

Professor Mark Peterson

“Economy in the Early American Republic”

Primary Source Readings for the first day of the Summer Institute on Monday, August 10th

- Alexander Hamilton's Report on Public Credit
- Alexander Hamilton's Report on Manufactures
- Thomas Jefferson, Notes on the State of Virginia, Query 19

THE FOUNDERS' CONSTITUTION



Article 1, Section 8, Clause 2

Document 5

Alexander Hamilton, Report on Public Credit

9 Jan. 1790 *Papers* 6:67--72

In the opinion of the Secretary, the wisdom of the House, in giving their explicit sanction to the proposition which has been stated, ["That an *adequate* provision for the support of the Public Credit, is a matter of high importance to the honor and prosperity of the United States."] cannot but be applauded by all, who will seriously consider, and trace through their obvious consequences, these plain and undeniable truths.

That exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing.

That loans in times of public danger, especially from foreign war, are found an indispensable resource, even to the wealthiest of them.

And that in a country, which, like this, is possessed of little active wealth, or in other words, little monied capital, the necessity for that resource, must, in such emergencies, be proportionably urgent.

And as on the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so on the other, it is equally evident, that to be able to borrow upon *good terms*, it is essential that the credit of a nation should be well established.

For when the credit of a country is in any degree questionable, it never fails to give an extravagant premium, in one shape or another, upon all the loans it has occasion to make. Nor does the evil end here; the same disadvantage must be sustained upon whatever is to be bought on terms of future payment.

From this constant necessity of *borrowing* and *buying dear*, it is easy to conceive how immensely the expences of a nation, in a course of time, will be augmented by an unsound state of the public credit.

To attempt to enumerate the complicated variety of mischiefs in the whole system of the social oconomy, which proceed from a neglect of the maxims that uphold public credit, and justify the solicitude manifested by the House on this point, would be an improper intrusion on their time and patience.

In so strong a light nevertheless do they appear to the Secretary, that on their due observance at the present critical juncture, materially depends, in his judgment, the individual and aggregate prosperity of the citizens of the United States; their relief from the embarrassments they now experience; their character as a People; the cause of good government.

If the maintenance of public credit, then, be truly so important, the next enquiry which suggests itself is, by what means it is to be effected? The ready answer to which question is, by good faith, by a punctual performance of contracts. States, like individuals, who observe their engagements, are respected and trusted: while the reverse is the fate of those, who pursue an opposite conduct.

Every breach of the public engagements, whether from choice or necessity, is in different degrees hurtful to public credit. When such a necessity does truly exist, the evils of it are only to be palliated by a scrupulous attention, on the part of the government, to carry the violation no farther than the necessity absolutely requires, and to manifest, if the nature of the case admits of it, a sincere disposition to make reparation, whenever circumstances shall permit. But with every possible mitigation, credit must suffer, and numerous mischiefs ensue. It is therefore highly important, when an appearance of necessity seems to press upon the public councils, that they should examine well its reality, and be perfectly assured, that there is no method of escaping from it, before they yield to its suggestions. For though it cannot safely be affirmed, that occasions have never existed, or may not exist, in which violations of the public faith, in this respect, are inevitable; yet there is great reason to believe, that they exist far less frequently than precedents indicate; and are oftenest either pretended through levity, or want of firmness, or supposed through want of knowledge. Expedients might often have been devised to effect, consistently with good faith, what has been done in contravention of it. Those who are most commonly creditors of a nation, are, generally speaking, enlightened men; and there are signal examples to warrant a conclusion, that when a candid and fair appeal is made to them, they will understand their true interest too well to refuse their concurrence in such modifications of their claims, as any real necessity may demand.

While the observance of that good faith, which is the basis of public credit, is recommended by the strongest inducements of political expediency, it is enforced by considerations of still greater authority. There are arguments for it, which rest on the immutable principles of moral obligation. And in proportion as the mind is disposed to contemplate, in the order of Providence, an intimate connection between public virtue and public happiness, will be its repugnancy to a violation of those principles.

This reflection derives additional strength from the nature of the debt of the United States. It was the price of liberty. The faith of America has been repeatedly pledged for it, and with solemnities, that give peculiar force to the obligation. There is indeed reason to regret that it has not hitherto been kept; that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation, or non-compliance. But a diminution of this regret arises from the reflection, that the last seven years have exhibited an earnest and uniform effort, on the part of the government of the union, to retrieve the national credit, by doing justice to the creditors of the nation; and that the embarrassments of a defective constitution, which defeated this laudable effort, have ceased.

From this evidence of a favorable disposition, given by the former government, the institution of a new one, clothed with powers competent to calling forth the resources of the community, has excited correspondent expectations. A general belief, accordingly, prevails, that the credit of the United States will quickly be established on the firm foundation of an effectual provision for the existing debt. The influence, which this has had at home, is witnessed by the rapid increase, that has taken place in the market value of the public securities. From January to November, they rose thirty-three and a third per cent, and from that period to this time, they have risen fifty per cent more. And the intelligence from abroad announces effects proportionably favourable to our national credit and consequence.

It cannot but merit particular attention, that among ourselves the most enlightened friends of good government are those, whose expectations are the highest.

To justify and preserve their confidence; to promote the encreasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and commerce; to cement more closely the union of the states; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy. These are the great and invaluable ends to be secured, by a proper and adequate provision, at the present period, for the support of public credit.

To this provision we are invited, not only by the general considerations, which have been noticed, but by others of a more particular nature. It will procure to every class of the community some important advantages, and remove some no less important disadvantages.

The advantage to the public creditors from the increased value of that part of their property which constitutes the public debt, needs no explanation.

But there is a consequence of this, less obvious, though not less true, in which every other citizen is interested. It is a well known fact, that in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are there equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes current as specie. The same thing would, in all probability happen here, under the like circumstances.

The benefits of this are various and obvious.

First. Trade is extended by it; because there is a larger capital to carry it on, and the merchant can at the same time, afford to trade for smaller profits; as his stock, which, when unemployed, brings

him in an interest from the government, serves him also as money, when he has a call for it in his commercial operations.

Secondly. Agriculture and manufactures are also promoted by it: For the like reason, that more capital can be commanded to be employed in both; and because the merchant, whose enterprize in foreign trade, gives to them activity and extension, has greater means for enterprize.

Thirdly. The interest of money will be lowered by it; for this is always in a ratio, to the quantity of money, and to the quickness of circulation. This circumstance will enable both the public and individuals to borrow on easier and cheaper terms.

And from the combination of these effects, additional aids will be furnished to labour, to industry, and to arts of every kind.

But these good effects of a public debt are only to be looked for, when, by being well funded, it has acquired an *adequate* and *stable* value. Till then, it has rather a contrary tendency. The fluctuation and insecurity incident to it in an unfunded state, render it a mere commodity, and a precarious one. As such, being only an object of occasional and particular speculation, all the money applied to it is so much diverted from the more useful channels of circulation, for which the thing itself affords no substitute: So that, in fact, one serious inconvenience of an unfunded debt is, that it contributes to the scarcity of money.

This distinction which has been little if at all attended to, is of the greatest moment. It involves a question immediately interesting to every part of the community; which is no other than this-- Whether the public debt, by a provision for it on true principles, shall be rendered a *substitute* for money; or whether, by being left as it is, or by being provided for in such a manner as will wound those principles, and destroy confidence, it shall be suffered to continue, as it is, a pernicious drain of our cash from the channels of productive industry.

The effect, which the funding of the public debt, on right principles, would have upon landed property, is one of the circumstances attending such an arrangement, which has been least adverted to, though it deserves the most particular attention. The present depreciated state of that species of property is a serious calamity. The value of cultivated lands, in most of the states, has fallen since the revolution from 25 to 50 per cent. In those farthest south, the decrease is still more considerable. Indeed, if the representations, continually received from that quarter, may be credited, lands there will command no price, which may not be deemed an almost total sacrifice.

This decrease, in the value of lands, ought, in a great measure, to be attributed to the scarcity of money. Consequently whatever produces an augmentation of the monied capital of the country, must have a proportional effect in raising that value. The beneficial tendency of a funded debt, in this respect, has been manifested by the most decisive experience in Great-Britain.

The proprietors of lands would not only feel the benefit of this increase in the value of their property, and of a more prompt and better sale, when they had occasion to sell; but the necessity of selling would be, itself, greatly diminished. As the same cause would contribute to the facility of loans, there is reason to believe, that such of them as are indebted, would be able through that resource, to satisfy their more urgent creditors.

It ought not however to be expected, that the advantages, described as likely to result from funding the public debt, would be instantaneous. It might require some time to bring the value of stock to its natural level, and to attach to it that fixed confidence, which is necessary to its quality as money. Yet the late rapid rise of the public securities encourages an expectation, that the progress of stock to the desirable point, will be much more expeditious than could have been foreseen. And as in the mean time it will be increasing in value, there is room to conclude, that it will, from the outset, answer many of the purposes in contemplation. Particularly it seems to be probable, that from creditors, who are not themselves necessitous, it will early meet with a ready reception in payment of debts, at its current price.

The Founders' Constitution

Volume 2, Article 1, Section 8, Clause 2, Document 5

http://press-pubs.uchicago.edu/founders/documents/a1_8_2s5.html

The University of Chicago Press

The Papers of Alexander Hamilton. Edited by Harold C. Syrett et al. 26 vols. New York and London:

Columbia University Press, 1961--79. *See also*: *Federalist*

FROM: http://press-pubs.uchicago.edu/founders/documents/a1_8_2s5.html

THE FOUNDERS' CONSTITUTION



Republican Government

CHAPTER 4 | Document 31

Alexander Hamilton, Report on Manufactures

5 Dec. 1791 *Papers 10:252--56*

III. As to the additional employment of classes of the community, not ordinarily engaged in the particular business.

This is not among the least valuable of the means, by which manufacturing institutions contribute to augment the general stock of industry and production. In places where those institutions prevail, besides the persons regularly engaged in them, they 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 labours, as a resource of multiplying their acquisitions or [their] enjoyments. The husbandman himself experiences a new source of profit and support from the increased industry of his wife and daughters; invited and stimulated by the demands of the neighboring manufactories.

Besides this advantage of occasional employment to classes having different occupations, there is another of a nature allied to it [and] of a similar tendency. This is--the employment of persons who would otherwise be idle (and in many cases a burthen on the community), either from the byass of temper, habit, infirmity of body, or some other cause, indisposing, or disqualifying them for the toils of the Country. It is worthy of particular remark, that, in general, women and Children are rendered more useful and the latter more early useful by manufacturing establishments, than they

would otherwise be. Of the number of persons employed in the Cotton Manufactories of Great Britain, it is computed that 4/7 nearly are women and children; of whom the greatest proportion are children and many of them of a very tender age.

And thus it appears to be one of the attributes to manufactures, and one of no small consequence, to give occasion to the exertion of a greater quantity of Industry, even by the *same number* of persons, where they happen to prevail, than would exist, if there were no such establishments.

IV. As to the promoting of emigration from foreign Countries.

Men reluctantly quit one course of occupation and livelihood for another, unless invited to it by very apparent and proximate advantages. Many, who would go from one country to another, if they had a prospect of continuing with more benefit the callings, to which they have been educated, will often not be tempted to change their situation, by the hope of doing better, in some other way. Manufacturers, who listening to the powerful invitations of a better price for their fabrics, or their labour, of greater cheapness of provisions and raw materials, of an exemption from the chief part of the taxes burthens and restraints, which they endure in the old world, of greater personal independence and consequence, under the operation of a more equal government, and of what is far more precious than mere religious toleration--a perfect equality of religious privileges; would probably flock from Europe to the United States to pursue their own trades or professions, if they were once made sensible of the advantages they would enjoy, and were inspired with an assurance of encouragement and employment, will, with difficulty, be induced to transplant themselves, with a view to becoming Cultivators of Land.

If it be true then, that it is the interest of the United States to open every possible [avenue to] emigration from abroad, it affords a weighty argument for the encouragement of manufactures; which for the reasons just assigned, will have the strongest tendency to multiply the inducements to it.

Here is perceived an important resource, not only for extending the population, and with it the useful and productive labour of the country, but likewise for the prosecution of manufactures, without deducting from the number of hands, which might otherwise be drawn to tillage; and even for the indemnification of Agriculture for such as might happen to be diverted from it. Many, whom Manufacturing views would induce to emigrate, would afterwards yield to the temptations, which the particular situation of this Country holds out to Agricultural pursuits. And while Agriculture would in other respects derive many signal and unmingled advantages, from the growth of manufactures, it is a problem whether it would gain or lose, as to the article of the number of persons employed in carrying it on.

V. As to the furnishing greater scope for the diversity of talents and dispositions, which discriminate men from each other.

This is a much more powerful mean of augmenting the fund of national Industry than may at first sight appear. It is a just observation, that minds of the strongest and most active powers for their proper objects fall below mediocrity and labour without effect, if confined to uncongenial pursuits. And it is thence to be inferred, that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigour of his nature.

And the community is benefitted by the services of its respective members, in the manner, in which each can serve it with most effect.

If there be anything in a remark often to be met with--namely that there is, in the genius of the people of this country, a peculiar aptitude for mechanic improvements, it would operate as a forcible reason for giving opportunities to the exercise of that species of talent by the propagation of manufactures.

VI. As to the affording a more ample and various field for enterprise.

This also is of greater consequence in the general scale of national exertion, than might perhaps on a superficial view be supposed, and has effects not altogether dissimilar from those of the circumstance last noticed. To cherish and stimulate the activity of the human mind, 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 opened 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.

The Founders' Constitution

Volume 1, Chapter 4, Document 31

<http://press-pubs.uchicago.edu/founders/documents/v1ch4s31.html>

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THE FOUNDERS' CONSTITUTION



Republican Government

CHAPTER 4 | Document 9

Thomas Jefferson, Notes on the State of Virginia, Query 19, 164--65

1784

We never had an interior trade of any importance. Our exterior commerce has suffered very much from the beginning of the present contest. During this time we have manufactured within our

families the most necessary articles of cloathing. Those of cotton will bear some comparison with the same kinds of manufacture in Europe; but those of wool, flax and hemp are very coarse, unsightly, and unpleasant: and such is our attachment to agriculture, and such our preference for foreign manufactures, that be it wise or unwise, our people will certainly return as soon as they can, to the raising raw materials, and exchanging them for finer manufactures than they are able to execute themselves.

The political oeconomists of Europe have established it as a principle that every state should endeavour to manufacture for itself: and this principle, like many others, we transfer to America, without calculating the difference of circumstance which should often produce a difference of result. In Europe the lands are either cultivated, or locked up against the cultivator. Manufacture must therefore be resorted to of necessity not of choice, to support the surplus of their people. But we have an immensity of land 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 labour in the earth are the chosen people of God, if ever he had a chosen people, whose breasts he has made his peculiar deposit for substantial and genuine virtue. It is the focus in which he keeps alive that sacred fire, which otherwise might escape from the face of the earth. Corruption of morals in the mass of cultivators is a phaenomenon of which no age nor nation has furnished an example. It is the mark set on those, who not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistance, depend for it on the casualties and caprice of customers. Dependance begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. This, the natural progress and consequence of the arts, has sometimes perhaps been retarded by accidental circumstances: but, generally speaking, the proportion which the aggregate of the other classes of citizens bears in any state to that of its husbandmen, is the proportion of its unsound to its healthy parts, and is a good-enough barometer whereby to measure its degree of corruption. While we have land to labour then, let us never wish to see our citizens occupied at a work-bench, or twirling a distaff. Carpenters, masons, smiths, are wanting in husbandry: but, for the general operations of manufacture, let our workshops remain in Europe. It is better to carry provisions and materials to workmen there, than bring them to the provisions and materials, and with them their manners and principles. The loss by the transportation of commodities across the Atlantic will be made up in happiness and permanence of government. 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. It is the manners and spirit of a people which preserve a republic in vigour. A degeneracy in these is a canker which soon eats to the heart of its laws and constitution.

The Founders' Constitution

Volume 1, Chapter 4, Document 9

<http://press-pubs.uchicago.edu/founders/documents/v1ch4s9.html>

The University of Chicago Press

Jefferson, Thomas. *Notes on the State of Virginia*. Edited by William Peden. Chapel Hill: University of North Carolina Press for the Institute of Early American History and Culture, Williamsburg, Virginia, 1954.

FROM: <http://press-pubs.uchicago.edu/founders/documents/v1ch4s9.html>