

An Examination, and Critique
of the
Economic Thought of Alexander Hamilton

A Thesis

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By
Edward G. Nelson

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Theron Clark

Secretary

R. D. Hunt

Dean

Date August 1928

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CHAPTER I

INTRODUCTION

In these days when American political parties are so loudly proclaiming the ideal and principles of Hamilton and Jefferson, with the familiar cry of "back to the constitution" still ringing in our ears, it is well to consider the economic and political foundations of our American nation. No longer do we find our statesmen talking of a strict or liberal interpretation of the constitution. The years have brought amendments, new statutes and judicial decisions, which have changed the spirit of the written word in political practice. The most complete revolution in our political system, however, has not been brought about by amendments or judicial decisions, but by the customs of political parties in operating the machinery of government. Much has been written about "the momentum of an early start", and as certain political practices of the years have become the accustomed habits of the nation, so have some economic institutions become the accepted standards for all ages of society.

Each stage of civilization contains so many elements from the preceding age that the present is incomprehensible without a knowledge of earlier ages. It is therefore well to consider the economic and political foundations of the nation in order that we may gain an appreciation of the

evolutionary character of our national institutions. As Hamilton has well said, "I hold with Montesquieu, that a government must be fitted to a nation as much as a coat to the individual; and consequently, that what may be good at Philadelphia may be bad at Paris, and ridiculous at Petersburgh."¹ Nations grow as individuals grow, and the coat that may fit the boy will not, perhaps, best fit the man. Political and economic institutions change with the spirit of the times; yet the present contains so much of the past that a complete understanding is impossible without an examination and critique of the facts and habits of the years gone by.

This essay is not chiefly concerned with biographical detail and general history. Valuable works on the life and time of Hamilton already exist. It is rather a systematic examination of Hamilton's economic principles and of the part played by his program in the foundation of our national economy. A discussion of the extent to which such principles reflected the conditions of the time and the influence of the thought of others will naturally also be involved. The purpose of this essay is to state and analyze the socio-economic theories and to reveal the philosophic bases of his public acts and writings.

It is obvious that the interrelations of social phenomena cannot be ignored. A study of any one aspect cannot be expected to yield more than approximate results.

¹

Hamilton, Works, X, 337, Federal Edition.

John Stuart Mill has well said, "Whatever affects, in an appreciable degree, any one element of the social state, affects through it all the other elements.....We can never either understand in theory or command in practice the conditions in all other respects. There is no social phenomenon which is not more or less influenced by every other part of the condition of the same society, and, therefore, by every cause which is influencing any other of the contemporaneous social phenomena." ¹ The effects of certain economic causes are partially dependent upon non-economic circumstances. This study, although primarily concerned with the economic aspects of Hamilton' doctrines, must of necessity consider the political, ethical and social phases as well.

The method of presentation is primarily topical. In this way Hamilton's ideas can be discussed in a more thorough and unitary manner, and more in relation to the contemporary economic conditions that gave rise to them. Despite the practical advantages of this method, there is a tendency to force upon the writings of the time a conformity to the concepts of modern economy.

¹ Mill, John Stuart, Logic, 488.

CHAPTER II

BIOGRAPHICAL SKETCH OF HAMILTON

Alexander Hamilton was born January 11, 1757, on the isle of Nevis in the picturesque Antilles. His mother, Rachel Fawcett, was the daughter of Dr. John Fawcett, a Huguenot, exiled after the Revocation of the Edict of Nantes. She was born on the isle of Nevis, and when barely sixteen was forced into a marriage with a rich Danish Jew, John Michael Levine. The marriage was evidently one of great unhappiness, for she returned to her mother in 1756. About a year after leaving Levine, she met James Hamilton on the island. Due to the great influence of her husband, she was powerless in her attempt to obtain a divorce. For that time, divorce was extremely rare even in the colonies, and in the crown provinces it involved a long, difficult and expensive proceeding of the greatest publicity. Rather than sacrifice the future, the two decided to remain on the island as husband and common law wife.

James Hamilton was a Scotch merchant. He does not appear to have been successful in any pursuit. By his neighbors, he was considered a student and a dreamer. His chief happiness seemed to be in the society of his beautiful and talented wife, who was in every way his intellectual superior. The two remained at Nevis until Mrs. Hamilton's death in 1768.

Alexander was born a year after James Hamilton and Rachel Fawcett began their life together. At eleven, he

forced by the state of his father's affairs to work as a clerk in the office of an exporter. At sixteen he came to New York and entered the College of New York, now Columbia University. He was preparing himself for the profession of law and would have received his degree at the age of nineteen, but the American Revolution intervened. He entered the army as a captain of the artillery, but shortly after, by invitation, became aide-de-camp to General Washington. His record as a soldier is one of great executive ability and extraordinary valor.

At the conclusion of the war, he became a member of Congress by the appointment of the New York legislature. Later he settled in the city of New York to practice law, but the derangement of public affairs and the feebleness of the Confederation drew him into public life. His unusual zeal and his ability to discuss public matters are well known from his many writings, especially those of The Federalist. He was a member of the Constitutional Convention. His work was outstanding in the development of the new government. Under President Washington, he became the first Secretary of the Treasury.

In 1780 he married the second daughter of General Schuyler, a gentleman of one of the best families in the country, of large fortune, and of no less personal and political consequence. Hamilton had five children, four sons and a daughter.

As a result of a public conflict in the leading papers of the time, Hamilton was challenged to a duel by Aaron Burr, dying on July 11, 1804, as a result of the wounds received. Although Hamilton continually insisted that duelling was against his principles and religion, he felt it necessary to expose the corrupt practices and the manner in which he thought Burr was swindling his clients. They were natural political enemies; thus his death was the result of strict allegiance to conditions which he considered of greater moment than his life.

Hamilton was not a rich man. His studious tastes and habits drew forth the famous comment of Talleyrand, who passed Hamilton's window one night and found him at work, "I have seen a man who made the fortune of a nation, laboring all night to support his family."¹ Hamilton, himself, wrote that, "though I have been too much in public life to be wealthy, my situation is extremely comfortable, and leaves me nothing to wish but a continuance of health. With this blessing, the profits of my profession and other prospects authorize an expectation of such addition to my resources as will render the eve of life easy and agreeable, as far as may depend on this consideration."²

He was a contemporary of Frederick the Great, the Pitts

1

Hamilton, A. M., The Intimate Life of Alexander Hamilton, 75.

2

Works, VI, 243

Fox, Burke, Adam Smith, Turgot and Napoleon. In his library at his death, were found such books as Hume's Essays, The Letters of Pliny, Traite Generale du Commerce, Histoire du Turenne, Encyclopedie Methodique, Journal des Etats Generaux, Plutarchs Lives, Lord Chesterfield's Letters, Voltaire, Winn's History of America, Cicero's Morals, Bacon's Essays, Ralt's Dictionary of Trade and Commerce, The Orations of Demosthenes, Hobbes' Dialogues, Enticle's History of the Late War, The Letters of Socrates, and Smith's Wealth of Nations. Angelicia Church, in writing to her sister Elizabeth Hamilton, says from London on February 4, 1790, "I shall send by the first ships every well-written book that I can procure on the subject of finance, I cannot help being diverted by the avidity I express to whatever relates to this subject,"¹ She sent him Smith's Wealth of Nations.

In writing of Hamilton's principles, Lodge, one of his great biographers, states, "he was familiar with the science of political economy, then in its infancy, and the writings of Adam Smith, the founder of that science, whom he admired and quoted, but whom he did not follow... He takes the same ground as Mill in his Political Econ-²omy that protection in starting is wise and proper."

¹ Hamilton, A.M., The Intimate Life of Alexander Hamilton, 75.

² Lodge, Henry Cabot, Alexander Hamilton, 108, 110.

In the Library of Congress there are three more or less complete drafts and the final draft of Hamilton's Report on Manufactures. Drafts one, two and final are in his own handwriting; the third was copied by a clerk. Hamilton wrote this report during very busy times as Secretary of the Treasury, and for this reason even the final draft is somewhat disconnected and rambling; but the manuscripts show many revisions and additions. It is clear from the text itself that he had before him a copy of Adam Smith's Wealth of Nations. His summary of the arguments for individual freedom of action and his statement of the advantages of the division of labor are clearly taken from Smith's work. Conclusive evidence that he had the work before him at the time of writing is found in a reference, "Smith, W. of Nations, vol. 1, p. 219," which appears on an early report but which was subsequently scratched out.

The life of soldier, lawyer and statesman did not give him a special training as an economist. It was his studious attitude, his insight and determination which enabled him to see and draw out the still latent strength of the new country. His reading gave him the necessary power for bringing together the best of tried expedients, and the breadth of conception required for shaping a system which should make growth rapid and burdens lighter. He did not lay claim to originality. He wrote, "The chief outlines of the plan (Report on Public Credit) are not original; but it is no ill recommendation of it, that it has been

tried with success." ¹ Dunbar sums up Hamilton's capacities as follows:

When Hamilton took up the problem of creating public credit with all that such creation implied, he was barely thirty-two years old. He cannot be said to have had any special training for finance. He had taken some share in financial discussion, and had undergone the rapid educational process to which practical politics always subjects the statesman. In his case, his marked natural capacity and his good equipment of learning, this process no doubt had carried him far, but his experience had never reached the actual management of affairs on a large scale, as scales were measured in those days, nor with shaping of important financial legislation. He took up his problem, then as a public man often must, relying upon his general training, observation, and judgment to lead him to a safe conclusion. It appears certain that he relied upon no advice better versed than himself in practical affairs. He appears to have made a few inquiries of a general kind, not suggestive of his own purposes; but there is a strong probability that his own mind was made up early as to some leading feature of his scheme, and that friends finally taken into his confidence were not invited to ¹ share the responsibility of devising and deciding.

There is little of the effort to invent or to work out theories leading to some novel expedient in the acts and writings of Hamilton. He seldom shows a disposition to go beyond the range of already tried expedients, except when he was required to do so by the conditions of his task.

¹

Dunbar, "Some Precedents Followed by Hamilton".

Quarterly Journal of Economics, III, 34.

CHAPTER III

GENERAL CHARACTERISTICS OF HAMILTON'S VIEWS AND OUTLOOK

The one great doctrine that influenced Hamilton's ideals, principles and actions was that of nationalism. As opposed to Jefferson's ideas of democracy, Hamilton was a political and economic aristocrat. In his Report on Manufactures, he was compelled to forsake the popular individualism of the time for the sake of military security, and national development. "Every nation, with view to those great objects, ought to endeavor to possess within itself all the essentials of national supply," he wrote. "These comprise the means of subsistence, habitation, clothing and defense. The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of society."¹ It was from this premise that he argued the essentiality of manufactures as well as agriculture, attempting to explain their interdependence and reciprocal interest. He believed in the independence of the nation in a national unity. For the American people, it was a nationalism as opposed to the dominance of England; for the states it was the formation of one independent nation, a combination into national unity.

In all his works the advancement of the union is

¹ Vanderberg, Arthur H., The Greatest American, Alexander Hamilton, 197.

his paramount concern. His first Treasury report, that upon the subject of public credit, emphasized as his basic purpose the attempt to solve the new government's financial problem as best to cement more closely the Union of States." His national bank was intended to typify and establish the central federalized authority of the Union. Hamilton's argument for protection has been summarized by Culbertson as follows: "National diversification of industry increases the power and wealth of the nation; such measures, therefore, as will effect this object should be adopted and pursued."¹

"Hamilton's idea of statesmanship," another essayist states, "was the faithful stewardship of the estate. His duty was to guard the estate, and at the same time, develop its resources. He viewed mankind and riches as material to be used with the greatest possible energy and the least possible waste, for the attainment of national independence, power and permanency. A means to this end was certainly the prosperity of the people, but the end was the existence of a nation.....One of the duties of the state was the well-being of its citizens, but the duty of every citizen was the well-being of the state."²

¹

Culbertson, William S., Alexander Hamilton, an essay, 134.

²

Oliver, Alexander Hamilton, an essay on American Union, 450.

Hamilton's nationalism, therefore, contains two fundamental conceptions, first that the welfare of the nation is not the same thing as the welfare of the individuals which compose the nation; and secondly, that the interests of different nations are not harmonious but antagonistic. The nationalist believed that deeper than man's self-interest, deeper than his loyalty to his class is his loyalty to his nation and to the national ideals under which he lives. "Individuals and classes are led by wise statesmanship to cooperate within the nation in order to make their group powerful against other groups; and the welfare of particular interests is thereby made subservient to the strength and prosperity of the whole. If a nation because of its undeveloped economic organization needs protection, the nationalist thinks that it is the duty of the government by means of tariffs, prohibitions and even war, to equalize conditions and stimulate the development of economic life."¹

The Relation of Hamilton's Views to Those of Adam Smith

The age of mercantilism was an age in which the interests of the leading nations were antagonistic; it was an age of the force of government against rival groups. By the time of Hamilton, however, individualism had become the popular creed. It had appeared in politics in the Declaration of Independence and the French Revolution. It had appeared in economics in the Wealth of Nations. Hamilton regarded the

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Emery, "The New Protectionism" Yale Alumni Weekly, XLII, 52.

doctrines of Adam Smith as containing much truth, but his nationalistic tendencies led him, none the less, to reject individualism because he believed it to be inconsistent with the development of the nation. In his Report of Manufactures, we find him commenting as follows:

This theory has so much truth in it that its principles ought never to be out of the view of legislators of this country, and while its extremes ought to be qualified in practice by the exceptions to which every general theory is subject, its maxims ought to serve as cautions against all extremes of any other kind. If they do not persuade that all legislators and legislative countenance ought to be withheld from particular branches of industry which appear to stand in need of it, they ought at least to inculcate that it should be afforded with moderation and measure, that the real aptitudes in the state of things for particular improvements and ameliorations should be carefully consulted, and that they should be developed by gradual, systematic and progressive efforts rather than by force into maturity by violent and disproportioned exertions.¹

It was Hamilton's contention that the doctrine of Adam Smith might work in a world without national boundaries, national traditions and national desires, but was inapplicable where nations already existed. An extreme feeling for national unity led Hamilton to recognize the practices of nations and to hold national unity as a principle to be cherished. / The following indicates the nature of his observations concerning laissez-faire:²

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Hamilton, "Report on Manufactures" The Weekly Register, V, 154.

²

The following statement suggests that Hamilton was somewhat familiar with the principle of comparative advantage. His desire to develop all possible industries within the nation led him to reject the principle, at least until such time as the majority of infant industries were established.

If a system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country, in the predicament of the United States, from the zealous pursuit of manufactures, would doubtless have great force. It will not be affirmed, that they might not be permitted, with few exceptions, to serve as a rule of national conduct. In such a state of things, each country would have the full benefit of its peculiar advantages, to compensate for its deficiencies or disadvantages. If one nation were in the condition to supply manufactured articles on better terms, than another, that one might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange, mutually beneficial, of the commodities which each was able to supply, on the best terms, might be carried on between them, supporting in full vigor the industry of each. And though the circumstances which have been mentioned, and others, which have been unfolded hereafter, render it probable, that nations merely agricultural, would not enjoy the same degree of opulence, in proportion to their numbers, as those which united manufactures with agriculture; yet the progressive improvement of the lands of the former, might, in the end, atone for an inferior degree of opulence, in the mean time; and in a case, in which opposite considerations are pretty equally balanced, the opinion ought perhaps always to be, in favor of leaving industry to its own direction.

But the system, which has been mentioned, is far from characterising the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is, that the United States are, to a certain extent in the situation of a country precluded from foreign commerce. They can, indeed, without difficulty, obtain from abroad manufactured supplies, of which they are in want; but they experience numerous and very injurious impediments to the emission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.¹

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Hamilton, "Report on Manufactures", The Weekly Register, V, 159-160.

Hamilton objected that the laissez-faire principle would, because of a late start, subject the United States to conditions of unequal exchange with the principle nations of Europe. The want of reciprocity would make this country confine its industry to agriculture, and would discourage manufactures. A constant demand for manufactured articles of Europe with a varying demand for the products of the United States would expose this country to a state of impoverishment, in sharp contrast to the opulence to which their natural, political and economic advantages authorized them to aspire. He strongly objected to the results of English commercial law.

He insisted that "these remarks are not made in a spirit of complaint. 'Tis for the nations, whose regulations are alluded to, to judge for themselves, whether by aiming at too much, they do not lose more than they gain. 'Tis for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy." He maintained that the best defense against English commercial law was the development of the home-market. This would be possible by the development of manufactures.

Hamilton believed that manufacturing not only adds to the total produce and revenue of society, but also has

¹ Hamilton, "Report on Manufactures", The Weekly Register, V, 160.

distinct advantages in itself. These, he held, were the division of labor, and extensive use of machinery, an additional employment of labor, the promotion of immigration, a greater scope of diversification for the talents of men, the affording of a more ample and various field for enterprise, and the creating and securing of a steady demand for the surplus produce of the soil.

It was the embarrassments which obstructed the progress of external trade to which Hamilton strongly objected. "The restrictive legislations, which on foreign markets abridge the vent of the increasing surplus of our agricultural produce, serve to beget an earnest desire, that a more extensive demand for that surplus may be created at home... This idea of an extensive domestic market for the produce¹ of our soil, is of first consequence."

Hamilton's objections to the obstruction of trade are chiefly the result of English commercial legislation of the colonial period. The decision of the British government to enforce the Corn Laws, the Molasses Act, the Sugar Act and the Townshend Acts materially affected American economic life. These laws gave English shippers a monopoly on colonial commerce to England. Certain manufactures were forbidden to be exported from the colonies. Higher prices resulted from increased transportation costs of products manufactured in England and sold in American markets. Many goods passed through the hands of English

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Hamilton, "Report on Manufactures, "The Weekly Register", V, 153.

middlemen before reaching American consumers, resulting in added costs. Such legislation weakened the demand for certain American products.

At the same time, the results of the Industrial Revolution reflected English condition in the American markets. The economic depression immediately following the adoption of many labor-saving devices by English producers resulted in a decrease in the demand for American products. The widespread poverty of England resulted in a decreased consumption of all commodities. American industries suffered from the decline of their principal market. It was such conditions that Hamilton wished to avoid by developing the home market.

He was aware of certain defects in the system of laissez-faire. He pointed out that the theory was based, in part, upon the assumption of the mobility of capital and labor, an assumption which he insisted ran contrary to certain aspects of human nature. "Experience teaches that men are often so much governed by what they are accustomed to see and practice, that the simplest and most obvious improvements, in the most ordinary occupations, are adopted with hesitation, reluctance, and by slow graduations....The apprehension of failing in new attempts¹ is, perhaps, a more serious impediment."

¹
Works, IV, 104-105.

It is doubtful if Smith would have agreed with Hamilton in regard to the scope of governmental regulation of trade. In the notable letter to James Duane (September 3, 1780), he gave an account of what he considered the duties and powers of Congress.

Congress should have complete sovereignty in all that relates to war, peace, trade, finance, and to the management of foreign affairs; the right of declaring war, of raising armies, officering, paying them, directing their motions in every respect; of equipping fleets, and doing the same with them; of building fortifications, arsenals, magazines, etc.; of making peace on such conditions as they think proper; of regulating trade, determining with what countries it shall be carried on; granting indulgences; laying prohibitions on all articles of export or import; imposing duties, granting bounties and premiums for raising, exporting or importing; and applying to their own use the product of these duties, only giving credit to those states on whom they are raised in the general account of revenues and expense; instituting admiralty courts, etc.; of coining money, establishing banks on such terms, and with such privileges, as they think proper; appropriating funds, and doing whatever else relates to the operations of finance; transacting everything with foreign nations; making alliances, offensive and defensive, treaties of commerce, etc.¹

It was his opinion that a plan of this kind would have inconceivable utility for the nation. It would also give new life and energy to the operations of government. Business would be conducted with dispatch method and system.

The Relation of Hamilton's Views to Those of the Physiocrats

Of Turgot and the Physiocrats, it can be said that Hamilton held little in common. The French program would not be consistent with the development of national self-sufficiency or

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Hamilton, "The Report on Manufactures", The Weekly Register, V, 153.

the diversification of industry. In his Report on Manufactures, he wrote that there were still respectable patrons of opinions friendly to agriculture and unfriendly to the development of manufactures. He summarized their arguments and gave his own conclusions.

In every country (say those who defend them) agriculture is the most beneficent and productive object of human industry...Nothing can afford so advantageous employment of labor and capital as the the conversion of this extensive wilderness into cultivated farms. Nothing equally with this can contribute to the population, strength and real riches of this country.....

This policy is not only recommended to the United States by considerations which affect all sections; it is, in a like manner dictated to them by the imperious force of a very peculiar situation. The smallness of their population compared with their territory--the constant allurements of emigration from the settled to the unsettled parts--the facility with which the less independent condition of an artisan can be exchanged for the more independent condition of the farmer--these and similar causes, conspire to produce, and, for a length of time, must continue to occasion, a scarcity of hands for manufacturing occupations, and dearness of labor in general. To these disadvantages for the prosecution of manufactures, a deficiency in pecuniary capital beign added, the prospect of successful competition with the manufactures of Europe, must be regarded as little less than desperate. Extensive manufactures can only be the offspring of a redundant, at least a full population. Till the latter shall characterize the country, 'tis vain to hope for the former.¹

Hamilton did not hesitate to answer these statements in defense of his own position.

It ought to be readily conceded, that the cultivation of the earth, as the primary and most certain source of national supply--as the immediate and chief

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Hamilton, "Report on Manufactures", The Weekly Register, V, 153.

source of subsistence to man--as the principal source of those materials which constitute the nutriment of other kinds of labor--as including a state most favorable to the freedom and independence of human mind--on, perhaps, most conducive to the multiplication of the human species, has intrinsically a strong claim to pre-eminence over every kind of industry.

But it has title to anything like an exclusive predilection, in any country, ought to be admitted with great caution. That it is more productive than every branch of industry, requires more evidence than has yet been given in support of the condition.¹

He did not believe the labor of artificers unproductive. His objections to the exclusive productiveness of agriculture may be summarized as follows:

1. Though the increment of value produced by classes of artificers should at no time exceed the value of the produce of the land consumed by them, yet there would be, at every moment, in consequence of their labor, a greater value of goods in the market than would exist independent of it.
2. That the augmentation of the wealth or capital of a community (except in some instances of extraordinary dexterity or skill) can only proceed from the savings of the more thrifty and parsimonious.
3. That the annual produce of the land and labor of the country could be increased in two ways; by some improvement in the productive powers of the useful labor, or by some increase in the quantity of such labor. Because the labor of artificers is capable of greater subdivision and improvement of productive powers, the labor employed in the cultivation of the land could pretend no advantage over that of manufactures. The increase in the quantity of each is dependent upon an increase in the capital of the nation.

While Hamilton used the words "useful labor" he gives no indication of that which he would not consider

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Hamilton, "Report on Manufactures", The Weekly Register, V, 154.

not useful. He believed that he had refuted the exclusive productiveness of agricultural labor, but nevertheless he conceded the superiority of its productiveness. The idea of Smith that in agriculture man labored with nature as well as with man, and that even though no labor costs were involved, the produce of nature had a value similar to that of the most expensive workman, Hamilton thought both "quaint and superficial." He maintained that:

This is far from being a necessary inference. It is very conceivable, that the labor of man alone laid out upon a work, requiring great skill and art to bring it to perfection, may be more productive, in value, than the labor of nature and man combined, when directed towards more simple operations and objects: and when it is recollected to what an extent the agency of nature, in the application of some of the mechanical powers, is made auxiliary to the prosecution of manufactures, the suggestion which has been noticed, loses even the appearance of plausibility.¹

Hamilton agreed that the farmer might, from the peculiar fertility of his soil or some other favorable circumstance, obtain a livelihood with considerable carelessness in cultivation, but he also held that an artisan could effect the same object without exerting himself beyond the others in the same pursuit. He believed that manufactures opened a wider field of endeavor and therefore employed labor in a more constant and uniform manner. Such a discussion, however,

¹ Hamilton, "Report of Manufactures", The Weekly Register, V, 154

he deemed of little importance, as he states, "Circumstances so vague and general, as well as so abstract, can afford little instruction in a matter of this kind."¹

The Relation of List's National System to Hamilton' Views.

Hamilton's policies, and especially those as advocated in the Report on Manufactures are many times asserted to have been an inspiration to List's National System. It was not until List visited the United States that he really became confirmed in his opposition to the principles of laissez-faire. While in this country, he became connected with the Pennsylvania Society for the Promotion of Manufactures and Mechanical Arts, a society founded by Hamilton for the encouragement of national industry. Immediately after List's arrival in America, the society inaugurated an active campaign for a revision of the tariffs. List's contributions to the campaign were published in a number of letters, actually a resume of his National System.

As Hamilton, List borrowed his examples from history and experience. The fact that Germany was still in its infancy, the fact that the country was hard hit by the competition of England, the long experience and the more perfected economic structure of her competitors were the all-important considerations in the elucidation of his doctrine. The situation in

¹ Hamilton, "Report on Manufactures", The Weekly Register, V, 154.

Germany in the thirties was comparable to that of the United States in the time of Hamilton, In both cases, economic independence was not yet fully established. In the United States natural resources were abundant, territory was vast, population small, but industrious. To both Hamilton and List there appeared but one remedy for the tyrannical supremacy of those nations of more established economic and political institutions, the defense of protection and the centralized authority of the government.

Although List does not mention Hamilton in his writings, there is a striking similarity in the principles of the two. "National economy," List maintains, "teaches what means a certain nation, in her particular situation, may direct and regulate the economy of individuals, and restrict the economy of mankind, either to prevent foreign restrictions and foreign power, or to increase the productive powers within herself."¹ The object of political economy, he thought, was not to gain matter in exchanging matter for matter, but to gain productive and political power. In advocating that every nation should endeavor to possess the essentials of national supply, the means of subsistence, of habitation, of clothing, and of defense. List may well have followed

¹ List, Outline of the National System, letter 1.

Hamilton's interpretation of the teachings of political economy, for the latter felt that the possession of such essentials was necessary for the perfection of the body politic, and to the safety and welfare of the people. It was Hamilton's familiarity with the weakness of the Confederation that led him to advocate national unity. It was the dominance of England's trade and the oppression of American commerce that directed him to a policy of self-sufficiency. He believed that this was the next work to be accomplished.

There is no doubt that Hamilton believed it within the scope of the government to direct the general welfare of the nation.

It is, therefore, of necessity left to the discretion of the national legislature, to pronounce upon the objects which concern the general welfare, and for which under that description (as given in the Constitution), an appropriation of money is requisite and proper. And there seems to be no room for doubt, that whatever concerns the general interests of learning, of agriculture, of manufactures, and of commerce, are within the sphere of the national councils, as far as regards an application of money.

The only qualification of the generality of the phrase in question, which seems to be admissible, is this, that the object, to which an appropriation of money is to be made, be general and not local; its operation, extending in fact or by possibility, throughout the union, and not being confined to a particular spot.

No objection ought to arise to this construction, from a supposition that it would imply a power to do whatever else should appear to Congress conducive to the general welfare. A power to appropriate money, with this latitude, which is granted

too in express terms, would not carry a power to do any other thing, not authorized in the constitution, either expressly or by fair implication.¹

The goal of Hamilton's economic policies was national unity, increased economic and political strength. His idea was that the more complex national life is, the more the parts of the nation are dependent upon each other, United with the bonds of mutual needs, a strong coherent nation is developed. He believed that the primary object of nations is to supply their subsistence from the products of their soils. As manufacturing developed, materials should be obtained from the same source. This plan of Hamilton's is similar to the agricultural-manufacturing-commercial stage as advanced by List.

Hamilton was most familiar with the short-comings of the union of States during the Revolution. He pledged to overcome those obstacles which kept the country from united effort. Unity, in consequence, became his ultimate goal. It is, therefore, little wonder that he advocated those principles and measures which seemed to him to be the quickest and most effective means to this end. He desired the prosperity of the people, but the establishment of the nation was foremost. Defense was of more importance than opulence. Economic independence was regarded, in a measure

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Hamilton, "Report on Manufactures", The Weekly Register, V, 195.

of more importance than individual prosperity.

It was by developing manufacturing, by encouraging agriculture, by founding a national credit that Hamilton wished to develop that national productive power and unity for which the nation was, by nature, adapted. The development of all resources and all potential powers was the means to his objective. He did not believe that the individual could, in promoting his private security, promote the defense of the country, the public security and the national unity. National independence and power were attained through the combined efforts of the entire nation rather than the self-interested actions of individuals. He reasoned that no nation is an individual and that no individual is a nation. Private interests were not always harmonious with national security. Under the oppressive competition of strong nations, a weak nation cannot develop all potential possibilities. If the English shut out American corn from their markets, what else were they doing than compelling American agriculturists to grow so much less corn than they would have sent out under freedom of trade. Such a situation should not be allowed to confront the American farmer; the remedy was found in the development of the home market, manufactures and internal trade.

To Hamilton, any doctrine of individualism lacked the magnetic force necessary for the attainment of national unity; it was not in harmony with national interests. The then existing institutions were not conducive to the increase and development of national strength and power. The first duty of political and economic doctrines, therefore, was to guide the interests of individuals so as to promote the well-being of the state.

Hamilton's own policies and principles were the result of the political and economic conditions of his time. He was somewhat familiar with the leading authorities, but it is doubtful whether he understood their viewpoint or objective. His thought was shaped by a desire for a strong, independent nation. He advocated means which he considered effective to that end.

CHAPTER IV

THE STRUCTURE OF HAMILTON'S ECONOMIC PROGRAM

The foregoing discussion established the general characteristics of Hamilton's principles, and showed the relation of his doctrines to the time in which they were presented, and to the thought of others. In the belief that they may be better understood and more thoroughly analyzed, his economic doctrines will be presented topically. Hamilton's writings do not present any systematic exposition of his views on economic subjects. Any conclusions concerning principles must therefore be drawn from the mass of discussion relating to various subjects of government, finance and industry. The classification of topics is consequently made from the relations in which Hamilton discussed the subjects rather than from an outline of economic principles.

Value

There is little in Hamilton's works to show that he had any theory of value. He believed in the productiveness of manufactures, partially basing his belief upon an increase in value of raw materials from the process, it may be concluded that he was convinced that some sort of utility had been added to the product. He reasoned that if two x was the normal production for a given period of time, and that ten x was added to the product by manufacturing, the total value consumed would

not be merely ten, but twenty x.

He held that "the increment of value, produced by artificers, should at no time exceed the value of the produce of the land consumed by them."¹ This statement places an upper limit on the value-giving power of manufactures. Hamilton's admission of the superiority of agricultural labor would lead him to refrain from granting a superior value to the products of manufactures; yet it did lead him to deny that artificers added some value-giving power to the product. Perhaps he wished to impress upon the agricultural population that the development of manufacturing was not contrary to their interests. Such a statement may have been used as a cloak under which he could hide the disadvantages of his program. At least, it may be concluded that he had no adequate understanding of the forces which determine economic value.

It is possible that Smith's statement that the value of a good depended primarily upon the amount of labor required in production influenced Hamilton's thought. In refuting Smith's explanation of rent based on the reason that nature labored with man, we find him using the argument that in conditions where great art and skill are required to produce a commodity, more will be produced in value than under conditions where labor

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Hamilton, "Report on Manufactures", The Weekly Register,

V, 155.

is more simple.

He was somewhat familiar with the relation of scarcity to price. In advocating the use of bounties, he reasoned that they tended to stimulate production, increase the quantity of production, and thereby decrease the price. He believed that if the domestic production did not increase in industries protected by a prohibitive tariff, the price of the article would be in the long run, higher from a smaller output.

In discussing the price of labor we find him making the following statement:

Let it be supposed, that the difference in price, in two countries, of a given quantity of manual labor, requisite to the fabrication of a given article, is as ten; and that some mechanic power is introduced into both countries, which, performing half the necessary labor, leaves only half to be done by hand, it is evident that the difference in the cost of fabrication of the article in question, in the two countries, as far as is connected with the price of labor, will be reduced from ten to five, in consequence of the introduction of that power.¹

This reasoning shows a lack of a value theory.

True, the introduction of a machine would decrease the the immediate need for a certain quantity of labor, but the machine would also increase the output of the commodity and lower prices would result from increased production at lower costs. In the long run, labor would be redistributed in the production of other goods including the machine to make the goods. Hamilton's reasoning

¹ Hamilton, "Report on Manufactures", The Weekly Register,

assumes the productivity of labor to be equal in the two countries, an implication that does not bear examination. The supply is but one force in value determination. Hamilton is concerned only with that force.

His home-market argument for protection and his belief in the sacrifice of individual welfare to that of the nation seems at first glance to be founded upon a misunderstanding of the nature of value and wealth. It is probable that even though he had been acquainted with current concepts, he would not have been convinced of a fallacy in his doctrine. His paramount concern was to increase the productive powers of the nation, not in the sense that List developed his powers of production, but in view of obtaining national self-sufficiency.

Capital

Hamilton speaks throughout his various reports of "active capital" "monied capital", of an "absolute" increase in capital and of "artificial" capital.

In the question under discussion, it is important to distinguish between an absolute increase of capital, or an accession of real wealth and an artificial increase of capital, as an engine of business, or as an instrument of industry and commerce. In the first sense, a funded debt has no pretensions to being deemed an increase of capital; in the last, it has pretensions which are not easy to be controverted - Of a similar nature is bank credit, and, in an inferior degree, every species of private credit.¹

Hamilton's active or monied capital was similar to Smith's capital stock. Actually he distinguished

¹Hamilton, "Report on Manufactures, The Weekly Register, V, 189.

social from individual wealth. He held that a funded debt and other forms of credit did not increase the stock of real capital or wealth, but served as a new power in the operations of industry. To Hamilton, such capital facilitated exchange and quickened the operations of business. It had, however, a tendency within certain bounds to increase the real wealth of the country in a like manner as money borrowed by a thrifty farmer, to be laid out in improvements of his farm, may, in the end, add to his stock of real wealth.

Capital or real wealth could only proceed, except in cases of extreme dexterity and skill, from the savings of the thrifty. Hamilton held, as Smith, that the industry of a society can increase only in proportion to the increase in capital. Any increase of industry is dependent upon the saving of the people. Hamilton's program for the development of manufacturing, therefore, was based upon his belief in the increase of capital within the nation. He was quick to point out the importance of saving and of obtaining foreign loans for the development of American industry. His plan for the establishment of the credit of the United States was in part based on the lack of a fluid medium of exchange which, he claimed, slowed the transactions of business and was not conducive to the development

of industry.

It is difficult to pronounce anything precise concerning the real extent of monied capital of a country, and still more concerning the proportion which it bears to the objects that invite the employment of capital. It is not less difficult to pronounce how far the effect of a given quantity of money, as capital, or, in other words, as a medium for circulating the industry and property of a nation, may be increased by the very circumstances of the addition, which is given to it by new objects of employment. That effect, like the momentum of descending bodies, may not improperly be represented, as in a compound ratio to mass and velocity. It seems pretty certain that a given sum of money, in a situation, in which the quick impulses of commercial activity were little felt, would appear inadequate to the circulating of as great a quantity of industry and property, as one, in which their full influence was experienced.¹

It is fairly clear that Hamilton's principle would operate in cumulative fashion. In other words, he advocated the establishment of manufactures, the development of agriculture and the increase of industry by the founding of public credit, by foreign loans, a national bank, and by saving. Once industry was firmly established, saving would become easier; as saving became easier, capital would grow; as capital grew, the industries of the nation would grow "like the momentum of descending bodies in a compound ratio to the mass and velocity."

It is not strange that Hamilton would attach this importance to capital in the development of the nation. Land was the only abundant factor at that time. Public credit was in a pitiful state and foreign loans were

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Hamilton, "Report on Manufactures", The Weekly Register,

V, 162.

were hard to obtain. Likewise Adam Smith held that capital was a source of economic life, and that the amount of capital in existence as well as the extent of the market set the uppermost limit in industry. It can hardly be said, however, that Hamilton would have stressed the importance of capital as did Smith. He recognized the necessity of labor, advocated means that would make emigration to the United States popular, and defended the position that dear labor was not as harmful to the development of manufactures as was generally supposed. In defense of his plan for the promotion of industry, he advocated the restriction of public lands in order that agriculture might not be infinitely more attractive than manufactures.

It is possible that Hamilton suggested the operation of the quantity theory of money in his statement concerning the extent of monied capital. He did not wish to increase the circulating medium beyond a point where commercial activity would become inflated. He wished the amount of money in the country to be proportionate to the circulation of industry and property. It is probable that he had read Hume's essay in which the latter used the quantity theory to refute mercantilism. He was familiar with the depreciated currency of the Confederation. He knew the consequences of fiat money. He directed his policies in a manner that would avoid the

the mistakes of an over-issue of currency.

He viewed the introduction of foreign capital into the country as a valuable auxiliary to the development of industry. He contended that such investments would make possible the use of a greater quantity of labor and thereby increase the productive powers of the country. He believed that much foreign capital was attracted for speculative purposes, but held that it could be retained and rendered subservient to the interests of commerce, agriculture and manufactures by offering a wider diversification of opportunities. While there are circumstances sufficiently strong to authorize a considerable degree of reliance upon the foreign capital, every effort should be made to increase domestic resources and funds of wealth.

There was, at that time, a current theory that monied capital in the form of a circulating debt destroyed a fund of an equal amount of real capital. Notes were issued in the form of circulating debt. These promises to pay were exchangeable for various forms of wealth. It was believed that amortization and interest payments withdrew from circulation a certain percentage of the debt. This withdrawal left a smaller amount of personal wealth in the hands of the people at large, concentrating it in the hands of a few public creditors. In time the debt would be completely with-

drawn from circulation. Reinvestment in extensive enterprises was not frequent nor extensive. This form of wealth was consequently destroyed so far as the majority was concerned. Production was therefore decreased and potential wealth destroyed.

Hamilton, however, contended that a man possessing a sum of public funds of a sound and settled state, could embrace any scheme of business with as much confidence as if he possessed an equal sum of acceptable coin. He held that the annual revenue applied in the payment of interest and redemption of principal did not destroy a like amount of capital or withdraw from circulation, for any period of time, a like amount of coin.

Let it be supposed that the annual revenue to be applied, corresponding with the modification of the six per cent stock of the United States, is in ratio of eight upon the hundred, that is, in the first instance, six on account of interest, and two on account of principal.

Thus far it is evident that the capital destroyed, to the capital created would bear no greater proportion than eight to one hundred. There would be withdrawn from the total mass of other capitals a sum of eight dollars to be paid to the public creditor, while he would be possessed of a sum of one hundred dollars, ready to be applied to any purpose, to be embarked in any enterprise, which might appear to him to be eligible, here then the augmentation of capital, or the excess of that which is produced, beyond that which is destroyed, is equal to ninety-two dollars.¹

Hamilton did not, however, concede that the monies paid for interest and amortization of principal were des-

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Hamilton, "The Report on Manufactures", The Weekly Register,

troyed, but maintained that they were merely temporarily transferred from some other capital to the creditor, only to be again restored into circulation. This the creditor did immediately be employing capital in some branch of industry or by lending it to some person who would employ it. Capital was not destroyed; the productive powers of the nation were not decreased. As debts were paid, capital would find its way into industry once more; credit would increase the productive powers and real wealth of the nation.

No doubt Hamilton was familiar with Smith's fixed and circulating capital. The nature of his discussion shows a relation to Smith's statement that capital is usually money used in business. He uses the term real wealth and capital interchangeably, indicating that he probably held that real capital was the means of subsistence. Active capital or forms of credit and money, to Hamilton, were certainly forms of wealth, for they gave the individual or the nation a command over other forms of wealth.

Hamilton's reasoning that the investment of capital increased the productive power of the nation is similar to List's theory of the productive powers. It is, however, doubtful whether Hamilton had in mind any such definite principle. List held that the causes of wealth are something totally different from wealth itself, that

a person possess wealth, but if he does not produce more than he consumes, he will become poorer. The power of producing wealth is, therefore, infinitely more important than wealth itself.

Let us suppose the case of two fathers of families, both being landed proprietors, each saves yearly 1000 thalers and has five sons. The one who puts out his savings at interest, and keeps his sons at common work, while the other employs his savings in educating two of his sons as skilful and intelligent landowners, and in enabling the other three to learn a trade after their respective tastes; the former acts according to the theory of values, and the latter according to the theory of productive powers. The first at his death may prove much richer than the second in exchangeable value, but it is quite otherwise as respects productive powers. The estate of the latter is divided into two parts, and every part will by the aid of improved management yield as much produce as the whole did before; while the remaining three sons have by their talents obtained abundant means of maintenance. The landed property of the former will be divided into five parts, and every part will be worked in as bad a manner as the whole was heretofore. In the latter family a mass of different mental forces and talents is awakened and cultivated, which increases from generation to generation, every succeeding generation possessing more power of obtaining material wealth than the preceding one, while the former family, stupidity and poverty must increase with the diminution of the shares of landed property.¹

Hamilton argued that increased industries within the nation increased the material wealth and the ultimate prosperity of the people, but such arguments subservient to his plan for the development of national industry in

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List, The National System of Political Economy, 112.

order to gain economic independence and strength. He held that economic power increased the internal demand for the products of both agriculture and manufactures, such a demand would be continuous and invariable, less susceptible to fluctuations and interruptions, caused by developments abroad. The home market with more diversified industries would afford a greater scope to mercantile enterprise, offering advantages to foreign as well as domestic commerce. The nation which brings a wide variety of articles to the market would not be as quickly affected by stagnations in the demand for certain commodities. Such a situation of self-sufficiency would affect materially the wealth and prosperity of the nation. The independence and security of the nation would be strengthened. The plan would foster the essentials of national supply.

This program, however, was not effective until after the War of 1812. During the year of Hamilton's Report of Manufactures Europe began hostilities which lasted until after the battle of Waterloo. The markets that had been closed to American trade were suddenly thrown wide open. The immediate need for a home market was removed. Hamilton's plan therefore lost public recognition.

It can be said that Hamilton's program was based on a definite theory such as that advanced by List. He wished to gain the essentials of national supply. He

believed that a nation which imported more goods and services than it exported must, sooner or later, abridge its imports, increase its exports, or diversify its industry. A nation, if its economic factors are controlled, is like a factory; there is a limit to its productiveness. He believed that industry could not only be increased to a certain extent by an increase in capital, but that it was the statesman's duty to regulate the division of labor and to encourage the establishment of industries in order that the maximum product would be forthcoming.

Land

Hamilton held that land was, in its nature, a stock of capital, advanced or lent by its owner to the occupier or tenant. Rent, he contended, is the return received by the owner of an ordinary stock in land not managed by the proprietor himself, but by another to whom he lends it, and who, on his own initiative, advances a second capital to stock and improve the land. The cultivator receives his reward in profit.

His position regarding the non-exclusive productiveness of land is evident from his endeavor to refute current opinions holding the contrary. His Report on Manufactures was partially concerned with a plea for the diversification of industry within the nation, Although he granted superiority to agricultural labor, he was convinced that manufacturing is productive. However the process should not consume more in value than

it produces.

The rent of the landlord and the profit of the farmer are therefore nothing more than the ordinary profits of two capitals, belonging to two different persons, and united in the cultivation of a farm; as, in other cases, the surplus which arises upon any manufactory, after replacing the expenses of carrying it on, answers to the ordinary profits of one or more capitals engaged in the prosecution of such manufactory.¹

Hamilton had no conception of rent as an unearned increment. He saw that in a manufactory there are many cases in which a part of the capital is borrowed by the owner, and combined with other capital in the operation of the business. Out of the surplus, after the payment of expenses, an interest is paid to a money-lender for the use of capital furnished by him. This payment of interest is exactly as the payment of rent by the cultivator to the landlord. The residue to the manufacturer is profit, agreeing in nature with the ordinary profits of the stock of a farmer. In the case of manufacturing, interest and profits are the return on two forms of capital; in agriculture, the rent of the landlord and the revenue of the farmer compose the ordinary profits of two capitals employed in cultivation.

Hamilton did not accept the doctrine that rent is due to the bounties of nature, the natural outcome of

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Hamilton, "Report on Manufactures", The Weekly Register,

V, 155.

some special feature possessed by the earth. He had no conception of the importance of location in determining the rent of land. He recognized that land contains different degrees of fertility, but stated that there are different degrees of productiveness in manufacturing as well. Business men are of different capacities. Land, labor and capital were necessary to Hamilton, whether production be in agriculture or manufacturing.

Although Hamilton readily granted a superior productiveness to agricultural labor, he was uncertain whether the rent of land or the profits of manufacture, in a compound ration of capital and labor, was the greater. The question was still open to debate. Essays on the subject were too imperfect to make possible a definite conclusion. They deemed it possible that certain branches of manufactures exceeded certain types of agriculture in profits, provided there was an equal investment of labor and capital. Conclusions on such a controversy showed that the superior productiveness of agriculture ought not to render the encouragement of manufactures unprofitable.

Hamilton advocated that the nation acquire territory in the west. "In the wide field of western territory," he wrote, "we perceive an ample theater for hostile pretensions, without any umpire or judge to interpose between contending parties."¹

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Hamilton, The Federalist, Number 7.

In 1794 he wrote to Jay that "the possession of those parts by us has an intimate connection with the preservation of the union between our western and Atlantic territories; and whoever can appreciate the immense mischief's of a disunion will feel the prodigious value of the acquisition."¹ He believed that control over the Mississippi would be of great worth to the country, desired Spain to cede the Louisiana territory to the nation, and thought that, if possible, Florida should be acquired.

His object in obtaining western lands was not for mere ownership; he proposed to use them for national purposes. He desired the central government to control the lands. National ownership of lands would accomplish three desired results; the Union would be protected from foreign influences and dangers, the sale of these lands would help liquidate the national debt, and the lands could be reserved in order to prevent the shifting of population from the settled territories.

Hamilton's policy would reserve the free lands for the future use of the nation. This, he reasoned, would encourage the people of his time to develop the resources of their settled properties. It would relieve the attraction of abundant lands, thereby increasing the relative

¹ Hamilton, Works, V, 127, Federal Edition.

attraction to manufactures. In order to check the natural flow of population to the cheap western lands, he advocated teaching the people of the old states improved methods of agriculture; the laying of indirect and excise taxes rather than direct taxes on land, assumption of state debts and governmental or large private ownership of tracts to be held in reserve until needed by the exigencies of the nation.

Agriculture is certainly in a very imperfect state. In much of those parts where there have been early settlements, the soil, impoverished by an unskillful tillage, yields but a scanty reward for the labor bestowed upon it, and leaves its possessors under strong temptation to abandon it and emigrate to distant regions more fertile, because they are newer and have not yet been exhausted by an unskillful use. This is every way an evil. The undue dislocation of our population from this cause promotes neither the strength, opulence, nor happiness of our country. It strongly admonishes our national councils to apply, as far as may be practical by natural and salutary means, an adequate remedy. Nothing appears to be more unexceptionable and likely to be more efficacious, than the institution of a Board of Agriculture.¹

Hamilton feared that a direct tax on land would incite rapid settlement of new lands. "Particular caution," he contended, "ought at present to be observed in this country not to burden the soil itself and its productions with heavy impositions, because the quantity of unimproved

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Hamilton, Works, VIII, 215-216, Federal Edition.

land will invite the husbandman to abandon old settlements for new, and the disproportion of our population for some time to come will necessarily make labor dear, to reduce which, and not to increase it, ought to be a capital object of our policy.²

If the national government did not assume the state debts, new lands would be rapidly settled and old lands deserted. He argued that some states had heavier debts than others; therefore, in order to pay these debts, these states would be required to levy taxes on their citizens. The result would be a tendency to migrate to the lightly taxed states or to the unsettled parts of the country. Such a movement of population would generally retard the progress of the settled parts of the country, impairing for a length of time, the vigor of the nation by scattering too widely and sparsely the elements of resources and strength.

Hamilton recommended that public land be sold for thirty cents an acre, to be paid either in gold, silver or public credit. Purchases of land, he held, might be contemplated from three classes; monied individuals and companies who will buy to sell again, persons or associations who intend to settle, persons resident in the western territory who might wish to emigrate to new settlements. The first two classes would wish large

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Hamilton, Works, VIII, 279.

areas, the last, small farms. The public policy should, therefore, obtain all the advantages from the first two classes with due regard to the last group. Land should be set aside to satisfy subscribers to the public debt; no Indian land should be sold; and no credit should be granted for any quantities less than a township.

By a land policy Hamilton hoped to reserve large tracts of land on which emigrants could not settle. This would encourage the development of those lands already under cultivation, a plan favorable to the increase of manufactures and a diversified industry. The policy was an important part of his plan for refunding the public debt, for certain areas were to be set aside for the satisfaction of public creditors. He held that it "was manifestly an error to consider the prosperity of agriculture as in proportion to the quantity of land occupied or even to the number of persons who occupy it, or both. It is rather to be considered as in a compound ratio to the quantity of land occupied and the degree of improvement."¹

It is evident that Hamilton observed that free lands were not conducive to the development of manufactures. With such a situation, the tendency would be to use the cheapest factor, land. His policy for diversification led him to advocate the restriction of western lands, thereby encouraging the development of those lands already under cultivation. His measure of

¹ Hamilton, "Report on Manufactures", The Weekly Register, V, 191.

agricultural prosperity views conditions from the standpoint of his goal of diversification rather than from that of individual welfare. His argument is strong on his own assumptions.

Labor

Hamilton held that there is scarcely anything of greater moment in the economy of a nation than the proper division of labor. The separation of occupations causes each to be carried on to a much greater perfection than it could possibly acquire otherwise.

In his Report on Manufactures, he enumerates the advantages of the division of labor, plainly those of Adam Smith. It is evident, he reasoned, that greater skill and dexterity are obtained in proportion to the separation and simplification of labor applied in production. The steadiness of attention devoted to each must be in less proportion to the complication of the objects. There is great economy in time due to less frequent transition between operations of a different nature. A man occupied on a single object will have it more in his power and inclination to exert his imagination in devising methods to facilitate labor, than if he were perplexed with a number of independent and dissimilar operations. Industry will become more adaptable to the general use of machinery and other improvements.

The mere separation of the occupation of cultivator

from that of the artificer has the effect of augmenting the productive powers of labor, and with them the total produce or revenue of society. If an individual was both farmer and artificer, he would be under the necessity of devoting part of his labor to the fabrication of clothing and other articles, and of course, be forced to devote less labor to agriculture. He would, therefore, produce proportionably less product from his farm. The whole quantity of production, in such a state of things, would not exceed the amount produced in provisions and raw materials only, a smaller total product than would be forthcoming under conditions of manufacture as distinct from agriculture.

The produce of the labor of manufactures was divisible into three parts; that with which an individual purchased provisions for his subsistence and materials for his work, that with which he supplied himself with manufactured necessities, and that which was a profit on stock employed in industry.

Hamilton suggested many expedients which would relieve the scarcity of labor. He advocated the employment of women and children as an addition to the supply of useful labor. He pointed to the substitution of machinery, the increased use of steam power, contending that such operations lessened the necessity for manual labor. He encouraged measures to attract emigrants from foreign countries, holding that the total productive power of the

would be increased with their addition, and that such measures would decrease the relative attraction of agriculture over manufactures. The total supply of labor could also be increased by the addition of a class of absentee and leisure landowners.

Hamilton pointed to the cheapness of mill sites in the United States, to the great amount of water power, and to other conditions which invited the use of machine power. He advocated that the nation use all available means to obtain machines from Europe, contending that the proper division of labor, the dexterity and the intelligence of the people was favorable to the development of new methods and new devices within the country. He reasoned that the introduction of machinery would decrease the necessary labor for certain manufacturing processes, thereby increasing the total supply of labor for all enterprises.¹

He recognized that dear labor in the United States was a disadvantage to domestic manufactures, but contended that such a condition was not, at that time, present in as great a degree as was commonly supposed. To offset this disadvantage, he recommended tariffs and bounties in proportion to the difference in the price of labor with

¹ Hamilton, "Report on Manufactures", The Weekly Register, V, 162.

foreign countries. His reasoning, however was based on a wrong conception of the factors which determine price of labor. There is however, a suggestion that he desired to levy tariffs in proportion to the differences in costs of production. He emphasized measures which would tend to make labor less dear relative to the other factors.

It is doubtful that Hamilton regarded labor as the true source of all wealth, as did Smith. He was greatly concerned with the lack of capital within the country. His policies advocated means by which the problem could be greatly diminished. An increase of real capital, he believed, was necessary in order to increase the quantity of useful labor in productive purposes. His land policy was primarily directed to check the flow of population to cheap western lands. He reasoned that the resources of the nation and the intelligence of the people offered unprecedented opportunities for the development of the productive powers and the increase of material wealth.

Money and Banking

Money, to Hamilton, was a form of active or circulating capital. He clearly distinguished it from real capital. He was familiar with the function of money as a medium of exchange, holding that it was a medium for circulating the "industry and property of the nation."¹ He felt, however, that it was difficult to discern how much money was necessary for the industry and commerce of the nation. His reasoning suggests that

¹ Hamilton, "Report on Manufactures", The Weekly Register, V, 162.

he had a vague understanding of the quantity theory of money.

It is impossible to say what proportion of coin is necessary to carry on the alienations which any species of property usually undergoes. But it may still, without hesitation, be pronounced, from the quickness of rotation, or rather the transition, that the medium of circulation always bears but a small proportion to the amount of the property circulated. And it is thence satisfactorily deducible, that the coin employed in the negotiations of the funds, and which serves to give them activity, as capital, is incomparably less than the sum of the debt negotiated for the purpose of business.¹

Hamilton felt that the sum of the debt in circulation is continually at the command of useful enterprise. The coin that circulated within the country is never more than momentarily suspended from its function as a medium of exchange. "It experiences an incessant and rapid flux and reflux to and from the channel of industry to those of speculations in funds."²

Hamilton's reasoning is based on the history of nations. He points to the fact that Great Britain has been unable to solve the question of an exact amount for a medium of exchange. He states that the establishment of a sound and settled currency has, however, given reanimated life to the industry of England. In the United

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Hamilton, "Report on Manufactures", The Weekly Register,
V, 162.

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Ibid, 189.

States, he reasons, in his Report on Manufactures, the operation of public funds as moneyed capital has extended the nations commerce.

That Hamilton did not try to work out or invent a theory leading to some novel expedient is a substantial proof of the sobriety of his judgment. For the most part, he adapted his purpose and methods to those tested by experience, a characteristic of his Report on Public Credit.

"Paper credit," he wrote to Duane, "never was long supported in any country, on a national scale, where it was not founded on the joint basis of public and private credit. An attempt to establish it on public credit alone, in France, under the auspices of Mr. Law, nearly ruined the kingdom. We have seen the effects of it in America; and every successive experiment proves the futility of our attempt. Our new money is depreciating almost as fast as the old, though it has, in some states as real funds as paper money ever had. The reason is, that the moneyed men have not an immediate interest to uphold its credit. They may even in many ways find it their interest to undermine it. The only certain manner is to engage the moneyed interest immediately in it, by making them contribute the whole or part of the stock and giving them the whole or part of the profits."¹

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Atherton, A Few of Hamilton's Letters, 103-104.

In his Report on the National Bank, Hamilton stated that the United States government could appropriate, by various methods, some six million dollars from the annual revenue of the nation. Operations of the government at that time were estimated to be in need of approximately ten millions. Four millions was too large a sum to borrow from France. Hamilton urged the establishment of a bank. He held that such a bank would have four distinct advantages; it would unite public authority and faith with private credit, it would be an auxiliary to governmental operations, it would facilitate the operations of the medium of exchange, and it would give the government a greater bargaining power in obtaining foreign loans.

The National Bank Act was passed February 25, 1791. The bank had a capital of ten million dollars, divided into shares of four hundred each. The government of the United States subscribed two million dollars for which it gave bonds to that amount. One-fourth of the subscriptions of individuals was to be paid in species, the rest in bonds of the public credit. Subscriptions were payable in four semi-annual instalments. The notes of the bank were receivable in all payments to the United States. Eight branches were established in the principal centers of the country.

Hamilton was aware that a national bank could be used for private interests. The original draft drawn up by Hamilton and adopted by the Senate was fashioned

after the Bank of England. Attempt was made to prevent abuses that would injure public credit.

The said corporation may sell any part of the public debt whereof its stock shall be composed, but shall not be at liberty to purchase any public debt whatsoever; nor shall directly or indirectly deal or trade in anything, except the sale of goods really and truly pledged for money lent and not redeemed in due time; or of goods which shall be the produce of its lands. Neither shall the said corporation take more than the rate of six per cent per annum, for or upon its loans or discounts.¹

It is clear that Hamilton understood the manner in which banks hypothecate for security the wealth of the community. "Gold and silver," he held, "when they are employed merely as instruments of exchange and alienation, have not been improperly denominated dead stock; but, when deposited in banks, to become the basis of paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality."² He explains this by saying that money in a merchant's chest is idle, but in a bank, it yields a profit.

Hamilton's national bank was primarily an agent of the government. He undoubtedly desired, however, that

¹ Dunbar, Economic Essays, 92.

² Ibid. 93.

the money of the country become available for investment purposes. One of the reasons that colonial currency depreciated, he believed, was the lack of interest on the part of the moneyed men. The industry of the nation could only increase with an increase in capital. Increased capital came from the savings of the parsimonious. Increased savings came from increased production. The moneyed people of the country should be interested, therefore, in the industry of the country. Although the national bank was not an investment institution, it represented a step in that direction. It was a union between the public faith and credit and that of private individuals. It was the foundation for faith and security in industries of the nation.

The bank clearly reflects Hamilton's desires to increase the trade of the country. The bank could promote the interests of American shippers by dealing in bills of exchange. In this manner it encouraged the development of natural resources, the activity of commerce and the enterprise of citizens.

There was an intimate relationship between the government and the bank. Such an institution was the fiscal agent for the government; it would assist the country in national emergencies by concentrating the national credit. It was the connecting link between national and private credit; it established a central interest for state and national financial issues.

Public Finance

Premising that the Secretary assumed as probable that the interest of money in the United States would, in five years, fall to five per cent, and in twenty to four, Hamilton proposed to fund the heterogeneous mass of securities and claims which made up the domestic debt as follows:

That for every hundred dollars subscribed, payable in the debt (as well interest as principal), the subscriber shall be entitled at his option either

1. To have two-thirds funded at an annuity or yearly interest of six per cent, redeemable at the pleasure of the government by payment of principal, and to receive the other third in lands of the Western territory, at the rate of twenty cents per acre; or,
2. To have the whole sum funded at an annuity or yearly interest of four per cent, irredeemable by any payment exceeding five dollars per annum, on account both of principal and interest, and to receive, as a compensation for the reduction of interest, fifteen dollars and eighty cents, payable in lands, as in the preceding case; or,
3. To have sixty-six dollars and two-thirds of a dollar funded immediately at an annuity or yearly interest of six per cent, irredeemable by any payment exceeding four dollars and two-thirds of a dollar per annum, on account both of principal and interest, and to have, at the end of ten years, twenty six dollars and eighty-eight cents funded at the like interest and rate of redemption; or,
4. To have an annuity, for the remainder of life, upon the contingency of living to a given age, not less distant than ten years, computing interest at four per cent; or,
5. To have an annuity for the remainder of life, upon the contingency of the survivorship of the younger of two persons, computing interest in this case at four per cent.

In addition to the foregoing loan, payable wholly in the debt, the Secretary would propose that one would be opened for ten million dollars on the following plan:

6. That for every hundred dollars subscribed, payable one half in specie and the other half in debt (as well principal as interest), the subscriber be entitled to an annuity or yearly interest of five per cent, irredeemable by any payment exceeding six dollars per annum, on account of both principal and interest.¹

¹Dunbar, "Some Precedents Followed by Alexander Hamilton," Quarterly Journal of Economics, III, 36.

It is well to remember that at the time Hamilton presented these recommendations, public credit was still to be created and the money market was untried. It was therefore the caution of great responsibility that led him to propose a variety of measures. Congress ultimately adopted the third proposition of his scheme, extending uniform privileges of exchange to all creditors. The number of classes of new securities created was reduced and their form proved satisfactory to investors.

The Report on Public Credit showed the debt to France, Spain and Holland to be in arrears of interest to the amount of \$11, 710,378. Unpaid claims on the domestic debt amounted with interest at six per cent to \$40,414,085. It was estimated that an additional \$25,000,000 would be presented for payment, totalling some \$79,124,464. The plan proposed that the national government take over the debts which the states had incurred during the Revolution.

The plan for funding the debt contains three fundamental purposes; the establishment of national credit at home and in Europe, the provision for a financial machinery to meet the needs of the government, and to cement more closely the union of states. A national bank could be founded upon national credit; exchange would be facilitated; business would be quickened; the industrious and ambitious would be encouraged; a foundation would be laid on which the productive powers of the nation could be built. Commerce, agriculture and manufactures would be stimulated.

It is not surprising to find that several of the features of the plan bear a resemblance to English methods of the time.¹ France had declared her bankruptcy; Spain had not been particularly successful in financial methods. Russia and Austria were struggling with inconvertible paper and financial distress. Germany and Italy were but groups of small states. Holland and England were, perhaps, the most successful nations of the world. It is also true that conditions in the United States were more adaptable to the policies of these countries. Of the two, those of Holland were in most respects less likely to be applicable to the conditions in the United States. Unless the financial organizer wished to disregard the lessons of experience, he must of necessity draw his lessons chiefly from English practice.

The use of variety in the first three propositions is characteristically English. The first was a security of perpetual life in the sense of the English funded debt, that is, no fixed maturity, but redeemable when the government finds redemption convenient. The English legislation had already created three per cent consols, redeemable at par upon a year's notice. Instead of securing the creditor against payment at the convenience of the government, Hamilton fixed a limit to the rate of redemption, guaranteeing him against payment except by small instalments. The offer was primarily made to make the securities attractive to the creditor, avoiding

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Dunbar, C. F., Theory and History of Banking, Chap. I.

the disadvantages of sudden redemption. The funding act of 1790 as adopted by Congress offered the creditor for his principal, two-thirds in six per cents bearing interest, and one-third in sixes not bearing interest until 1801, neither series being redeemable except by payments limited to eight per cent for principal and interest in any one year; and for the creditor's interest, three per cents redeemable at pleasure.

Of the securities redeemable at a limited rate, described in the second and third propositions, his four per cents had the longest life; and these, if redeemed by a series of annual payments of five per cent for principal and interest, would last for forty-one years from the beginning of the series, interest at four per cent for the whole period.

The fourth and fifth methods are plainly based upon the life annuity system which the English government had used since the time of William III. The Dutch had used similar methods still earlier. It is probable that Hamilton offered these schemes for consideration rather than with an expectation of their adoption. He was, as yet unfamiliar with the operations of a money market in the United States. Public credit was in the making. The nation was emerging from a colonial and frontier life; economic and financial strength was still to be

¹
Davis, Dewey, Financial History of the United States,
Chapters I-III.

obtained. An annuity plan would burden the government with annual payments; its capacity to bear such a burden was still to be determined.

The sixth plan offered by Hamilton is based on the English tontine of 1789, presented by Pitt a few months before the Report on Public Credit. The annuities proposed in the plan were somewhat higher than those in the English scheme. This is probably due to the failure of the English plan to be fully subscribed.

In 1781 Hamilton had declared in a letter to Morris that it was his belief that if the United States succeeded in the war, the population would double in thirty years. Under such favorable conditions, the country would be out of debt in twenty years.¹ In his Report on Public Credit, he contended that no country would be able to borrow from foreigners on more favorable terms than the United States because no country could afford as good security. The plans offered by Hamilton, and especially the one adopted by Congress, may be said to be founded on the belief that such schemes were within the resources of the nation; that the revival of industry could only come with a sound mercantile credit; that there was a basis for mercantile credit in national credit; that there was a distinct advantage to be gained

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Dunbar, C.F., "Some Precedents Followed by Alexander Hamilton", Quarterly Journal of Economics, III, 38.

by the nation when individuals looked upon their governmental claims as being in the mobile form of negotiable securities having a recognized market; and that a diffused domestic debt was manifestly a bond of union.

Hamilton held, as Pitt, that "the proper funding of the present debt will render it a national blessing, yet the secretary, is so far from acceding to the position, in the latitude in which it is some times laid down, that public debts are public benefits, a position inviting to prodigality and liable to dangerous abuse, that he ardently wishes to see it incorporated as a fundamental maxim, in the system of public credit in the United States, that the creation of debt should always be accompanied by means of extinguishment."¹ In his Report on Manufactures, he pointed to the fact that a public debt may become burdensome to the government, the object of speculation, and a source of danger to public safety. He held that governments should perpetually reduce the public debt as fast as was practical and consistent with the integrity and good faith of the nation.

The sinking fund plan was certainly adopted from English legislation. The main source of embarrassment to the new government was the lack of a sufficient knowledge of the resources of the country. Hamilton

¹ Dunbar, C.F., "Some Precedents followed by Alexander Hamilton", Quarterly Journal of Economics, III, 39.

proposed that the net revenue of the post office, to an amount not exceeding \$1,000,000, be used in the purchase of government securities. Congress, however, besides a general appropriation of the proceeds of western lands for the amortization of the existing debt of the United States, preferred to use for this purpose the surplus revenue which might remain at the end of the year 1790, owing its existence to the funding of interest on the domestic debt to date. The project was not perfected by any provision for the investment of the interest, so that the act of 1790 went no farther than the establishment of a mere plan, with no provision for its execution. It did, however, tend to keep before the legislature the necessity of having a revenue above the ordinary expenses of operation.

There was much current discussion at the time concerning the advisability of assuming state debts by national government. Hamilton's theory contains elements of economic significance. It was part of his program for the development of manufactures in a country of cheap land and dear labor. He held that such a policy would equalize the burdens of the various states, consequently equalizing the contributions of individuals to a greater degree than would otherwise be possible. It would lessen the attraction of cheap

and unsettled lands. This would result in inducements to develop areas already under cultivation. Hamilton also believed that the assumption of state debts would contribute to the stability of national finance by preventing competition among the states for resources. The Union would have a more complete command over the resources of the nation for present and future exigencies. The consolidation of the public credit would materially strengthen the central government. "A weak and embarrassed government," he observed, "never fails to unpopular. It attaches itself the disrespect incident to weakness, and, unable to promote the public happiness, its impotencies are its crime. Without the assumption, the government would be for a long time at least, under all the entanglements and imbecilities of a complicated, clashing and disordered system of finance.."¹

Hamilton favored import duties and excise taxes. He felt that direct taxes discouraged industry and were liable to abuse. This belief led him to respect the direct tax on land. He felt that such a tax would not be feasible in a country of cheap, abundant lands. In his Report on Manufactures, he argued that a poll or capitation tax operated unequally on a fixed rate, resulting

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Hamilton, Works, IX, 31.

in a direct injury to the industrious poor. Such a tax was not easy to administer. Taxes which proceeded according to the supposed amount of capital or profits of a business were held unavoidable and harmful to industry. Hamilton did not believe that individuals would correctly report their capital or profits, for he also held that men did not wish to reveal the real state of their affairs. It was not wise, he continued, to reveal matters of private concern to revenue officers. The prosperity of a business, he held, in the Report on Manufactures was not as evident as might be generally supposed; therefore it was extremely difficult to discern whether a business was in a capacity to contribute to the government or whether its development would not be strengthened by government aid.

There is little evidence that Hamilton used Smith's canons of taxation as his measure. He was more concerned with the establishment and development of industries; therefore any plan which seemed to restrain or discourage manufactures or agriculture was harmful rather than beneficial. Government revenue were to be obtained from such excises as the whiskey tax, the carriage tax, the sale of western lands, the operation of the post office, and import duties.

Hamilton particularly favored the use of bounties. He reasoned that a bounty serves a more positive and

direct means of encouragement; a bounty usually avoids inconvenience of a temporary increase in the price of the article to be encouraged, as sometimes results from the decreased supply accompanying a prohibitive tariff; bounties do not, as is the case of protective duties, tend to produce scarcity in the stock of commodities until such time as the domestic industry is established; and bounties are the best means of promoting the production of the raw materials for manufactures.

It was his firm belief that bounties had a more immediate and stimulating effect upon new enterprises by, in some cases, increasing the profit and decreasing the risk of loss in first attempts. (The fund for the payment of bounties was to be derived from many different sources and would have, therefore, but little tendency to raise the price of articles in general.) Hamilton reasoned that a one per cent on a foreign article would have the effect of a duty of two per cent exclusive of the bounty. That is, a foreign article valued at \$1.00 in the market would sell for \$1.01 subject to a duty of one percent; the domestic article would sell for \$1.01 in the same market, but if the domestic producer received the one per cent duty in the form of a bounty, it would be similar to obtaining \$1.02 as the price of the article, or the amount for which the article would

sell in the market subject to a duty of two per cent exclusive of the bounty. Although this reasoning does not consider the relative relationship of the demand to the price of the article, it indicates that Hamilton was familiar with the tendency to shift the burden of the tariff on to the consumer in the form of higher prices. He also believed that bounties, in some instances, tended to increase production to a certain point, the increased quantity resulting in a decreased price of the article. Hamilton's reasoning is probably founded on conditions of colonial agriculture. The great disadvantage to the development of American industries was the lack of a market. There were few towns of any size on the continent and European trade was practically closed to Americans. Farmers were forced, to a large degree, to become self-sufficient. The introduction of improved methods, as in the case of weaving, practically amounted to an Industrial Revolution. The growth of "sea-island" cotton and the new, rapid and cheap methods of manufacture reduced prices of this article and increased the demand. European markets were thrown open to trade in the product. Production was greatly stimulated and spread rapidly among the southern farmers. It was such conditions which Hamilton wished to introduce in other industries. If production was stimulated by natural or artificial means, markets would be opened to trade and production increased. More

desirable than foreign markets, however, was the home market, a more dependent and stable demand for the products. The home market was essential to national unity. In order to foster the home market, he wished to divide the interests of manufacturing and agriculture. Because agriculture was the principal industry, manufacturing must be developed. It was, to Hamilton, the duty of the government to foster this development. His argument for the increase of manufactures by the inducement of bounties, however, lacked a recognition of the principle of decreasing returns. Although a greater product might be forthcoming, under colonial conditions, it is more than liable to be forthcoming at increased costs. Cheap lands were a great advantage to agriculture, but the bounty fosters and stimulates production because of its advantages to certain low-cost producers in certain markets. Bounties in certain types of industries, however, have a tendency to add new marginal high-cost producers. Any decrease in the price of the article due to increased quantity would eliminate some of these new producers. Hamilton's reasoning that bounties might increase production and decrease prices would only hold true in those instances where increasing returns were encountered.

The proper use of bounties, however, according to Hamilton, was limited. The continuance of bounties on long established manufactures was questionable as a policy.

Although in the establishment of new industries bounties, he held, are often necessary, the continuance of such a plan is open to dispute because it would create a presumption that there were natural and inherent impediments to the success of the industry. In this policy, Hamilton contributes the infant industry argument to American economic principles. If, in the long run, the industry did not prove its ability to compete in trade, aid in the national defense, or provide necessary materials for other industries contributing to the essentials of national sustenance, it is doubtful whether Hamilton would continue to advocate government assistance.

As often as a duty upon a foreign article makes an addition to its price, it causes an extra expense to the community, for the benefit of the domestic manufacturer. A bounty does no more. But it is in the interest of the society, in each case, to submit to temporary expense, which is more than compensated, by an increase of industry and wealth - by an augmentation of resources and independence - and by the circumstances of eventual cheapness, which has been noticed in another place.¹

Hamilton held that protective duties were essential in the nature of bounties for they enabled domestic manufacturers to undersell their foreign competitors in the protected market. He reasoned, however, that their principal advantage was in the revenue obtained therefrom. It is not to be implied that he meant protective duties

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Hamilton, "Report on Manufactures", The Weekly Register,

V, 195.

in the sense that domestic producers were protected from foreign competition by duties practically prohibiting importation. Such duties were termed prohibitive duties and were to be used only when a manufacture had made such progress or was in many hands so as to insure competition and an adequate supply.

His desire to develop manufactures led him to advocate other methods of encouragement to industry. Premiums, he observed, had been used with advantage in England and Scotland. They encouraged the use of extraordinary skill, the voluntary and associated development of agriculture, arts, manufactures and commerce. The exemption of the materials of manufacture from duty was particularly beneficial to new industries. The use of drawbacks was a source of revenue and encouragement to certain manufacturers.

Hamilton's home-market argument for the establishment of manufactures may be divided into three parts; that it furnished a steady and near market for raw materials and food stuffs, that it would encourage both intensive and, when regulated by his land policy, extensive agriculture, and that it would cement more closely the union of states. It must be remembered that Hamilton viewed mankind as a means for the development of national independence, power and permanency. The welfare of the nation was not the same thing as the welfare of

the individuals which composed the nation. Opulence must be sacrificed for the sake of defense.

The home-market argument contains some elements of a misunderstanding of the nature of demand. Hamilton believed that his "trade at home" policy would, in some instances, create new industries. He had, however, a knowledge that it would be at the expense of the citizens of the nation. His plan was in the form of a protest against the economic and political dominance of stronger nations, and against the oppression of American trade. His early writings show a distinct trace of mercantilism, - as note the following from Sumner:

In regard to the doctrines about trade which Hamilton had in mind, we may note the following evidence. In 1782, he wrote: 'It became a cant phrase among the opposers of these attempts (to regulate prices during the Revolution) that trade must regulate itself. To preserve the balance of trade in favor of a nation ought to be a leading aim of its policy. The avarice of individuals may frequently find its account in pursuing channels of traffic prejudicial to the balance, to which the government may be able to impose effectual impediment....' He refers to Hume's Balance of Trade and affirms that Hume did not hold government interference to be useless or hurtful. 'The nature of a government, its spirit, maxims, and laws with respect to trade, are among those constant moral causes which influence its general results, and when it has by accident to its natural course. This is everywhere admitted by all writers upon the subject, nor is there one who has asserted the contrary doctrine....' 'The principal thing to be consulted for the advancement of commerce is to promote exports, All impediments to these, either by way of prohibiting or by increasing the prices of native commodities, decreasing by what means their sale and consumption at foreign markets, are injurious. Duties on exports have this operation.' In 1784, Mentor in his reply to Phocin (Hamilton), laid down the doctrine that the balance of trade cannot remain adverse; that over some short period of time there must be an equality. In his answer, Hamilton noticed

this doctrine only by the following: 'As Mentor's commercial raveries, I shall decline bestowing many remarks on them; not only because they are not immediately connected with the subject, but because there is little danger of their marketing any proselytes, while men are convinced that the prosperity of the national commerce depends as much upon the extent of its capital as that of any individual.'¹

The advancement of commerce was not as important to Hamilton as the development of economic independence. He understood that a home market meant exchange with the country. This was an added bond of union. Even though the domestic was inferior to to foreign market, the home-market aided national unity and strength by placing less reliance for prosperity on the foreign demand. Hamilton's policy was concerned with the establishment of infant industries. In the long run, the nation would gain economic strength and the people would gain from increased and diversified productive powers.

His argument that a diversified home market would prevent stagnation or demand is the result of world conditions of that time, Europe was in an unsettled state. Wars and pirates interrupted trade with other nations. The foreign demand was unreliable. Tariffs and other prohibitory measures were commonly used by all nations in restriction of certain foreign goods, Any statesman concerned with the welfare of his own

¹ Sumner, Alexander Hamilton, 177-180.

nation would wish to avoid these disturbances.

In the last analysis, Hamilton's protective policy was based upon a desire to develop national unity and to foster infant industries. He recognized that it involved a sacrifice on the part of the citizens, but he placed defense above opulence.

CHAPTER V

GENERAL ECONOMIC BACKGROUND OF HAMILTON'S VIEWS

Under the early practice of American government, the Secretary of the Treasury occupied a position more nearly like that of an English Chancellor of the Exchange. He was under the direction of no single individual, but his acts were accounted for by the citizens of the nation. The responsibility of the administration was reflected in his public reputation. He was the guiding hand in legislation; his reports were in the nature of an inventory with a statement of the necessary measures for operation. It is apparent that the Secretary, under such conditions, was, for the most part, a directing force in shaping the foundation of many of the nation's economic institutions. Such is the character of Hamilton's reports to Congress.

Hamilton was an outstanding statesman; his position and public reputation gave him the great responsibility of one who was a principal directing force in the political and economic thought and action of the time. He was, in consequence, forced to view the variety of political and economic thought and institutions from the standpoint of a judge, a judge of their feasibility and adaptability to the institutions and characteristics of his society. He was one of the tailors who was required to fit the coat of government and national economy to the

confederation of the American people. His style was a union of states; his coat was fashioned to his style. To build a strong, independent, centralized nation became the goal of his activities. Each plan, each policy was, therefore directed towards this objective.

He was inherently a rebel; he objected to the tyranny of strong, established nations; he opposed England's dominance of trade. Progress, he believed, is founded upon the development of all natural and inherent possibilities; to oppress these potentialities is to retard improvement. This policy led him to agree with Smith's individualism. To reach an objective, however, a well planned program must be followed; it cannot be gained by public decree. For a people, a nation must be founded, a nation that must compete for its ideals and ambitions in a world of nations. Strength and independence must be procured; the boy must mature into a well-rounded man.

The establishment of a nation is similar to the establishment of an industry; it requires both a practical and a theoretical point of view. The practical point of view necessitates short-time policies and practices; it requires a recognition of conditions as they are. The theoretical viewpoint is founded upon long-time policies, an understanding of things as they ought to be. Hamilton had both of these points of view. His agreement

with Smith's individualism indicates that he understood long-time tendencies, things as they ought to be. He was confronted, however, with the practices of his time. His problem was to strengthen the nation in a field of practical competition. He was, therefore, first concerned with the short-time viewpoint of practical problems. The nation was to be founded so that it could exist in a world of nations. With the nation established, the citizens and the nation could turn to the problem of individual welfare.

With this view, Hamilton recognized welfare as an ever changing goal. That which is welfare in one period may not be welfare in another time. The welfare of his time was the establishment of the nation; yet the nation would outgrow its clothes of youth. The citizens of the nation were both means and ends in themselves; they were the objects for which welfare was to be obtained; they were the instruments by which welfare was procured. The duty of the statesman was to determine the objective, organize his methods, and effect the end in view.

What was Hamilton's economic program for the establishment of the nation? Any progressive country must be founded upon a sound and settled credit. He therefore proposed to fund the debt, to unify under centralized responsibility the heterogeneous mass of claims against the states and the Confederation. A national bank could be founded upon government credit. Under government supervision and with a government mint,

a sound currency could be issued. These institutions would serve as a basis for private credit. With the credit of the nation established, investment of capital would become extended and easier. The moneyed interests would have a feeling of security in American business. With the assistance of governmental policy, the rich, well-born and able could direct the investment of capital into productive enterprises. An increase of capital would result; other factors of production would be attracted. More capital would be used in industries and more industries would be established. In consequence, more wealth would be forthcoming. Increased wealth would strengthen the independence and power of the nation and its citizens.

Such reasoning is likely to lead to the opinion that Hamilton believed that a gain in economic welfare is always accompanied by a gain in total welfare.¹ It is well to remember that he held defense above opulence. In the establishment of a nation, especially following a revolution, injury to welfare is necessary for the sake of defense. The policies of a nation cannot be decided on economic issues alone. A policy is only sound when all presuppositions are recognized. These

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Total welfare includes economic and non-economic well-being. It is reasonable to assume that the utility derived from an increase in economic goods will, in many cases, be greater than the disutility involved in the added production.

assumptions must consider the objective which is to be reached, the time in which the objective is to be reached and the implications involved in granting an assumption. Hamilton's policies were directed towards economic independence and national unity; that is, the United States should rely as possible upon other nations for the means of sustenance, and should be a strong, centralized nation rather than a group of more or less independent states. In light of the fact that the Confederation was a decentralized states dependent upon England and other nations for manufactures and trade in American produce, the soundness of Hamilton's policies are partially based on the assumption that economic independence and national unity were desirable. Granting that such was the case, admission must be made that implied sacrifices involved in gaining the objective are necessary. For instance, Hamilton's protective policy is based on the assumption that a home-market is a desirable institution. The objective to be reached was national unity and economic independence in a time of political and economic dependence. It involved implications, namely the sacrifice of a better foreign market for a poorer home market. If the objective is assumed as desirable, it must still be granted that a home market (national diversification of industry) is a means to economic and political independence in that time, and that the implications involved in the means are necessary.

If all the assumptions are granted, Hamilton's policy was sound.

It has been charged that Hamilton's program benefited the rich and well-born at the expense of other classes. In the first place, there was not a great distinction of classes at that time. Wealth was fairly evenly divided among the citizens of the nation. There were, however, many indentured servants serving time for the payment of debts, slaves, and persons of low standard. Under colonial conditions each free individual became of high value to the society. Land grants were usually large; labor was scarce. Attempts at cooperative agriculture in Virginia and Massachusetts failed. Each free individual demanded the right to direct his own energies.

It was Hamilton's opinion that such conditions were productive of great waste. There was no centralized direction toward any objective other than individual welfare. To him, the objective existed in national unity and economic independence. Direction was needed, therefore, in order to eliminate waste of energy and time. He naturally turned to those best able to direct, the rich, well-born and able. It was with their help that capital could be obtained for the establishment of industries. They were the main forces in the political and economic life of the country. They formed the major portion of the active citizens of the nation. It was through their aid that

political and economic policies became effective. It did not mean, however, that the population in general was not to benefit from the policies of the rich. It was Hamilton's belief that economic and political independence would benefit the entire population. He held that, in the long run, productive powers would increase, more wealth would be forthcoming, and more wealth would be available for all. The entire nation would be protected from foreign influences, dangers and demands. Confidence would be founded that would result in benefits to all.

Some of the principles of the so-called balanced state underlie Hamilton's program. He believed that justice and efficiency in government would contribute to the confidence of the people. His policies contained more of the elements of direction than those of control. That is, objectives should be pointed out in order that a course may be followed that is free from intervening agencies. Because the interests of all individuals might not harmonize with the objectives, some regulation of conflicting desires is necessary. His policies would allow the factors of production to be combined in a more efficient manner, land to become less abundant, capital and labor more abundant. Each factor was to be developed in relative proportion to the others. These measures were to be accomplished for the nation, thereby obtaining the desired

results for the citizens of the nation.

In a sense Hamilton was a sentimentalist, that is, he believed in his program because of his faith rather than a basis of rational reasoning. It is a large element of faith that would lead him to the conclusion that a nation is better off if self-sufficient. His reasoning led him into agreement with Smith's doctrines of individual freedom. He did not hold that the interests of individuals were the interests of nations. It must be remembered, however, that he was the product of practical statesmanship, trained in the school of colonial experience, and tempered with the principles of observation. Practical difficulties are many times too involved for theoretical conclusions. Both a long-time and short-time viewpoints are necessary for ultimate conclusions.

The full extent of Hamilton's political and economic doctrines in the founding of the nation can never be determined. His principal contributions to the economic institutions of the United States are his funded debt, his national bank, his mint, and the infant industry argument for protection. That his suggestions on manufactures were not fully adopted as an American policy does not detract from their importance. The increased duties of 1792 and 1794 were a step in this direction. During the year of the Report on Manufactures war broke out between France and the First Coalition. From that time until

Waterloo, Europe was in a state of hostility. The markets that had been closed to American trade were now thrown open. Under the neutral policy of the United States, commerce developed greatly in magnitude and variety. The immediate need for diversification was removed. Although Hamilton did not mention again the need for his measures, it is probable that he felt that such conditions were rather unfortunate. In part, they added to the material prosperity of the nation; yet they lacked the power of developing self-sufficiency. The need for his system was merely pushed forward into the future.

Professor Carver has well said that "the ultimate problem of any variety of life, including the human race, is that of adjustment to the material universe. All other problems are subordinate to that, and all values are derived from their relation to this ultimate problem. Anything which facilitates the adjustment of man to the universe, is for man, good. Anything which hinders that process of adjustment is, for him, bad."¹ Hamilton's problem was to adjust American society to the material universe in which it existed. The value of his work is derived from its relation to this problem, that of aiding in the development of a weak American society into a strong nation.

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Carver, T. N., Essays in Social Justice, 24.

The policies and practices of Hamilton have been subjected to much criticism. His theory of society, his economic principles, his national bank and other doctrines have been called aristocratic, unsound and anti-American. Any critical examination of social policies must consider the original presuppositions and viewpoints. Hamilton's reasoning was concerned with his premise, national unity. He considered his means the quickest and most effective to his own desired end. The soundness of his reasoning is but a matter of speculation. The national bank, the currency and the funded debt did much to strengthen fundamental weaknesses in the young nation. It is rather presumptuous to assume that he introduced the arguments for the establishment of manufactures and the use of bounties and tariffs to American society. Such policies are the outgrowth of national ideals. His ability as a forceful writer coupled with his position as secretary of Treasury gave him an opportunity to express the policies of those who believed national unity could be more effectively reached through centralized direction. It is true that his measures were, in a sense, aristocratic, yet he assumed, as did man, that the judgment of a majority of the people may be and often is wrong. The penalty of wrong decisions by the people at that time was, to Hamilton, national weakness. He consequently advocated centralized direction.

Hamilton's economic and social policies were based on his practical and theoretical knowledge of world conditions. They represented the forces of direction in a time of individualism. Actually, however, he was principally concerned with obtaining equality for the nation in a world of nations. To this end he directed his principles, policies and actions.

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