economist. The Report is creative.[19]

The contrast between the Report and Hamilton's earlier letters is startling, for the knowledge revealed by the Report is more real than theoretical. Apparently Hamilton's participation in the founding and progress of the Bank of New York had given him a real knowledge of banking.[20] In at least one instance, Hamilton appears to have made an original contribution to the theory of banking. This contribution was the recognition of the dual nature of deposits. The dual nature comes from the fact that deposits can be transferred from person to person (as in modern checking) on the books of the bank, acting as money

[19] Lunt, "Hamilton as a Political Economist," JPE, III, 293-295.

[20] Mitchell, Hamilton, II, 86.

but never leaving the bank, while at the same time being used for note issue and loans.[21] Harry Miller, an authority on the history of American banking theory, reports that he has found no other exposition of this principle before 1810 in America. Moreover, he finds no exposition of any similar theory in Europe before Hamilton's.[22] Therefore, it seems fair to assume that Hamilton's exposition was original.

One other feature of Hamilton's plan for a bank has been attributed to the influence of America's Colonial Period. That is the plan of rotation of officers in the bank. Fear of the power of banks, their special corporate charters, and of a monied aristocracy were similarly voiced in England. In America they were a legacy of the Colonial Period, transported from England.[23]

It would be possible to go through the Report on a National Bank and pick out terms, sentences, and ideas which appear to belong to various writers. In all likelihood, many of the ideas would be traced to Adam Smith. But, as Jacob Viner has warned, "traces of every conceivable sort of doctrine are to be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the Wealth of Nations to support his special purposes."[24]

[21] McKee, Hamilton's Papers, pp. 55-56.

[22] Miller, Banking Theories, p. 117.

[23] Ibid., pp. 159-160.

[24] Jacob Viner et al., Adam Smith, 1776-1926 (Chicago, 1928), p. 126.

It is important to remember that Hamilton's use of Adam Smith does not necessarily make him a disciple. Hamilton combined the terminology and ideas of others with his own experience and American requirements, to form an analysis distinctly his own.

CHAPTER V

THE REPORT ON MANUFACTURES

If the Report on a National Bank exhibited Hamilton's creative use of Adam Smith, the Report on Manufactures demonstrates even more conclusively that he was not Smith's disciple. However, many writers have been impressed with the similarities shown between Smith and Hamilton in this document. Edward G. Bourne has prepared a lengthy presentation of the ideas similar to Smith's which appeared in the Report,[1] and Louis Hacker has used much of the same evidence to place Hamilton in the conservative tradition of bourgeois liberalism.[2] But careful analysis of this and other evidence reveals an entirely different pattern. Hamilton used many ideas from Smith in framing the report, but a man who uses these

[1]Edward G. Bourne, "Alexander Hamilton and Adam Smith," Quarterly Journal of Economics, VIII (1894), 328-344. Hereafter cited as Bourne, "Hamilton and Smith," QJE, VIII. Bourne was interested in statements made by biographers that Hamilton had read Adam Smith. In a book by Ugo Rabbeno, Protectionism in the United States, Bourne found several comparisons between the Report on Manufactures and the Wealth of Nations, including one direct quotation. Bourne presented these comparisons in parallel columns, and added some of his own. Although Bourne presented the parallels and noted some inconsistencies, it appears that the inconsistencies puzzled him. And, while he presented his evidence, he never drew any conclusions from it. Moreover, since the parallel quotations are out of context, reasonable conclusions can only be drawn by putting them back in context. The ideas which Bourne saw in both writers will be acknowledged in footnotes, but I take full responsibility for all conclusions drawn from them.

[2]Hacker, Alexander Hamilton, pp. 168-169.

ideas is no more a diciple of Smith than is a Marxist who accepts Smith's concept of the division of labor. A careful distinction must be made between Smith's individual ideas and the overall system of laissez faire which Smith attempted to introduce into economics. Careful analysis of Hamilton's Report reveals basic conflicts with Smith so deep that Hamilton had to dedicate a major portion of his Report to attacking the validity of Smith's system for American use.

Hamilton opened the Report on Manufactures with the statement that the expediency of encouraging manufacturing in the United States, while previously denied, seemed to be generally admitted at the time. Bourne noted that this paralleled a statement by Smith that the best course for America was to concentrate on agriculture. Actually this is one of Smith's constant themes, and Bourne's citation is not the sole instance of it which he might have offered. However, it is significant to note that from the start Hamilton was fundamentally opposed to this view, as he would naturally be in proposing a course of encouraging manufacturing in the United States. Hamilton listed causal factors for America's changed situation: the commercial restrictions of foreign nations, and the current success of manufacturing in the new nation. From the beginning Hamilton disagreed with Smith over the logical course for America to follow in her economic development.[3]

[3]McKee, Hamilton's Papers, p. 177; Smith, Wealth of Nations, p. 549; Bourne, "Hamilton and Smith," QJE, VIII, 329.

Hamilton followed his opening remarks with a series of four ideas in quotation marks in which he paraphrased the ideas of Adam Smith.[4] Hamilton presented these four basic ideas as arguments against the encouragement of manufacturing in the United States. These ideas stated that agriculture was more beneficial than manufacturing, and more productive. And further, that it is unwise to interfere with the natural course of economic development. In Smith's conception, development proceeded in a series of stages, from agriculture to towns and commerce between towns and the neighboring country, from towns to manufacturing, and from manufacturing to foreign commerce; a logical and secure course from which development could not economically deviate. Another idea was that it would be particularly unwise to interfere with this course in the United States because of its vast tracts of fertile land and resources, which gave it a natural advantage in agriculture. And finally, that interference with natural tendencies causes misallocation of resources and unnatural profits.[5] All four ideas closely parallel ideas in the Wealth of Nations, and the last two ideas appear more than once.[6]

[4]Hamilton had used the device of paraphrasing in quotation marks in The Farmer Refuted, but there he acknowledged his sources. Lodge, Works, I, 77.

[5]McKee, Hamilton's Papers, pp. 179-179.

[6]Smith, Wealth of Nations, pp. 356-361; Bourne, "Hamilton and Smith," QJE, VIII, 330. Bourne makes no note of the fact that this is an attack, he notes only the parallel, as if Hamilton approved of the ideas.

In presenting these arguments, however, Hamilton was not building a case, but tearing one down. The arguments are presented as opinions against the encouragement of manufactures, opinions which Hamilton is determined to destroy. After presenting them, Hamilton opened a general attack: "This mode of reasoning is founded upon facts and principles which have certainly respectable pretensions. If it had governed the conduct of nations more generally than it has done, there is room to suppose that it might have carried them faster to prosperity and greatness than they have attained by pursuit of maxims too widely opposite. Most general theories, however, admit of numerous exceptions, and there are few, if any, of the political kind, which do not blend a considerable portion of error with the truths they inculcate."[7]

There are two significant points to note in Hamilton's attack. While Hamilton seems to have conceded to Smith's ideas in theory, he also pointed out that nations had not generally based their practices on these theoretical considerations. Once again, Hamilton revealed his disposition to place a higher premium upon experience than upon theory. Even more significant, however, is his expression of distrust in the application of general theories in the social sciences, a distrust which Hamilton seems to have absorbed from Hume. Hamilton's willingness to admit to exceptions is apparently

[7]McKee, Hamilton's Papers, p. 179.

directed at Smith's general theories. And like a good general after launching a general attack, Hamilton next turned to defeating Smith in detail.

To attack Smith's first point, that agriculture is more productive and beneficial than manufacturing, Hamilton utilized Smith's own approach and attacked the Physiocrats, who contended that all value comes from land. Hamilton, as did Smith, first explained their general system, and his presentation of their doctrines is essentially Smith's presentation.[8] Having mapped out the Physiocratic doctrines, Hamilton launched his attack. The main line of his argument is that even if manufactures only produced in amounts equal to their consumption, they would be productive. Moreover, the criticism that manufacturers can only increase national income by saving is equally applicable to agriculture. Here, his use of the word "parsimony" is the same as Smith's. Lastly, he argued that manufacturing, being more subject to the division of labor and the application of machinery, can produce more than it consumes and is therefore productive. These criticisms closely parallel Smith's on the Physiocrats.[9] In fact, Hamilton used the device of paraphrasing in quotation marks again, and his attack is

[8]Ibid., pp. 180-181; Smith, Wealth of Nations, pp. 630-632; Bourne, "Hamilton and Smith," QJE, VIII, 334-336.

[9]McKee, Hamilton's Papers, pp. 181-182; Smith, Wealth of Nations, pp. 639-641; Bourne, "Hamilton and Smith," QJE, VIII, 334-336.

essentially one long paraphrase of Smith's own criticisms.[10]

Up to this point in the Report, Hamilton has criticized Smith's application of general theory in natural law to manufacturing in the United States, and accepted his explanation and revision of the Physiocrats; but here the similarity ends. Smith, while he had proven that manufacturing was productive in theory, was content to leave agriculture in a position of superior productivity. Hamilton recognized that the development of theory had stopped at this point, and felt that the point was important enough to merit a special examination.[11]

Smith had advanced the argument that agriculture was superior to manufacturing in its returns to capital and labor, because in agriculture nature cooperated with man to produce. Man, in fact, merely guided nature in agriculture, while nature did the work. "It is the work of nature which remains after deducting or compensating every thing which can be regarded as the work of man. It is seldom less than a fourth, and frequently more than a third of the whole produce. No equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction.

[10]Arthur Harrison Cole, ed., Industrial and Commercial Correspondence of Alexander Hamilton, Business Historical Studies, Vol. I (Chicago, 1928), p. 235. Hereafter cited as Cole, Industrial and Commercial Correspondence.

[11]McKee, Hamilton's Papers, pp. 182-183; Smith, Wealth of Nations, pp. 639-641; Bourne, "Hamilton and Smith," QJE, VIII, 336.

In them nature does nothing; man does all; and the reproduction must always be in proportion to the strength of the agents that occasion it."[12] Hamilton pronounced this argument "quaint and superficial." He pointed out that the art and skill applied in manufacturing often created more value than the simple labor of man and nature in agriculture. Then he took advantage of an inconsistency in Smith's own analysis by pointing out that in manufacturing, nature could be harnessed to machinery, creating an effective cooperation with man. In other words, Hamilton was arguing that water power harnessed to machinery was as much a cooperation with nature as the germinating processes of seeds and the reproductive powers in cattle. Smith, although he discussed power machinery and praised its productive effects in manufacturing, never equated the power of machines with nature.[13] Moreover, Hamilton contrasted the seasonal nature of agriculture and its periodic unemployment, with the steady nature of manufacturing. As a final argument, Hamilton claimed that a farmer could rest on the fertility of his land, while the manufacturer would be forced to peak efficiency by competition. Once he had posed these factors as a counter-balance to a "quaint and superficial" idea, Hamilton turned to other arguments alleging the superior productivity of agriculture.[14]

[12] Smith, Wealth of Nations, p. 345.

[13] Ibid., pp. 9-10.

[14] McKee, Hamilton's Papers, p. 183; Smith, Wealth of Nations; Bourne, "Hamilton and Smith," QJE, VIII, 337.

Hamilton next took issue with Smith's conclusion that agriculture yields a revenue not present in manufacturing, that revenue being rent. Hamilton considered the distinction between rent and profit to be merely verbal, rather than substantial.[15] He attempted to prove that rent was only the profit on capital loaned by the landlord, that is, land.[16]

Bourne thought that Hamilton's analysis might have been suggested by Smith in his own work, but Bourne considered Hamilton's reasoning to be confused. Actually, Hamilton was correct in his general conclusion that manufacturing yields rent, as does agriculture, but he was faulty in his proof. It is only fair to point out, however, that both Smith and Hamilton wrote well before Ricardo's clarification of the nature of rent, and neither understood the concept accurately.[17]

The factor which has been missed in the comparison of Smith and Hamilton on this point is that Hamilton used Smith's own tools for his attack upon him. Smith regarded

[15] It is interesting to note here that Hamilton made a distinction between verbal and substantial. It suggests that Hamilton was aware of the tyranny of words and refused to accept the notion that verbal distinctions were necessarily real ones. Again, this illustrates his pragmatic temperament.

[16] McKee, Hamilton's Papers, pp. 184-185; Smith, Wealth of Nations, pp. 631, 357-358, 345; Bourne, "Hamilton and Smith," QJE, VIII, 337-338.

[17] Lunt, "Hamilton as a Political Economist," JPE, III, 303. Actually, when Hamilton spoke of rent, he was discussing the hire of land, while Smith was talking about excess returns above normal returns. So, the issue was never really joined, except in Hamilton's mind.

rent as the surplus remaining from the labor of nature after the returns to man and capital had been deducted.[18] Hamilton's analysis used Smith's division of returns into the profits on stock (capital) and rent to attack him. He reclassified land as a form of stock, argued that it earned profits, and held Smith's distinction as merely a verbal one.[19] The argument that agriculture received rent was not valid, and there was therefore no substantial ground for assuming agriculture to have superior productivity.

At this point, an interesting note appears in Hamilton's argument. What Hamilton really wanted to know was whether the total return on investment in manufacturing would be greater than, equal to, or less than the return from investment in agriculture. This in turn called for empirical study and more precise data than Hamilton could command. In some fairness, he admitted that attempts to prove the superiority of manufacturing had been made, but that they were not broadly enough based to form a general conclusion. Thus he adjusted his final purpose to prove the equal productivity of the alternative uses of capital. This was sufficient for him to prove that the propriety of encouraging manufacturing ought to be determined on grounds other than the superiority of returns from either allocation. As far as Hamilton was concerned, the objections concerning

[18] Smith, Wealth of Nations, p. 345.

[19] Ibid., p. 270; McKee, Hamilton's Papers, p. 184.

the superior productivity of agriculture and the possibility of misallocation of capital had been refuted. In Hamilton's mind, he had refuted half of Smith's objections to the policy of encouraging manufacturing in the United States.[20]

When Hamilton had established to his own satisfaction the equal productivity of manufacturing, he turned to a detailed examination of the factors which caused this branch of economic activity to make a positive contribution to society. He isolated seven factors, and, while all of these points do not merit examination, some of them give interesting insights into Hamilton's sources.[21]

The first factor examined was the division of labor. Hamilton's presentation followed Smith's closely, but the only open indication that he gave of using Smith was his use of the phrase "division of labor." Hamilton's development of this topic followed Smith's so closely that he presented the same points in the same order. Smith had presented three major points, the increase of dexterity by simplification, the saving of time, and the application of machinery on an improved and wider scale, as the principal advantages of the division of labor. Hamilton used the same development. The source of Hamilton's presentation was clearly Adam Smith.[22]

[20] McKee, Hamilton's Papers, pp. 185-187.

[21] Ibid., p. 190.

[22] Ibid., p. 191; Smith, Wealth of Nations, pp. 3-10; Bourne, "Hamilton and Smith," QJE, VIII, pp. 338-340.

Hamilton's second point was essentially an elaboration and improvement upon Smith's third point on the division of labor. Hamilton apparently thought that the extension of the use of machinery was an important enough factor to deserve its own explanation. After he had presented Smith's exposition of the value of machinery, he brought out two additional points. The first was that machinery was more applicable to manufacturing than to agriculture. He regarded this point as self evident, which indeed it was, given the technological level of the times. It is hard to take water-powered, wooden machinery into the field. Whether Hamilton drew upon Smith for this first idea is open to discussion. The idea is implicit in Smith, though not explicit. Smith stated that the division of labor was not as easily possible in agriculture, and since the application of machinery was made possible by the division and simplification of labor in Smith's presentation, the conclusion was implicit. Whether Hamilton reached this conclusion from Smith, or whether it was his own idea is impossible to determine.

Hamilton's second additional idea on the value of machinery was based on evidence which he could hardly have obtained from Smith. Hamilton stated that the importation of foreign goods was essentially letting the benefits of machinery be transferred to other nations. According to Hamilton, machines were a national advantage, and if one nation specialized in manufacturing and another in agriculture, the advantages of the division of labor and the use of machines would all accrue to the manufacturing nation. He based his argument on the growth of the British textile industry in the previous twenty years. Since Smith's book had only been published fifteen years earlier, he could not have been expected to judge the advances in the mechanization of this industry.[23] Hamilton apparently never hesitated to add to his sources when he detected developments in the real world which called for the adjustment of theories.

The development which Hamilton had in mind when he expanded Smith's ideas, and perhaps his model for American industrial growth, was the British textile industry. In his Report he explained this industry. In the British cotton mills, machines powered by water performed all of the difficult processes of spinning. These machines could be attended by women and children, and could be run day and night. This information led logically to the third point, that manufacturing could employ additional labor not normally involved in business. These people were to be women and children, and others unfit for agricultural labor. Manufacturing was to harness the economically unproductive segments of the economy into useful and beneficial employment. He noted that it had been computed that in Great Britain these people accounted for four sevenths of the work

[23] McKee, Hamilton's Papers, pp. 192-193; Smith, Wealth of Nations, pp. 9-21.

force in the new mills. Thus, manufacturing could not seriously drain the scarce American labor force, but would add to it. And in the process, it would increase national industry and production.[24]

The question has been raised as to where Hamilton obtained his information on the advanced state of British manufacturing, and on the prevalence of child labor.[25] So far, no one has discovered a report or analysis of the textile industry which might have come to Hamilton's attention. The answer seems to be in the realm of unrecorded history; in personal contacts, unrecorded conversations, destroyed documents, and that intangible which is well called "common knowledge." However, enough evidence remains that some reasonable inferences can be drawn.

In July 1791, Moses Brown of Providence responded to a copy of Hamilton's letter requesting information on the state of American manufacturing. The copy had been sent to him by John Dexter, Supervisor of Revenue for Rhode Island, who acted in that state as Hamilton's agent in the matter. Part of the detailed information from Brown's letter appeared under "Cotton" in the survey of American industry presented in the Report.[26]

Brown made a detailed explanation of his experiments

[24] McKee, Hamilton's Papers, pp. 192-194.

[25] Mitchell, Hamilton, II, 599.

[26] McKee, Hamilton's Papers, pp. 266-267; Cole, Industrial and Commercial Correspondence, pp. 71-79.

with a carding machine, a spinny jenny, and a spinning frame, which he was conducting with his son-in-law William Almy, and a relative, Smith Brown. They had help from a young man who had lately arrived from the Arkwright works in England. The young man was identified later in the letter as Samuel Slater. The letter contains casual references to British experience, and one very significant passage. Brown wrote that "as the Manufactory of the Mill yarn is done by children from 8 to 14 years old[,] it is as near a Total Saving of Labor to the Country as perhaps Any Other that can be named, . . ."[27] The reference is, in itself, enough to be expanded into Hamilton's enthusiasm for child labor. If there were other contacts with Almy and Brown, or with Samuel Slater, they were not recorded or preserved. But the possibility is open that the source of Hamilton's information and ideas was a recent immigrant from England, Samuel Slater.

Another similar source of information was open to Hamilton through his involvement in the Society for Useful Manufactures. Hamilton was an important advisor to the society, and for several years he was intimately involved in the movement to bring the textile industry to the United States.[28] This involvement alone would have given Hamilton his motives for knowing the details of British

[27]Cole, Industrial and Commercial Correspondence, p. 75.

[28]Hamilton's involvement in the SUM is not within the scope of this paper. For the best treatments of the subject, see Mitchell, Hamilton, II, 181-198; and Davis, Essays in the Earlier History of American Corporations, pp. 349-519.

textile development. But Hamilton's involvement in the Society for Useful Manufactures also provided an opportunity for learning.

In the same month as Brown's letter, Hamilton made contact with another immigrant who was intimately involved in Britain's textile development. Thomas Marshall applied to Hamilton for employment in erecting a cotton mill on Arkwright's principles. In December he was made superintendent of the Society's cotton mill. Marshall, according to his letter, had superintended Arkwright's newest mill at Marsden, Derbyshire, and in November 1790 had been superintendent of all the Arkwright works.[29] Whether Hamilton could have utilized information for his report from Marshall is an unanswerable question. The main point of argument here is that there were enough people in America with sufficient knowledge of English developments in cotton manufacturing to have provided the information upon which Hamilton's ideas were based; and Hamilton was aware that they were available.

The fifth circumstance which Hamilton listed as contributing to the benefits of manufacturing, and the last of the list to be examined in this paper, reflects the basic difference between Hamilton and Smith in their concept of the nature of man. Hamilton praised manufacturing

[29] Cole, Industrial and Commercial Correspondence, pp. 184-186.

because it provided a greater scope for application of the diverse talents and dispositions which discriminate men from each other. Smith, as a typical child of another branch of the Enlightenment, accepted the idea of the universal man. He felt that natural talents were not so diverse as most people supposed. The observable idfferences in talent, which were not present in children, stemmed from differing occupations caused by the division of labor, according to Smith. This division was caused by man's desire for satisfaction. For Hamilton, who was under the influence of Hume, the world was reversed. Men were different by nature, with diverse talents and interests. And therefore, one factor which made industrialism desirable was its diversification, which gave profitable employment to the diversity of talents and interests that would not be fully productive in a monolithic economy.[30]

Hamilton next turned his attention to the doctrine of free trade and international specialization as it affected the United States. He observed that it could be argued that a nation isolated from the world of trade might profitably diversify its economy and divert some of its resources from their most profitable allocation economically. But, given world free trade, an agricultural nation with vast, untapped, fertile resources should specialize in

[30] McKee, Hamilton's Papers, pp. 195-196; Smith, Wealth of Nations, pp. 13-16.

agriculture and purchase its manufactured goods abroad. The soundest course then, for an underdeveloped nation was to specialize in a primary product. In an economy of world free trade, each country could specialize in its area of natural advantage and trade on equal terms in its area of disadvantage. Thus, each country would gain from trade.

The system which Hamilton had explained was basically Adam Smith's system of free trade and absolute advantage.[31] In his report, Hamilton accepted the proposition as theoretically valid, but rejected the system on grounds of expediency. These arguments would have great force, he wrote, "if the system of perfect liberty to industry and commerce were the prevailing system of nations, . . ."[32] Hamilton had used an interesting device in building his model. He based it upon assumptions so far removed from reality that the simple disproof of the assumptions made the theory inapplicable. The basic assumption was the prevalence of free trade in the world. In a nation faced by the closed Spanish and British Empires, his point would have needed little formal proof in the 1790's.

The factors which turned Hamilton against free trade, at least according to the Report on Manufactures,

[31]Hamilton's friend Chancellor Kent later wrote that this was Smith's system. Apparently there was no doubt at the time about whom Hamilton was attacking. Kent, Memoirs and Letters, p. 315.

[32]McKee, Hamilton's Papers, p. 200.

were the restrictiveness of foreign nations on trade, and their lack of reciprocity. In the real world, he felt that following a course of free trade would only render the United States a victim of the system. His conclusion was that the United States was in the position of an isolated nation because of foreign restrictions, and was compelled to adopt policies leading to a diversification of its output.[33] Hamilton's development of the arguments against free trade is yet another illustration of the overpowering realism which drove him to fit theory to fact. It is also an interesting reflection on the condition of world trade in this period, and its impact on the United States.

Hamilton's idea that putting the United States on a program of free trade in the face of a restrictive world would only render her a victim of the system, was an elaboration of a view taken earlier in his life. The view apparently remained constant. In The Farmer Refuted, Hamilton had expressed the conviction that if the colonies were not allowed to trade with other nations, and could not manufacture at home, they would be exploited by Great Britain. At the time, these alternatives did not exist, and at the time of the Report on Manufactures, Hamilton found the alternative of trading with other nations restricted. This left only the course of manufacturing at home.[34]

[33] Ibid., pp. 199-201; Smith, Wealth of Nations, pp. 392-393, 415-416, 635-637.

[34] Lodge, Works, I, 122.

There is one glaring inconsistency in Hamilton's behavior, and that is his admission of the theoretical validity of the free trade argument. As we have seen in the second chapter, he had previously gone to some length in The Continentalist to attack one theoretical aspect of the argument, and at this point he seems to have reversed his position. It seems peculiar, indeed, that a man who had gone to such lengths to establish the need for government regulation of trade and for maintaining a favorable balance of trade should suddenly admit even the theoretical validity of the free trade argument. There is evidence, however, to suggest that the position taken on free trade in the Report on Manufactures was one of expediency; that while Hamilton might have attacked the theoretical validity as well as the practicability of free trade, he did not because his Report stood a greater chance of acceptance and adoption if it coincided with the opinions of important national leaders. Talleyrand remembered in his Memoirs a discussion which had taken place with Hamilton on the idea of free trade and the abolition of customs. "'Your economists," he said to me, made a grand dream, but it is the chimerical exaggeration of people whose intentions were good. Theoretically,' he added, 'their system might perhaps be contested and its unsoundness exposed; but we must leave them their pleasant illusions; the present state of the affairs of this world suffices to prove that, at least for the nonce, their plan cannot be carried out;

let us be satisfied with this fact.'"[35] Though the phraseology is not Hamilton's, the idea is consistent with his previous arguments. It seems as though Hamilton did not consider it to be worth the time to construct a refutation of the free trade argument in theory, when he could prove it impractical in fact. The most important thing was that, having refuted Smith's system to his own satisfaction, Hamilton could disregard any criticism of the promotion of manufacturing which stemmed from the free trade argument.

Perhaps the reason for Hamilton's admission of the theoretical validity of free trade was that it coincided with the feelings of important men in the new government. As early as 1789, the House of Representatives had debated over the possibility of a protective tariff. Opposition was generally not to the protective concept, but to its immediate expediency. Only Madison had argued for free trade with specialization in agriculture, and his argument was conditional. In reference to tonnage duties, he argued that "if America was to leave her ports perfectly free, and make no discrimination, it is obvious that such policy would go to exclude American shipping altogether from foreign ports, and she would be materially affected in one of her most important interests."[36] Hamilton was not introducing a new idea. The argument of reciprocal discrimination

[35]Talleyrand, <u>Memoirs</u>, I, 183-184.

[36]<u>Annals of Congress</u>, I, 109-120.

appeared in Madison's arguments on shipping. Hamilton was merely giving the argument broader application.

Two years after the Report, Jefferson went on record as favoring a similar position. He reported that there were two measures for treating foreign trade restrictions; friendly arrangements, and unilateral action to counter the effects of restriction. While Jefferson favored the first measure, he warned in 1793 that "should any nation, contrary to our wishes, suppose it may better find its advantage by continuing its system of prohibitions, duties, and regulations, it behooves us to protect our citizens, their commerce, and navigation by counter prohibitions, duties and regulation, also. Free commerce and navigation are not to be given in exchange for restrictions and vexations, nor are they likely to produce a relaxation of them."[37] Jefferson recommended retaliatory tariffs to encourage domestic manufacturing, the migration of foreign manufacturers to America, and four other retaliatory commercial measures, if Europeans continued their trade restrictions. The most notable difference between Hamilton and the Jefferson of 1793 is that Jefferson was anxious to use retaliation to force free trade on the world, while Hamilton wanted to use it to make the United States self sufficient.

This evidence has not been presented to imply that Hamilton drew his idea from Madison and Jefferson, but to point out that he was reflecting a common American attitude.

[37] American State Papers, Foreign Relations, I, 300-304.

The only way Hamilton could hope to gain adoption of his plans was by appealing to Congress, and he may have partially structured his reports to appeal to their preconceptions, such as the theoretical validity of the free trade argument.

It is highly risky to take a phrase or sentence from a man's writings and base an interpretation of his whole life on that slim piece of evidence, yet one sentence in the Report at least deserves consideration. Hamilton's goal of self sufficiency has already been discussed, and its presence has been seen in the Report on Manufactures. In fact, it seems to be the point of the Report. In the Report, however, self sufficiency seemed to take on a new guise. Hamilton ended his discussion of the absence of free trade and reciprocity by commenting that his remarks were not in the spirit of complaint; that it was for foreign nations to measure their gains against their losses. "It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy."[38] It is possible that it meant isolationism.

When Hamilton had answered the objections to the general encouragement of manufacturing, the superiority of agriculture and the economic advantage of specialization in free trade, he turned to another objective. He had to overcome the arguments against government encouragement of

[38] McKee, Hamilton's Papers, p. 202. Italics mine.

particular manufactures. One of the doctrines of the Physiocrats which Smith had accepted was that of non-regulation of business, with a neutral policy toward its growth. Let alone, neither encouraged nor discouraged, industry would seek its most useful and profitable employment.

Against this hypothesis, Hamilton offered several objections. These were that the supposed tendency of industry to seek its most profitable employment was inhibited by the force of habit, the spirit of imitation, fear of new ventures, the intrinsic hazards of new enterprises, and the unfair competition created by the bounties and subsidies given in competitive nations. Experience teaches that men change habits only slowly and reluctantly. It is the job of government to encourage and speed up change. He argued that capital is cautious, and can only be made venturesome if the government removes some of the risks. Moreover, it is the job of the government to protect infant industries and compensate for unnatural advantages given to foreign products by foreign governments.[39]

The basis for Hamilton's disagreement stems in part from the difference in his conception of man, which in a larger sense reflects the influence of Hume. Among other things, Hamilton's man is often irrational and emotional, and

[39]McKee, Hamilton's Papers, pp. 203-206; Smith, Wealth of Nations, pp. 636-642; Bourne, "Hamilton and Smith," QJE, VIII, 332.

Hamilton's argument here centers on the emotional nature of man. Here is man governed by habits and afraid of change. It is man who is not always capable of doing everything for himself in a world where natural and unnatural objects block his best efforts. Hamilton saw government as a helping and compensating force.

Hamilton turned from the theoretical reasons for opposing the encouragement of manufacturing to those which were probably closer to his heart, the practical objections. These were the scarceness and dearness of labor, and the scarceness of capital. His remedy for the scarceness of labor was already embodied in the Report, and was one of Hamilton's strongest reasons for encouraging manufacturing. He answered that an adequate labor force would be recruited from the population of towns, the labor of women and children, and the encouragement of immigration.[40]

When Hamilton answered the second objection, that high American wages made labor costs prohibitive for manufacturers in America, his answer is strikingly similar to Smith's on a similar point. Smith had dismissed high American wages in agriculture as a source of competitive disadvantage by pointing out that in other countries, rent and profits ate up returns and forced low wages. In America, he wrote, rent and land costs are minimal, and return is mostly profit. Therefore, as long as high wages

[40] McKee, <u>Hamilton's Papers</u>, pp. 206-207.

cut into high profits, relative wages do not prohibit competition. While Smith talked of agricultural competition, Hamilton utilized the same approach for manufacturing. According to Hamilton, American prices were regulated by European prices, and European prices were determined by the cost of their plant, wages, profits, raw materials, transportation to America, and duties. He argued that the cost of raw materials in America was less than in Europe. This is comparable to Smith's analysis in which the cost of land in America was much cheaper than in Europe. From this point, Hamilton argued that the cost of plant in America should be about equal to European cost. Therefore, to the extent that American goods did not have the disadvantage of transportation costs, tariffs, and had cheaper raw materials, American goods would have an advantage in price over European goods, which would result in higher profits. If high American wages were subtracted from these greater profits, America would suffer no competitive disadvantage.[41] Hamilton's method of analysis is the same as Smith's, except that Hamilton plugged the components of industrial prices into a model Smith had constructed for the analysis of agricultural prices. Both Hamilton and Smith arrived at the same point of high profits, and used the same principles to form their conclusion.

[41] McKee, Hamilton's Papers, pp. 209-210; Smith, Wealth of Nations, p. 553; Bourne, "Hamilton and Smith," QJE, VIII, 341.

When Hamilton dealt with the third of the practical objections, the shortage of capital in the United States, he linked the Report on Manufactures with his first two financial reports. He repeated an argument which has been traced partially to Adam Smith in the Report on a National Bank, that banks extend the active capital of the country.[42] In this facility, banks were to help solve the objection of capital shortage. In addition, Hamilton argued that foreign capital could be attracted to the United States by higher American profits and by the security which America would offer if the government adopted a favorable attitude toward foreign investment, helping to end the capital shortage.

As a third source of capital, Hamilton turned to the public debt. In his mind, the funded debt operated as capital because of its transferability and convertibility. These two factors were supposed to give it the stature of money with merchants and financiers. At this point, Hamilton seemed to feel obligated to refute Smith's criticism of the doctrine of Melon and Pinto, that the funded debt served as capital. Smith had argued that the debt did not create new capital, because capital was withdrawn from society and destroyed in order to create the debt. He had also argued that the transfer of debt certificates was

[42] McKee, Hamilton's Papers, p. 211; Smith, Wealth of Nations, p. 309; Bourne, "Hamilton and Smith," QJE, VIII, 342.

not creative, but merely a transfer of funds.[43]

Hamilton set up this doctrine in his Report for attack, but he apparently either misunderstood, or deliberately avoided the main issue of it. In answering Smith's argument, Hamilton ignored the issue of destruction of capital at the time of creation of the debts, and attacked the issue of destruction by interest and principal repayment. The capital destroyed by this process, he reasoned, amounted to only eight per cent (six per cent interest, plus two per cent principal), and the capital was not really destroyed. Instead, it was merely transferred from debtor to creditor. The only destruction in the whole process was the temporary neutralization of funds in the process of transfer, and this could be minimized by a comprehensive system of banking.[44] Apparently Hamilton either thought he had refuted the idea, or at least thought that he had convinced his audience of its refutation. Actually, he had dodged the main issue.

He continued his attack by arguing that the industrial growth of Britain was so great that it defied any explanation by the money supply of the nation. Businessmen and "the generality of the most sagacious theorists . . ." agreed that it was partially the result of funding the debt.[45]

[43] Smith, Wealth of Nations, p. 877.

[44] McKee, Hamilton's Papers, pp. 214-215; Smith, Wealth of Nations, p. 877; Bourne, "Hamilton and Smith," QJE, VIII, 342.

[45]

Hamilton did make one minor concession to the opponents of public debt; he conceded that it was an artificial, rather than a real increase in the nation's capital; that it was a fictional rather than an actual increase in the nation's capital wealth or real resources. At the same time, he argued that artificial capital, by acting as "an engine of business," tended to increase the real wealth of society.[46] And it is apparent that the theoretical distinction between real and artificial capital made very little difference to Hamilton, as long as it filled his requirements.

Hamilton turned to a final objection, one which has a distinct flavor of Adam Smith. This objection was that the encouragement of manufactures tends to grant a domestic monopoly, raise prices, and retard growth. While Smith had raised this objection, Hamilton answered it in Smith's own terms. He claimed that no monopoly would be granted by excluding foreign producers from the domestic market if domestic competition were maintained.[47] Hamilton's argument is fallacious, of course, because if the domestic supply and demand conditions create a national price above the world supply price, resources are misallocated and growth is retarded. Hamilton's support of

[46] Ibid., p. 219.

[47] McKee, Hamilton's Papers, p. 223; Smith, Wealth of Nations, pp. 420-425; Bourne, "Hamilton and Smith," QJE, VIII, pp. 331-333.

free trade and competition within the domestic market, however, does not necessarily mean that he adopted this idea from Smith. In fact, it does not even remove him from the mercantilist camp, because some strains of mercantilist thought advocated precisely this position of free trade and specialization within the national market, while advocating the restriction of international trade.[48]

When he had finished with his arguments in favor of encouraging manufacturing in the United States, Hamilton presented a series of measures to implement this encouragement. All of the measures will not be examined here. But, a few of them show some influence of Smith, and create an interesting pattern of usage.

The second policy in Hamilton's list was "prohibition of rival articles, or duties equivalent to prohibitions."[49] Hamilton considered this a most effective means of developing manufacturing, and Smith agreed. Smith, however, rejected it on the grounds that free trade maximizes the allocation of resources, while restriction misallocates them. Since Hamilton had rejected the free trade argument, he was free to pursue this course. Indeed, the criterion for accepting the policy was that monopoly was the reigning policy of nations, and that the principles of distributive justice force a country to secure the same advantages for

[48]Eugene Rotwein, ed., <u>Writings on Economics</u>, by David Hume, p. xv.

[49]McKee, <u>Hamilton's Papers</u>, p. 234.

its own citizens. The use of prohibitive duties had only one qualification in Hamilton's mind, but that qualification sounds much like the influence of Smith. Hamilton wrote that "in general, it is only fit to be employed when a manufacture has made such progress, and is in so many hands, as to ensure a due competition, and an adequate supply on reasonable terms."[50] Hamilton's words sound very much like the teachings of Adam Smith, but it is important to remember that it may be only modernized mercantilism.

Hamilton's third proposal, prohibition of the exportation of raw materials, also had a distinct resemblance to ideas of Adam Smith; with certain exceptions. Hamilton generalized and summarized Smith's whole discussion of this measure in a few sentences. This policy, he said, came from a desire to secure cheap supplies of raw material, or of monopolizing material of particular quality. Its effect is to abridge demand and lower the price against the producers of raw material. This, as it stands, is an effective summarization of Smith; yet, there is also a difference. Hamilton, though he thought that great care should be used in the application of this measure, did not reject it. Moreover, he considered it possible that the injury to the domestic producer might be compensated for by the effects of a steadier domestic market.[51]

[50]McKee, Hamilton's Papers, p. 235; Smith, Wealth of Nations, pp. 420, 343-347.

[51]McKee, Hamilton's Papers, p. 235; Smith, Wealth of Nations, pp. 615-616.

Apparently one of the other basic differences between Hamilton and Smith was that Hamilton placed more trust in human discretion when exercised by government.

Had any one of the ideas which Hamilton used or attacked been the only instance in which a similarity to Smith appeared, it would be easy to dismiss it as coincidence. Even when the similarities occur as often as they do, Hamilton's skeptical and conditional use of them, and often open opposition to them, leaves a degree of doubt that he was really using Smith. After all, what does it mean to say that Hamilton was discussing the ideas of Adam Smith? Does it mean that he sat at his desk with a copy of Wealth of Nations open before him, carefully analyzing the ideas he found there? Or does it mean that Hamilton was discussing ideas which people influenced by Smith were discussing? Fortunately, Hamilton left an example which illustrates exactly how he used Smith, and proves that it was the Wealth of Nations he was using.

Number eleven of the means Hamilton proposed for the encouragement of manufacturing was the "facilitating of the transportation of commodities." He pointed out that in Great Britain the opening of roads and canals greatly encouraged manufacturing. He applauded the efforts of local governments to promote improvements in transportation, but he expressed fear that local jealousies would interfere with the most effective system of transportation. Then he quoted Smith, borrowing a whole paragraph of over twenty lines from him, to the effect that good roads and canals diminish the rent of nearby land, encourage distant competition, break down local monopolies, and promote settlement of remote areas. The quotation is followed by a suggestion that the national government is the proper authority for promotion of internal improvements.[52]

The passage which Hamilton quoted is from Smith's chapter "Of the Rent of Land," which is concerned neither with internal improvements nor encouragement of manufacturing. In Smith's chapter on public works, he also supported the use of government authority for promotion of roads and canals. Once the public works were built, however, Smith hestiated to leave them under the control of government. Smith argued that if government controlled them, tolls would either be too low, causing the burden of transportation to fall on the community at large, or government greed would set the tolls too high, causing too heavy a burden to fall on the users of the facilities and negating their benefits. Smith recommended that the revenue from tolls and the responsibility for maintenance should be given to private persons in the case of canals and to boards of commissioners in the case of roads.[53]

Thus, while Hamilton definitely used material from Smith in this case, and agreed with him on the benefits of

[52]McKee, Hamilton's Papers, p. 246; Smith, Wealth of Nations, p. 147; Bourne, "Hamilton and Smith," QJE, VIII, 344.

[53]McKee, Hamilton's Papers, p. 246; Smith, Wealth of Nations, pp. 681-688.

an institution, he did not adopt Smith's ideas on the ultimate control of public improvements. While Smith was concerned with whether the maintenance and revenues of transportation improvements should be in government or private control, Hamilton was concerned with which level of government should be responsible for it. Hamilton's own example shows that he used Smith's ideas to the extent that they coincided with his own, and discarded them when they were not useful. If he had been dependent on Smith for his ideas, he would have followed Smith's ideas completely.

One final measure which Hamilton advocated for the promotion of manufacturing was societies for their encouragement. Some writers think this idea stemmed from his involvement in the Society for Useful Manufactures.[54] It is more likely that this concept reflects a common American concern for the development of manufacturing, and an established method for encouraging it. As early as 1776, Congress had adopted a resolution proposing the establishment of societies for the encouragement of manufacturing in the Colonies, and the years following showed a continued, if sometimes abated, movement in this direction. Agitation had three separate themes: patriotic necessity, checking the outflow of specie, and substitution of simple American goods for foreign luxuries. The depression years from 1783

[54]Dorfman and Tugwell, Early American Policy, p. 49; McKee, Hamilton's Papers, p. 274.

to 1787 produced a reawakened zeal for manufacturing. The mechanics, tradesmen, and manufacturers of New York, Boston, Baltimore, and Providence formed societies to promote manufactures. Their pleas were answered in part by the Tariff of 1789. It would seem therefore that this recommendation reflects a common American concern, rather than the personal involvement of Hamilton in a single society.[55] An idea which was expressed by one of Hamilton's early sources of economics gives an interesting example of what was meant by these societies. Postlethwayt praised the spirit of industry in France. There they had started "Societies for the perfecting of Trades and Manufactures, exclusive of their several Academies, effective in promoting the mechanic and manufactured Skill and Industry, as the Latter visible contributed to promote true Science, and a spirit of Enquirey."[56] Apparently the idea was to set up a sort of Academy or Royal Society for manufacturing. The idea being that the encouragement these had given to the sciences could be extended to manufacturing.

The fact that the ideas of Adam Smith appear in the Report on Manufactures, and that some of them are incorporated into Hamilton's scheme of economic analysis, should be no cause for rejoicing among the proponents of a conservative

[55]Samuel Rezneck, "The Rise and Early Development of Industrial Consciousness in the United States, 1760-1830." Journal of Economic and Business History, IV (1932), 786-790.

[56]Malachy Postlethwayt, Universal Dictionary, II, 50.

interpretation of American history. Hamilton's approach to Smith's ideas is more in the nature of an attack than an adoption of them. When the separate parts of this attack are pieced together, an interesting pattern emerges.

In order to justify the pursuit of a program of manufacturing, Hamilton had to destroy the idea that the productivity of agriculture is greater than that of manufacturing. To do this, he utilized Smith's criticism of the Physiocratic doctrine that all wealth comes from the soil, and then he had to prove that Smith's concession of superior productivity to agriculture was fallacious. These arguments were intended to destroy any charge of misallocation of resources by the encouragement of manufacturing because of superior agricultural productivity.

When Hamilton explained this productivity, he again partially adopted Smith's ideas. Nevertheless, those he adopted, the division of labor and the use of machinery, do not indicate an adoption of Smith's economic philosophy.

After Hamilton had rejected the goal of agricultural specialization for the United States, based on superior agricultural productivity, he had to deal with another concept which pointed in the same direction. That argument was that free trade and specialization lead to maximum production, and that the United States had a natural advantage in agriculture. Hamilton did not attack the theoretical validity of this argument, but rejected it because it was not applicable in the real world. Hamilton not only rejected Smith's arguments against a general encouragement of manufacturing, he rejected his arguments against the encouragement of particular industries. His basis for rejection was a different conception of man.

When Hamilton turned to the practical obstacles which Smith offered, he discarded each in turn. He used his analysis of the sources of industrial labor supply to overcome objections based on labor shortage. He used Smith's method of analysis for proving that American labor prices were not prohibitive in agriculture to prove the same point for manufacturing. When he turned to the shortage of capital, he used Smith's presentation of the capital-activating function of banks, and dodged the issue in Smith's objections to the conception of the funded debt as capital.

Finally, in adopting measures for promotion of manufacturing, he used Smith's descriptions of these devices. But, where Smith condemned them, Hamilton trusted human discretion and recommended their adoption.

The overall pattern shows that Hamilton rejected Adam Smith's system as a basis for American economic development. Those features of Smith which he adopted for his own use are descriptions of processes, rather than major tenets of Smith's _laissez faire_ system. The _Report on Manufactures_ is an attack on Adam Smith which defends the right of government to direct the economic affairs of the nation.

CHAPTER VI

CONCLUSIONS

Thought does not arise in a vacuum; it is a product of the intellectual, political, and social climates surrounding it. Economic thought is no exception. The major goal of economic theory is to show the most efficient or rational means by which limited resources may be utilized to satisfy unlimited human wants, which, in turn, depend on the goals of the existing human society. Rationality in economic activity is a variable dependent upon the goals of social organization. The modern concept of economic rationalism, predicated upon the assumptions of individual worth and the validity of material wants, is rational only within this framework. Economic organizations may be equally rational which are not rational under the modern concept. For example, the economy may be organized for the glory of God or the power of the state, and, given the validity of the ultimate goals, may be rational even if they do not promote maximum (physical) world welfare.

The modern concept of economic rationalism had its origin in the concepts of rational and hedonistic man which were developed by the Enlightenment and found economic expression in Adam Smith's Wealth of Nations. Well before Smith's application of these doctrines to economics, his friend David Hume had attacked both the concepts of reason and the coldly calculating hedonism which Smith used. Smith, in refusing to accept Hume's criticisms, carried the older concepts of the Enlightenment into economics.[1]

By accepting Hume's criticisms, Hamilton stands in marked contrast to Adam Smith. Hamilton's man is too emotional to coldly calculate his best interest, and his personal interests do not always coincide with the best interests of the state. Moreover, Hamilton's man is not always capable of coping with his environment; his knowledge is limited, he is afraid of risk, and he is a victim of forces beyond his control. It follows from this conception of man, that government has a role to play in human affairs. It is the job of government to show man where his best interests lie, and to force him to act in a manner which benefits his long-run best interest when his emotionalism and short-term interest threatens to overpower it. Furthermore, it is the job of government to curb those interests which are contradictory to the best interests of the state. For this reason, Hamilton recommended that the state should be given the power to regulate commerce; not only to gain revenue and create institutions favorable to commerce, but to restrain individuals and to promote a favorable balance of trade. Although we have seen in the second chapter that Hume did not favor this kind of trade regulation, it is equally important to remember that Hamilton thought Hume

[1]Wilhite, Founders, pp. 98-100.

had recommended them. Thus, both the concepts of man which Hamilton borrowed from Hume, and a misunderstanding of Hume's trade arguments, led him to reject a system which minimized the role of government in human affairs.

Hume's attack on natural law and the deductive logic with which men of the Enlightenment approached truth, coincided with Hamilton's distrust of general theories based on natural law and his approval of inductive thinking based on empirical evidence. If Hume's writings were not the cause of Hamilton's pragmatism, they were certainly in harmony with it. And, it is this basic rejection of the validity of theory, with its resulting emphasis on experience, which led Hamilton to adopt social goals which alter the role of rationality in his economic thinking.

The mercantilist world in which Hamilton and the United States existed was state-oriented. To survive as an independent nation in a world of powerful national states, the United States had to have two things, power and a national state. All of the great nations which threatened American independence had gained power by gearing the economy to the state. Thus, the goal of economic organization became the power of the state, and policies which would maximize that power were rational. Maximizing the physical well-being of individuals was of secondary importance, and whenever it threatened the power of the state, it became irrational.

The logic which led Hamilton to state-oriented economics through the criterion of experience, led him to imitate the institutions of the mercantile nations. A national bank was a key adjunct of national power because it tied propertied men and the government together in mutual support, mobilizing funds to sustain the government in financial crises, and encouraging commerce by supplying funds for its operations. Hamilton drew this conclusion from the examples of European commercial republics, Venice, Holland, Hamburg, and Britain.

The support of public credit was similarly based. The great example for Hamilton's plan was the experience of Great Britain. The American public debt was an inheritance of the Revolution, and the ability of the United States to borrow in the future hinged on her record in paying the debt's of the past. All great states in Hamilton's time were forced to borrow to finance wars, and national independence was dependent upon the ability to finance war. Britain had successfully raised the largest body of public credit, and Britain was Hamilton's example.

In addition to war finance, the public debt had been observed to have beneficial economic effects which Hamilton hoped to duplicate. Proper funding of the debt was to increase national trade and industry, lower the national interest rate, attract foreign capital, increase the national stock of capital, and generally promote the prosperity of the United States. In adopting these ideas, Hamilton closely resembled a school of economic writers including Isaac Pinto, Samuel Gale, Berkely, and Melon, who were also enthusiastic advocates of the economic effects of public debts.

Another influence encouraging Hamilton to adopt the British system of finance was the expectations of foreign creditors. Hamilton hoped to finance the development of the American economy on foreign capital. If foreign capital was to be attracted, American financial practices would have to conform to financial orthodoxy, and orthodoxy meant standard British procedures.

Finally, support of public credit meant that the government should show respect for the property rights of its legitimate creditors. By so doing, it would not only receive the backing of the owners of the public debt, but of every property holder in the nation. Power would be drawn to the government, giving it the strong domestic support essential to a powerful nation. The financial program was such an important component of national power that Hamilton was ironically willing to weaken America's position in negotiation with Great Britain and leak information through Talleyrand, in order to save the import revenues which supported it from destruction in a war with Britain.

When Hamilton wrote the <u>Report on a National Bank</u> he restated his earlier position on the necessity of banking to national power. He used some of the ideas of Adam Smith, but he used them creatively. The elements of creativity, the lessons of personal experience, and the alterations of

Smith's ideas to fit American conditions played a more important role in the theoretical formulation of the Reports than Smith's ideas.

The Report on Manufactures shows the greatest influence of the economics of national power. One of the foremost necessities of national independence was the establishment of national self-sufficiency. In order to gain the power necessary to national independence, the nation had to end its economic dependence and to establish the ability to provide itself with manufactured items. The strongest formal economic attack on the economics of state power was Adam Smith's Wealth of Nations. In order to effectively argue for his program, Hamilton had to overcome the objections which Smith had raised to this general program of national development.

The key argument which Hamilton was forced to discredit was that for free international trade. The rest of the arguments against Hamilton's program, the superior productivity of agriculture, American superiority in agriculture, and the growth-retarding effects of national monopoly, all hinged on the refutation of the doctrine of free trade and specialization in areas of national advantage. If the free trade argument was destroyed, the validity of national specialization would fall with it. When Hamilton attacked free trade he chose his method carefully. He did not attack it on theoretical grounds, but on grounds of its impracticability. He argued that the nations of the world did not operate on the principles of free trade, and that to pursue a course of free trade and specialization would render the United States a victim of the system. The only logical course for America to follow was to adopt the restrictive systems of European nations, become independent of Europe, and pursue its own destiny. Although Hamilton had destroyed the applicability of free trade and specialization, he was not content to let the matter rest there. He attacked in detail each of the other arguments against the promotion of manufacturing, and thus put himself in a position to recommend the adoption of policy measures dictated by the economics of state power. The final outcome of his arguments was a justification of the role of government in directing the economic affairs of the nation.

Historians seeking to sanctify current political and economic programs by enlisting the support of the Founding Fathers, risk inconsistency by using Hamilton to support their programs. Conservatives fighting to preserve laissez faire and restricted central government cannot cite Hamilton's political conservatism in their support, without blinding themselves to Hamilton's dedication to strong, unrestricted national government with a duty to regulate the economy. Similarly, Liberals seeking to sanctify loose constructionism and government direction of the economy must ignore his political conservatism and direction of the economy to benefit the rich and powerful. The reason for this dilemma is quite simple: the political and economic alternatives faced by Hamilton were not the same as those faced in the twentieth century. The politics and economics of national power are based on a different ideological framework than those of social welfare.

BIBLIOGRAPHICAL ESSAY

The problem of tracing Hamilton's economic ideas to their sources is complicated by the sources which must be used to trace them. Too often, the literature of the period is scattered and rare, making its procurement and use difficult. A few of these works which have been long out of print may be found in the various rare book collections of the Michigan State University Library, and the American Antiquarian Society's Early American Imprints, 1639-1800 (Readex Microprint Edition), has made many of the works printed in the United States before 1800 available. For other sources, the library's inter-library loan facilities have filled gaps in the available material.

I. Primary Sources. The existing editions of Hamilton's papers are inadequate for any form of comprehensive research. Harold C. Syrett's Papers of Alexander Hamilton (New York, 1961), promises to do a great deal to remedy the inadequacy of previous editions. But, since only the first two volumes are available, and they cover the period prior to 1782, research still must be conducted in older editions. The best of the older editions is still Henry Cabot Lodge's Works of Alexander Hamilton (New York, 1904), which leaves much to be desired in both comprehensiveness and scholarly accuracy. John C. Hamilton's Works of Alexander Hamilton (New York, 1850), although more biased and even less scholarly than the Lodge edition, does contain some material which Lodge did not bother to include, and is available in the Michigan State Library. The Library of Congress Microfilms of The Papers of Alexander Hamilton, comprising some forty-six reels, may be obtained through the Wisconsin Historical Society. Unfortunately, they are poorly indexed and often illegible, which makes them difficult to work with.

Some less comprehensive editions fill in the gaps left by other works. The edition by Samuel McKee, Jr., of Alexander Hamilton's Papers on Public Credit, Commerce, and Finance (New York, 1934), which presents no material which is not available elsewhere, is a small and compact edition of Hamilton's four major financial papers, easily procured for private use. Epaminondas P. Panagopoulos' Alexander Hamilton's Pay Book (Detroit, 1961) presents the notes taken by Hamilton in his Artillery company pay book on the books he was reading. Only fragments of this had previously been published. More important than Hamilton's notes, however, is the work which Panagopoulos has done to frame these notes, particularly his concluding essay, "Philosophic Premises of Hamilton's Thought." Another important source is Arthur Harrison Cole's Industrial and Commercial Correspondence of Alexander Hamilton, Business Historical Studies, Vol. I (Chicago, 1928), which helps to relate Hamilton to the business community. Finally, James O. Wettereau's "Letters from two Businessmen to Alexander

Hamilton on Federal Fiscal Policy, November 1789," Journal of Economic and Business History, III (1930-1931), pp. 667-686, presents important information discovered in the Wolcott Papers.

In comparing Hamilton to the economic writers of the time, an attempt has been made to consult editions which most nearly approximate those available to Hamilton. Sir William Blackstone's Commentaries on the Laws of England (Philadelphia, 1771), is presently available through the American Antiquarian Society's microprints. Samuel Gale's four essays on public credit were graciously loaned by the Columbia University Library in a single bound volume entitled The Nature and Principles of Public Credit. Since there are only four complete sets of Gale's work extant in the United States, this may well be the only set bound under this title. Eugene Rotwein's collection of David Hume's Writings on Economics (Madison, 1955), is a highly useful source for Hume's writings, not only because the economic essays are collected in a single volume, but because Rotwein carefully presents all the changes made in the text in the editions preceding Hume's death. Similarly, Edwin Cannan's careful edition of Adam Smith's An Inquiry into the Nature and Causes of the Wealth of Nations (New York: Modern Library, 1937), carefully presents the changes in successive editions and notes the sources of Smith's material. Thomas Nugent's translation of Montesquieu's The Spirit of the Laws (London, 1914), contains D'Alembert's analysis of the work, and is close to editions Hamilton might have used. James Postlethwayt's History of the Public Revenue from 1688 to 1753, with an Appendix to 1758 (London, 1759), was useful and available through the Princeton University Library. The English translation of Isaac de Pinto's An Essay on Circulation and Credit (London, 1774), by the Rev. S. Baggs, was secured through the University of Chicago Library. Malachi Postlethwayt's Universal Dictionary of Trade and Commerce (London, 1757), was available at the Michigan State University Library, as was Richard's Observations on Reversionary Payments (London, 1792). Dr. Price's Pamphlets, Observations on the Nature of Civil Liberty (Philadelphia, 1776), and Additional Observations on the Nature and Value of Civil Liberty, and the War with America (Philadelphia, 1778), were available through the American Antiquarian Society microprints.

Some of the papers of Hamilton's contemporaries throw light on his economic ideas. John C. Hamilton's History of the Republic of the United States of America, as traced in the Writings of Alexander Hamilton and his Contemporaries (New York, 1857), is a useful, though biased, compilation of the ideas and impressions of men surrounding Hamilton. It is most useful in locating contemporary opinions which can be traced to their original sources and placed in context. William Kent's Memoirs and Letters of James Kent, LL.D. (Boston, 1898), contains some interesting material with a pro-Hamiltonian bias. Another friend of Hamilton's who is usually neglected in this aspect of his life is Talleyrand. The Duc De Broglie's edition of The Memoirs of the Prince De Talleyrand, translated by Raphael Ledos de Beaufort (New York, 1891), contains many insights into Hamilton's economic ideas. Hans Huth's and Wilma J. Pugh's collection of the bulk of Talleyrand's financial correspondence in Talleyrand in America as a Financial Promoter, 1794-1796, in the Annual Report of the American Historical Association for the Year 1941, Vol. II (Washington, 1942), gives some insight into Hamilton's association with Talleyrand. Finally, John C. Fitzpatrick's edition of The Writings of George Washington from the Original Manuscript Sources, 1745-1799 (Washington, 1931-1944), contains material pertinent to the intellectual-economic relationship of Hamilton to Washington, and the relationship of Americans to Dr. Richard Price.

II. Secondary Sources. The biographies of Alexander Hamilton are not particularly helpful in tracing the intellectual sources of Hamilton's economic ideas. The most useful in this respect is Allen McLane Hamilton's Intimate Life of Alexander Hamilton (New York, 1910). Although it is a family biography and is biased, its newsy approach is most likely to give clues to what Hamilton was reading and who he was seeing. It also contains a few useful letters and papers which are not presented in collections concerned with Hamilton's political life. Broadus Mitchell's excellent two volume biography, Alexander Hamilton (New York, 1957-1962) handles some of the sources of Hamilton's ideas, although he sometimes errs in his judgment. Mitchell is generally more concerned with the meaning and effect of Hamilton's ideas than with the problem of their sources. Louis M. Hacker's Alexander Hamilton in the American Tradition (New York, 1957), presents an interesting point of view.

Among the writers interested in the intellectual currents of the age, Carl Becker's work, The Heavenly City of the Eighteenth-Century Philosophers (New Haven, 1961), remains a classic. Virgle Glenn Wilhite's Founders of American Economic Thought and Policy (New York, 1958), was equally helpful in relating the development of European intellectual currents to the development of economic ideas. Unfortunately, Wilhite has chosen to treat Hamilton as a mere political manipulator, and summarizes and criticizes Hamilton's ideas, rather than relating them to the framework he designed.

Several writers have produced excellent volumes on the development of economic ideas in America. The first volume of Joseph Dorfman's The Economic Mind in American Civilization (New York, 1946), covering the years from 1606 to 1865, is essential to research in this period. An equally impressive book, by Joseph Dorfman and Rexford G. Tugwell, Early American Policy: Six Columbia Contributors (New York, 1960), contains a more perceptive analysis of Hamilton's work. Shutaro Matsushita's Economic Effects of Public Debts (New York, 1929), is useful in tracing the development of the concept of economic uses for public debt, even though its effectivenss is limited by its pre-Keynesian classical orientation. Another useful source with the same limitation is Harry E. Miller's Banking Theories in the United States Before 1860, Harvard Economic Studies, No. XXX (Cambridge, 1927).

Among the works placing the Hamiltonian economic reforms in the context of American political and economic development, E. James Ferguson's The Power of the Purse (Chapel Hill, 1961), is a highly perceptive study of the development of politics and ideas involving the American debt until 1790. Bray Hammond's study of Banks and Politics in America: From the Revolution to the Civil War (Princeton, 1957), contains a highly useful and perceptive development of banking and currency issues in Colonial and Revolutionary times. Curtis Nettels' The Emergence of a National Economy, Economic History of the United States, Vol. II (New York, 1962), is a fairly good presentation of the economic problems of the times.

Among the biographies of economists and economic statesmen of Hamilton's time, John Rae's Life of Adam Smith (New York, 1895), still remains the standard biography of Smith. An impressive collection of essays, John Maurice Clark, et al., Adam Smith, 1776-1926 (Chicago, 1928) contains several interesting analyses of Smith, his ideas, and their effects, by outstanding economists. John Holland Rose's William Pitt and the National Revival (London, 1911), is a solid source for Pitt the Younger. Carl B. Cone's Torchbearer of Freedom: The Influence of Richard Price on Eighteenth Century Thought (Lexington, 1952), is the most recent biography of Price, and the best. Unfortunately, Cone's enthusiasm for the subject has distorted his evaluation of Price's influence. Lorenzo Sabine's Biographical Sketches of Loyalists of the American Revolution (Boston, 1864), is apparently the sole source of information about Samuel Gale, and one of the only works covering the American Loyalists.

A few short essays from the last century are still valuable in studying Hamilton's economic ideas. Edward G. Bourne's article "Alexander Hamilton and Adam Smith," Quarterly Journal of Economics, VIII (1894), 328-344, with its presentation of the ideas of Adam Smith in Hamilton's writing makes the best case for the parallelism of their ideas. But as I have shown, the differences are more important than the similarities. Edward C. Lunt's "Hamilton as a Political Economist," Journal of Political Economy, III (1895), 289-310, is still a solid evaluation of Hamilton's stature in this role. Finally, Charles Franklin Dunbar's "Some Precedents followed by Alexander Hamilton," Economic Essays (New York, 1904), pp. 71-91, reprinted from the Quarterly Journal of Economics (October, 1888) is an excellent and scholarly comparison of Hamilton's measures with the precedents set by Pitt's and other English financial laws.