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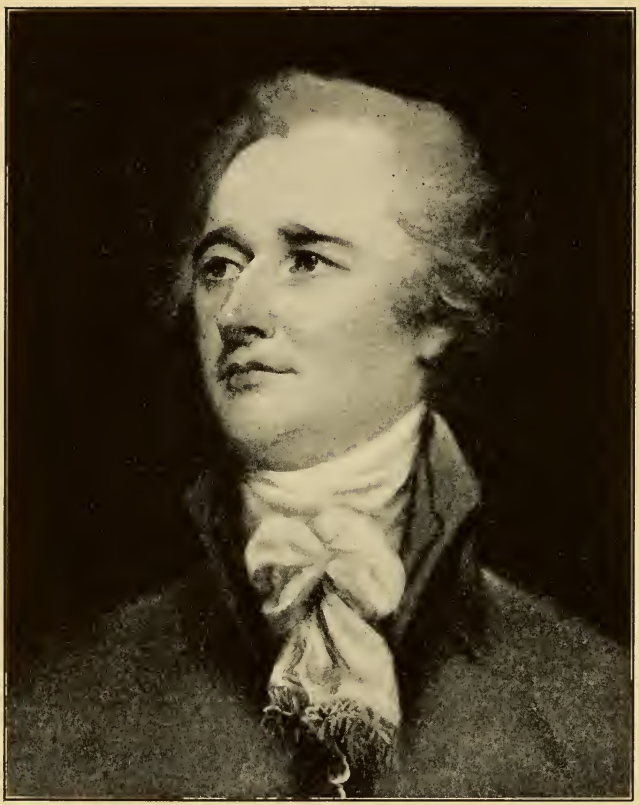


ALEXANDER HAMILTON

From a painting by John Trumbull

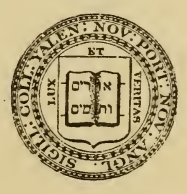
Alexander Hamilton

An Essay

BY

WILLIAM S. CULBERTSON, Ph. D.

This essay won the John A. Porter Prize,
Yale University, 1910



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TO

MY FATHER AND MOTHER

TERMS OF FOUNDATION OF THE JOHN A. PORTER UNIVERSITY PRIZE

(As Originally Established in 1872)

At a meeting of the President and Fellows of Yale College, held in New Haven, March 13, 1872, an offer was received from the Kingsley Trust Association, dated at New Haven, December 15, 1871, placing at the disposal of the Corporation of Yale College, annually, the sum of two hundred and fifty dollars, to constitute a prize to be called the John A. Porter Prize, and to be awarded for an English essay, upon the following conditions, viz.:

"1. The prize may be competed for by any member of any department of the College, pursuing a regular course for a degree, who shall have been a member for at least one academic year prior to the time when the prize shall be awarded.

"2. The prize shall be awarded by three judges, two to be appointed by the President of the College, and one by the Trustees of the Kingsley Trust Association; such judges to be chosen or appointed on or before the first day of the second academic term. The award of the prize shall be announced on Commencement Day.

"3. Subjects shall be chosen, and the length and character of the essays may be specified by the Trustees of the Kingsley Trust Association. The subjects shall be publicly announced on or before the first day of the second academic term of the present collegiate year, and hereafter within the first two weeks of the first academic term.

"4. If in any year, in the opinion of the judges, none of the competing essays be of sufficient excellence, the prize shall not be awarded.

"5. Competing essays shall be transmitted to the judges within one week after the opening of the third academic term, under cover, signed by a fictitious name, and accompanied by the real name of the writer in a sealed enclosure.

"6. The Trustees reserve the right to retain all competing manuscripts, and the right of publication of the same; each essay must, therefore, be accompanied by an assignment of the right of copyright.

"7. These terms and conditions may at any time be altered by the Trustees of the Kingsley Trust Association, with the consent of the President and Fellows of the College."

Resolved, That the foregoing offer be accepted upon the above-named conditions.

Attest,

FRANKLIN B. DEXTER, *Secretary.*

THE JOHN ADDISON PORTER PRIZE IN YALE UNIVERSITY

The John Addison Porter Prize consists of the income of a fund of $10,000, given by the Kingsley Trust Association, the corporate name of the Scroll and Key Society of Yale College. It was established in 1872, and named in honor of Professor John Addison Porter of the Class of 1842, one of the founders of the Association. The original endowment was in the amount of $5000, but, in 1909, the endowment was doubled and the prize is now $450.

The prize was originally given for an English essay on one of a given list of subjects. With the increase of the endowment the conditions of the competition were changed and are now as follows:

"1. The prize is offered for a work of scholarship in any field where it is possible, through original effort, to gather and relate facts or principles, or both, and to present the results in such a literary form as to make the product of general human interest.

"2. No list of subjects for essays in competition for the prize is prescribed.

"3. Competition for the prize is open to all resident students in the University who are candidates for a degree.

"4. No essay will be excluded because it has already received some other award.

"5. No essay will be excluded because it has already received credit in course.

"6. No essay will be considered for this prize unless it be specially submitted for that purpose.

"7. Essays may be submitted anonymously or not, at the option of the writer.

"8. All essays competing for the prize must be sent addressed to the John Addison Porter Prize Committee, in care of the Secretary of Yale University, New Haven, Conn., before April 1, of each year.

"9. If none of the competing essays is deemed of sufficient merit, the prize will not be awarded.

"10. The Association may, at its pleasure, print the winning essay. In this case a surrender of copyright by the author will be required.

"11. If the winning essay is not printed by the Association the author may make arrangements to publish the prize-winning essay. In this case the line "This essay won the John A. Porter Prize, Yale University" (with the year) shall appear on the title page of the printed essay.

"12. The winner of the prize will be under no obligation to print the prize-winning essay."

Inquiries regarding the prize can be addressed to the Committee on the John A. Porter Prize, care of the Secretary of Yale University.

PREFACE

This essay was awarded the John Addison Porter Prize of Yale University in 1910. I have made some changes in the manuscript as it was originally submitted. I have, in some cases, altered the form of statement; in others, cut out passages which seemed unnecessary. In chapters seven, eight and nine I have added certain unpublished material which, since the prize was awarded, I have found among Hamilton's papers in the Library of Congress. But these changes and additions have all been in accord with the outline and conclusions of the original manuscript and the essay as now published is substantially as it won the prize.

The material here published for the first time relates to manufactures. No attempt has been made to publish anything except a few passages which throw light on the problem of this essay. I refer to the unpublished preliminary drafts of the Report on Manufactures as "MS. Manufactures, 1, 2, and 3." The unpublished letters which I have used are referred to by the volume and page in Hamilton's papers in the Library of Congress. I have used the Federal Edition of his works and it is referred to throughout the essay as "Works."

PREFACE

This essay is published by the Kingsley Trust Association (the corporate name of "Scroll and Key" Society of Yale College), by whom this prize was founded. For assistance in writing the essay I am chiefly indebted to Prof. Henry C. Emery of Yale University. Under his influence I became interested in the study of Hamilton as a thinker, and his suggestions and criticisms have assisted me materially in my endeavor to interpret the writings of Hamilton in the light of the movements of thought in the nineteenth century. Since it is impossible in almost all cases to separate his ideas from my own, it is altogether fitting that I should recognize here his influence upon my thinking which has been no less deep than his friendship has been kind.

W. S. C.

Yale University, June, 1911.

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CHAPTER FIRST

Introduction

The facts of the life of Alexander Hamilton are so familiar that a mere catalogue of them will serve to refresh the mind of the reader. He was born January 11, 1757, on the little island of Nevis, one of the Leeward group southeast from Porto Rico. His father was a Scotch merchant and his mother was of Huguenot descent. At the age of twelve he became a clerk in Cruger's store at St. Croix. Three years later, assisted by his relatives, he came to New York and in the fall of 1773 entered what is now Columbia University. On the outbreak of the Revolution he quit the classroom for the field and in 1777, at the age of twenty, we find him military secretary to Washington. In 1780, he found time to marry Miss Betsy Schuyler; in 1781, after resigning from Washington's official family, he distinguished himself by capturing the first redoubt at Yorktown. During the next year he was called to the bar. In 1786, he represented New York in the Philadelphia Convention and in 1789, Washington called him to be Secretary of the Treasury—an office which he held a little over five years. He returned then to the practice of the law, in order to support his

large family; but he continued, until he was shot by Burr on July 11, 1804, to take an active interest in public affairs.

Hamilton was a contemporary with Frederick the Great, the Pitts, Fox, Burke, Adam Smith, Washington, Turgot, and Napoleon. He was born during the Seven Years War, which in Europe raised Prussia to a place of first rank among the powers and which in India and America established the British Empire on the ruins of French ambition. He died two months after the victor of Marengo was crowned hereditary emperor of the French. He saw the French Revolution begin in bloodshed and terror; he saw it end in despotism. Above all, he saw and helped achieve, first, American independence, and then American unity.

Many views have been expressed about Hamilton and his work. Some writers have seen in him a paragon of wisdom and virtue; they are blind to his faults and to the merits of his opponents. Others have condemned him as a Tory and reactionary in politics and as a defender of the fallacies of mercantilism in economics. Still others have seen in him a champion of the capitalistic class with no thought or sympathy for the proletarian masses. These writers have made illuminating studies of Hamilton and his work, but they seem to fail to grasp the significance of

the idea of nationality which dominated every phase of his political and economic thinking.

The object of this essay is to avoid writing either biography or history. Valuable works already exist on the life of Hamilton and on the history of his times. This essay is addressed to those who are interested in knowing the relation of Hamilton to one of the great historic movements of thought of the nineteenth century. Its object is to state, first, the general principles of nationalism and their relation to other theories of society and, secondly, to show from Hamilton's writings how, in each problem of practical statesmanship which confronted him, these were the principles which influenced and determined his action. The purpose of this essay is not to determine whether the ideas of Hamilton were right or wrong; it is to state, sympathetically, his theory of society and to formulate a philosophic basis for his public acts and writings.

CHAPTER SECOND

Nationalism

There are according to Emery three economic theories of society: "the classical theory of competing individuals; the socialistic theory of competing classes; and the protectionist theory of competing nations."[a] The classical theory is the individualism of Adam Smith. This astute Scotchman believed that if every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his industry and capital into competition with those of every other man, the obvious and simple system of natural liberty will establish itself of its own accord.[b] He regarded the interest of the individual and society as identical since, as he put it, the individual by the study of his own advantages naturally, or rather necessarily, is led to prefer that employment which is most advantageous to society.[c] It was the height of presumption, he thought, to endeavor to regulate the employment of labor and capital, for from the nature of the case, any such regulation was sure

[a] Emery, H. C., The New Protectionism. *Yale Alumni Weekly,* vol. 13, p. 51.

[b] Smith, A., Wealth of Nations (1776) (Cannan edition), Book 4, ch. 9, vol. 2, p. 184.

[c] Ibid., Book 4, ch. 2, vol. 1, p. 419.

to divert labor and capital from the more to the less productive enterprises.

As a protest against certain excesses of regulation and against economic fallacies which existed in the public mind in 1776, Adam Smith's doctrine of individual freedom was valuable; but before the nineteenth century was half gone the weaknesses of free competition had begun to show themselves.

Against this individualistic theory of society must be set, as shown above in the quotation from Emery, the two opposing theories which came as reactions to it. The first reaction is found in the socialism of Karl Marx and Ferdinand Lassalle. To these men the interest of society requires that the interest of the individual be made subservient to the interest of his particular class. Marx regarded all history as the history of class-struggle; the lower or exploited class succeeding from time to time in overthrowing the ruling class and establishing in the place of the old civilization a civilization after its own image.[a] Lassalle held that the influence of a class in a community depends upon the relative amount of power that it possesses and that, as it increases in power, the real constitution of the country reflects its rule.[b] These men believed that the individual, and in their day the

[a] Marx, K., Communist Manifesto (1848).

[b] Lassalle, F., Ueber Verfassungswesen (1862).

laborer in particular, who was being exploited under the *régime* of free competition, could find his only salvation in furthering class solidarity. The most powerful motive impelling men to action, they held, was not selfish desires, but loyalty to class and to the interests of class.

The second great reaction against the doctrine of Adam Smith is nationalism. In this philosophy, which is the modern child of the old mercantile doctrine of Cromwell, Colbert, and Frederick the Great, there are two fundamental conceptions: "first, that the welfare of the nation is not the same thing as the welfare of the individuals which constitute it, and therefore, it is the duty of the statesman to adopt a positive policy which will secure the welfare of the nation; second, that the interests of different nations are not harmonious but antagonistic."[a]

In this essay we will study Hamilton's relations to these three movements of thought. Although Marx did not formulate the socialist theory until almost a half century after Hamilton's death, modern writers have endeavored to interpret Hamilton in the light of it. As will appear later, however, there were then no classes in the socialistic sense in America and, if there had been, Hamilton would have regarded any philosophy

[a] Emery, H. C., The New Protectionism, *Yale Alumni Weekly,* vol. 13, p. 51.

with suspicion that put their interests above the interests of the nation. Hamilton's relation to the doctrine of individual freedom was far more close. Individualism was the popular creed of his time; in politics it appeared in the Declaration of Independence and the ideas of the French Revolution; in economics it appeared in the "Wealth of Nations." We will endeavor to show that Hamilton, on the one hand, opposed this philosophy, and on the other, formulated anew the nationalistic interpretation of history.

We will find it helpful, before proceeding to a study of Hamilton's writings, to enlarge on the idea of nationalism as it has been understood both before and since Hamilton's day. The nationalist denies that the interests of nations are complementary. He holds that very often their interests may be antagonistic, because of differences in race; devotion to language, institutions and traditions; the rivalry of civilizations; and national competition for trade routes and markets. To him, in the words of List, "a nation is the medium between individuals and mankind, a separate society of individuals, who, possessing common government, common laws, rights, institutions, interests, common history, and glory, common defence and security of their rights, riches, and lives, constitute one body free and independent, following only the dictates of its interests, as regards other indepen-

dent bodies, and possessing power to regulate the interests of the individuals constituting that body, in order to create the greatest quantity of common welfare in the interior and the greatest quantity of security as regards other nations."[a] The nationalist believes that deeper than man's selfish interest, deeper even than his loyalty to his class, is his loyalty to his nation and to the national ideas under which he lives. Individuals and classes, he says, are led, by wise statesmanship, to coöperate 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 government by means of tariffs, prohibitions and even war, to equalize conditions and stimulate the development of economic life.

The mercantile doctrine, the ancestor of modern nationalism, was, some writers have believed, a policy eminently fitted to the age in which it flourished. In the ages of Cromwell, Colbert, and Frederick the Great, political power was used to make the economic organization effective against other nations and these statesmen did not hesitate to use legislation and force to establish the su-

[a] List, F., Outlines of American Political Economy (1827), Letter 2.

premacy of their groups. "For it was precisely those governments," Schmoller goes so far as to say, "which understood how to put the might of their fleets and admiralties, the apparatus of customs laws and navigation laws, with rapidity, boldness, and clear purpose, at the service of the economic interests of the nation and state, which obtained thereby the lead in the struggle and in riches and industrial prosperity."[a]

The age of mercantilism was an age in which the interests of the leading nations were antagonistic; it was an age of struggle for trade routes, for markets, and for colonies; it was an age in which that group won success whose members were most deeply devoted to the national cause and whose statesmen directed, with great power, the force of government against rival groups.

It is interesting to note that a feeling, very much like the feeling which inspired the nations which rose to power under mercantilism, has been a powerful factor in modern politics. "Seldom in history," Emery wrote in 1902, "has the feeling of the unity of a race, on the one hand, and the antagonism of diverse races, on the other, been so consciously held, or played so important a rôle in actual politics as in recent years."[b] The revival

[a] Schmoller, G., The Mercantile System, p. 72.

[b] Emery, H. C., The New Protectionism, *Yale Alumni Weekly,* vol. 13, p. 53.

of national rivalry, which began in the seventies, at least seriously checked the movement for universal peace which characterized the fifties and sixties. The rapid rise of transportation facilities revived the competition for neutral markets; the pressure of population and national desire for empire renewed the scramble for colonies; protective tariffs, increase of armaments, and wars again emphasized the fact that national psychology is a force to be reckoned with. Many believe that Germany's successful rise to wealth and power, since her unification, has been largely due to the national ambition, pride, and enthusiasm awakened by the war with France. However that may be, it is evident that along with the world-wide revival of nationalistic ideas, has gone the unity of Germany and Italy; the partition of Africa among land-hungry nations; the defeat of Russia in its attempt to interfere with Japanese ambition in the Orient; and the reawakening of a long sleeping race-consciousness in China, India, Persia, and Turkey.

The idea that state or nation is something more than the sum of the individuals who compose it, has been denied. Cooper refers[a] to the nation as a "grammatical contrivance," and Sumner in his brilliant, individualistic book on social classes says that "as an abstraction, the State is to me only

[a] Cooper, Th., Lectures on Political Economy (1826), p. 19.

All-of-us,"[a] and that it owes its citizens nothing but peace, order, and the guarantee of rights. The All-of-us theory of the state is a part of the inheritance from Adam Smith; it is the extreme reaction from mercantilism. It has done valuable work in discouraging excessive and meddlesome legislation, and the schemes of sentimental reformers, but it has entirely missed the significance of psychological forces which lead men to unite in nations. Both past and present conditions show that mankind does regard the State as more than All-of-us, and its functions as more than peace, order, and the guarantee of rights. The nation, with its origin in the traditions of the past and with its ambitions for the future, represents to most of its citizens a cause more fundamental than their selfish interests or the welfare of their particular class. It embodies the racial ideals of the group, and is, at once, the protected and the protector of its members.

The nationalist accepts the teaching of Malthus that population in the end must be checked by the ability of man to get food from the soil. The logic of this law drove some classical writers into pessimism, but the nationalist, hopeful that the improvement in the arts will keep pace with the increase in numbers, says that, if it does not, it is the right and duty of the stronger and more cul-

[a] Sumner, W. G., What Social Classes Owe Each Other, p. 9.

tured civilizations to supplant, by force of numbers, those civilizations unable to maintain their prestige. In countries where the population is stationary, the people are usually inert, parsimonious, and indifferent to progress. The competition of numbers does not stimulate them to new enterprise and one generation passes on to the next little more than it received. In countries, on the contrary, where population increases rapidly there is always the danger that, outrunning the progress of the arts, it will lead to over-population, and that suffering then will ensue, first in the form of a lower standard of living, and then in the form of famine, disease, and death. With these two risks before him, the nationalist does not despair but chooses the latter, believing it to be a remoter possibility than the former and that in the struggle, which progress toward it stimulates, those social systems, national beliefs, economic systems, scientific theories, forms of government and religion, which are most adapted to the needs of mankind will survive and flourish.

Conflicts of civilization have very often led to conflicts of arms. War in its broadest sense has been a tribunal to which society submits questions which are beyond the power of human reason to decide—questions of what ideas shall dominate, what race shall be supreme, what nation shall control the markets and colonies of the world. As the

law of nations develops, the questions submitted to arbitration will increase; in truth, we may expect that ultimately all questions of law and fact will be decided by an international tribunal. But many men have honest doubts whether nations will ever submit vital differences to a human tribunal. It is not for us here to justify war or advocate peace; we can simply recognize the fact that men in the past have chosen to die in battle for the cause they believe to be right rather than to see their nation submit to another or their civilization give place to another.

"Competition and combination," Sumner says, "are two forms of life association which alternate through the whole organic and superorganic domains. The neglect of this fact leads to many socialistic fallacies,"[a] and he might have added, for the same reason, to many free-trade fallacies. In the origins of society, people, not naturally sociable, are drawn together in order to assist each other in their struggle with other groups. Lesser antagonism—those between individuals, families, and sub-groups—are suppressed and the group becomes a coöperating unit. It is this desire for protection which at first leads men of like race and interests to coöperate. In time, the tribe or nation, as the case may be, develops common interests, desires, and racial ambitions; and the force of

[a] Sumner, W. G., Folkways, p. 17.

social desires, emotions, and aims unites individuals in the interest of their civilization. Racial culture becomes an object to work for and defend. Nations are gradually formed by the combination of smaller political units. To the nationalist, national interests take precedence over every other interest within the state. He believes that men are devoted above all else to their ideals, laws, religion, and institutions, the sum total of which make up their civilization; he believes that the individual is strong because of the power of the nation and that the nation is strong because of the devotion of the individual.

"Now this is the Law of the Jungle—as old and as true as the sky:
And the Wolf that shall keep it may prosper, but the Wolf that shall break it must die.
As creeper that girdles the tree-trunk the Law runneth forward and back;
For the strength of the Pack is the Wolf, and the strength of the Wolf is the Pack."[a]

To one who regards the nation as the most important unit of society, the position and duty of the statesman seem very important. The statesman to him is not that foolish, presumptuous, and impertinent being which Adam Smith called "an

[a] Kipling, R., The Second Jungle Book.

insidious and crafty animal."[a] The "Divine Hand," which in Smith's system of natural liberty, was supposed to direct, in some mysterious way, private interest for the good of society, becomes, from his point of view, the will of the statesman. He does not trust self-interest to work out social harmony; he regards it as a force to be restrained or encouraged in the interests of the nation. "Men will pursue," Hamilton says, "their interests. It is as easy to change human nature as to oppose the strong current of selfish passions. A wise legislator will gently divert the channel, and direct it, if possible, to the public good."[b] "Our prevailing passions," he observes in another place, "are ambition and interest; and it will ever be the duty of a wise government to avail itself of the passions, in order to make them subservient to the public good: for these ever induce us to action."[c] "Hamilton's idea of statesmanship," Oliver says, "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 natural riches as material to be used, with the greatest possible energy and with the least possible waste, for the attainment of national indepen-

[a] Smith, Adam, Wealth of Nations, Book 4, ch. 2, vol. 1, p. 432.

[b] Works, vol. 2, p. 58, Convention of New York, June 25, 1788.

[c] Works, vol. 1, p. 408, Federal Convention, June 22, 1787.

dence, power, and permanency. A means to this end was certainly the prosperity of the people, but the end itself was the existence of a nation. . . . . Human society was something nobler than a mere convenience, a nation greater than the sum of its subjects. 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."[a]

[a] Oliver, F. S., Alexander Hamilton: An essay on American Union, pp. 450-52.

CHAPTER THIRD

The Problem

No delusions of spurious patriotism clouded the mind of Hamilton in that moment of rejoicing when our national independence was finally recognized by England. While our independence had been won, he feared that it would not be wisely guarded and used. Back of the enthusiasm of the people, he discerned innumerable foes, both foreign and domestic, which threatened the very existence of the young nation. As an officer under Washington he had had ample opportunity to observe the essential weaknesses of the American state and he knew that the establishment of our nationality was a far more difficult problem than the winning of it on the field of battle. "Peace made, my dear friend," he wrote to Laurens, August 15, 1782, "a new scene opens. The object then will be to make our independence a blessing. To do this we must secure our Union on solid foundations—a herculean task,—and to effect which, mountains of prejudice must be leveled! .... We have fought side by side to make America free; let us hand in hand struggle to make her happy."[a]

[a] Works, vol. 9, pp. 280, 281. Laurens was killed in a skirmish August 27, and probably never received this letter.

Before the surrender of Lord Cornwallis at Yorktown, Hamilton had begun the fight for union and efficient government by publishing the early numbers of "The Continentalist."[a] These papers began the movement which resulted in the Philadelphia Convention. "There is something noble and magnificent," he remarked in his last paper, "in the perspective of a great Federal Republic, closely linked in the pursuit of a common interest, tranquil and prosperous at home, respectable abroad; but there is something proportionably diminutive and contemptible in the prospect of a number of petty states, with the appearance only of union, jarring, jealous, and perverse, without any determined direction, fluctuating and unhappy at home, weak and insignificant by their dissensions in the eyes of other nations."[b] His advice, however, was not heeded. Five years passed before men undertook the task of creating a strong central government.

The youthful enthusiasm of Hamilton made him impatient with those less visionful men who could not see that which seemed so clear to him, namely, the need of a strong and efficient union to conserve and protect the wealth and reputation of the American nation. Being entirely free from local

[a] Works, vol. 1, pp. 243-287. Published at different times between July 12, 1781, and July 4, 1782.

[b] Works, vol. 1, pp. 286, 287.

prejudice, because of his foreign birth, he never could understand it, but it impressed its melancholy meaning upon him. To Washington in 1783 he wrote: "The centrifugal is much stronger than the centripetal force in these States,—the seeds of disunion much more numerous than those of union."[a] He saw on all sides the evidence of a nation without a national government. He saw in the impotence and indecision of Congress, the opportunity for the party of disunion and anarchy; he saw in local prejudice and jealousy for State sovereignty, the enemy of the continental or national view; he saw in every State boundary an opportunity for the entering wedge of foreign influence, by which we would become "a ball in the hands of European powers, bandied against each other at their pleasure";[b] he saw in the spirit of violence and repudiation, set loose by the Revolution, the threatening hand of social disintegration. Honesty was dethroned; debts were repudiated; taxes refused; treaties broken; commerce and industry disorganized. To Hamilton in 1787, as he recalled the events of the last six years, we seemed "to have reached almost the last stage of national humiliation." Under the Confederation we had turned our independence into a curse and made our name a byword of scorn in the councils

[a] Works, vol. 9, p. 327.
[b] Works, vol. 9, p. 327.

of Europe. "What indication is there," he asks, "of national disorder, poverty, and insignificance that could befall a community so peculiarly blessed with natural advantages as we are, which does not form a part of the dark catalogue of our public misfortunes?"[a]

The problem confronting Hamilton had a very important economic aspect. Forces were converging to force upon the people a complete reorganization of their economic life. The colonial economy had been local and territorial. Each colony with its foreign trade was self-sufficient, and down to the Revolution the only forces which had drawn them together, were the dangers of Indians, and of the French in Canada. A parallel exists, as has been shown, between the economic organization of Colonial America and Mediæval Europe. "The important unit in the economic organization of the United States at this period," Day says, "was the rural group of perhaps a few hundred inhabitants."[b] The town and the surrounding territory was a self-sufficient unit. As the mediæval peasant had brought his goods to the town market to exchange them for mechandise, the colonial farmer brought his butter, eggs, and other farm produce to the country store and received those few articles of necessity which he could afford.

[a] Works, vol. 11, p. 112, The Federalist, No. 15.
[b] Day, Clive, History of Commerce, Sec. 561.

Poor transportation facilities reduced travel and commerce between the different sections of the country to a minimum. The colonial roads were "thick with dust in summer, and absolute sloughs, with mud a foot or more deep, during the thaws of winter and spring."[a] When possible the waterways were used; and they, as they had been in Mediæval Europe, were relatively of great importance. But communication was at best sluggish. Men lived and died in the community where they were born. Their horizon was limited and their wants few. The people were poor, not because the country was unresourceful, but because the economic organization was too simple to develop the resources and because the enterprise of the people was not stimulated. Colonial life was simple, local, and uneventful. The people were unenergetic and easy-going.

This local and territorial economy had served the colonists well enough in its day. The self-sufficiency of each colony made a close relation with its neighbors economically unnecessary. But with the agitation that culminated in the Revolution, this state of affairs began to show its limitations; and during the Revolutionary period, when practically all foreign commerce was destroyed, the need of economic, as well as political unity, began to be felt. When the foreign supply

[a] Day, Clive, History of Commerce, Sec. 565.

of goods was shut off, home manufactures, especially in iron and woolens, sprang up. Commerce began to break over State boundaries; and, after the close of the War, its encroachment continued. This rise of national economy was fettered by the colonial organization which, with the tenacity of outworn institutions, tried to maintain itself by restrictions on intercolonial trade. The States, in their effort to strengthen themselves, resorted to tariffs, retaliations, and discriminations. New Jersey was likened to a cask tapped at both ends, the contents being drawn off by her neighbors. "Each State," Rabbeno says, "acted on its own account, and was inspired solely by its own interests which often differed from those of other States. The measures taken in one State were paralyzed by those of another, or clashed with them, so that instead of forming an obstacle to foreign importation, they hindered the development of the interior commerce of the whole nation."[a]

These contentions over commerce, Hamilton believed, would be fatal to the peace of the country unless adequate power was given to the central government to deal with our commercial relations. "The spirit of enterprise," he says, "which characterizes the commercial part of America, has left no occasion of displaying itself unimproved. It is

[a] Rabbeno, U., Protezionismo Americano, E. 2, ch. 1, sec. 9.

not at all probable that this unbridled spirit would pay much respect to those regulations of trade by which particular States might endeavor to secure exclusive benefits to their own citizens. The infractions of these regulations, on the one side, the effort to prevent and repel them, on the other, would naturally lead to outrages, and these to reprisals and wars."[a] To the mind of Hamilton then, union was as necessary from the economic, as from the political, standpoint. The state economy, having no longer its utility to claim for its defence and, becoming, therefore, selfish and grasping, was anti-national and, for that reason, stood in the way of Hamilton's plan for establishing a coöperating, independent nation.

The need for national control of commerce was even more seriously felt in our foreign relations. Prior to our independence colonial shipping had been unified and protected by the English Navigation Laws. In fact, foreign commerce had been the most dominant and characteristic feature of colonial economy.[b] Trade with the West Indies, at least before the Molasses Act, was very lucrative, and by it the northern colonies satisfied their adverse trade balance with England.[c] Under protection of the Empire the colonies were fast

[a] Works, vol. 11, p. 47, The Federalist, No. 7.
[b] Callender, G., Economic History of the United States, p. 6.
[c] Day, C., History of Commerce, Sec. 578.

becoming leaders in the arts of navigation and in shipbuilding. But after the break with England the power to regulate commerce, instead of being given to the Congress of the Confederation, was reserved to the separate States. Similar evils to those, produced by lack of national regulation of internal commerce, arose. When the Confederation made a commercial treaty, it was powerless to enforce it as the supreme law of the land; it could only recommend, and any State that chose to disregard the recommendation could do so with impunity. Each State, pursuing its selfish interest, tried to regulate its own foreign commerce. As a result, the States presented to the outside world no united front; foreign States found that they could not depend on the promises of the Confederation and the United States became an object of scorn in European circles. It was Hamilton's idea that until the States would yield their local interests to the interests of the nation; until they, as a united nation, would take common measures of regulation and retaliation, they would not be able to obtain any concessions from foreign States. Here was another set of economic conditions forcing upon the colonist the establishment of a national economy.

Hamilton held up to the American people, as a solemn warning, the weakness of the German Federation. "The fundamental principle," he

said, "on which it rests, that the empire is a community of sovereigns, that the diet is a representation of sovereigns, and that the laws are addressed to sovereigns, renders the empire a nerveless body, incapable of regulating its own members, insecure against external dangers, and agitated with unceasing fermentations in its own bowels. The history of Germany is a history of wars between the emperor and the princes and states; of wars among the princes and states themselves; of the licentiousness of the strong, and the oppression of the weak; of foreign intrusions, and foreign intrigues; of requisitions of men and money disregarded, or partially complied with; of attempts to enforce them, altogether abortive, or attended with slaughter and desolation, involving the innocent with the guilty; of general imbecility, confusion, and misery."[a] It was into such condition as this that Hamilton believed the American States to be drifting. The same ills which haunted Germany were appearing in America under the government of the Confederation. The German States, having no statesman to weld them into a united nation, had continued in the territorial economy long after the nations of Western Europe had become united. The problem which Germany should have solved in the seventeenth century waited for its solution at the hands of List and

[a] Works, vol. 11, pp. 146, 147, The Federalist, No. 19.

Bismarck in the nineteenth century and, in the meantime, she suffered all the evils of a political and economic organization which was worn out and fitted to the needs of another age. This problem of transition from territorial to national economy was the same problem that the American States were facing in the eighties of the eighteenth century. The words of Schmoller, spoken of those nations which had their rise in the seventeenth century, sound strangely apt when applied to the situation confronting Hamilton. "The question now was . . . . ," he says, "to bring about, as far as possible, on the basis of common national and religious feelings, a union for external defence and for internal justice and administration, for currency and credit, for trade interests and the whole economic life, which should be comparable with the achievements in its time, of the municipal government in relation to the town and its environs."[a] The struggle which Colbert waged in France during the last half of the seventeenth century against municipal and provincial influence, and which List waged in Germany during the first half of the nineteenth century against local and narrowing authority, was the same struggle to which Hamilton applied his constructive genius during the last part of the eighteenth century. With the growing spirit of

[a] Schmoller, G., The Mercantile System, p. 49.

nationality, with the necessity for commercial treaties with other nations, with the increase of communication and internal commerce, the old colonial economy, with its local and narrow prejudices, with its self-pride and love of power, became an obstacle to progress.[a]

Hamilton's problem, then, as he saw it, was to establish a strong, efficient government which would conserve the fruits of independence, which would prevent the colonial economy from perpetuating itself, and under which men, in security, might develop the dormant resources of the country. The nation needed the fostering care of human genius. Human energy which wasted itself, spreading over a wide territory, needed to be concentrated; the simple to be supplanted by a more complex life; new wants awakened; manufactures for which the country furnished abundant raw material, encouraged; agriculture improved; and the nation made one interdependent, efficient, economic unit, strengthened by division of labor within and united effectively against competing nations without.

The problem confronting Hamilton had not only a political and economic, but also a philosophic aspect. The ideas of Natural Rights were the popular ideas of his time. They were a product of that great movement away from mediæval

[a] Cf. Schmoller, G., The Mercantile System, p. 49.

authority—the movement which in religion broke the grip of the clergy; which in philosophy swept away the quibbles of the schoolmen; which in politics proclaimed that all men are created equal and that they are endowed with certain inalienable rights which rulers disregard at their peril; and which, in economics, held up, as futile, the regulations and restrictions of the past, and urged upon men the "obvious and simple system of natural liberty." Both the ideas put by Jefferson in the preamble of the Declaration of Independence and the principles of natural liberty in the writings of Adam Smith, are expressions of this great movement. It demands the largest possible amount of individual freedom, which meant in politics a weak, decentralized government and in economics freedom in industry and trade. As a young patriot, enthusiastic over the American opposition to George the Third, Hamilton used some of the catch phrases of this philosophy,[a] but when he became a statesman, interested in the security and development of the American nation, he regarded them as inapplicable to the conditions of America and therefore opposed them. He opposed them in particular because they became the philosophic support for the partisans of France, the party of disunion, and the advocates of complete freedom in economic affairs.

[a] Cf. Works, vol. 1, pp. 1-177.

In view of the problem which confronted Hamilton it may be well in this connection to consider the effect which the founding of the new government had on the prosperity of America. So eminent an authority as Callender seems to think that government had nothing to do with hard times in 1785-86, or with good times in 1789-90. "Just as hard times," he says, "had brought failure to the old confederation, so prosperity, if it did not actually cause the success of the new government, greatly simplified the problem of its establishment. One may well wonder what would have been the fate of Hamilton's brilliant projects, the refunding of the debt, and the establishment of a revenue system, if they had been tried on the country during the economic gloom of 1785-86."[a] In support of his position he cites some interesting letters of Washington. "The people," Washington writes to Jefferson in 1788, "have been ripened by misfortune for the reception of a good government. They are emerging from the gulf of dissipation and debt, into which they had precipitated themselves at the close of the war. Economy and industry are evidently gaining ground."[b] "Many blessings," he writes to Lafayette in the same

[a] Callender, G. S., Economic History of the United States, p. 182.

[b] Washington, Writings (Sparks edition), vol. 9, p. 427. To Jefferson, August 31, 1788.

year, "will be attributed to our new government which are now taking their rise from that industry and frugality, into the practice of which the people have been forced from necessity."[a] It is interesting, however, to note that three years later, Washington, in letters not quoted by Callender, was more willing to emphasize the beneficial effects of the new government. "The United States," he writes in 1791, "enjoy a scene of prosperity and tranquillity under the new government, that could hardly have been hoped for under the old."[b] "In a tour," he writes again in the same year, "which I made last spring through the southern states, I confirmed by observation the accounts which we had all along received of the happy effects of the general government upon our agriculture, commerce, and industry."[c] Washington seems to have regarded the prosperous condition of the country during his first administration due, not merely to "the goodness of Providence" which brought good crops, but also to security "under an energetic government" and to the harmony, industry, and confidence of the people.

It is not unreasonable to believe that changes in, or the policies of, government may affect the

[a] Ibid., vol. 9, p. 382. To Lafayette, June 18, 1788.

[b] Ibid., vol. 10, p. 169. To Mrs Graham, July 19, 1791.

[c] Washington, Writings, vol. 10, p. 189. To Luzerne, September 10, 1791.

motive of a whole nation. Some men believe, as has been pointed out, that the Franco-German War and the union brought about by Bismarck revolutionized the spirit of the German people. Before 1871, the land was just as fertile, the resources just as rich, and the opportunities potentially as numerous as after the war. But after the war the people, ambitious for the dominance of the German race and institutions, entered the international struggle for military prowess, for colonies, and for commercial and industrial supremacy. Here is a condition which seems partly ascribable to the revival of the spirit of enterprise and national ambition among the people.

Now apply this to the American nation in 1789. "Ripened by misfortune" under the Confederation, the people were coming out of the "blues." The establishment of the new government and the policies inaugurated by Hamilton were political events which set in motion thousands of stimuli. The mere idea of being a great nation, able to defend our rights against others, added to the confidence of the people. "Has not your industry," Hamilton asked in 1801, "found aliment and incitement in the salutary operation of your government—in the preservation of order at home—in the cultivation of peace abroad—in the invigoration of confidence in pecuniary dealings—in the

increased energies of credit and commerce—in the extension of enterprise, ever incident to a good government well administered?"[a] Without denying any of the many causes which brought prosperity under the new government, one of the most important, undoubtedly, was the "vivifying influence of an efficient and well-constructed government." The American nation was just as rich materially before 1789 as it was after. It had the same unlimited resources and numerically the same population. The element in the equation which made the striking difference was psychological. This new revival of feeling was as much a cause as a result of economic conditions. It was also as much a result as a cause of the success of the new government. When credit was created, the finances reorganized, prosperity secured, commerce protected, and industry encouraged, there was a reawakening of the national consciousness that was a powerful cause of both our political and economic success. At this time the temper of the American people began to change from the easy-going temper which characterized the colonial times to the strenuous, nervous, and enterprising spirit which is now the proverbial feature of American life. "Laws," asserts Say, "are not able to create wealth." "Certainly they are not," List

[a] Works, vol. 8, pp. 241, 242.

answers, "but they create productive power which is more important than wealth."[a]

When in the evolution of society the time comes for a change from the narrower and less efficient to the broad and more efficient organization, if no statesman appears to brush aside the rubbish of the past, the old institutions will petrify and deterioration will set in. Germany in the seventeenth century, when the nations of the west under the direction of great mercantilist statesmen were rising to power, hung with tenacity to her old political and economic forms. "It was not simply the external loss in men and capital," Schmoller with confidence asserts, "which brought about this retrogression of Germany, during a period of more than one century, in comparison with the Powers of the West; it was not even the transference of the world's trading routes from the Mediterranean to the ocean that was of most consequence; it was the lack of politico-economic organization, the lack of consolidation in its forces."[b]

The task of Hamilton was to save the United States from a like fate with Germany. Here the same struggle which was Germany's in the seventeenth century, and which Bismarck had to face in

[a] List, F., Das Nationale System der Politischen Oekonomie, ch. 12.

[b] Schmoller, G., The Mercantile System, p. 48.

the nineteenth century—the struggle between particularism and nationalism—was present. Local prejudices were deeply imbedded in the minds of the people. Traditions, once useful, were an obstacle to progress. State loyalties in America, as local dynasties in Germany, clung to the altars of the past. Both countries were a collection of jealous states, opposed to any central government that might encroach on their sovereignty. Both were suffering from "the aristocracy of State pretensions." Both had a common basis for nationality—race, institutions, and commercial interests. But these sentimental bonds were not strong enough to overcome local prejudice. The jealousy of local units in both countries opposed the delegation of power to a general government. The German Diet had no more authority than had the Congress of the Confederation. Both bodies proved the truth of Washington's saying: "Influence is not government."[a] Local dynasties in Germany and State sovereignty in America stood in the way of national greatness. Both Hamilton and Bismarck solved the problem along the lines of national tradition. Bismarck built his Union on the dynastic traditions of his people; Hamilton on the republican traditions of his. Each realized the need of clothing his nation with a government

[a] Washington, Writings, vol. 9, p. 204. To Henry Lee, October 31, 1786.

which would fit. In Germany, when power was taken from the local dynasties, the people were given a central prince on whom they could concentrate their attachment;[a] in America when the States were circumscribed within bounds, their citizens were given a strong Republic which they might be loyal to. Each statesman fitted the government to the needs and temperaments of his people and both governments have endured because their foundations are laid in racial tendencies which are psychologically sound.

Genius, it has been said, is in league with history. History shows that the units of society with each succeeding age become larger and larger. The town supplants the manorial economy; the territorial the town; and the national the territorial. But this natural tendency is only potential, and requires the directing genius of a statesman to make it effective. The United States in 1789 was ready to change from the territorial to the national stage, but without the work of the great men of that period, among whom the constructive mind of Hamilton exerted such a strong influence, we might have drifted listlessly—a group of quarreling states.

[a] Cf. Bismarck, Gedanken und Erinnerungen, ch. 13.

CHAPTER FOURTH

National Defence and Neutrality

A sovereign nation outside of Europe, with its own interests and policies, was to the European statesman of the eighteenth century an unthinkable fact. When the American nation became the first exception, they, while nominally recognizing our independence, actually treated us as colonies. It was only by wise statesmanship that our political independence, once won, was reaffirmed. Europe was reluctant to give us more than the crumbs of justice. It was easy enough for her to acknowledge our international rights on paper; it meant, however, a complete change in her politics to acknowledge them in fact.

Hamilton was far more interested in domestic than in foreign affairs. But his position in Washington's cabinet, which was practically that of Prime Minister, forced him to concern himself with foreign relations. In 1794, war was threatened with Great Britain. At the crisis of the situation, he wrote to Washington that he favored the following course of conduct: "to take effectual measures of military preparation, creating, in earnest, force and revenue; to vest the President with important powers respecting navigation and

commerce for ulterior contingencies—to endeavor by another effort of negotiation, confided to hands able to manage it, and friendly to the object, to obtain reparation for the wrongs we suffer, and a demarcation of a line of conduct to govern in future; to avoid, till the issue of that experiment, all measures of a nature to occasion a conflict between the motives which might dispose the British government to do us the justice to which we are entitled, and the sense of its own dignity. If that experiment fails, then, and not till then, to resort to reprisals and war."[a]

John Jay was appointed, two days after the above passage was written, to negotiate a treaty with Great Britain. On November 19, 1794, the Jay Treaty was concluded at London. Hamilton defended it against a storm of opposition in a series of papers, signed "Camillus." He defended it from every angle of international law and expediency; and especially because it would bring peace. "If we can avoid a war for ten or twelve years more," he says, "we shall then have acquired a maturity which will make it no more than a common calamity. . . . . This is the most effectual way to disappoint the enemies of our welfare. . . . . If there be a foreign power which sees with envy or ill-will our growing prosperity, that power must discern that our infancy is the time for

[a] Works, vol. 5, p. 98. To Washington, April 14, 1794.

clipping our wings. We ought to be wise enough to see that this is not a time for trying our strength."[a] He furthermore favored the treaty, because it strengthened the party of law and order at home; because, by turning over to us the western posts, it bound the east and west more securely together; and because it gave us control of the Mississippi and of the fur trade of the north. To him the Jay Treaty did little less than save the Union.

Our relations with France were more complicated and more hostile to our nationality than our relations with England. There was much sentimental talk about our debt of gratitude to France. Hamilton, while recognizing the service she had rendered us during the Revolution, saw that it was not until after that decisive event, the capture of Burgoyne, that she sent assistance,[b] and that it was not love for us but hatred of England which induced her to act. "The primary motive of France for the assistance she gave us," Hamilton remarks, "was obviously to enfeeble a hated and powerful rival by breaking in pieces the British Empire. A secondary motive was to extend her relations of commerce in the New World, and to acquire additional security for her possessions there, by forming a connection with this country when detached

[a] Works, vol. 5, pp. 206, 207. Camillus, No. 2.
[b] Works, vol. 6, p. 206. France, 1796.

from Great Britain."[a] France did not favor the growth of a strong American nation; she wished to transfer our colonial relation from England to herself. "She patronized," Hamilton says, "our negotiation with Great Britain without the previous acknowledgment of our independence;—a conduct which .... can only be rationally explained into the desire of leaving us in such a state of half peace, half hostility with Great Britain as would necessarily render us dependent upon France."[b] France was trying to use the United States to gain back that which she had lost in the Seven Years War; but Hamilton understood the struggle between England and France for empire, and the keystone of his foreign policy became protection from them both. It was the keen insight into the affairs of the world, by a man who had never been in Europe, which led Talleyrand to say of him, *"Il a diviné l'Europe."*

In January, 1797, Hamilton wrote to Washington: "My anxiety to preserve peace with France is known to you. .... Yet there are bounds to all things. .... We seem to be where we were with Great Britain when Mr. Jay was sent there, and I cannot discern but that the spirit of the policy, then pursued with regard to England, will be the proper one now in respect to France—viz.,

[a] Works, vol. 6, p. 207. France, 1796.
[b] Works, vol. 6, p. 209. France, 1796.

a solemn and final appeal to the justice and interest of France, and if this will not do, measures of self-defence. Anything is better than absolute humiliation. France had already gone much further than Great Britain ever did."[a] John Adams became President in March, and appointed three envoys to try to adjust our difficulties with France. The Directory refused to recognize the commission without bribery. French privateers were committing depredations on our commerce, and intercepting our trade with her enemies.[b] We were on the verge of war. Hamilton, in 1798, published "The Stand,"[c] in which, in the most vigorous language, he denounced the action of France, and attempted to rouse public opinion in defence of our national honor.

National dishonor was bad enough, but, considering our weakness as a nation, a certain amount of it could be endured. Hamilton, however, was discerning enough to grasp the real meaning of the aggressive policy of France. "The prominent original feature of her Revolution," he said, "is the spirit of proselytism, or the desire of new-modeling the political institutions of the rest of the world according to her standard."[d] He

[a] Works, vol. 10, p. 230. To Washington, January 19, 1797.
[b] Works, vol. 10, p. 238. To King, February 15, 1797.
[c] Works, vol. 6, pp. 259-318.
[d] Works, vol. 6, p. 274. The Stand, April 4, 1798.

saw that in her effort to carry the ideas of the Revolution to the rest of the world, she was destroying nationalities. Might not the fate of America be that of Italy? No wonder Hamilton, whose chief dream was the greatness of the American state, hated a nation that tried to make its institutions the law of every other. "Like the prophet of Mecca," he writes, "the tyrants of France press forward with the alcoran of their faith in one hand and the sword in the other .... France, swelled to a gigantic size, and aping ancient Rome except in her virtues, plainly meditates the control of mankind, and is actually giving the law to nations."[a] If successful France's ambition would destroy his most cherished hope —the American nation.[b]

Was Hamilton deceived in thinking that the ambition of France extended to America? For centuries she had been struggling to gain or defend her colonial empire. In England she had found her severest competitor, and the Napoleonic wars were, in truth, the culmination of the struggle. This national hope and the proselytism of the Revolution embodied themselves in Napoleon. Napoleon's conquests in Europe were merely a means to an end. His ambition was world-empire. "Napoleon," Seeley says, "did not care

[a] Works, vol. 6, pp. 280, 281. The Stand, April 7, 1798.
[b] Cf. Works, vol. 6, pp. 332, 333.

about Europe. *'Cette vieille Europe m'ennuie,'* he said frankly. His ambition was all directed towards the new world. He is the Titan whose dream it is to restore that Greater France which had fallen in the struggles of the eighteenth century, and to overthrow that Greater Britain which has been established on its ruins."[a] When we realize the real intent of France, and when we see the proof of world-ambition in Napoleon's expedition against Egypt and in his acquisition of Louisiana, we perceive how truly Hamilton divined Europe. Just before we acquired Louisiana, Hamilton said that the cession of that territory to France threatened "the early dismemberment of a large portion of the country; more immediately, the safety of all the Southern States; and remotely, the independence of the whole Union."[b] He wishes also to thwart France's ambition for universal empire by detaching South America from Spain, because the gold of those countries was flowing into the coffers of France.[c]

It was Hamilton's belief that the true family compact hoped for by Genet was a Pandora box; it would inevitably make us a mere satellite of France;[d] it would destroy our national existence.

[a] Seeley, J. R., The Expansion of England, p. 105.
[b] Works, vol. 6, p. 334. Pericles, 1803.
[c] Works, vol. 10, p. 339. To Otis, January 26, 1799.
[d] Works, vol. 5, p. 184. Horatius, May, 1795.

The French party, by trying to force the government to assist France, were putting in jeopardy our nationality. Our treaty with France was defensive only; her war against the First Coalition was offensive; we therefore had no treaty obligation. "Why then should we," Hamilton asks, "by a close political connection with any power of Europe, expose our peace and interest, as a matter of course, to all the shocks with which their mad rivalship and wicked ambition so frequently convulse the earth?"[a] Our true policy, he held, was: "Peace and trade with all nations; beyond our present engagements, political connection with none."[b]

The foreign policy of the Federalists was vigorously national; it saved the young and weak nation from being wrecked on the rock of foreign wars. Had we gone to war with England in 1794, or had we joined France later against the First Coalition, our independence, if not actually lost, would have been endangered. "The Federalists," Sumner says, "met a demand for sentimental politics in foreign policy, and for a connection between this country and a foreign nation, in which relation this country would be a very inferior and dependent party, by doctrines of complete national independence and impartial neutrality. . . . . Both in and out

[a] Works, vol. 5, p. 185. Horatius, May, 1795.
[b] Works, vol. 5, p. 184. Horatius, May, 1795.

of office Hamilton's mind was the one which guided and prevailed in that policy."[a] Hamilton wished the United States to be let alone to work out her own greatness, and all the work which he did, trying to keep Europe out of our affairs and Americans out of European affairs, was in the direct line of his deepest interests. He wished to establish a great, self-sufficient nation, independent of all outside influence. This national plan was early in Hamilton's mind. "Let the thirteen States," he said in the *Federalist,* "bound together in a strict and indissoluble Union, concur in erecting one great American system, superior to the control of all transatlantic force or influence, and able to dictate the terms of the connection between the old and the new world!"[b]

The policy of neutrality of Washington's administration was a wise effort to keep the American nation at peace when the rest of the world was at war. War, at that time, would have subjected our commerce to the privateers of the enemy when we had no adequate navy to protect it. It would have destroyed our mercantile and shipping capital. It would have disorganized the life of the new nation which was just recovering from the dissipation of the period of the Confederation; and would have set loose the latent, turbulent and de-

[a] Sumner, W. G., Alexander Hamilton, p. 223.
[b] Works, vol. 11, p. 88. The Federalist, No. 11.

structive passion in the people; wrecked our strength and resources; and checked irretrievably our progress. It would have threatened our western territory, which was so necessary, in Hamilton's mind, to the expansion of the Union. It would have increased the public debt and subjected a people, always opposed to taxation, to added burdens. There are times when war might be necessary and useful to a nation; but Hamilton was sure that our situation was not one of them. In 1794, seeing the country in an "unexampled state of prosperity," he said: "If while Europe is exhausting herself in a destructive war, this country can maintain its peace, the issue will open to us a wide field of advantages, which even imagination can with difficulty compass."[a]

In 1793, at the height of the Genet affair, Washington set forth the policy of the administration in the Proclamation of Neutrality. Hamilton defended it against the attacks of the French party in his papers signed "Pacificus."[b] The purpose of the proclamation, he says, is to inform all that we are at peace, and not associated with either belligerent, and that we will perform the duties of neutrals.[c] He considered self-preservation the

[a] Works, vol. 5, p. 86. Americanus, February 8, 1794.
[b] Works, vol. 4, pp. 432-489.
[c] Works, vol. 4, p. 432.

first duty of the nation.[a] "The rule of morality . . . . ," he says, "is not precisely the same between nations as between individuals. The duty of making its own welfare the guide of its actions is much stronger upon the former than upon the latter, in proportion to the greater magnitude and importance of national compared with individual happiness and to the greater permanency of the effects of national than of individual conduct. Existing millions, and for the most part future generations, are concerned in the present measures of a government."[b]

The great contribution of the United States to International Law is the doctrine of neutrality. Well grounded as it is today, it was not recognized prior to the nineteenth century by the great nations. This principle was the corner stone of the foreign policy of the Federalists. Hamilton was not only its chief author, but its chief advocate and defender. In defining it, he said: "It is to make known to the Powers at war, and to the citizens of the country whose government does the act, that such country is in the condition of a nation at peace with the belligerent parties, and under no obligations of treaty to become an associate in the war with either, and that this being its situation, its intention is to observe a correspond-

[a] Works, vol. 4, p. 457. Pacificus, July 6, 1793.
[b] Works, vol. 4, p. 464. Pacificus, July 10, 1793.

ing conduct by performing towards each the duties of neutrality; to warn all persons within the jurisdiction of that country to abstain from acts that shall contravene those duties, under the penalties which the laws of the land, of which the *jus gentium* is part, will inflict."[a] So devoted was Hamilton to the idea that he said that "if we must have a war, I hope it will be for refusing to depart from that principle."[b] When the welfare of the American nation was in question, he was a friend no more of Great Britain than of France. "I would mete," he writes, "the same measure to both of them, though it should ever furnish the extraordinary spectacle of a nation at war with two nations at war with each other."[c] To King he wrote: "We are laboring hard to establish in this country principles more and more national and free from all foreign ingredients so that we may be neither 'Greeks nor Trojans' (English nor French) but truly Americans."[d]

While Hamilton counseled peace at almost any cost short of national humiliation, he saw clearly the possibilities of war and the innumerable causes which have a "general and almost constant operation upon the collective bodies of society."[e] A

[a] Works, vol. 4, p. 434. Pacificus, June 29, 1793.
[b] Works, vol. 6, p. 228. The Answer, December 6, 1796.
[c] Works, vol. 10, p. 294. To Pickering, June 8, 1798.
[d] Works, vol. 10, p. 217. To King, December 16, 1796.
[e] Works, vol. 11, p. 34. The Federalist, No. 6.

proclamation of neutrality, he believed was worth little unless backed up by an army and navy.[a] Quick to grasp a situation, he saw that in the remorseless struggle of nations, so well exemplified in his day, a nation, to be really sovereign, must be able to fight for its rights; and that if it refused to be one of the millstones, it would be ground without mercy between them.

The common charge of the socialist against the foreign policy of modern nations is that it allows the use of armaments and diplomacy to further the interests of capitalists in foreign parts. But no such charge is valid against Hamilton. His policy of defence and neutrality was to secure respect for the nation abroad and an opportunity to develop, under the shelter of peace, our vast national resources at home.

[a] Works, vol. 11, p. 83. The Federalist, No. 11.

CHAPTER FIFTH

Authority

The American people in the last part of the eighteenth century were by their environment predisposed to irresponsible democracy. Their reverence for institutions and authority was scant. They thought that they had had too much government at the hands of the English statesmen, and they proposed to have as little as possible at the hands of their own. They regarded government as a necessary evil; but, since it had to be endured, they made it weak and powerless. Under the Confederation they reaped very different results from those anticipated. The tendency which was theirs "by nature," bade fair to destroy them and bring them to national nothingness. Weakness of central control gave opportunities to local factions and sectional interests who sacrificed the general for their particular welfare. The channels of commerce were choked; currency disorganized; authority and law disregarded. Too little central control drove the nation to the verge of ruin. The excesses of democracy turned out to be license, lawlessness, and unwise factional legislation.

Now, Hamilton believed that there were some natural tendencies in human nature which for the good of society should be restrained. Democracy

might be the natural bent and inevitable goal of a new country, but because of this very fact, he thought that a strong government was necessary to restrain men from excess and to support the general interest. "I am much mistaken," he said, with the evils of the weak Confederation in mind, "if experience has not wrought a deep and solemn conviction in the public mind, that greater energy of government is essential to the welfare and prosperity of the community."[a] To him in the "alternate sunshine and storm of liberty," some force not yielding to every momentary whim of opinion was necessary to conserve the resources of the nation and make the Union a blessing. For this reason he wished the central government to be energetic and strong, with powers equal to its responsibility.

Before considering Hamilton's ideas on government we may find in the treatment of the Loyalists after the treaty of 1783, an example both of the entire disregard for authority and law which, at that time, was popular, and of Hamilton's courage in the defence of justice and order. By the treaty England had made liberal concessions to us, in return for which we stipulated "that there should be no future injury to her adherents among us."[b] The Confederation, however, was power-

[a] Works, vol. 11, p. 203. The Federalist, No. 26.
[b] Works, vol. 4, p. 240. Letters from Phocion, 1784.

less to make this provision the law of the land, and the States disregarded it. In New York especially the Loyalists were persecuted. Attempts were made to disfranchise them and to confiscate their property. Their debtors refused their claims with impunity. Popular feeling ran high. The persecuted received no sympathy. Against this apparently irresistible tide of popular animosity Hamilton dared to set himself. He accepted and won a test case for a Tory defendant under the "Trespass Act." He also wrote two public letters[a] in defence of the treaty rights of the Loyalists. History records no more magnificent example of courage than this: Hamilton, practically alone, defending in the face of popular sentiment and impulse the rights of a despised few, and the authority of government.

Hamilton defended the Loyalists for these reasons: first, he opposed making "the great principles of social right, justice, and honor, the victims of personal animosity or party intrigue";[b] secondly, he thought that passion, prejudice and arbitrary rule were bad habits for the young nation to cultivate, and that since first impressions and early habits give a lasting bias to the temper and character of a nation, it behooved the Americans to have scrupulous regard for the principles of

[a] Works, vol. 4, pp. 230-294.
[b] Works, vol. 4, p. 251. Phocion, 1784.

justice, moderation, and liberty;[a] thirdly, he believed it was bad policy to drive into Canada a moneyed and industrious class of people. "There is a bigotry," he observed, "in politics as well as in religions. . . . . While some kingdoms," he continued, with such cases as the expulsion of the Huguenots from France in mind, "were impoverishing and depopulating themselves by their severities to the non-conformists, their wiser neighbors were reaping the fruits of their folly; and augmenting their own numbers, industry and wealth, by receiving with open arms the persecuted fugitives."[b] Instead of driving out a stable element of our population, as other nations had done, Hamilton wished to make it the interests of the Loyalists to become friends of the new government.[c] They were a contented class, with nothing to gain by change, and he felt that such a class, especially in an age of revolution, was indispensable to the founding of a strong government.

On June 18, 1787, Hamilton presented to the Philadelphia Convention his plan for a Constitution.[d] His Constitution is an adaptation of the theory of the English government of the eighteenth century to American conditions. It seems

[a] Works, vol. 4, p. 288. Phocion, 1784.
[b] Works, vol. 4, p. 284. Phocion, 1784.
[c] Works, vol. 4, p. 246. Phocion, 1784.
[d] Works, vol. 1, pp. 347-369.

very natural that his nationalistic leanings should have led him to favor the institutions of the nation from which the colonists had received their traditions and law. He believed that the principles of government, evolved through centuries of experience by the Anglo-Saxon race, would work well among the same race living over the sea. He advocated a strong executive restrained by a popular will, and a popular assembly checked by a conservative senate. If government, he says, is in the hands of the few, they will tyrannize over the many; if it is in the hands of the many, they will tyrannize over the few. It ought to be in the hands of both, and they should be separate.[a] King, Lords, and Commons of the English government became in Hamilton's plan, a strong Executive, a conservative Senate, and a popular Assembly. The Executive was to be elected by a double set of electors, chosen by voters with property qualifications. He was to hold office during good behavior, to have an absolute veto, and to appoint the Governors of the States who, in turn, were to have an absolute veto on State legislation. Senators were to be elected by electors, chosen by voters with property qualifications. They must have property, and were to hold office during good behavior. They were to be elected, not from States, but from Districts. The Senate was to

[a] Works, vol. 1, p. 375.

have the sole power of ratifying treaties and declaring war. The Assembly was to be elected by universal manhood suffrage. It was to have the power of originating money bills. Its members were to hold office for three years. It could not impeach the President. "In my private opinion," he says, "I have no scruple in declaring . . . . that the British government is the best in the world: and that I doubt much whether anything short of it will do in America."[a] In the midst of so many tendencies toward disunion and anarchy he thought that a conservative body, like the House of Lords, with nothing to gain by revolution, was necessary to national security. It would be, he said, a permanent barrier, on the one hand, against a despotic executive, and on the other, against an impulsive assembly, and would be "faithful to the national interest." "The British Constitution," he observed, quoting Neckar, "is the only government in the world which unites public strength with individual security."[b]

It seems clear that Hamilton never expected the Convention to accept his plan in toto. His purpose was to make men disposed to a strong central government. Just before discussing the British Constitution in his speech on June 18, he says:

[a] Works, vol. 1, pp. 388, 389. Federal Convention, June 18, 1787.

[b] Works, vol. 1, p. 389. Federal Convention.

"Here I shall give my sentiments of the best form of government—not as a thing attainable by us, but as a model which we ought to approach as near as possible."[a]

From the moment the Constitution was adopted he became its defender and champion. In the struggle for its ratification in New York we see him pitted against a large hostile majority, fighting with reason and oratory until by sheer force of conviction he triumphed. We see him day after day writing, with the assistance of Madison and Jay, the papers of the *Federalist*—papers which, although written in hours of fatigue and times of stress, have become political oracles not only to our judges and statesmen, but to political thinkers beyond the seas.[b] Washington seldom erred in judgment and his opinion of the *Federalist* may serve to sum up an all too brief appreciation of this great work. "As the perusal of the political papers under the signature of Publius," he writes to Hamilton, August 28, 1788, "has afforded me great satisfaction, I shall certainly consider them as claiming a most distinguished place in my library. I have read every performance which has been printed on one side and the other of the great question lately agitated, so far as I have been able to obtain them; and without an unmeaning com-

[a] Works, vol. 1, p. 374.

[b] Hamilton, A. M., Alexander Hamilton, p. 454.

pliment I will say that I have seen no other so well calculated, in my judgment, to produce conviction on an unbiased mind, as the production of your triumvirate. When the transient circumstances and fugitive performances, which attended this crisis, shall have disappeared, that work will merit the notice of posterity, because in it are candidly and ably discussed the principles of freedom and the topics of government, which will be always interesting to mankind, so long as they shall be connected in civil society."[a]

The ratification of the Philadelphia document by the people was by no means a guarantee of the success of the Union. The nation was united on paper, but not in fact. The whole machinery of government had to be put in motion. It was the task of the first administration to put life and meaning into the paper Constitution and to apply the constitutional principles which lay, as latent possibilities, back of the document. "If we have an idea . . . . ," Sumner says, "that people who read the document would obtain any conception of the modern state which goes under the name of the United States, we shall make a great mistake."[b] Realizing that first impressions and early habits count, Hamilton, supported by moral influence of Washington, set out to mold our institu-

[a] Washington, Writings, vol. 9, pp. 419, 420.
[b] Sumner, W. G., Alexander Hamilton, p. 141.

tions, while they were plastic, along nationalistic lines. The Constitution on its face was ambiguous. Had the friends of weak government and State Rights been first in office, the powers since exercised by the Federal Government would have been abridged. But the ideal of Hamilton was a strong Union; and the powers in the central government which had been denied him in the Convention, he proposed to get from the document by implication.

His doctrine of implied powers, then, had for its object the building of a powerful national government.[a] This principle of interpretation, developed and perpetuated far into the Jeffersonian era by the great Marshall, is: "That every power vested in a government is in its nature sovereign and includes, by force of the term, a right to employ all the means requisite and fairly applicable to the attainment of the ends of such power, and which are not precluded by restrictions and exceptions specified in the constitution, or not immoral, or not contrary to the essential ends of political society."[b]

Hamilton regarded a strong central government as the surest protection against monarchy. The tendency towards disunion, encouraged by

[a] Lodge, H. C., Alexander Hamilton, p. 106.

[b] Works, vol. 3, p. 446. On the Constitutionality of the Bank, February 23, 1791.

the French revolutionary ideas, was a greater danger than the establishment of a royal house. And if the excesses and abuses of liberty were not checked, by strong authority, the people might be forced to seek shelter from their own violence in arbitrary rule. "If we incline too much to democracy," he said, "we shall soon shoot into a monarchy."[a] "Transition from demagogues to despots," he writes in another place, "is neither difficult nor uncommon."[b]

Because of the prevalence of anarchy and disunion in America in his day, Hamilton had doubts whether the republican form of government was "consistent with that stability and order in government which are essential to public strength and private security and happiness,"[c] but he believed in the theory and hoped for its success. "I am," he writes, "affectionately attached to the republican theory. I desire above all things to see the equality of political rights, exclusive of all hereditary distinction, firmly established by a practical demonstration of its being consistent with the order and happiness of society."[d] "The fabric of American Empire," he says in another place, "ought to rest on the solid basis of the consent of

[a] Works, vol. 1, p. 411. Federal Convention, 1787.
[b] Works, vol. 2, p. 141. Letter of H. G., February 24, 1789.
[c] Works, vol. 9, p. 534. To Carrington, May 26, 1792.
[d] Works, vol. 9, p. 533. To Carrington, May 26, 1792.

the people. The streams of national power ought to flow immediately from that pure, original fountain of all legitimate authority."[a] Since, however, in a republican government the legislative power predominates, he wished it to be so divided that it would give expression to the desires of both the contented and progressive classes in the community.[b] By playing the forces of stability and unrest against each other, he expected to steer the union safely between the two dangerous rocks of government: despotism on the one hand, and anarchy on the other.

The first serious attack on the authority of the Union was the Whiskey Rebellion in Western Pennsylvania in 1794. Hamilton had a great deal to say on the rebellion.[c] He realized that if a section of the country had a right to nullify a federal tax on whiskey or any other law, the new Constitution was as much a sham as the Articles of Confederation. The militia was called out and the rebellion melted away. The vindication of the authority of the central government quieted for the moment the faction of anarchy and disunion, but the principle of nullification appeared again in a few years later in the Kentucky Resolutions, drafted by Jefferson. In them it was declared that

[a] Works, vol. 11, p. 180. The Federalist, No. 22.
[b] Works, vol. 12, p. 45. The Federalist, No. 51.
[c] Works, vol. 6, pp. 339-460.

the state had a right to judge for itself to what extent Federal laws should be supreme within its borders. Virginia followed Kentucky in issuing similar resolutions. The tendency of the doctrines advanced by Virginia and Kentucky, Hamilton believed to be "to destroy the Constitution of the United States."[a] These resolutions, like the Whiskey Rebellion, were symptoms of the opposition to central power and national interests. Government had been so long a makeshift for popular whims that institutions and authority had lost all their sacredness.

The French Revolution began in the same year that our new government was put in operation. French ideas, expressing a hatred for all existing forms of society, spread to America, and formed an alliance with the tendency toward disunion. "Since the peace," Hamilton said in 1796, "every careful observer has been convinced that the policy of the French Government has been adverse to our acquiring internally the consistency of which we were capable—in other words, a well-constituted and efficient government."[b] Intrigue of French agents and ministers had undermined the faith of the people in their government. Hamilton hated French influence and the revolutionary

[a] Works, vol. 10, p. 340. To Sedgwick, February 2, 1799.
[b] Works, vol. 6, p. 209. France, 1796.

ideas of Natural Rights because they were anti-national.

It was the excesses of revolution which Hamilton opposed. "A struggle for liberty," he says, "is in itself respectable and glorious; when conducted with magnanimity, justice, and humanity, it ought to command the admiration of every friend to human nature; but if sullied by crimes and extravagances, it loses its respectability."[a] While being deeply concerned with the security of property, he did not regard it as sacred. "Whenever a right of property," he declared, "is infringed for the general good if the nature of the case admits of compensation, it ought to be made; but if compensation be impracticable, that impracticability ought not to be an obstacle to a clearly essential reform."[b] To Hamilton, as to Burke, however, revolution was generally anathema. These contemporaries were both unsparing in their denunciation of the French upheaval of '89. They could not understand how conditions might become so bad that a root and branch revolution was the only way out. "A disposition to preserve, and an ability to improve, taken together," Burke writes, "would be my standard of a statesman."[c] They confounded democracy and the rule of the people

[a] Works, vol. 4, p. 386. To Washington, April, 1793.
[b] Works, vol. 3, p. 16. Funding System, 1791 (?).
[c] Burke, E., Reflections on the Revolution in France, part 1.

with the violence and anarchy of the French Revolution. In the words of Burke they believed that "an absolute democracy no more than absolute monarchy is to be reckoned among the legitimate forms of government."[a] They had faith neither in the theory, "The people can do no wrong," nor the theory, "The king can do no wrong." To them neither kings nor people were infallible. Hamilton never fawned before the multitude nor tried to ride their prejudices to success. His idea of statesmanship was leadership. "When occasions present themselves," he says, "in which the interests of the people are at variance with their inclinations, it is the duty of the persons whom they have appointed to be the guardian of those interests, to withstand the temporary delusion in order to give them time and opportunity for more cool and sedate reflection. Instances might be cited in which a conduct of this kind has saved the people from very fatal consequences of their own mistakes, and has procured lasting monuments of their gratitude to the men who had courage and magnanimity enough to serve them at the peril of their displeasure."[b]

Hamilton's respect for authority is in accord with his nationalistic creed. Government he regarded as something apart from the nation; its clothing, as it were. "I hold with Montesquieu,"

[a] Burke, E., Reflections on the Revolution in France, part 1.
[b] Works, vol. 12, p. 207. The Federalist, No. 71.

he writes, "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."[a] To him government was the means, never the end,—the means by which the will of the nation was made effective. If the national interests demanded measures of defence or diplomacy; the revival of credit or the founding of a bank; the encouragement of one class or the restraint of another, he believed that the government should be strong enough to enforce these measures.

In an age when traditions were scoffed at and institutions were crumbling, Hamilton opposed the tide of irresponsible democracy and laid secure the foundations of our political faith; he gathered up the achievements of the past and embodied them in a strong political structure which became the secure soil in which American democracy cast its roots.

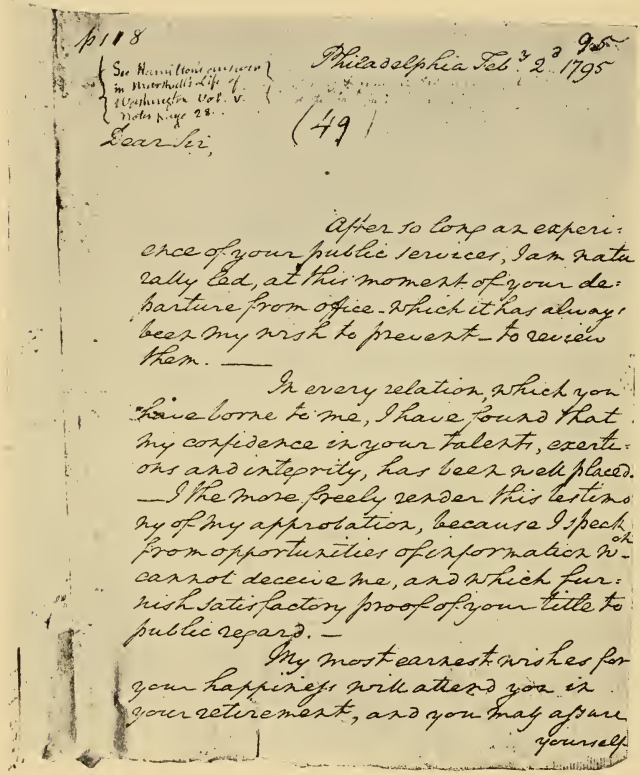
[a] Works, vol. 10, p. 337. To Lafayette, January 6, 1799.

CHAPTER SIXTH

Finance and Unity

The financial measures of Alexander Hamilton had three great purposes: first, to establish national credit both at home and in Europe; secondly, to provide financial machinery adequate to the business needs of the nation; thirdly, to cement more closely the union of the States. His aims were not merely financial; they were national. The financial problems did not appeal to him as so many difficult problems in themselves to find answers for; but as opportunities by which he might achieve his most cherished dream—the building of a great American nation.

Hamilton became Secretary of the Treasury under Washington on the eleventh day of September, 1789. The finances of the country were a total wreck; and, what was far more serious, the spirit of repudiation and dishonesty, which had characterized our former history, was abroad among the people. After the paper money debauches of the colonial and Revolutionary periods; after the sequestration and confiscation of foreign debts; after the stop and legal tender laws and wholesale repudiation; after the attacks on the courts of law for the enforcement of lawful contracts; after the dishonesty, specula-



p 118

See Hamilton's answer in Marshall's Life of Washington Vol. V. Notes page 28.

Philadelphia Feb.y 2.d 1795

(49)

Dear Sir,

After so long an experience of your public services, I am naturally led, at this moment of your departure from office - which it has always been my wish to prevent - to review them. —

In every relation, which you have borne to me, I have found that my confidence in your talents, exertions and integrity, has been well placed. — I the more freely render this testimony of my approbation, because I speak from opportunities of information which cannot deceive me, and which furnish satisfactory proof of your title to public regard. —

My most earnest wishes for your happiness will attend you in your retirement, and you may assure yourself

PART OF WASHINGTON'S LETTER TO HAMILTON WHEN HE RETIRED FROM THE OFFICE OF SECRETARY OF THE TREASURY

tion, and depreciation of our early history, the wonder is that Hamilton ever overcame public prejudice against honest and business-like methods in finance. The fathers had eaten sour grapes and the children's teeth were set on edge.

The office of Secretary of the Treasury was, from the nature of the financial problems confronting the government, the most difficult in Washington's cabinet. Hamilton entered it with practically no experience as a financier. He had been a clerk for a merchant in St. Croix, Washington's private secretary, a writer of pamphlets, and a champion of the new Constitution; but he had never faced the complicated problems of finance. It is true, that in 1780 and 1781 he had written remarkable letters to Robert Morris concerning a national bank. In these letters he had shown, not only a wide knowledge of finance, but also a grasp of the nation's needs. It is by introducing order into our finances—by restoring public credit,—he said, not by gaining battles, that we are finally to gain our independence.[a] He urges the establishment of a National Bank and proper provisions for the debt of the country. But while these letters to Morris show that Hamilton, even when he was in the army, was thinking on matters of financial organization, they hardly lead us to expect the brilliant measures which he

[a] Works, vol. 3, p. 343. To R. Morris, April 30, 1781.

launched ten years later. His work seems to be that of a constructive genius to whom the book of financial mysteries was open, and, as he ran, he read.

We must beware of exaggerating, however, Hamilton's originality in public finance. His dreaming was not of the sort that works out untried schemes in the closet and then experiments with them on the people. When suddenly called upon to create a financial organization for the new government, he looked over the world to see whether some system was not already working which would lend some suggestions for solving the American problems. "It is a strong proof of the sobriety of Hamilton's judgment," Dunbar says, "that in determining his course under these circumstances, he sought for the most part to adapt to his purpose methods and agencies which had been tested by experience; for that is the great characteristic of his Reports on Public Credit and on a National Bank."[a] Naturally, England offered Hamilton the most fertile field for precedents. He believed, no doubt, that financial measures that were successfully put in operation by one branch of the Anglo-Saxon race would work successfully when applied to another. In funding the debt he followed the principles of the English

[a] Dunbar, C. F., Some Precedents followed by Hamilton. Qu. Jo. of Econ. (1888-1889), vol. 3, p. 35.

system. He thought that the proper funding of the debt in England had stimulated the growth of industry, and he desired the same results for the American nation.[a] At the close of his proposals for funding in his first Report on Public Credit he remarks: "The chief outlines of the plan are not original; but it is no ill recommendation of it, that it has been tried with success."[b] In his plan for a bank Hamilton followed the main ideas of the charter of the Bank of England. His bank, like its English counterpart, was a syndicate of holders of public debt who were incorporated and granted a monopoly of issuing notes.[c] In the "Wealth of Nations" he also found practical suggestions for his plans for a bank.[d] If these examples of precedents followed by Hamilton lessen his claim to originality in finance, they show, all the more, his greatness as a constructive statesman.

Hamilton had no choice as to which of the financial problems he should grapple with first. Before there could be any public credit, adequate provision had to be made for funding the undefined mass of government securities. During the struggle for independence both the central and

[a] Works, vol. 4, pp. 123, 124. Report on Manufactures, 1791.

[b] Works, vol. 2, p. 276. Public Credit, 1790.

[c] Sumner, W. G., Alexander Hamilton, p. 164. Works, vol. 3, p. 439.

[d] Works, vol. 2, pp. 449, 450. Objections and Answers, 1792.

state governments had contracted debts. These debts were the price of liberty.[a] When possible, money had been borrowed in foreign markets. Foreign debts in 1790 amounted to $10,070,307, on which the arrears of interest were $1,640,-071.62.[b] The unbusiness-like way in which we had managed this debt had made us ridiculous in the eyes of European financiers. There was also a domestic debt of $27,383,917.74, with an arrears of interest amounting to $13,030,168.20.[c] This debt was a disorganized mass of securities, issued at different times in the name of the Continental Congress, to pay for supplies and services. It had depreciated in value and many of the original holders had sold their contract rights to speculators for sums much less than the face of the securities. In addition to the foreign and domestic debts there were the State debts. These were of uncertain amount. Hamilton estimated that the principal and interest would amount to about twenty-five millions of dollars.[d] The whole debt, then, amounted to a little over seventy-five millions of dollars.[e] To the people of that time this seemed like an enormous debt. When Hamilton

[a] Works, vol. 2, p. 231. Public Credit, 1790.

[b] Works, vol. 2, p. 254. Public Credit, 1790.

[c] Works, vol. 2, p. 254. Public Credit, 1790.

[d] Works, vol. 2, p. 255.

[e] In 1795 Hamilton reported the whole funded debt to be $76,096,468.67. Works, vol. 3, p. 231.

came to office, the creditors were clamoring for payment and the treasury of the government was empty. He proposed to fund the whole debt—to exchange all securities by whomsoever held, for new government bonds.

During the recess of the First Congress, Hamilton applied himself "to the consideration of a proper plan for the support of public credit," and on the 14th of January, 1790, communicated to the House his First Report on Public Credit.[a] "It is agreed, on all hands," he says, "that that part of the debt which has been contracted abroad, and is denominated the foreign debt, ought to be provided for according to the precise terms of the contracts relating to it."[b] But there was not, he noted, the same unanimity of opinion in regard to the provision for the domestic debt. The most popular scheme for providing for it was to discriminate in funding between the original holders of public securities and present possessors by purchase, i.e., to fund the securities held by original creditors at face value but those held by purchase at what the possessors paid for them. This sugar-coated plan of repudiation was, at first sight, very plausible. Hamilton, however, having considered it, rejected it. He argued that when the government had borrowed the money, it had entered

[a] Works, vol. 2, pp. 227-289.
[b] Works, vol. 2, p. 236.

into a contract with the creditors to pay them or their assignees the face value of the securities with interest and that by making the securities assignable, the government had enabled the holder to sell them, if he chose, in the market; and if, because of his lack of faith and confidence in the government, he had sold them, he had nothing to blame but his distrust and lack of foresight. The government had the same contract with the buyer that it had with the original holder. To disregard it was a manifest injustice and prejudicial to the public credit. "The buyer paid," Hamilton said, "what the commodity was worth in the market, and took the risks of reimbursement upon himself. He, of course, gave a fair equivalent, and ought to reap the benefit of his hazard—a hazard which was far from inconsiderable, and which, perhaps, turned on little less than a revolution in government."[a]

Hamilton's unprecedented advocacy of the assumption of the State debts shows clearly the national purpose which underlay all his measures. In this, he went out of his way to get a policy, the chief result of which would be, not to create credit, but to cement the Union together. He saw in the assumption of the State debts an opportunity to strengthen the nation at the expense of local prejudice.

[a] Works, vol. 2, p. 238. Public Credit, 1790.

Some of Hamilton's reasons for assumption of the State debts are stated in the First Report on Public Credit. It would, he said, contribute to the stability of national finance, prevent competition among the States for resources, and insure to the revenue laws a more ready and satisfactory execution.[a] In a later unfinished paper he made an able and elaborate defence of the funding system.[b] He defended the assumption of the State debts for the following reasons: because superior justice was done in relieving the overburdened states and in equalizing the contributions of all the citizens; because it avoided "collisions, heart-burnings, and bickerings" among the different systems of the state finance; because it secured the Union a full and complete command of the resources of the nation; because it consolidated and secured public credit; because it made a more adequate provision for the entire debt of the country; because it rescued the national character from stain abroad, since foreigners would not distinguish between infractions of credit by the State and by the general government; because it prevented instability in funds by placing them on the same foundation; because it facilitated a speedy and honorable extinguishment of the debt; because it prevented the depopulation of the over-

[a] Works, vol. 3, pp. 244-248.

[b] Works, vol. 8, p. 429 to vol. 9, p. 34 (1795?).

burdened states and the too rapid transfer of population to the unsettled parts of the country; and finally because it strengthened the central government.[a] Even for the sake of popularity alone Hamilton thought a failure to assume the State debts would have reacted fatally on the government. "A weak and embarrassed government," he observes, "never fails to be unpopular. It attaches to itself the disrespect incident to weakness, and, unable to promote the public happiness, its impotencies are its crimes. Without the assumption, the government would have been for a long time at least under all the entanglements and imbecilities of a complicated, clashing, and disordered system of finance."[b]

We have seen that throughout Hamilton's measures for funding the foreign, domestic, and State debts there runs the constant purpose not merely of establishing the credit of the new government, but also of cementing the union of States and invigorating the business of the nation. This purpose appears also in the report on a National Bank, submitted to Congress the 14th day of December, 1790.[c]

Hamilton understood the manner in which banks hypothecate or pledge for security the

[a] Works, vol. 9, pp. 14-28. Funding System, 1795 (?).
[b] Works, vol. 9, p. 31. Funding System, 1795 (?).
[c] Works, vol. 3, pp. 388-443.

wealth of the community; and make available for business, through notes and deposit rights, this wealth. He said they augmented "the active and productive capital of a country." "Gold and silver," he continues, "when they are employed merely as the instruments of exchange and alienation, have not been improperly denominated dead stock; but, when deposited in banks, to become the basis of a 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."[a] He saw clearly the value of an asset currency in contrast with the dangers of a government issue of paper money.[b] The business of the country, he argued, which had been discouraged because the circulating medium was deficient, would be stimulated by banks, which would not only make vast amounts of hoarded money available but also transform the "passive" wealth of the nation into active credit. By banks he would keep the money of the country incessantly active so that men of business ability would be able to borrow on credit, and by this juncture of ability and capital, the resources of the country would be more quickly developed, land would become more valuable, agriculture more prosperous, commerce more

[a] Works, vol. 3, p. 390. National Bank, 1790.
[b] Works, vol. 3, p. 414.

active, and men more enterprising. "By contributing to enlarge," Hamilton says, "the mass of industrious and commercial enterprise, banks become nurseries of national wealth."[a]

By means of a central bank Hamilton hoped to develop the national aspect of business. The notes of the bank, when established, would be good all over the country. Drafts would liquidate commercial claims between men of different sections and prevent the delay, expense, and risk incident to remittance of coin.[b] Not the least use of banks would be to teach the people business methods. It would teach punctuality, and encourage frugality and honesty. It would increase confidence, and the people, supported by a reliable institution, would be more willing to venture. The enterprise of men would be stimulated and the wealth of the nation made socially effective.

The First National Bank was also intended to be useful in the public service. Hamilton's conception of the relation of the bank to the government was the same relation which the Bank of England held to the British government. It was to be a private institution run for the public good. "Public utility," Hamilton says, "is more truly the object of public banks than private profit. And it is the business of government to constitute

[a] Works, vol. 3, p. 393. National Bank, 1790.
[b] Works, vol. 3, p. 395. National Bank, 1790.

them on such principles that, while the latter will result in a sufficient degree to afford competent motives to engage in them, the former be not made subservient to it."[a] There was an intimate connection of interest, he thought, between government and the bank of the nation. In sudden emergencies it would assist the government in getting pecuniary aid and the mass of its capital and credit could readily be converted to the national use.

Hamilton's recommendations concerning money, which he embodied in his Report on the Mint,[b] had two purposes. In the first place, he sought to establish a sound monetary system which would form an adequate support for the country's credit system, for, if the money were debased and depreciating, the very floor on which the business of the nation stood would be uncertain. In the second place, uniform coinage was as necessary for the unity of the nation as a national credit organization. In order that the national aspect of business might develop, it was imperative that the money unit should be the same in every state.

In Hamilton's day we were sorely in need of foreign capital. We needed it to improve commerce, agriculture, and manufactures; to construct canals and roads and to work up our "im-

[a] Works, vol. 3, p. 419. National Bank, 1790.
[b] Works, vol. 4, pp. 3-63. January 28, 1791.

provable matter in a crude state." We could well afford to pay foreigners interest for capital which, when applied to the productive resources of the nation, would yield large profits. "If the United States," Hamilton remarks in his second Report on Public Credit,[a] "observe, with delicate caution, the maxims of credit, as well toward foreigners as their own citizens, in connection with the general principles of an upright, stable, and systematic administration, the strong attractions which they present to foreign capital will be likely to insure them the command of as much as they may want, in addition to their own, for every species of internal amelioration."[b] He sought also to improve our credit abroad in order to strengthen the nation in time of war. "There can be no time, no state of things," he says, "in which credit is not essential to a nation, especially as long as nations in general continue to use it as a resource in war."[c]

As important as foreign credit was, Hamilton regarded domestic credit as of more importance. "The opinion," he wrote to Wolcott, "which some entertain is altogether a false one—that it is more important to maintain our credit abroad than at home. The latter is far the most important

[a] Works, vol. 3, pp. 199-301. January 16, 1795.
[b] Works, vol. 3, p. 298. Public Credit, 1795.
[c] Works, vol. 3, p. 295. Public Credit, 1795.

nursery of resources, and, consequently, far the most important to be inviolably maintained."[a] Credit is the invigorating principle of the nation; it brings into action its capacities for improvement and accelerates growth.[b] Its protection Hamilton regarded as of interest, not to any one class or section, but to the whole people. "The cause of credit and property," he says, "is one and the same throughout the States. A blow to it, in whatever State or in whatever form, is a blow to it in every State and in every form. . . . . There cannot be a violation of public principle in any State without spreading more or less an evil contagion in all."[c]

It was Hamilton's idea that his financial measures acted directly on the prosperity of the nation by reviving credit, facilitating the exchanges, improving the machinery of business, and encouraging industrious and ambitious undertakers. While an obvious object of his measures was strengthening the borrowing power of the government, his broad purpose was the improving of commerce, agriculture, and manufactures; the extension of trade and navigation; the encouragement of the building of towns and of means of transportation. He believed that his measures

[a] Works, vol. 10, p. 93. To Wolcott, April 10, 1795.
[b] Works, vol. 3, p. 294. Public Credit, 1795.
[c] Works, vol. 9, pp. 16, 17. Funding System, 1795 (?).

had resulted in a "universal vivification of the energies of industry."[a]

Hamilton thought that the revival of prosperity which came with the founding of the new government, was partly due to the fact that funding increased the "active capital" of the country. Writers have read into this statement the modern definition of capital, and concluded that Hamilton was confused in regard to money, capital, and debt.[b] Hamilton was very enthusiastic over the idea that a well-funded debt increased, as he said, the active capital, and his zeal led him in several cases to make statements suspiciously near fallacies.[c] But he meant by "active capital" circulating medium, and in general, he saw the limitations as well as the value of funded debt.

"The true definition of public debt," Hamilton observes, "is a property subsisting in the faith of the government. Its essence is promise."[d] Property rights, which were in abeyance, because a faithless government had not kept its promises, were, by proper funding, revived. Confidence in the stability and solvency of the new government gave the securities value. No real wealth was created, but individuals received promises-to-pay

[a] Works, vol. 8, p. 458. Funding System, 1795 (?).
[b] Sumner, W. G., Alexander Hamilton, p. 150.
[c] Cf. Works, vol. 2, p. 452; vol. 4, p. 118 et seq.; vol. 8, p. 460.
[d] Works, vol. 3, p. 284. Public Credit, 1795.

from the government which had exchangeable value. These exchangeable securities, which are claims on the wealth of the community in the same sense that a bank note is a claim on the assets of a bank, served, Hamilton thought, in a community where specie was scarce, as a circulating medium. To be certain that the funded debt operates as "active capital," he says it is only necessary to consider that it is "property which can almost at any moment be turned into money. . . . ." "Who doubts," he asks, "that a man who has in his desk $10,000 in good bank notes, has that sum of active capital? . . . . Who can doubt any more that the possessor of $10,000 of funded stock . . . . is equally possessor of so much active capital?"[a] By "active capital," then, Hamilton meant not material goods only, but anything, be it bank credit or notes, gold or silver, or funded debt, which would serve as an "engine of business." The readily convertible character of good public securities he thought gave them in exchange the value of bank paper, redeemable on demand. He probably overestimated the utility of exchangeable securities as circulating medium. There was, however, no fallacy in his assumption. The government, let us suppose, receives $100 in gold coin, for which it issues a bond bearing the market rate of interest. The coin, on the one hand, is put

[a] Works, vol. 8, pp. 459, 460. Funding System, 1795 (?).

back into circulation through the payment of government expense; the bond, on the other hand, may pass from hand to hand in business transactions, doing the same work in the community as might be done by a $100 bank note. There is no more absolute wealth in the community after this process than before, but the wealth is in a more usable form. The exchangeable property has been doubled. "In the question under discussion," Hamilton observes, "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 as 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."[a]

Another motive back of all Hamilton's financial measures was "to cement more closely the union of the States."[b] He aimed to break down the local and territorial loyalties, and to center the interests of the people in the nation. We see this motive in his uniform monetary system, in his central bank, and especially in his plan for the assumption of the State debts. It was his purpose

[a] Works, vol. 4, p. 124. Manufactures, 1791.
[b] Works, vol. 2, p. 232. Public Credit, 1790.

by assumption to remove one great possible cause of quarrels between the States. The States with the largest debts would chafe under their burden; and if any one failed to make provision for the payment of its debt, its poor credit would react on the whole nation. The national government, by taking over all the debts, consolidated the national finances. Assumption also bound the interests of the richer and more influential citizens of the States, who held the securities, to the central government. It tended, Hamilton said, "to strengthen our infant government by increasing the number of ligaments between the government and the interests of individuals."[a]

In this use of the moneyed men in particular, and in Hamilton's financial measures generally, Rabbeno thinks that he has evidence in favor of the socialistic interpretation of history. The Federal party was, he says, composed chiefly of business men who desired a strong government in view of their commercial interests. To these were added the creditors of the government and some local landowners.[b] These made up the rising capitalistic class. The opposite party, on the contrary, Rabbeno says, consisted of the "mass of the people, agricultural, democratic, and individual-

[a] Works, vol. 9, p. 28. Funding System, 1795 (?).

[b] Rabbeno, U., Protezionismo Americano, Essay 3, ch. 1, sec. 3.

istic in tendency."[a] Hamilton was, he concludes, the representative of the former class, and laid the foundation of his schemes on it and at the expense of the farmers and non-commercial class. Hamilton, therefore, is to Rabbeno the "prophet of American capitalism"; a man who took his ideals of statesmanship from his class; a leader, whose intentions were good, but who was actually using the nation to strengthen his class. While it is true that Hamilton used the contented and moneyed classes of the nation to strengthen the new government in a time when revolution and local prejudice threatened it, it is not true that Hamilton found his impelling motives in the ideals of any particular class. He was not concerned with a class, but with a nation. If he thought it necessary to use a class—be it commercial or non-commercial—in order to accomplish a national purpose, he would do it; but his goal was not the supremacy of a class at the expense of the nation; it was the supremacy of the nation at the expense of classes or individuals within the nation.

The principle which divided the parties in Hamilton's day was not socialistic but nationalistic. There was no struggle between classes in the socialistic meaning of the word; there was a struggle between two political ideals. The fundamental antagonism between Hamilton and Jeffer-

[a] Rabbeno, U., Protezionismo Americano, Essay 3, ch. 1, sec. 3.

son was not the antagonism of capital and labor, but of nation and State. Rabbeno speaks of the "social law which makes economic phenomena the substratum and the foundation of political events."[a] But Hamilton's measures are political events which revolutionized the economics of the whole society. They transferred the loyalties of the people from the States to the central government. They are not effects, but causes. His measures were intended to strengthen the Union by giving the contented and propertied individuals an opportunity to serve it. They were devices for making use of the upper classes.[b] "My opinion has been and is," Hamilton says in defending the attachment of propertied individuals to the government, "that the true danger to our prosperity is not the overbearing strength of the Federal head but its weakness and imbecility for preserving the Union of the States and controlling the eccentricities of State ambition and the explosion of factious passions. And a measure which consistently with the Constitution was likely to have the effect of strengthening the fabric would have recommended itself to me on that account."[c] As to Bismarck, "the use of a dynasty as the indispensable cement to hold together a definite por-

[a] Rabbeno, U., Protezionismo Americano, Essay 3, ch. 1, sec. 3.
[b] Cf. Oliver, F. S., Alexander Hamilton, p. 164.
[c] Works, vol. 9, p. 28. Funding System, 1795 (?).

tion of the nation,'[a] was essential to the final unity of the German Empire, so to Hamilton the funding of the State debts and the Bank were devices for weakening local loyalties and for welding the States into a harmonious nation.

A debt, Hamilton believed, had a valuable psychological effect on a nation. "A national debt, if it is not excessive," he said in 1781, "will be to us a national blessing. It will be a powerful cement of our Union. It will also create a necessity for keeping up taxation to a degree which, without being oppressive, will be a spur to industry, remote as we are from Europe, and shall be from danger. It were otherwise to be feared our popular maxims would incline us to too great parsimony and indulgence. We labor less now than any civilized nation of Europe; and a habit of labor in the people is as essential to the health and vigor of their minds and bodies, as it is conducive to the welfare of the State."[b] In this passage we have Hamilton's psychology of the debt. The American people, he thought, would work together with the same enthusiasm to pay off their debt as they had fought together to oust European danger. The common effort to pay the debt would tend both to overshadow local and

[a] Bismarck, Gedanken und Erinnerungen, ch. 13.

[b] Works, vol. 3, p. 387. On National Bank to Morris.

factional differences, to stimulate the spirit of enterprise, and to weld the States into a Nation.

Alexander Hamilton was great as a financier, but he was still greater as a nation-builder. His financial measures were intended not merely to establish the credit of the government; but to transform the whole national life; to weaken local and strengthen central authority; to nationalize business; to cement the Union of States; and to stimulate the ambition and enterprise of the people. These measures were a part of his plan for making a great coöperating nation; they were the financial side of his nationalism.

CHAPTER SEVENTH

Dangers of Homogeneous Expansion

It has become quite trite to discuss the political antagonism which existed between Hamilton and Jefferson; but it is not so common to hear their economic creeds compared. Jefferson, as an individualist, found all his sympathies with agriculture. It appealed to him both because he was temperamentally in favor of country life and because it was popular with the masses of the people. "We have an immensity of land," he wrote in 1781, "courting the industry of the husbandman. Is it best then that all our citizens should be employed in its improvement, or that one half should be called off from that to exercise manufactures and handicraft arts for the other? Those who labor in the earth are the chosen people of God. . . . . Corruption of morals in the mass of cultivators is a phenomenon of which no age nor nation has furnished an example. . . . . While we have land to labor then, let us never wish to see our citizens occupied at the workbench or twirling a distaff. . . . . Let our workshops remain in Europe. . . . . The mobs of great cities add just so much to the support of pure government, as sores do to the strength of the human body."[a]

[a] Jefferson, Th., Writings, vol. 2, pp. 229, 230. Notes on Virginia. Written 1781. Published 1784.

Jefferson's natural inclination toward agriculture led him to take a sympathetic interest in the French and English economists who elevated the agricultural systems of economics above all others. He was familiar with the writings of the Physiocrats, Turgot and Smith.[a] He corresponded with Dupont de Nemours and J. B. Say. He, of course, did not fall into the extreme fallacies of the individualistic school but his prejudices were all that way.

Hamilton, who was as familiar with the French theories of agriculture and the writings of Adam Smith as Jefferson was, did not find them adapted to his purpose of diversifying national industry; and this alone was to him a sufficient reason for rejecting them. They might be true relative to certain anti-national desires and tendencies but they were not true for the nationalist. Hamilton was seeking a philosophy which would strengthen the economic life of the American nation.

That the propensities of the people were toward agriculture was no argument to Hamilton in favor of drifting with them. He stood squarely against any let-alone doctrine. He was not so sure that the agriculturists were any more God's chosen people than the business men and manufacturers, and, any way, his interest was not in the particular people, but in their civilization. A nation,

[a] Jefferson, Th., Writings, vol. 14, p. 459.

he believed, was richer in material goods and ideals which had a diversified life; which had the intellectual and social life found only in cities; and which had busy marts and factories as well as farms.

The economic creeds of Hamilton and Jefferson were fundamentally different and each, looking at society from his own point of view, failed to sympathize with the other. Their opposition was deeper than their reason; it was grounded in their emotions, beliefs, and temperaments.

As he looked over the country, Hamilton saw a homogeneous economic organization. "At present some of the States," he writes in the *Federalist,* "are little more than a society of husbandmen. Few of them have made much progress in those branches of industry which give a variety and complexity to the affairs of a nation."[a] At this time about nine tenths of our population were farmers. This condition which had been our strength as an interdependent part of the British Empire,[b] was our weakness, Hamilton believed, as an independent nation. We were weak because without diversification of our life we could never become an interdependent unit. National division of labor was unknown. Each farmer endeavored, as far as possible, to become self-sufficient. Under

[a] Works, vol. 12, pp. 84, 85. The Federalist, No. 56.

[b] Smith, A., Wealth of Nations. Book 2, ch. 5, vol. 1, p. 346.

such conditions, as List has pointed out, agriculture is imperfect and a great part of the resources of nature remain undeveloped.[a] With the same conditions in mind Callender observed that "towns and cities do not grow, for these are the creation of trade and industry; no wealthy class with new wants to satisfy develops; the whole population becomes accustomed to the simple, easy conditions of life, and there is small incentive to strive to change them."[b]

As a step toward overcoming this condition—toward breaking down the isolated economic organization—Hamilton advocates a vigorous policy of improvement in communication and transportation. "The good condition of post roads," he says in an unpublished draft of his Report on Manufactures, "especially where they happen to connect places of landing on the rivers and bays, and those which run into the western country will induce exceedingly to the cheapness of transporting and the facility of obtaining raw materials, fuel and provisions. But the most useful assistance perhaps which it is in the power of the legislature to give to manufactures and which at the same time will equally benefit the landed interests and commercial interests is the improvement

[a] List, F., Das Nationale System der Politischen Oekonomie, ch. 20.

[b] Callender, G. S., Economic History of the United States, p. 7.

of inland navigation. Three of the easiest and most important operations of this kind which occur at this time are the improvement of the communication between New York, Connecticut, Rhode Island and Boston, by cutting a passage through the peninsula of Cape Cod, the union of Delaware and Chesapeake Bays by a canal from the waters of the former to those of the latter and the junction of the Chesapeake Bay and Albemarle Sound by uniting the Elizabeth and the Pasquotauk Rivers."[a] He did not wish the construction of roads and canals left to the local authorities; but he wished the national government "to lend its direct aid on a comprehensive plan."[b] Having observed the success of good roads and canals in England, and knowing America's need and uncommon facilities for them, he quotes a paragraph from Adam Smith, for which the reference "Smith, W. of Nations, vol. 1, p. 219"[c] is given on an early manuscript. "Good roads, canals, and navigable rivers," this passage runs in part, "by diminishing the expense of carriage, put the remote parts of a country more nearly upon a level with those in the neighborhood of the town. . . . . They are advantageous

[a] Hamilton, MS. Manufactures, 3, L. C. Cf. Works, vol. 4, p. 159. Manufactures, 1791.

[b] Works, vol. 4, p. 159. Manufactures, 1791.

[c] See photograph opposite page 127.

to the town, by breaking down the monopoly of the country in its neighborhood. They are advantageous, even to that part of the country. Though they introduce some rival commodities into the old market, they open many new markets to its produce."[a]

In 1799 Hamilton wrote to Jonathan Dayton, the Speaker of the House, urging the adoption of a plan for the improvement of roads "coextensive with the Union."[b] In the same letter he proposes to amend the Constitution, empowering Congress to open canals. "The power is very desirable," he says, "for the purpose of improving the prodigious facilities for inland navigation with which nature has favored this country."[c] In his answer to Jefferson's message of December 7, 1801, he again suggests a policy of internal improvement for the national government. "To suggestions of the last kind," he says, "the adepts of the new school have a ready answer: 'Industry will succeed and prosper in proportion as it is left to the exertions of individual enterprise.'[d] This favorite dogma, when taken as a general rule, is

[a] Works, vol. 4, p. 160. Manufactures, 1791. Wealth of Nations, Book 1, ch. 11, pt. 1, vol. 1, pp. 148, 149.

[b] Works, vol. 10, p. 332. To Dayton, 1799.

[c] Works, vol. 10, p. 334. To Dayton, 1799.

[d] Hamilton evidently regards Jefferson as a follower of Adam Smith.

true; but as an exclusive one, it is false, and leads to error in the administration of public affairs."[a]

The interest which Hamilton took in the improvement of the means of communication and transportation is in full accord with his desire for a complex national life. If the nation developed manufactures in one section, and agriculture in another, the roads, canals, and navigable rivers would become indispensable instruments of cooperation. Unless the nation had the machinery by which it could reap the benefits, national division of labor would be futile; unless the manufacturer could reach his market in the agricultural sections, and unless the farmer could market his goods quickly in industrial centers, the whole plan of national coöperation would be at a standstill. Obstructions to internal commerce would force people near the seaboard to resort to foreign trade, while those in the interior, finding their produce unmarketable, would be checked in their economic development. On the contrary, roads and canals would facilitate the transfer of goods and news. Contact of one section with another would weaken provincialism and the means would be at hand to make national division of labor effective.

"Questions about public lands," Fiske writes, "are often regarded as the driest of historical

[a] Works, vol. 8, p. 262. December 24, 1801.

deadwood. . . . . Yet there is a great deal of the philosophy of history wrapped up in this subject . . . . ; for without studying this creation of a national domain between the Alleghenies and the Mississippi, we cannot understand how our Federal Union came to be formed."[a] The policy of expansion advocated by Hamilton had for its purpose the completion of the territorial unity of the United States, and the control of the unsettled lands by the nation in the interest of the nation. At the close of the Revolution, seven of the original States claimed, as a part of their colonial grants, land in the West. Disputes were threatening the peace of the nation. "In the wide field of western territory," Hamilton said, "we perceive an ample theater for hostile pretensions, without any umpire or common judge to interpose between the contending parties."[b] It was fortunate, therefore, that the States were prevailed upon, between 1784 and 1802, to turn over their disputed claims to the Federal government. These grants made up part of the vast national domain which was to be increased by treaty and purchase.

Hamilton believed that we were "the embryo of a great empire," and that our situation prompted us "to aim at an ascendant in American affairs."

[a] Fiske, John, The Critical Period of American History, ch. 5.
[b] Works, vol. 11, p. 45. The Federalist, No. 7.

The specter of foreign influence in western affairs haunted him. He thought that the very existence of the Union would be threatened if we were pent up on the Atlantic coast by Spanish, French, and the English possessions in the West. In 1795 he advocated the adoption of the Jay Treaty because it would give us control of the western posts. "The possession of those posts by us," he says, "has an intimate connection with the preservation of union between our western and Atlantic territories; and whoever can appreciate the immense mischiefs of a disunion will feel the prodigious value of the acquisition."[a] Louisiana, in the South, was, down to 1801, in the possession of Spain.[b] The control over the Mississippi which this gave her, seemed to Hamilton a serious menace to our nationality. "The navigation of the Mississippi," he writes to Jay in 1794, "is to us an object of immense consequence. . . . . If the government of the United States can procure and secure the enjoyment of it to our western country, it will be an infinitely strong link of union between that country and the Atlantic States."[c] This right was secured the next year by treaty; but Hamilton wished all the western territory to be under American control. "If Spain," he wrote a few

[a] Works, vol. 5, p. 255. Camillus, 1795.

[b] Louisiana was receded to France at the Peace of Luneville.

[c] Works, vol. 5, pp. 127, 128. To Jay, May 6, 1794.

years later, "would cede Louisiana to the United States, I would accept it absolutely if obtainable absolutely, or with an engagement to restore, if it cannot be obtained absolutely."[a] He wished the nation to look to the possessions of the Floridas as well as Louisiana, and even "to squint at South America."[b] The acquisition of these western territories, he said, he had long considered as "essential to the permanency of the Union."[c] He was of the opinion that the cession of Louisiana to France was the most deeply interesting question since Independence; that it threatened the dismemberment and insecurity of the Union, and that it was a justifiable cause for declaring war.[d] Fortunately Jefferson and Hamilton agreed on the value of Louisiana, and the former, as President, in 1803, negotiated the purchase from Napoleon. "It was Napoleon," Seeley says, "who, by selling Louisiana to the United States, made it possible for the Union to develop into the gigantic Power we see."[e]

Mere ownership of the western lands, however, was not enough. Hamilton proposed to use them for national purposes. Although he was anxious

[a] Works, vol. 10, p. 280. To Pickering, March 27, 1798.
[b] Works, vol. 7, p. 97. To McHenry, June 27, 1799.
[c] Works, vol. 10, p. 339. To Otis, January 26, 1799.
[d] Works, vol. 6, pp. 333, 334. Pericles, 1803.
[e] Seeley, J. R., The Expansion of England, p. 157.

to improve the territorial imperfections of the nation, it was no part of his plan to encourage rapid settlement from the old States. He, in fact, desired the central government to control the lands in order to prevent migrations. If the nation controlled the western lands, three purposes would be accomplished: the Union would be protected from foreign influences and encroachment; the sale of the lands would help liquidate the national debt; and the lands could be reserved or put in the hands of companies in order to prevent the shifting of population until redundancy required it. Hamilton was opposed, at that time, to anything like the "Homestead Act" of '62. Any policy, he thought, that would encourage individuals to leave the old States and to take small holdings in the West, was anti-national; it would perpetuate indefinitely the agricultural society. Since the population of the nation was small at best, any policy that would encourage rapid settlement would be prejudicial to the growth of a diversified national life. Hamilton's policy was to reserve the free lands for future national growth, and to encourage the people of his time to develop the resources of the old States. He considered homogeneous expansion to be a national weakness and danger.

How, then, was the "natural" flow of population westward to be checked? Had the govern-

ment any duty? Was it impertinent for the statesman to meddle here? It seemed to be a clear case of conflict between individualism and nationalism, and Hamilton did not hesitate in his choice. He proposed at different times four lines of policy by which the dislocation of population was to be discouraged: first, by teaching the people of the old States improved methods of agriculture; secondly, by laying indirect and excise taxes rather than direct taxes on land; thirdly, by assuming the State debts; fourthly, by his land policy.

American agriculture was in a very primitive state, and there was a constant temptation to leave the lands, impoverished by unscientific methods, for those of frontier. Such a moving frontier as western settlement would produce, would, Hamilton thought, keep the people restless and unstable. He, therefore, proposed to teach the people improved methods in the cultivation of land, and for the furthering of this purpose he recommended, in a speech drafted for Washington, the establishment of a Board of Agriculture. "Agriculture among us," he says, "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, the opulence, nor the 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."[a] He also recommended, at another time, the founding of a society whose function it should be to encourage, by premiums, "new inventions, discoveries, and improvements in agriculture."[b]

Hamilton never advocated direct taxes on land. He favored import duties and excise duties, such as the whiskey and carriage tax, but he feared that direct taxes on land would incite rapid settlement to new lands. "Particular caution," he says, as early as 1782, "ought at present to be observed in this country not to burthen the soil itself and its productions with heavy impositions, because the quantity of unimproved 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

[a] Works, vol. 8, pp. 215, 216. December 7, 1796.
[b] Works, vol. 10, p. 331. To Dayton, 1799.

which, and not to increase it, ought to be a capital object of our policy."[a]

This motive was also back of Hamilton's policy for assuming the State debts. If the national government had not assumed the debts, he said, in defence of the funding system, a particular inconvenience might have been the transfer of the population from "more to less beneficial situations in a national sense."[b] Some of the States, before assumption, had much heavier debts than others. To pay these debts, of course, these States would have had to lay heavy taxes on the citizens. This would cause migrations in order to escape taxation either to the lightly taxed States or to the unsettled parts of the country.

"It could not but disturb in some degree," as Hamilton expressed it, "the general order, the due course of industry, the due circulation of public benefits."[c] A result of the transfer of the population from the settled to the unsettled sections of the country would be "to retard the progress in general improvement, and to impair for a greater length of time the vigor of the nation, by scattering too widely and sparsely the elements of resource and strength."[d] It was no ill recommenda-

[a] Works, vol. 1, p. 279. The Continentalist, July 4, 1782.
[b] Works, vol. 9, p. 26. The Funding System, 1795 (?).
[c] Works, vol. 9, p. 26. The Funding System, 1795 (?).
[d] Works, vol. 9, p. 27. The Funding System, 1795 (?).

tion of assumption, then, that it made the population more stable and, by equalizing the burden of the debt in all parts of the nation, made the people contented to develop a more complex life. "The true politician," Hamilton says, "will content himself by seeing new settlements formed by the current of a redundant population: . . . . he will seek to tie the emigrants to the friends and brethren they leave. . . . . But he will not accelerate this transfer by accumulating artificial disadvantages on the already settled parts of the country; he will even endeavor to avoid this by removing such disadvantages if casual causes have produced them." "I deem it," he adds, "no small recommendation of the assumption that it was a mild and equitable expedient for preventing a violent dislocation of the population of particular States."[a]

Hamilton sent to the House of Representatives, on the 22d of July, 1790, a report on the disposition of public lands.[b] The noticeable omission is that he says nothing about giving the lands away to settlers. He, on the contrary, recommends that the land be sold for thirty cents per acre, to be paid for either in gold or silver or in public security.[c] The usual reason assigned for this charge is Hamilton's desire to extinguish the

[a] Works, vol. 9, pp. 27, 28. Funding System, 1795 (?).
[b] Works, vol. 8, pp. 87-94. July 22, 1790.
[c] Works, vol. 8, p. 90.

public debt. While this is obviously true, it is a very superficial explanation. His land policy was fundamentally a part of his plan for building a heterogeneous, interdependent nation. It was a policy to discourage rapid settlement.

Purchases of land, Hamilton thought, might be contemplated from three classes: moneyed individuals and companies who will buy to sell again; associations of persons who intend to make settlements themselves; single persons or families resident in the western country, or who might emigrate thither.[a] The first two classes would wish considerable tracts; the last, small farms. "Hence," Hamilton adds, "a plan for the sale of the western lands, while it may have due regard for the last, should be calculated to obtain all the advantages which may be derived from the two first classes."[b] He therefore recommended that the chief land office be established at the seat of government so that both citizens and foreigners might have the first opportunity for large purchases. He further suggests that no Indian land be sold; that land be set aside to satisfy subscribers to the public debt; that sales of land be made, when desired, in townships ten miles square; and that no credit be given for any quantities less than a township. By his land policy he hoped to tie up

[a] Works, vol. 8, p. 88.
[b] Works, vol. 8, p. 88.

large tracts of land on which emigrants could not settle, and to encourage speculators, both foreign and domestic, to hold the land for future use. He hoped that the land purchased under these conditions, and the land reserved for public creditors and Indians, would leave only a limited amount for the small farmer. His plan was to restrict the land available for immediate settlement, and to put it in the hands of moneyed men, so that the natural current of population westward would be discouraged and the people would be forced to diversify their life.

The Socialists have a very ingenious explanation for Hamilton's opposition to the rapid settlement of the free lands. The capitalistic system of society, Loria says, is based on the violent suppression of free lands.[a] As long as free lands exist, the laborer can get a living for himself, and the capitalist has no opportunity to exploit him. Since the laborer will not work for wages as long as he can be a small proprietor, it becomes a policy of the capitalistic class to deprive him of his independence and power by suppressing free lands. If they are not suppressed in colonial countries, no capitalistic organization can develop, because wages are high and the laborer always has the alternate of becoming a landowner. If, on the

[a] Loria, A., Le Basi Economiche della Costituzione Sociale. Conclusion, sec. 3.

contrary, the capitalist can get control of either the laborer by slavery or the lands by purchase or legislation, the establishment of his system is assured. "Thus the basis of capitalistic property," Loria says, "is always the same, it rests upon the suppression of the free lands and the exclusion of the laborer from access to the productive powers of the soil."[a]

Ugo Rabbeno accepts Loria's theory of society and, having reviewed the land policy of Hamilton, thinks that he finds in it proof for the socialistic interpretation of history.[b] Hamilton, who, according to Rabbeno, is the prophet of American capitalism, endeavored, he claims, by his land policy to advance the interests of the rising capitalistic class. He sought to keep the poor laborer off the free lands, so that wages could be forced down and the capitalistic form of production would develop. By the law of 1796 the recommendations of Hamilton, in a slightly modified form, were enacted into law. "Laborers," Rabbeno says, "were absolutely prevented from acquiring public lands; whilst hundreds of thousands of acres in separate lots became the property of capitalists or corporations, who either kept them for themselves, constituting enormous estates, or

[a] Loria, A., Le Basi Economiche della Constituzione Sociale, ch. 1.

[b] Rabbeno, U., Protezionismo Americano, Essay 2, ch. 4, sec. 29.

else resold them with great profits to the colonists."[a] Rabbeno, therefore, concludes that the central government, run for the benefit of moneyed men, had a land policy which tallied with the interests of the capitalists; that it was an abortive effort to establish the capitalistic system before its day, and that, in so far as it kept the proletariat off the free lands, it made its exploitation possible.

Loria and Rabbeno have interpreted history from the materialistic point of view. Their theory is that religions, morals, laws, ideas, and motives of great men depend on and are determined by the existing economic organization of society. They, however, have disregarded the complexity of social causes. Their purpose is to prove that all history is class struggle and they therefore need the materialistic interpretation of history; but they should remember that this theory is true only in relation to its premise. There are other causes in society. They are religious, legal, and personal. Ideas are creator as well as created. Man is not only a product of conditions; he is also a molder of his environment. His will is a factor in the equation. However much the socialist tries to laugh the great-man theory of history out of court, the fact remains that what men have felt and thought has determined the course of human

[a] Rabbeno, U., Protezionismo Americano, Essay 2, ch. 4, sec. 29.

progress. Their wills have directed, restrained, or encouraged the incoherent tendencies or passions of the people. They have shown that human society is not merely a mechanism, fated inevitably to certain ends, but that it is an organism for which we are responsible and whose destiny is largely within the power of man.

Rabbeno, in his search for evidence of Loria's theory in America, does not strengthen his chosen faith by citing Hamilton. Hamilton was in no way the prophet and champion of the capitalistic class; he was the prophet and champion of American Union. If there was any one thing which he hated and fought, it was the rule of a faction or a class. He did not care which particular class was supreme so long as that supremacy was in line with national greatness. Classes as well as individuals were his means for nation-building. They were, we might say, chessmen on the national chess board, and it was his duty and the duty of every statesman, he believed, to move and control them so as to win the game. There were, in fact, no classes in the socialistic sense in Hamilton's day. There were two parties; the national and the anti-national. The former was made up of conservative and, to some extent, wealthy men who believed in the traditions of the Anglo-Saxon race. Hamilton in his statesmanship used this class to strengthen nationality. The latter party was made

up of men imbued with French ideas and prejudices of States Rights. They were restless and unstable. To Hamilton's mind they were a faction which should be restrained for the national welfare. His policy concerning free lands directed against this latter class was, therefore, a national policy. It was to prevent homogeneous expansion and to require the people to build up an interdependent, diversified life. It was to strengthen the nation by using one part of the population and restraining another.

The national propensity of the American people for agriculture led them to favor a philosophy that made agriculture the most, if not the only, productive industry. The doctrines of the Physiocrats came to this country along with the rest of the French invasion. They were widely enough known to lead Hamilton to answer them, with arguments taken substantially from Adam Smith, in his Report on Manufactures.

The Physiocrats maintained the exclusive protectiveness of agriculture. "Labor," Hamilton says in stating their argument, "bestowed upon the cultivation of land produces enough not only to replace all the necessary expenses incurred in the business, and to maintain the persons who are employed in it, but to afford, together with the ordinary profit on the stock or capital of the farmer, a net surplus or rent for the landlord or proprietor

of the soil. But the labor of artificers does nothing more than to replace the stock which employs them . . . . , and yields the ordinary profits upon that stock. It yields nothing equivalent to the rent of land; neither does it add anything to the total value of the whole annual produce of the land and labor of the country. . . . . It can only be by saving or parsimony, not by the positive productiveness of their labor, that the classes of artificers can, in any degree, augment the revenue of the society."[a]

To this Hamilton answers: First, if the manufacturer adds to the raw material value equal to the agricultural products consumed, it can not be said that his labor is unproductive; second, the wealth of the community cannot be increased either by the cultivator or artificer, except by saving; thirdly, since production can be increased only by an increase in the quantity or in the productive powers of labor, the labor of the artificer is at least as productive as the cultivator, since it is more susceptible to subdivision and the application of machinery.[b]

Hamilton proceeds now to criticise Adam Smith's conclusion that agriculture is *more* productive than any other employment. It will be

[a] Works, vol. 4, pp. 74, 75. Cf. Wealth of Nations, Book 4, ch. 9, vol. 2, pp. 162-172.

[b] Works, vol. 4, pp. 75-77. Manufactures, 1791.

interesting to compare an early unpublished draft with the final draft of his opening paragraph:

"But while it has been thus contended that the labour of artificers and manufacturers ought not to be considered as wholly barren and unproductive it has been at the same time conceded that it is not equally productive with that of husbandmen or cultivators; *a position which has obtained no inconsiderable currency in this country*, and which being of great importance in its relation to maxims of public administration is not unworthy of an examination on the grounds on which it rests."[a]

"But while the exclusive productiveness of agricultural labor has been denied and refuted, the superiority of its productiveness has been conceded without hesitation. As this concession involves a point of considerable magnitude, in relation to maxims of public administration, the grounds on which it rests are worthy of a distinct and particular examination."[b]

"No equal capital," Adam Smith says, "puts into motion a greater quantity of productive labor than that of the farmer. . . . . In agriculture, too, nature labors along with man and though her labor costs no expense, its produce has its value, as well as that of the most expensive workmen."[c] This argument Hamilton refers to as "both quaint and superficial."[d] The skill of man, he argues, laid out on manufactured products may be more productive of value than the labor of nature and man combined. He says further that mechanical powers are more applicable to manufactures than to agriculture; that manufacturing labor is more

[a] Hamilton, MS. Manufactures, 2, L. C.
[b] Works, vol. 4, p. 77. Manufactures, 1791.
[c] Smith, A., Wealth of Nations, Book 2, ch. 5, vol. 1, p. 343.
[d] Works, vol. 4, p. 77. Manufactures, 1791.

constant since it is not dependent on seasons; and that the agriculturist, because of his easy condition of life, is often remiss in cultivation; while manufacturing labor, on the contrary, has open to it a wider field for the exertion of ingenuity and more stimuli impelling it to productiveness.[a]

Hamilton, like Adam Smith, had no conception of rent as an unearned increment.[b] But while he did not understand this phenomenon of distribution—a phenomenon which had not yet appeared in America—he saw, from the point of view of production, the fallacy of the Physiocrats and of Smith, who assumed that, because land yielded rent, it had a superior productiveness.

Rent, we may mention parenthetically, has two aspects. If we consider it as a factor in distribution, there arises, by virtue of the institution of private property, an unearned increment; rent here is income, going to the landlord because he has a peculiar social advantage. His land, having a superior productiveness or position over the price-determining land on the margin of cultivation, yields a rent which, as far as he is personally concerned, is unearned. On the other hand, rent from the point of view of the entrepreneur is a sum of money paid for a peculiar

[a] Works, vol. 4, p. 78. Manufactures, 1791.

[b] Rabbeno, U., Protezionismo Americano, Essay 3, ch. 1, sec. 12.

form of capital goods, i.e., it is interest paid for capital in land. From the standpoint of production, rent and interest are identical.

The difficulty with Smith and the Physiocrats was that they confused these two ways of looking at rent. They saw that the landlord received an income apparently for no other reason than that he owned the land; but instead of ascribing this to the institutional cause of distribution, they explained it as a phenomenon of production. This was the fallacy. The distinction which they drew between capital in manufacturing goods and capital in land, Hamilton said, was "rather verbal than substantial."[a] "The rent of the landlord and the profit of the farmer," he says, "are nothing more than the ordinary profits of two capitals belonging to two different persons, and united in the cultivation of a farm."[b] "The question must still be," he concludes, "whether the surplus, after defraying expenses, of a given capital, employed in the purchase and improvement of a piece of land, is greater or less than that of a like capital, employed in the prosecution of a manufactory . . . . or rather perhaps whether the business of agriculture or that of manufactures will yield the greater product, according to a compound ratio of the quantity of the capital and the quantity of

[a] Works, vol. 4, p. 79. Manufactures, 1791.
[b] Works, vol. 4, p. 80. Manufactures, 1791.

labor which are employed in the one or in the other."[a]

Mankind in its social evolution develops, according to Herbert Spencer, from an incoherent, homogeneous to a coherent, heterogeneous society.[b] Coöperation and differentiation are the very essence of progress. In the time of Hamilton, the United States was in the first stage of social evolution—it was incoherent and homogeneous. The purpose of Hamilton's economic policies was to develop, by legislation, social coherence and heterogeneity. His goal was the national diversification of industry. Within the nation he wished to see great cities as well as great plantations, busy factories as well as fertile farms, and vigorous, enterprising merchants as well as husbandmen. His idea was that the more complex the national life was, the more the parts would be dependent on each other and that, united with the bonds of mutual needs, we would become a strong coherent nation. Free lands, he thought, would perpetuate the incoherent, colonial life, which, however desirable it was for us as colonies of Great Britain, was undesirable for us as a nation. His policy, opposing western emigration, was intended to erect barriers, behind which an interdependent, complex civilization might grow.

[a] Works, vol. 4, pp. 80, 81. Manufactures, 1791.

[b] Spencer, H., Principles of Sociology, pt. 2, ch. 12, sec. 271.

CHAPTER EIGHTH

Manufactures

Hamilton was not wont to lay down principles or draw conclusions without the facts before him. He therefore conducted, as preparation for the writing of his famous Report on Manufactures submitted to Congress, December 5, 1791, an investigation into the actual condition of manufactures in the United States at that time.

Some writers have noticed that Hamilton seemed in his report to be familiar with the state of industry in this country but they give no explanation of how he obtained his information. Among the Hamilton papers in the Library of Congress there are a large number of unpublished letters, written to him or his agents, from all parts of the country, which discuss the extent, organization and needs of manufactures. It will be possible here only to indicate briefly the nature of this material.

Hamilton sent a request to a leading citizen, usually an official, in each of the large states, for information on manufactures; these persons, in turn, requested the information from leading citizens and manufacturers in the towns. The system of gathering the facts was not the same in every state. John Chester writes to Hamilton from the

office of Supervisor in Connecticut, October 11, 1791: "After having revolved in my mind several plans for obtaining the necessary information, none was thought of which afforded so flattering prospects as that which was adopted, of writing to each member of the upper branch of our legislature as well as to many of the principal manufacturers."[a] "Agreeable to your request," runs another letter dated at Charleston, S. C., September 3, 1791, "have wrote a circular letter to the most leading characters throughout the state, relative to manufactures that may be carried on in the several counties."[b] A letter received in reply to a letter similar to the above, sent out by John Dexter, Supervisor in Rhode Island, is in part as follows: "I duly rec^{d} thy L^{re} of the 7th ins^{t} with a copy of a L^{r} from the Secr^{y} of the Treasury of the 22^{d} ul^{o} inclosed, and . . . . I shall cheerfully give every information in my power which may contribute to further the views of the National Legislature or assist the Secr^{y} in forming a plan for promoting Manufactures in the United States."[c]

In his investigation Hamilton gave particular

[a] Hamilton, MSS., vol. 11, p. 181, L. C.

[b] Hamilton, MSS., vol. 11, p. 111, L. C. Stevens to Hamilton.

[c] Hamilton, MSS., vol. 11, p. 75, L. C. Moses Brown to John Dexter, July 22, 1791.

attention to domestic manufactures. "There is," he observed, "a vast scene of household manufacturing which contributes more largely to the supply of the community than could be imagined without having made it an object of particular inquiry."[a] Several small but careful house to house censuses of domestic production were taken, the most valuable being that of Drury Ragsdale in Virginia. In at least one case the facts were gathered by young women. Very often samples of domestic products accompanied the reports submitted to the Secretary of the Treasury. P. Colt in reviewing manufactures in Connecticut states very clearly the organization of industry in that state. "The manufactures of this state," he writes, "naturally present themselves to our view under the following heads: Those carried on in families merely for the consumption of those families; those carried on in like manner for the purpose of barter or sale; and those carried on by tradesmen, single persons, or companies for supplying the wants of others, or for the general purpose of merchandise or commerce."[b]

We may obtain from the unpublished letters and reports gathered by Hamilton and from his

[a] Works, vol. 4, p. 128. Manufactures, 1791.

[b] Hamilton, MSS., vol. 11, p. 69. To John Chester, July 21, 1791.

summaries in his report some idea of the nature and extent of manufactures in 1790 in this country. Fragmentary as the material is, it throws much light on the economic question which Hamilton was facing. "The inquiries to which the subject of this report has led," he writes in his report, "have been answered with proofs that manufacturies of iron, though generally understood to be extensive, are far more so than is commonly supposed."[a] A report, probably from Providence, R. I., says that nails are extensively manufactured and that in 1790 4,500 scythes, axes, and drawing knives were made.[b] Among others Hamilton said that there were manufactures of implements and tools, stoves and household utensils, steel and iron work for carriages and shipbuilding, and firearms.[c] Coppersmiths and brass founders were said to be numerous, their chief products being: copper and brass wires, utensils, andirons and philosophical apparatus.[d]

The most important articles made from wood were: ships, cabinet wares, cotton and woolen cards, and coopers' wares. "Ships," Hamilton says, "are nowhere built in greater perfection."[e]

[a] Works, vol. 4, p. 164. Manufactures, 1791.
[b] Hamilton, MSS., vol. 11, p. 63.
[c] Works, vol. 4, p. 127. Manufactures, 1791.
[d] Works, vol. 4, pp. 127, 169. Manufactures, 1791.
[e] Works, vol. 4, p. 172. Manufactures, 1791.

While it is not desired to press the point, the following remark concerning our timber is interesting, especially in the light of the modern policy of conservation. "The increasing scarcity and growing importance of that article (timber) in the European countries," Hamilton observes, "admonish the United States to commence, and systematically to pursue, measures for the preservation of their stock."[a]

Hamilton also speaks of there being manufactures of gunpowder, sugar, flour, liquors, printed books and paper. "Manufactories of paper," he says, "are among those which are arrived at the greatest maturity in the United States."[b]

Manufactures of leather had in 1790 reached such a stage that they could defy foreign competition.[c] Hides were tanned and curried, and saddles and harness made.[d] A committee in Charleston, S. C., sent in an extensive report on leather manufactures in that town.[e] Both glass and sailcloth manufactures were reported. Sam Breek of Boston begins a letter to Hamilton as follows: "In conformity with your wish it would afford me

[a] Works, vol. 4, p. 172. Manufactures, 1791.
[b] Works, vol. 4, p. 190. Manufactures, 1791.
[c] Works, vol. 4, p. 173. Manufactures, 1791.
[d] Hamilton, MSS., vol. 11, p. 63. L. C.
[e] Hamilton, MSS., vol. 11, p. 165, L. C.

great pleasure to make you acquainted with the exact state of the duck and glass manufactures in this town."[a]

Some attempts had been made in growing the mulberry tree for the purpose of raising the silkworm.[b] From Morristown, N. J., however, came the report that silk manufactures were "yet only in embryo."[c] The manufacturing of lace was carried on, upon a limited scale, in Ipswich, Mass.[d]

The most careful census of cloth production in families was carried out by Drury Ragsdale, Inspector for Survey No. 3, King William Co., Va. The actual returns from twenty families "comprehending all classes from the richest to the poorest" were:

Total number of persons in families (including slaves)	301
Total number of yards of cloth made	2914
Stockings made (both fine and coarse), pairs . .	260
Total value of products	£501 2 0

"It may not be amiss to inform you," Ragsdale writes, "that it is my opinion that the manufactures in my survey carried on in private families consist principally if not altogether of cotton and wool, most of the fine cloth is of cotton alone.

[a] Hamilton, MSS., vol. 11, p. 113, L. C. September 3, 1791.

[b] Hamilton, MSS., vol. 11, p. 109, L. C.

[c] Hamilton, MSS., vol. 11, p. 97, L. C. Conduit to Dunham. August 25, 1791.

[d] Works, vol. 4, p. 189. Also MSS., vol. 11, p. 51.

. . . . There being a scarcity of wool it is generally mixed with cotton."[a]

While cloth was made generally in the homes of the people, promising beginnings were being made in factory production. Hamilton speaks of Sir Richard Arkwright's invention of the spinning frame,[b] and says that the manufactory at Providence had the merit of being the first to introduce it into the United States.[c] A factory established at Beverly, Mass., for the purpose of making "cotton goods of the kind usually imported from Manchester for men's wear," reported the following equipment: one carding engine; nine spinning jennies of sixty to eighty-four spindles each; one doubling and twisting machine; one slubbing machine; one warping mill; sixteen looms with flying shuttles; two cutting frames; one burrer and furnace with apparatus to singe the goods; apparatus for coloring, etc.[d]

Hamilton was interested in the founding, by the Society for the Establishment of Manufactures, of a factory for the "making and printing of cotton goods."[e] A resolution was sent to him

[a] Hamilton, MSS., vol. 11, pp. 159, 161, L. C. September 29, 1791.

[b] Works, vol. 4, p. 90. Manufactures, 1791.

[c] Works, vol. 4, p. 186. Manufactures, 1791.

[d] Hamilton, MSS., vol. 11, p. 119, L. C. Cabot to Hamilton, September 6, 1791.

[e] Works, vol. 4, p. 182. Manufactures, 1791.

signed by members of the society, requesting him "to procure and engage for the service of the society such artists and workmen as you shall deem necessary, and upon such terms as shall appear to you reasonable, for the purpose of carrying on a manufactory of cotton in its various branches and printing the same."[a]

Woolen goods also were produced extensively "in a domestic way," and essays were being made in factory production. The making of hats, Hamilton observed, had acquired maturity.[b] J. P. Cooke writes John Chester concerning the hat industry in Danbury, Connecticut. "The manufacturing of hats of all kinds," he said on September 12, 1791, "is prosecuted upon a large scale in this town; from the factory of O. Burr and Company, which is probably the largest of the kind in the state, large quantities of hats are sent abroad, as also from several others, although to a much less amount."[c] In 1790 O. Burr & Company produced 443 felt hats at 5/; 9 girls' hats at 7/6; 19 plain castors at 24/; 1862 napt korums at 15/; 85 beavers at 39/; 99 napt castors at 24/.[d]

There was a beginning of the fabrication of

[a] Hamilton, MSS., vol. 11, p. 83, L. C.
[b] Works, vol. 4, p. 187. Manufactures, 1791.
[c] Hamilton, MSS., vol. 11, p. 128, L. C.
[d] Hamilton, MSS., vol. 11, p. 130, L. C.

cloths, cassimeres, and other woolens in Hartford, Connecticut.[a] Speaking of this young industry, P. Colt, on July 21, 1791, writes: "This manufacture commenced about three years agone with a capital of £1,200. . . . . This stock being found too small to effect the views of the company which was to determine the question if American wool would make cloth equal to British cloths out of British wool and at reasonable prices, was extended by new subscriptions to £2,800. . . . . The legislature, being sensible of the importance of encouraging this infant establishment, granted them a lottery to raise £1,000."[b] In a town, probably Providence, the woolen manufactures were reported to be limited because of the scarcity of wool. "Was the raising of sheep duly encouraged," the report says, "a sufficient quantity must be manufactured for the whole of the inhabitants."[c] Hamilton's solution of the difficult problem of encouraging wool-growing and woolen manufactures was to grant premiums for the increase and improvement of wool production and to pay these premiums from a fund raised by levying a protective duty on woolen goods imported.[d]

[a] Works, vol. 4, p. 187. Manufactures, 1791.

[b] Hamilton, MSS., vol. 11, p. 71, L. C. Colt to Chester, July 21, 1791.

[c] Hamilton, MSS., vol. 11, p. 63, L. C. Richmond to Wheeler, October 10, 1791.

[d] Works, vol. 4, p. 188. Manufactures, 1791.

A few interesting sidelights were brought out by Hamilton's investigation. Anselm Bailey of Surry, Virginia, writes to T. Newton as follows: "Thine of the 26th of last mo. I received and set about with much cheerfulness to comply with thy request but thou'l be perhaps surprised at hearing that most of the people in these parts have got in such a spirit of jealousy that they suspect some design unfavorable to them in every thing that is attempted of a public nature. 'What are they going to tax our Cloath too'—was the reply of several."[a] Those acquainted with the appeals of manufacturers to Congress in recent years will find in one John Mix of New Haven, Connecticut, an ancestral likeness whose face is strangely familiar. "I was not bread up," John writes on September 30, 1791, "to any Mechanical Business, but had part of an Education at Yale College. . . . . Being ever a friend and Supporter of the Rights of my country and finding agriculture and manufactures must be the main Supporters of the country, I applied my attention to find out some kind of Manufactures that had not met with the particular attention of the Publick.

"In September, 1789, I accidently cast my eyes on a particular hard metal button; after examination of it I was fully persuaded in my own mind

[a] Hamilton, MSS., vol. 11, p. 93, L. C. August 23, 1791.

that I could find out the composition and that they might be made to advantage."

After describing his button factory he continues: "We, therefore, Earnestly wish and hope that Congress would Early in their approaching Session take up the Matter with Spirit and resolution and lay such heavy Duties on Articles of Buttons that it will amount to a Prohibition of Importing Buttons into this country. We shall then be able to Enlarge our Button factory in a very advantageous and Extensive manner boath for the Publick Benefit and our own Advantage."[a] It is refreshing after this to read that Jonathan Hill of Providence, a manufacturer of fringe, lace, and webbing, can make his goods at a lower rate than they can be imported so that he "wishes for nothing but to be known."[b]

Many arguments were current in Hamilton's day maintaining that manufactures could not be successfully established in a country with vast tracts of unoccupied lands. "To all the arguments which are brought to evince the impracticability of success in manufacturing establishments in the United States," Hamilton answered with the facts of his investigation in mind, "it might have been a sufficient answer to have referred to

[a] Hamilton, MSS., vol. 11, p. 163, L. C. To John Chester.
[b] Hamilton, MSS., vol. 11, p. 63, L. C.

the experience of what has been already done."[a] Other objections advanced against manufactures were: first, scarcity and dearness of labor; secondly, want of capital; thirdly, the retarding effect which they would have on the settlement of new lands.

Hamilton, while admitting that the scarcity and dearness of labor were real difficulties, did not think that they were insuperable. "There are large districts," he observed, "which may be considered as pretty fully peopled; and which, notwithstanding a continual drain for distant settlement, are thickly interspersed with flourishing and increasing towns."[b] In such districts, he thought, the complaint of scarcity of hands was on the point of ceasing. The stock of manufacturing labor would also be augmented, he said, by the use which could be made of women and children; by the vast extension in the improvement of machinery; by the employment of persons engaged in other occupations during their hours of leisure; and by attracting foreign immigrants.[c] But he adds that even if labor is higher here than in Europe "there are grounds to conclude that undertakers of manufactures in this country can, at this time, afford to pay higher wages to the workmen they may em-

[a] Works, vol. 4, p. 126. Manufactures, 1791.
[b] Works, vol. 4, p. 108. Manufactures, 1791.
[c] Works, vol. 4, pp. 108, 109. Manufactures, 1791.

ploy, than are paid to similar workmen in Europe."[a]

As for capital Hamilton thought that there would be no more difficulty in finding it for improving manufactures than for developing agriculture and trade. It is an obvious truth he said that the "opening affairs of this rising country afford profitable objects for more capital than it has yet acquired.[b] But the want of capital will be remedied, he argued, by the installation of banks and by the use of the funded debt which we have already noticed,"[c] and by the introduction of foreign capital. It was his belief that foreign capital, which had already helped to improve our means of public communication, might be expected to assist in manufactures.

While Hamilton thought that the conversion of waste into cultivated lands was of great moment in the political[d] calculations of the country, he did not regard it as of primary importance. "It is manifestly an error," he remarks, "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 to both. It is rather to be considered as in a compound ratio to the

[a] Works, vol. 4, p. 111. Manufactures, 1791.

[b] Hamilton, MS. Manufactures, 3, L. C.

[c] Chapter Sixth, pp. 73 and 78.

[d] In an early draft "political" reads "oeconomical."

quantity of land occupied and the degree of improvement."[a] Any retarding of settlement caused by manufactures would be compensated for by increase in vigor of cultivation and even the number engaged in agriculture might be increased, since foreigners attracted to this country by manufactures might later yield to the temptation to take up free land.[b]

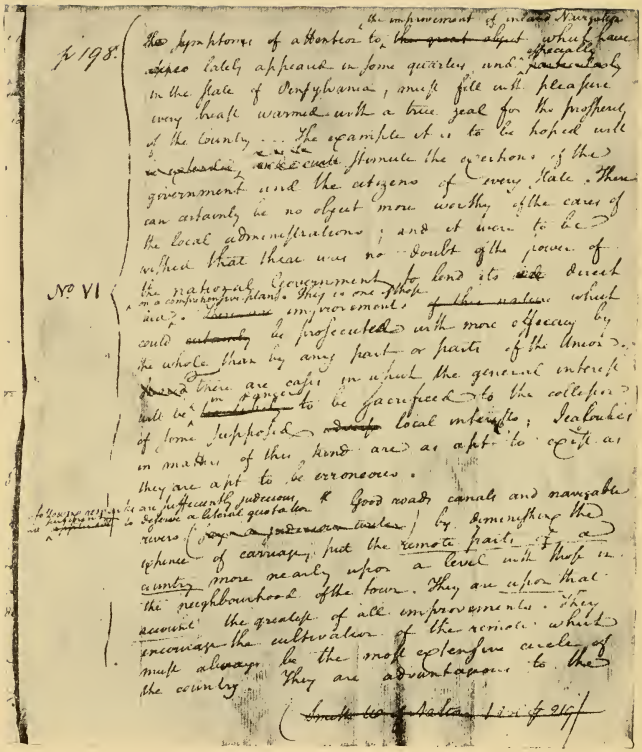
The actual state of manufactures and the answers to the objections to the further encouragement of them which we have just reviewed, indicate that by 1790 both substantial beginnings had been made in domestic and factory production and that the prospects were good for their development. This condition had been largely forced upon the United States, first, by the exclusion of foreign goods during the Revolution, and then, by the policy of foreign nations which prevented America from settling her trade balance with the products of her soil. Her foodstuffs and raw materials were barred from foreign markets and she could not pay for her imports with exports. Her only alternate was to manufacture for herself. When Hamilton wrote his report he saw this condition. "If Europe," he says, "will not take from us the products of our soil, upon terms consistent with our interest, the natural remedy

[a] Hamilton, MS. Manufactures, 1, L. C.
[b] Works, vol. 4, p 103. Manufactures, 1791.

is to contract, as fast as possible, our wants of her."[a]

Writers have observed that Hamilton's suggestions on manufactures were not, as they were in the case of his other reports, immediately followed, and that they were not even urged by him again. The explanation is not far to seek. During the year following the publication of the Report on Manufactures war broke out between France and the First Coalition, and from that time until Waterloo Europe was in an almost continuous state of hostility. The markets which before America had been refused were now thrown open to her, and under her cherished policy of neutrality she reaped a rich harvest in trade. The immediate need for diversifying industry was removed. Hamilton himself turned his energies, from necessity, to questions of foreign policy and international law. He probably, however, felt that the conditions forced upon us were unfortunate since they perpetuated the colonial economy, and were, therefore, anti-national. He believed that it was "most wise for us to depend as little as possible upon European caprice, and to exert ourselves to the utmost to unfold and improve every domestic resource."[b]

[a] Works, vol. 4, p. 102. Manufactures, 1791.
[b] Works, vol. 9, p. 484. To Goodhue, June 30, 1791.



A Page from an Early Draft of Hamilton's Report on Manufactures, Showing Reference to "Wealth of Nations," in His Handwriting

(Page 219 probably intended to refer to page 229)

CHAPTER NINTH

Protection

In the Library of Congress there are three more or less complete preliminary drafts and the final draft of Hamilton's Report on Manufactures which he submitted to Congress December 5, 1791. 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, 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 at the time of writing a copy of Adam Smith's Wealth of Nations. Conclusive evidence of the fact, however, is found in the reference, "Smith, W. of Nations, vol. 1, p. 219,"[a] which appears on an early draft of the report but which was subsequently scratched out.

Prior to the writing of the Report on Manufactures five editions of the Wealth of Nations had appeared in England.[b] They were published in 1776, 1778, 1784, 1786, and 1789, respectively.

[a] See photograph of manuscript on opposite page. "P. 219" is probably a slip of the pen and intended for p. 229 of the third English edition (1784).

[b] The sixth edition is dated 1791, the year in which the Report on Manufactures was published.

It was enough in demand in this country by 1789 that an American edition was put out by a Philadelphia publisher. When Hamilton came to consider the question of manufactures, he found that public men were generally acquainted with its principles of freedom in trade and industry, and he, therefore, thought it advisable to state and answer them fully in his report.

"To endeavor," Hamilton says in stating the position of the school of Smith, "To endeavor, by the extraordinary patronage of government, to accelerate the growth of manufactures, is, in fact, to endeavor, by force and art, to transfer the natural current of industry from the more to a less beneficial channel. . . . . It can hardly ever be wise in a government to attempt to give a direction to the industry of its citizens. This, under the quick-sighted guidance of private interest, will, if left to itself, infallibly find its own way to the most profitable employment; and it is by such employment, that the public prosperity will be most effectually promoted. . . . .

"This policy is not only recommended to the United States, by considerations which affect all nations; it is, in a 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 to emigration from the settled to the unsettled parts of the

country; the facility with which the less independent condition of an artisan can be exchanged for the more independent condition of a farmer:— these, and similar causes, conspire to produce, and for a length of time must continue to occasion, a scarcity of hands for manufacturing occupation, and dearness of labor generally."[a]

Hamilton saw very clearly the value of Smith's philosophy of freedom and that, as a protest against too much regulation, it had every right to be respected. The following appreciations of it are taken from different drafts of his report:

[a] Works, vol. 4, pp. 71, 72. Cf. Works, vol. 4, p. 104. Also Smith, A., Wealth of Nations, Book 3, ch. 1, and Book 4, ch. 9.

"This theory has so much of truth in it that its principles ought never to be out of the view of the 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 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 forced into maturity by violent and disproportioned exertions."[a]

"There is so much of truth in these positions that an attentive eye ought to be had to them in every step of our progress toward the attainment of manufactures. But though they are very proper considerations to moderate, they are not such as ought to extinguish a zeal for manufactures. All political theories, however true in the main, become pernicious when pushed to an extreme. They all admit of numerous exceptions and qualifications; in discerning which the wisdom of government is manifest."[b]

"This mode of reasoning is founded upon facts and principles which have certainly respectable pretensions. If it had governed the conduct of nations more generally than it has done, there is room to suppose that it might have carried them faster to prosperity and greatness than they have attained by the pursuit of maxims too widely opposite. Most general theories, however, admit of numerous exceptions, and there are few, if any, of the political kind, which do not blend a considerable portion of error with the truths they inculcate."[c]

[a] Hamilton, MS. Manufactures, 1, L. C.
[b] Hamilton, MS. Manufactures, 3, L. C.
[c] Works, vol. 4, p. 73. Manufactures, 1791.

Hamilton now advances several positive arguments against the tenets of Smith. It was necessary, in order to make his system of liberty work, for Smith to assume perfect mobility of labor and capital; but Hamilton was quick to see that this assumption was not warranted by the facts of human nature. It disregarded entirely the psychological factors in the equation; such as habit, the spirit of imitation, and the fear of want of success in untried enterprises. "Experience," he says, "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 gradations."[a] Men will, in fact, often adhere to ancient courses as long as they may obtain from them bare subsistence. "The apprehension of failing in new attempts," he continues, "is, perhaps, a more serious impediment."[b] Cautious capitalists are not likely to undertake new and precarious undertakings unless government intervene to remove some of the obstacles.

The doctrine of Adam Smith, furthermore, disregards the existence of nations; his theory might have worked in a world without national boundaries, national traditions, and national desires, but

[a] Works, vol. 4, p. 104. Manufactures, 1791.
[b] Works, vol. 4, p. 105. Manufactures, 1791.

these to the mind of Hamilton involved, not only facts to be recognized, but also principles to be cherished. His chief concern was the collective interest of the American nation. "To maintain," he said, "between the recent establishments of one country, and the long-matured establishments of another country, a competition upon equal terms, both as to quality and price, is, in most cases, impracticable."[a] A society, therefore, which might be ready for manufactures according to the system of perfect liberty would be hindered, by unequal competition, from diversifying its industry. Another impediment to the establishment of new industries is the policy of foreign nations of granting bounties, premiums, and other aids "to enable their own workmen to undersell and supplant all competitors in the countries to which those commodities are sent."[b] Combinations of foreign manufacturers, Hamilton also thought, existed whose purpose it was to frustrate, by temporary sacrifices, the introduction of new industries in countries which were their markets.[c] "Whatever room there may be for an expectation that the industry of a people, under the direction of private interest, will, upon equal terms, find out the most beneficial employment for itself," he remarks in

[a] Works, vol. 4, pp. 105, 106. Manufactures, 1791.
[b] Works, vol. 4, p. 106. Manufactures, 1791.
[c] Works, vol. 4, pp. 106, 107. Manufactures, 1791.

conclusion, "there is none for a reliance that it will struggle against the force of unequal terms, or will, of itself, surmount all the adventitious barriers to a successful competition which may have been erected either by the advantages naturally acquired from practice and previous possession of the ground, or by those which may have sprung from positive regulations and an artificial policy."[a]

Hamilton looked at the advice of Adam Smith to the statesman in two ways: he thought, in the first place, that because of the reluctance of human nature and national aspirations, it would not work; that it would not achieve the results promised; he thought, secondly, that, even if it did work, the form of society it would produce was undesirable because it overlooked the interests and power of particular nations. Hamilton was, in fact, not an individualist. No book has thrown so much light on the motives and beliefs of Hamilton as did the recent work of F. S. Oliver. This book, begun as an essay on Joseph Chamberlain's policy of preference, expanded into a political and economic study of Hamilton. Its most extraordinary popularity shows not only its literary power, but also the renewal of interest in Hamilton and the principles of nationalism. It is valuable not so much for its facts as for its study of forces back of facts. Whatever its defects as

[a] Works, vol. 4, p. 107. Manufactures, 1791.

history may be, its position is secure as a sympathetic interpretation of a political philosophy which has held the allegiance of at least some of the most powerful of the world's thinkers and statesmen.

Hamilton's argument for protection might be stated in brief 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. We may consider his arguments at more length under these heads: home-market; self-sufficiency; and productivity.

The home-market argument for protection was addressed by Hamilton to the agriculturists who constituted by far the most numerous class in America. Manufactures, he says, by creating, in some instances, a new, and securing, in all, a more certain and steady demand for the surplus produce of the soil, contribute to an augmentation of the produce or revenue of a country, and have an immediate and direct relation to the prosperity of agriculture.[a] "It is evident," he continues, "that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness or inadequateness, of the markets on which he must depend for the vent of the surplus which may be

[a] Works, vol. 4, p. 95. Manufactures, 1791.

produced by his labor."[a] When Hamilton considered the policy of self-sufficiency and exclusion pursued by foreign nations; the casual and occasional demand for the produce of our soil; the danger of a glut of produce in our markets; the probable progressive settlement of the West; and the need of developing the vast, unexploited resources of the nation:—when he considered these, he was convinced that an extensive domestic market was necessary to our prosperity. "To secure such a market," he concludes, "there is no other expedient than to promote manufacturing establishments."[b]

That every class and every sectional interest within the nation was unequivocally bound up with the national interest was a fundamental maxim of Hamilton's creed. Antagonisms within the nation he regarded as superficial and due to the inability of people to comprehend their welfare as a whole. "The aggregate prosperity of manufactures and the aggregate prosperity of agriculture," he says, "are intimately connected."[c] Manufactures promote a vigorous and more steady cultivation of the soil, and, even if they do abridge the rapid settlement of lands, the land-owning class is reim-

[a] Works, vol. 4, p. 95. Manufactures, 1791.
[b] Works, vol. 4, p. 97. Manufactures, 1791.
[c] Works, vol. 4, p. 139. Manufactures, 1791.

bursed by an increase both in the capital value and the income of its land.[a]

Hamilton found the most insistent opposition to manufactures coming from the South. Since that section could not develop them under the *régime* of slavery, it regarded their encouragement in the North as sectional legislation opposed to their interests. This opinion Hamilton deplored. "Ideas of a contrariety of interests between the Northern and Southern regions of the Union," he said, "are, in the main, as unfounded as they are mischievous. The diversity of circumstances, on which such contrariety is usually predicated, authorizes a directly contrary conclusion. Mutual wants constitute one of the strongest links of political connection; and the extent of these bears a natural proportion to the diversity in the means of mutual supply."[b] The Socialist believes that there is a "gigantic struggle between capitalism and landed property, between profits and land rent,"[c] but from the nationalist's point of view these interests are complementary. Hamilton regarded the coöperation of the agricultural and manufacturing interests as not only necessary to the power and opulence of the nation, but as bene-

[a] Works, vol. 4, p. 103. Manufactures, 1791.

[b] Works, vol. 4, p. 139. Manufactures, 1791.

[c] Rabbeno, U., Protezionismo Americano, Essay 2, ch. 7, sec. 63.

ficial to the coöperating classes and individuals. It was his belief that there was an "intimate connection of interest which subsists between all the parts of a society united under the same government."[a]

In the comprehensiveness of his appeal Hamilton did not forget the fishing interests. "As far as the prosperity of the fisheries of the United States," he said, "is impeded by the want of an adequate market, there arises another special reason for desiring the extension of manufactures."[b]

While Hamilton desired economic independence for the American nation, he was hopeful that this country by producing a great variety of goods would become an extensive, diversified market in which foreigners would supply their needs. "Another circumstance," he observed, "which gives a superiority of commercial advantages to states that manufacture as well as cultivate, consists in the more numerous attractions which a more diversified market offers to foreign customers, and in the greater scope which it affords to mercantile enterprise."[c]

Hamilton's home-market argument, then, falls naturally into three parts: manufactures, in the

[a] Works, vol. 4, p. 140. Manufactures, 1791.
[b] Works, vol. 4, p. 138. Manufactures, 1791.
[c] Works, vol. 4, p. 132. Manufactures, 1791.

first place, by furnishing a steady and near market for raw materials and foodstuffs, would encourage both the intensive and extensive cultivation of the soil; they, secondly, by making the sections of the country mutually dependent, would cement more closely the Union of States; and they, thirdly, by diversifying the articles of national production, would prevent stagnation in our markets and attract foreigners to our shores to buy.

In selecting the industries which he believed worthy of protection, Hamilton took into consideration, among other interests, "particularly the great one of national defence."[a] For the sake of national strength and independence, he desired that the United States should abridge its wants of other nations, and that because of the uncertainties of international trade and the possibilities of war, it should aim at self-sufficiency. "Not only the wealth," he says, "but the independence and security of a country appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself all the essentials of national supply. These comprise the means of subsistence, habitation, clothing, and defence."[b] In Hamilton's day the safety, if not the existence, of a political society depended on its

[a] Works, vol. 4, p. 163. Manufactures, 1791.
[b] Works, vol. 4, p. 135. Manufactures, 1791.

ability to obtain adequate supplies. The embarrassment of the United States during the Revolutionary War, from an incapacity of supplying its needs, was remembered, as a warning, by Hamilton; and he urged that timely and vigorous measures be taken to prevent its recurrence in case of future war.[a] He thought that we ought not to depend on foreign supply because it was precarious and liable to be interrupted.[b] "The want of a navy," he observed, "to protect our external commerce as long as it shall continue, must render it a peculiarly precarious reliance for the supply of essential articles, and must serve to strengthen prodigiously the arguments in favor of manufactures."[c] National self-sufficiency was to him a policy demanded by expediency and practical politics. In an age when nations were neither asking nor giving quarter; when the weak were the prey of the strong; when retaliation, navigation laws, and war were chessmen in the international game of national greatness; the strength, if not the safety, of the American nation, Hamilton maintained, depended on abridging our needs of other powers.

Economists have generally conceded that under certain conditions a nation might be justified, for

[a] Works, vol. 4, p. 136. Manufactures, 1791.
[b] Works, vol. 8, p. 222. Speech, 1796.
[c] Works, vol. 4, p. 136. Manufactures, 1791.

the sake of self-sufficiency, in diversifying its industry. But they usually add that the nation which does it, sacrifices wealth to defence. Hamilton did not think so. Self-sufficiency was to him, in fact, incidental, or perhaps, self-evident; he believed that protection was primarily a means of increasing the power of the nation to produce wealth. The theory of "productive powers" is generally ascribed to Friedrich List. List was born at Reutlingen, Würtemberg, August 6, 1789. Because of political persecution, he came to America in 1825, and remained five years. He immediately interested himself in the "Pennsylvania Society for the Promotion of Manufactures and the Mechanical Arts"—a society founded by Hamilton. This society republished in 1824, with a preface by its president, Matthew Carey, Hamilton's Report on Manufactures. A second edition appeared in 1827.[a] In this same year List wrote a series of letters to C. J. Ingersoll, Vice President of the Philadelphia Society, which were published under the title, "Outlines of American Political Economy."

Rabbeno has pointed out that before landing in America List had not formulated his theory of protection and also that all the essential ideas which appear in his work of 1841 are to be found

[a] Hirst, M. E., Life of Friedrich List, p. 115.

in the "Outlines" of 1827.[a] Although List gives no credit in any of his writings to Hamilton's famous report, it seems impossible to escape the conclusion that he found in it the general principles which he developed into his theory of nationality and productive powers.[b]

"National economy," List says, "teaches by 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."[c] The object of political economy, he thought, was not to gain matter in exchanging matter for matter, but to gain productive and political power. "There are," he says, "a capital of nature, a capital of mind, and a capital of productive matter, and the productive powers of a nation depend not only upon the latter, but also and principally upon the two former."[d]

America was in Hamilton's day a vast undeveloped estate; rich in latent resources but poor in productive powers. The economic organization was weak because simple. The most direct

[a] Rabbeno, U., Protezionismo Americano, Essay 3, ch. 2, sec. 23.

[b] Callender, G. S., Economic History of the United States, p. 552n.

[c] List, F., Outlines. Letter 1.

[d] List, F., Outlines. Letter 4.

and obvious way in which manufactures would increase production in an agricultural society, Hamilton pointed out, were: first, by the extension of the use of machinery; machinery which is an "artificial force brought in aid of the natural force of man" would increase the mass of national industry. In the second place, manufactures would afford "occasional and extra employment to industrious individuals and families, who are willing to devote the leisure resulting from the intermissions of their ordinary pursuits to collateral labors";[a] and give employment to persons disqualified by bias of temper or infirmity of body from work in agriculture. In the third place, manufactures would increase the quantity of labor in the nation by attracting foreign immigrants. "Men," Hamilton says, "reluctantly quit one course of occupation and livelihood for another, unless invited to it by very apparent and proximate advantages."[b] But those, unwilling to migrate in order to become farmers, would come to America if they had prospects of continuing in their chosen calling. "The disturbed state of Europe," Hamilton writes in 1791, "inclining its citizens to emigration, the requisite workmen will be more easily acquired than at another time; and the effect of multiplying the opportunities of employment to

[a] Works, vol. 4, p. 91. Manufactures, 1791.
[b] Works, vol. 4, p. 92. Manufactures, 1791.

those who emigrate, may be an increase of the number and extent of valuable acquisitions to the population, arts, and industry of the country. To find pleasure in the calamities of other nations would be criminal; but to benefit ourselves, by opening an asylum to those who suffer in consequence of them, is as justifiable as it is politic."[a]

In a nation, as in a factory, there is a maximum of productiveness. Hamilton believed that it is the statesman's, as it is the entrepreneur's, duty to regulate the division of labor so that the maximum product will be produced. His arguments for national division of labor are taken substantially from the "Wealth of Nations"—the difference being that, while Smith lays emphasis on division of labor within a manufactory, such as his pin factory, or on international division of labor, Hamilton emphasizes division of labor within the nation. "There is scarcely any thing of greater moment in the economy of a nation," he says, "than the proper division of labor. The separation of occupations causes each to be carried to a much greater perfection than it could possibly acquire if they were blended."[b] Hamilton then gives Adam Smith's three famous arguments for division of labor. Greater skill and dexterity, in the first place, naturally results from a constant

[a] Works, vol. 4, p. 143. Manufactures, 1791.
[b] Works, vol. 4, pp. 87, 88. Manufactures, 1791.

and undivided application to a single object.[a] The cultivator, in a country which has manufactures, since he does not have to make his own implements and manufactured goods, can give his undivided attention to the tillage of the soil. By furnishing food and raw materials, on the contrary, to the manufacturer, the farmer allows him to perfect his processes and develop his skill. Division of labor, secondly, economizes time by avoiding the loss of it "incident to a frequent transition from one operation to another."[b] Time is lost in the transition itself, in the orderly disposition of implements, machinery, and materials, in the "interruption of the impulse which the mind of the workman acquires from being engaged in a particular operation," and in the "distractions, hesitations, and reluctances which attend the passage from one kind of business to another." National division of labor, finally, leads to the improvement of machinery.[c] A man employed on a single object will be led to exert his imagination "in devising methods to facilitate and abridge labor." Another result will be that the fabrication of machines will become a distinct trade and the in-

[a] Works, vol. 4, p. 88. Cf. Wealth of Nations, Book 1, ch. 1, vol. 1, p. 9.

[b] Ibid.

[c] Works, vol. 4, pp. 88, 89. Cf. Wealth of Nations, Book 1, ch. 1, vol. 1, pp. 10, 11.

vention and application of machinery will be extended. "The mere separation of the occupation of the cultivator from that of the artificer," Hamilton concludes, "has the effect of augmenting the productive powers of labor, and with them, the total mass of the produce and revenue of a country."[a]

Adam Smith and his school seem to disregard entirely the immaterial and mental factors in the equation of production, and to maintain that the industry of a country is always in proportion to the quantity of its labor and capital.[b] If it be true that the confidence and enterprise of the people does not effect production, it is, then, obvious that any regulation which diverts labor and capital from a more to a less productive industry destroys national wealth; if, on the contrary, the psychological factors have a bearing on production, the question becomes: In what form of society are the largest number of human talents brought into play and the greatest quantity of activity stimulated? Hamilton's answer to this question was: In a society where the objects of industry are most diversified.

"It is a just observation," Hamilton remarks, "that minds of the strongest and most active powers for their proper objects, fall below me-

[a] Works, vol. 4, p. 89.

[b] Cf. Wealth of Nations, Book 4, ch. 2, vol. 1, pp. 422, 423.

diocrity, and labor without effect, if confined to uncongenial pursuits."[a] It was his idea that in a homogeneous society, such as America was in his day, a large amount of talent goes to waste because it has no object to which to apply itself. Since men have diversity of talents and dispositions, he desired that opportunities in industry be coextensive with them. "When it is considered . . . . ," he wrote in one of the manuscript drafts of his report, "that the results of human enterprise and exertion are immensely augmented by the diversification of their objects; that there is a reciprocal reaction of the various species of industry upon each other mutually beneficial, and conducive to general prosperity, it must appear probable that the interests of a community will be most effectually promoted by diversifying the industrious pursuits of its members and by regulating the political economy so that those who have been particularly qualified by nature for arts and manufactures may find the encouragement necessary to call forth and reward their peculiar talents."[b]

The effect of enlarging the field of enterprise had the same effect on the industry of a people, Hamilton believed, as the "discovery of some new

[a] Works, vol. 4, p. 93. Manufactures, 1791.
[b] Hamilton, MS. Manufactures, 3, L. C.

power in mechanics";[a] it harnessed and made available powers which formerly were latent. He wished by encouraging manufactures to stimulate men with new ambitions to produce wealth. "To cherish and stimulate the activity of the human mind," he says, "by multiplying the objects of enterprise, is not among the least considerable of the expedients by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous sometimes become so, by their tendency to provoke exertion. Every new scene which is open to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.

"The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded, in proportion to the simplicity or variety of the occupations and productions which are to be found in a society. It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants than in a nation of cultivators, artificers, and merchants."[b]

Hamilton marks the dividing line between mercantilism and modern protection. The old mercantile fallacies of money and the balance of trade were like bubbles which need but a pin-prick to

[a] Hamilton, MS. Manufactures, 2, L. C.
[b] Works, vol. 4, pp. 94, 95. Manufactures, 1791.

burst them, but out of the ruins of the old Hamilton reconstructed the new, and thereby became the founder and prophet of modern protection. Through List his ideas have affected the policies of Germany, through the Careys and others they have been perpetuated in America, and in more recent times they have crept past the shades of Smith and Cobden into free-trade England. Hamilton's theory of protection was more than a political expedient; it was the economic side of his nationalistic creed. The encouragement of manufactures, he knew, would strengthen the nation in the rivalries of the world and, by creating mutual wants, unite the sections together; but the keystone of his doctrine was the belief that the diversification of industrial pursuits would increase the nation's power to produce wealth. It is in contributing this theory that he has claim to a respectable place among the economists of the world.

If it be admitted that it is desirable for an agricultural country to encourage manufactures the question presents itself: How shall this be accomplished? Hamilton's list of means is exhaustive. It includes: protecting duties; prohibition of rival articles; prohibition of the exportation of the materials of manufactures; the exemption of materials of manufactures from duty; drawbacks of duties which are imposed on the materials of manufactures. Hamilton did not

recommend unqualifiedly all these means. Of prohibition of rival articles he said that "it is only fit to be employed when a manufacture has made such progress, and is in so many hands, as to insure a due competition, and an adequate supply on reasonable terms."[a] Of prohibition of the export of raw material he said that it is a regulation which "ought to be adopted with great circumspection and only in very plain cases."[b]

Hamilton further suggested that manufactures might be encouraged by improving transportation and banking facilities; by encouraging the discovery at home and the introduction from abroad of new inventions; and by the judicious regulation for the inspection of manufactured commodities. He placed special emphasis on regulation. "Contributing," he says, "to prevent frauds upon consumers at home and exporters to foreign countries, to improve the quality and preserve the character of the national manufactures, it cannot fail to aid the expeditious and advantageous sale of them, and to serve as a guard against successful competition from other quarters."[c]

Hamilton had a particular bias for bounties.

[a] Works, vol. 4, p. 144. Manufactures, 1791.

[b] Works, vol. 4, p. 145. Manufactures, 1791. It seems strange that Hamilton does not mention in this connection that under the Constitution neither State nor Nation can lay duties on exports. Art. 1, sec. 9, cl. 5; Art. 1, sec. 10, cl. 2.

[c] Works, vol. 4, p. 158. Manufactures, 1791.

"This," he says, "has been found one of the most efficacious means of encouraging manufactures, and is, in some views, the best."[a] He favored them because their effect was direct and positive; because they avoided a temporary augmentation in price; because they had not, like high protective duties, a tendency to produce scarcity; and because by them new objects in agriculture and manufactures may be encouraged together. He also favored premiums since their effect is to stimulate general effort. "They are," he says, "a very economical means of exciting the enterprise of a whole community."[b]

To those who like Sumner[c] believe that in his philosophy of trade Hamilton never rose above the mercantilist's balance of trade theory it must suffice here to answer with one quotation. "It seems not always to be recollected," Hamilton says, "that nations who have neither mines nor manufactures can only obtain the manufactured articles of which they stand in need by an exchange of the products of their soils; and that if those who can best furnish them with such articles are unwilling to give a due course to this exchange, they must, of necessity, make every possible effort to manufacture for themselves; the effect of

[a] Works, vol. 4, p. 146. Manufactures, 1791.
[b] Works, vol. 4, p. 153. Manufactures, 1791.
[c] Sumner, W. G., Alexander Hamilton, p. 175.

which is, that the manufacturing nations abridge the natural advantages of their situation, through an unwillingness to permit the agricultural countries to enjoy the advantages of theirs, and sacrifice the interests of a mutually beneficial intercourse to the vain project of selling everything and buying nothing."[a] The assumption of some free-traders that, if one industry declines, under competition from without, the existing capital and labor inevitably finds employment in other industries, would seem to imply that the economic decay of a nation is not possible,—an implication scarcely supported by the facts of history. Hamilton, while understanding the laws which operate on the wealth existing in a society in a point of time, was more interested in the causes which stimulate the production of wealth and the forces which cause nations to rise and decline.

It may be best from the point of view of humanity to have weak and declining nations eliminated; but to the nationalist the collective interests of a group of people, with common life and civilization, is worth preserving. Hamilton was little concerned with how we might exchange our existing wealth for goods in Europe; he was deeply concerned, however, with how every force, physical and mental, within the nation might be turned to increasing our productiveness. "The

[a] Works, vol. 4, p. 96. Manufactures, 1791.

support of industry," he says, "is, probably in every case, of more consequence towards correcting a wrong balance of trade than any practicable retrenchments in the expenses of families or individuals."[a] To him the course of the exchanges was merely a barometer of national prosperity. We might for a time satisfy an adverse trade balance by exporting our securities but, if we were to remain a solvent nation, these sooner or later had to be met by the exportation of actual wealth. A nation which imported more goods and services than it exported must sooner or later, Hamilton maintained, either abridge its imports, increase its exports, or diversify its industry. And it was in seeking to strengthen the American nation by giving it a more complex life that he found justification for meddling with the sacred and natural laws of exchange.

We will do well to remember that protection, as Hamilton understood it, was an expression of nationalism. The charge of the Socialist that protection is grounded on capitalism and that it is a device by which the capitalist exploits the worker,[b] may be valid against some modern legislative policies which seek to justify themselves by invoking the name of Hamilton. But the misapplication of protection cannot be laid at the door

[a] Works, vol. 3, p. 407. National Bank, 1790.

[b] Rabbeno, U., Protezionismo Americano, Essay 2, ch. 2, sec. 17.

of Hamilton. Protection which now allows capitalists to use the strength of the nation to maintain their system of exploitation is not even akin to Hamiltonian protection. To him protection was a means of strengthening a weak class, not for the benefit of that class, but for the power and wealth of the nation. Class interests in which the Socialist believes and self-interest in which the free-trader has such implicit faith were to him forces to be either encouraged or restrained as the interests of the whole people demanded.