The First Report on Public Credit by Alexander Hamilton (1789)

Secretary of The Treasury Alexander Hamilton submitted a series of reports to Congress that outlined what has been called the Hamiltonian program: the First Report on the Public Credit, January 1790; the Second Report on Public Credit and the Report on a National Bank in December 1790; the Report on the Establishment of a Mint in January 1791; and the Report on Manufactures in December 1791. After debate and some amendment, all but the last one were adopted.

Treasury Department, January 9, 1790.

[To the Speaker of the House of Representatives]

The Secretary of the Treasury, in obedience to the resolution of the House of Representatives, of the twenty-first day of September last, has, during the recess of Congress, applied himself to the consideration of a proper plan for the support of the Public Credit, with all the attention which was due to the authority of the House, and to the magnitude of the object.

In the discharge of this duty, he has felt, in no small degree, the anxieties which naturally flow from a just estimate of the difficulty of the task, from a well-founded diffidence of his own qualifications for executing it with success, and from a deep and solemn conviction of the momentous nature of the truth contained in the resolution under which his investigations have been conducted, "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."

* * *

In the opinion of the Secretary, the wisdom of the House, in giving their explicit sanction to the proposition which has been stated, 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 proportionally 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 expenses 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 economy, 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.

* * *

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.

* * *

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 increasing 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 enterprise in foreign trade, gives to them activity and extension, has greater means for enterprise.

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.

*   *   *

It is agreed on all hands, 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. The discussions, which can arise, therefore, will have reference essentially to the domestic part of it, or to that which has been contracted at home. It is to be regretted, that there is not the same unanimity of sentiment on this part, as on the other.

The Secretary has too much deference for the opinions of every part of the community, not to have observed one, which has, more than once, made its appearance in the public prints, and which is occasionally to be met with in conversation. It involves this question, whether a discrimination ought not to be made between original holders of the public securities, and present possessors, by purchase. Those who advocate a discrimination are for making a full provision for the securities of the former, at their nominal value; but contend, that the latter ought to receive no more than the cost to them, and the interest: And the idea is sometimes suggested of making good the difference to the primitive possessor.

In favor of this scheme, it is alleged, that it would be unreasonable to pay twenty shillings in the pound, to one who had not given more for it than three or four. And it is added, that it would be hard to aggravate the misfortune of the first owner, who, probably through necessity, parted with his property at so great a loss, by obliging him to contribute to the profit of the person, who had speculated on his distresses.

The Secretary, after the most mature reflection on the force of this argument, is induced to reject the doctrine it contains, as equally unjust and impolitic, as highly injurious, even to the original holders of public securities; as ruinous to public credit.
It is inconsistent with justice, because in the first place, it is a breach of contract; in violation of the rights of a fair purchaser.

The nature of the contract in its origin, is, that the public will pay the sum expressed in the security, to the first holder, or his assignee. The intent, in making the security assignable, is, that the proprietor may be able to make use of his property, by selling it for as much as it may be worth in the market, and that the buyer may be safe in the purchase.

* * *

The impolicy of a discrimination results from two considerations; one, that it proceeds upon a principle destructive of that quality of the public debt, or the stock of the nation, which is essential to its capacity for answering the purposes of money—that is the security of transfer; the other, that as well on this account, as because it includes a breach of faith, it renders property in the funds less valuable; consequently induces lenders to demand a higher premium for what they lend, and produces every other inconvenience of a bad state of public credit.

It will be perceived at first sight, that the transferable quality of stock is essential to its operation as money, and that this depends on the idea of complete security to the transferee, and a firm persuasion, that no distinction can in any circumstances be made between him and the original proprietor.

* * *

But there is still a point in view in which it will appear perhaps even more exceptionable, than in either of the former. It would be repugnant to an express provision of the Constitution of the United States. This provision is, that "all debts contracted and engagements entered into before the adoption of that Constitution shall be as valid against the United States under it, as under the confederation," which amounts to a constitutional ratification of the contracts respecting the debt, in the state in which they existed under the confederation. And resorting to that standard, there can be no doubt, that the rights of assignees and original holders, must be considered as equal.

* * *

The Secretary concluding, that a discrimination, between the different classes of creditors of the United States, cannot with propriety be made, proceeds to examine whether a difference ought to be permitted to remain between them, and another description of public creditors—Those of the states individually.

The Secretary, after mature reflection on this point, entertains a full conviction, that an assumption of the debts of the particular states by the union, and a like provision for them, as for those of the union, will be a measure of sound policy and substantial justice.

It would, in the opinion of the Secretary, contribute, in an eminent degree, to an orderly, stable and satisfactory arrangement of the national finances. Admitting, as ought to be the case, that a provision must be made in some way or other, for the entire debt; it will follow, that no greater revenues will be required, whether that provision be made wholly by the United States, or partly by them, and partly by the states separately.

The principal question then must be, whether such a provision cannot be more conveniently and effectually made, by one general plan issuing from one authority, than by different plans originating in different authorities.
With regard to the instalments of the foreign debt, these, in the opinion of the Secretary, ought to be paid by new loans abroad. Could funds be conveniently spared, from other exigencies, for paying them, the United States could ill bear the drain of cash, at the present juncture, which the measure would be likely to occasion.

But to the sum which has been stated for payment of the interest, must be added a provision for the current service. This the Secretary estimates at six hundred thousand dollars; making, with the amount of the interest, two millions, eight hundred and thirty-nine thousand, one hundred and sixty-three dollars, and nine cents.

This sum may, in the opinion of the Secretary, be obtained from the present duties on imports and tonnage, with the additions, which, without any possible disadvantage either to trade, or agriculture, may be made on wines, spirits, including those distilled within the United States, teas and coffee.

The Secretary conceives, that it will be sound policy, to carry the duties upon articles of this kind, as high as will be consistent with the practicability of a safe collection. This will lessen the necessity, both of having recourse to direct taxation, and of accumulating duties where they would be more inconvenient to trade, and upon objects, which are more to be regarded as necessaries of life.

That the articles which have been enumerated, will, better than most others, bear high duties, can hardly be a question. They are all of them, in reality—luxuries—the greatest part of them foreign luxuries; some of them, in the excess in which they are used, pernicious luxuries. And there is, perhaps, none of them, which is not consumed in so great abundance, as may, justly, denominate it, a source of national extravagance and impoverishment. The consumption of ardent spirits particularly, no doubt very much on account of their cheapness, is carried to an extreme, which is truly to be regretted, as well in regard to the health and the morals, as to the economy of the community.

Should the increase of duties tend to a decrease of the consumption of those articles, the effect would be, in every respect desirable. The saving which it would occasion, would leave individuals more at their ease, and promote a more favourable balance of trade. As far as this decrease might be applicable to distilled spirits, it would encourage the substitution of cyder and malt liquors, benefit agriculture, and open a new and productive source of revenue.

It is not however, probable, that this decrease would be in a degree, which would frustrate the expected benefit to the revenue from raising the duties. Experience has shewn, that luxuries of every kind, lay the strongest hold on the attachments of mankind, which, especially when confirmed by habit, are not easily alienated from them.

The same fact affords a security to the merchant, that he is not likely to be prejudiced by considerable duties on such articles. They will usually command a proportional price. The chief things in this view to be attended to, are, that the terms of payment be so regulated, as not to require inconvenient advances, and that the mode of collection be secure.

Persuaded as the Secretary is, that the proper funding of the present debt, will render it a national blessing: Yet he is so far from acceding to the position, in the latitude in which it is sometimes laid down, that "public debts are public benefits," a position inviting to prodigality, and liable to dangerous abuse,—
that he ardently wishes to see it incorporated, as a fundamental maxim, in the system of public credit of the United States, that the creation of debt should always be accompanied with the means of extinguishment. This he regards as the true secret for rendering public credit immortal. And he presumes, that it is difficult to conceive a situation, in which there may not be an adherence to the maxim. At least he feels an unfeigned solicitude, that this may be attempted by the United States, and that they may commence their measures for the establishment of credit, with the observance of it.

* * *

* * *
Had Hamilton stuck to dry financial matters, his *Report on Public Credit* would never have attained such historic renown. Instead, he presented a detailed blueprint of the government’s fiscal machinery, wrapped in a broad political and economic vision. From the opening pages, Hamilton reminded readers that the government’s debt was the “price of liberty” inherited from the Revolution and had special claims on the public purse.22 The states had balked at taxing citizens during a revolt against onerous taxes, and Congress had lacked the power to levy taxes, leaving borrowing as the only solution. The outstanding debt was now enormous: $54 million in national debt, coupled with $25 million in state debt, for a total of $79 million.

Hamilton argued that the security of liberty and property were inseparable and that governments should honor their debts because contracts formed the basis of public and private morality: “States, like individuals, who observe their engagements are respected and trusted, while the reverse is the fate of those who pursue an opposite conduct.”23 The proper handling of government debt would permit America to borrow at affordable interest rates and would also act as a tonic to the economy. Used as loan collateral, government bonds could function as money—and it was the scarcity of money, Hamilton observed, that had crippled the economy and resulted in severe deflation in the value of land. America was a young country rich in opportunity. It lacked only liquid capital, and government debt could supply that gaping deficiency.

The secret of managing government debt was to fund it properly by setting aside revenues at regular intervals to service interest and pay off principal. Hamilton refuted charges that his funding scheme would feed speculation. Quite the contrary: if investors knew for sure that government bonds would be paid off, the prices would not fluctuate wildly, depriving speculators of opportunities to exploit. What mattered was that people trusted the government to make good on repayment: “In nothing are appearances of greater moment than in whatever regards credit. Opinion is the soul of it and this is affected by appearances as well as realities.”24 Hamilton intuited that public relations and confidence building were to be the special burdens of every future treasury secretary.

How exactly the debt should be funded was to be the most inflammatory political issue. During the Revolution, many affluent citizens had invested in bonds, and many war veterans had been paid with IOUs that then plummeted in price under the confederation. In many cases, these upright patriots, either needing cash or convinced they would never be repaid, had sold their securities to speculators for as
little as fifteen cents on the dollar. Under the influence of his funding scheme, with

government repayment guaranteed, Hamilton expected these bonds to soar from

their depressed levels and regain their full face value.

This pleasing prospect, however, presented a political quandary. If the bonds ap-

preciated, should speculators pocket the windfall? Or should the money go to the

original holders—many of them brave soldiers—who had sold their depressed gov-

ernment paper years earlier? The answer to this perplexing question, Hamilton knew,

would define the future character of American capital markets. Doubtless taking a

deep breath, he wrote that “after the most mature reflection” about whether to re-

ward original holders and punish current speculators, he had decided against this

approach as “ruinous to public credit.”25 The problem was partly that such “dis-

crimination” in favor of former debt holders was unworkable. The government

would have to track them down, ascertain their sale prices, then trace all interme-

diate investors who had held the debt before it was bought by the current owners—

an administrative nightmare.

Hamilton could have left it at that, ducking the political issue and taking refuge

in technical jargon. Instead, he shifted the terms of the debate. He said that the first

holders were not simply noble victims, nor were the current buyers simply preda-

tory speculators. The original investors had gotten cash when they wanted it and

had shown little faith in the country’s future. Speculators, meanwhile, had hazarded

their money and should be rewarded for the risk. In this manner, Hamilton stole

the moral high ground from opponents and established the legal and moral basis

for securities trading in America: the notion that securities are freely transferable

and that buyers assume all rights to profit or loss in transactions. The knowledge

that government could not interfere retroactively with a financial transaction was

so vital, Hamilton thought, as to outweigh any short-term expediency. To establish

the concept of the “security of transfer,” Hamilton was willing, if necessary, to re-

ward mercenary scoundrels and penalize patriotic citizens. With this huge gamble,

Hamilton laid the foundations for America’s future financial preeminence.

As his report progressed, Hamilton tiptoed through a field seeded thickly with

deadly political traps. The next incendiary issue was that some debt was owed by

the thirteen states, some by the federal government. Hamilton decided to consoli-

date all the debt into a single form: federal debt. He wrote, “The Secretary, after ma-

ture reflection on this point, entertains a full conviction that an assumption of the

debts of the particular states by the union and a like provision for them as for those

of the union will be a measure of sound policy and substantial justice.”26 The reper-

cussions of this decision were as pervasive as anything Alexander Hamilton ever did
to fortify the U.S. government.

Why was this assumption of state debts by the federal government so crucial?
For starters, it would be more efficient, since there would be one overarching scheme for settling debt instead of many small, competing schemes. It also reflected a profound political logic. Hamilton knew that bondholders would feel a stake in preserving any government that owed them money. If the federal government, not the states, was owed the money, creditors would shift their main allegiance to the central government. Hamilton’s interest was not in enriching creditors or cultivating the privileged class so much as in insuring the government’s stability and survival. Walter Lippmann later said of Hamilton, “He used the rich for a purpose that was greater than their riches.” On the other hand, he was naïve in thinking that the rich would always have a broader sense of public duty and would somehow be devoid of self-interest, instead of being captives to an even larger set of interests.

There was a further advantage to the assumption of state debt. The Constitution had granted the federal government an exclusive right to collect import duties. If states had to pay off debts, too, they might contest that monopoly and try to skim off money from their import duties, re-creating the chaos under the Articles of Confederation. Under his scheme, Hamilton believed, the states would lose incentive to compete with the federal government for major revenue sources.

Hamilton now had to decide whether state debt should be paid off at the original interest rates. He knew this would be impossible to accomplish without stiff taxes, which might precipitate a rebellion or impoverish the country. He also did not want to give too bountiful a reward to speculators who had rounded up state debt at cheap prices from small investors. So he decided that foreign debt, which bore interest rates of only 4 or 5 percent, was to be paid in full. Domestic debt, with a 6 percent interest rate, posed a greater dilemma.

To relieve financial pressure on the government, Hamilton decided on a partial repudiation of the domestic debt, though he certainly did not phrase it that way. He gambled that creditors would accept lower interest rates in exchange for rock-solid securities that could not be redeemed by the government if interest rates fell (in modern parlance, noncallable bonds). To entice domestic creditors, he offered a long list of voluntary options, only some of which were enacted. They could receive, for instance, part of their payment at the original 6 percent interest rate and part in western land, enabling them to participate in the appreciation of frontier property. Or they could take payment at a lower interest rate but stretched over a longer period. To enhance such choices, investors would be paid quarterly, not annually. Most significantly, creditors would be paid with taxes pledged for that express purpose. Hamilton’s supporters praised the byzantine brilliance of this program; for his foes, it smacked of impenetrable mumbo jumbo, designed to hoodwink the public.

To make good on payments, Hamilton knew he would have to raise a substantial loan abroad and boost domestic taxes beyond the import duties now at his dis-
posal. He proposed taxes on wines and spirits distilled within the United States as well as on tea and coffee. Of these first "sin taxes," the secretary observed that the products taxed are "all of them in reality luxuries, the greatest part of them foreign luxuries; some of them, in the excess in which they are used, pernicious luxuries." Such taxation might dampen consumption and reduce revenues, Hamilton acknowledged, but he doubted this would happen, because "luxuries of every kind lay the strongest hold on the attachments of mankind, which, especially when confirmed by habit, are not easily alienated from them."

In the report's final section, Hamilton reiterated that a well-funded debt would be a "national blessing" that would protect American prosperity. He feared this statement would be misconstrued as a call for a _perpetual_ public debt—and that is exactly what happened. For the rest of his life, he was to express dismay at what he saw as a deliberate distortion of his views. His opponents, he claimed, neglected a critical passage of his report in which he wrote that he "ardently wishes to see it incorporated as a fundamental maxim in the system of public credit of the United States that the creation of debt should always be accompanied with the means of extinguishment." The secretary regarded this "as the true secret for rendering public credit immortal." Three years later, Hamilton testily reminded the public that he had advocated extinguishing the debt "in the _very first_ communication" which he "ever made on the subject of the public debt, in that _very report_ which contains the expressions [now] tortured into an advocacy [sic] of the doctrine that public debts are public blessings." Indeed, in Hamilton's writings his warnings about oppressive debt vastly outnumber his paeans to public debt as a source of liquid capital. Five years after his first report, still fuming, he warned that progressive accumulation of debt "is perhaps the NATURAL DISEASE of all Governments. And it is not easy to conceive anything more likely than this to lead to great and convulsive revolutions of Empire."

To make sure the debt was extinguished over time, Hamilton proposed the creation of a sinking fund, financed by post-office revenues and manned by the government's chief officers. (A sinking fund is a repository, set up apart from the general budget, for revenues to pay off debt.) It would sequester revenues from the sudden whims of grasping politicians who might want to raid the Treasury for short-term gain. The sinking fund would retire about 5 percent of the debt each year until it was paid off. Because outstanding bonds currently traded below their original face value, such purchases would benefit the government as the securities rose in price. Thus, the government would profit from rising prices alongside private investors. Hamilton concluded, "In the opinion of the Secretary . . . it ought to be the policy of the government to raise the value of stock to its true standard as fast as possible." Little did he know how quickly he was to succeed or how much trouble this success was to bring in its wake.
On December 14, 1790, one day after he jolted Congress with his call for an excise tax on liquor, Alexander Hamilton submitted another trailblazing report, this one a clarion call to charter America's first central bank. The country, still reeling from programs the treasury secretary had churned out in a mere fifteen months, was learning just how fertile Hamilton's brain was. He was setting in place the building blocks for a powerful state: public credit, an efficient tax system, a customs service, and now a strong central bank. Of all his monumental programs, his proposal for the Bank of the United States raised the most searching constitutional questions.

The American Revolution and its aftermath coincided with two great transformations in the late eighteenth century. In the political sphere, there had been a repudiation of royal rule, fired by a new respect for individual freedom, majority rule, and limited government. If Hamilton made distinguished contributions in this sphere, so did Franklin, Adams, Jefferson, and Madison. In contrast, when it came to the parallel economic upheavals of the period—the industrial revolution, the expansion of global trade, the growth of banks and stock exchanges—Hamilton was an American prophet without peer. No other founding father straddled both of these revolutions—only Franklin even came close—and therein lay Hamilton's novelty and greatness. He was the clear-eyed apostle of America's economic future, setting forth a vision that many found enthralling, others unsettling, but that would ultimately prevail. He stood squarely on the modern side of a historical divide that seemed to separate him from other founders. Small wonder he aroused such fear and confusion.

Over the past two centuries, Hamilton's reputation has waxed and waned as the
country has glorified or debunked businessmen. Historian Gordon Wood has written, "Although late-nineteenth-century Americans honored Hamilton as the creator of American capitalism, that honor became a liability through much of the twentieth century." All the conflicting emotions stirred up by capitalism—its bountiful efficiency, its crass inequities—have adhered to Hamilton's image. As chief agent of a market economy, he had to spur acquisitive impulses, accepting self-interest as the mainspring of economic action. At the same time, he was never a mindless business booster and knew how the desire for lucre could shade over into noxious greed. In Federalist number 12, when discussing how prosperity abets the circulation of precious metals, he referred to gold and silver as "those darling objects of human avarice and enterprise"—a phrase that sums up neatly his ambivalence about the drive to amass personal wealth.

In a nation of self-made people, Hamilton became an emblematic figure because he believed that government ought to promote self-fulfillment, self-improvement, and self-reliance. His own life offered an extraordinary object lesson in social mobility, and his unflagging energy illustrated his devout belief in the salutary power of work to develop people's minds and bodies. As treasury secretary, he wanted to make room for entrepreneurs, whom he regarded as the motive force of the economy. Like Franklin, he intuited America's special genius for business: "As to whatever may depend on enterprise, we need not fear to be outdone by any people on earth. It may almost be said that enterprise is our element."

Hamilton did not create America's market economy so much as foster the cultural and legal setting in which it flourished. A capitalist society requires certain preconditions. Among other things, it must establish a rule of law through enforceable contracts; respect private property; create a trustworthy bureaucracy to arbitrate legal disputes; and offer patents and other protections to promote invention. The abysmal failure of the Articles of Confederation to provide such an atmosphere was one of Hamilton's principal motives for promoting the Constitution. "It is known," he wrote, "that the relaxed conduct of the state governments in regard to property and credit was one of the most serious diseases under which the body politic laboured prior to the adoption of our present constitution and was a material cause of that state of public opinion which led to its adoption." He converted the new Constitution into a flexible instrument for creating the legal framework necessary for economic growth. He did this by activating three still amorphous clauses—the necessary-and-proper clause, the general-welfare clause, and the commerce clause—making them the basis for government activism in economics.

Washington's first term was devoted largely to the economic matters in which Hamilton excelled, and Woodrow Wilson justly observed that "we think of Mr. Hamilton rather than of President Washington when we look back to the policy of
the first administration.” Hamilton had a storehouse of information that nobody else could match. Since the “science” of finance was new to America, Fisher Ames observed, “A gentleman may therefore propose the worst of measures with the best intentions.” Among the well-intentioned men who were woefully backward in finance, if forward-looking in politics, were Hamilton’s three most savage critics of the 1790s: Jefferson, Madison, and Adams. These founders adhered to a static, archaic worldview that scorned banks, credit, and stock markets. From this perspective, Hamilton was the progressive figure of the era, his critics the conservatives.

As members of the Virginia plantation world, Jefferson and Madison had a nearly visceral contempt for market values and tended to denigrate commerce as grubby, parasitic, and degrading. Like landed aristocrats throughout history, they betrayed a snobbish disdain for commerce and financial speculation. Jefferson perpetuated a fantasy of America as an agrarian paradise with limited household manufacturing. He favored the placid, unchanging rhythms of rural life, not the unruly urban dynamic articulated by Hamilton. He wrote, “I think our governments will remain virtuous for many centuries as long as they are chiefly agricultural... When they get piled upon one another in large cities, as in Europe, they will become corrupt as in Europe.” For Jefferson, banks were devices to fleece the poor, oppress farmers, and induce a taste for luxury that would subvert republican simplicity. Strangely enough for a large slaveholder, he thought that agriculture was egalitarian while manufacturing would produce a class-conscious society.

As a representative of New England’s mercantile community, John Adams might have seemed a more likely candidate to sympathize with Hamilton’s economic system, yet his views, too, harked back to simpler times. In later years, Adams told Jefferson that “an aristocracy of bank paper is as bad as the nobility of France or England.” For Adams, a banking system was a confidence trick by which the rich exploited the poor. “Every bank in America is an enormous tax upon the people for the profit of individuals,” he remarked, dismissing bankers as “swindlers and thieves.” “Our whole banking system I ever abhorred,” he declared another time. “I continue to abhor and shall die abhorring... every bank by which interest is to be paid or profit of any kind made by the deponent.” Adams was too shrewd to think banks could be dispensed with altogether. Instead, he wanted a central bank with state branches but no private banks. Both Jefferson and Adams detested people who earned a living shuffling financial paper, and when Adams launched a bitter tirade in later years against the iniquitous banking system, Jefferson agreed that the business was “an infinity of successive felonious larcenies.” That banks could serve any economic purpose—that they could generate prosperity that might enrich the few but also lubricate the wheels of commerce—seemed alien to both men. So when
they wrote about Hamilton in quasi-satanic terms, we must remember that they considered banking and other financial activities as so much infernal trickery.

Hamilton never doubted the urgent need for a central bank. Lacking a uniform currency acceptable in all states, still suffering from a hodgepodge of foreign coins, the country required an institution that could expand the money supply, extend credit to government and business, collect revenues, make debt payments, handle foreign exchange, and provide a depository for government funds. Hamilton stated flatly that anyone who served a single month as treasury secretary would develop a “full conviction that banks are essential to the pecuniary operations of the government.”

Hamilton was acquainted with private banks in Philadelphia, New York, and Boston, but homegrown institutions offered limited guidance in founding a central bank. Fortunately, he was steeped in European banking precedents, for amid the alarums and excursions of the American Revolution he had managed to become educated in financial history. In his astonishingly precocious letter to James Duane of September 1780, the twenty-five-year-old colonel had hit upon an insight that now informed his theory of central banks—the fruitful commingling of public and private money: “The Bank of England unites public authority and faith with private credit. . . . [T]he bank of Amsterdam is on a similar foundation. And why cannot we have an American bank?” This hybrid character—an essentially private bank buttressed by public authority—was to define his central bank.

To tutor himself further about European central banks, Hamilton turned to Malachy Postlethwayt’s *Universal Dictionary of Trade and Commerce* and Adam Smith’s *Wealth of Nations*, the latter sent from London by Angelica Church. His main primer, however, was the charter of the Bank of England, established in 1694 under King William III. He kept a copy of it on his desk as a handy reference as he wrote his banking report, though he did not copy it uncritically and deviated in significant respects. Hamilton’s bank would serve the government and invigorate the economy, and he constantly stressed the broader public benefits, lest the bank be misperceived as the iniquitous tool of a small clique of speculators.

From the outset of his report, Hamilton stressed his desire to catch up with European experience: “It is a fact well understood that public banks have found admission and patronage among the principal and most enlightened commercial nations. They have successively obtained in Italy, Germany, Holland, England, and France as well as in the United States.” Aware of the widespread prejudice against banks, Hamilton knew he needed to set out their advantages. Echoing Adam Smith, he showed how gold and silver, if locked up in a merchant’s chest, were sterile. De-
posit them in a bank, however, and these dead metals sprang to life as “nurseries of national wealth,” forming a credit supply several times larger than the coins heaped in the bank’s vaults. In contemporary parlance, Hamilton wished to increase the money supply and the speed with which it circulated. Due to scarce money, many deals were being done as barter; in the south, warehouse receipts for tobacco often doubled as money. In contrast, a central bank would provide liquid capital that would promote the ease, freedom, and efficiency of commerce.

It speaks volumes about the prevalent detestation of banks that Hamilton dwelled so long on combating myths against them. For example, he had to contest that banks would invariably engender speculative binges in securities. The growing confidence in government, he asserted, would gradually reduce speculation in its bonds. At the same time, he admitted that speculative abuses are “an occasional ill, incident to a general good,” that did not outweigh the overall advantages of bank lending: “If the abuses of a beneficial thing are to determine its condemnation, there is scarcely a source of public prosperity which will not speedily be closed.” Given the speculative mania about to break out, Hamilton’s candor about it should be emphasized: “If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described, they more frequently enable honest and industrious men of small or perhaps of no capital to undertake and prosecute business with advantage to themselves and to the community.”

For political and legal reasons, Hamilton had to address the loaded subject of paper money. The Constitution outlawed the issue of paper money by states; everybody remembered the worthless Continentals printed by Congress during the Revolution. Should the federal government now issue paper money? Fearing an inflationary peril, Hamilton scotched the idea: “The stamping of paper is an operation so much easier than the laying of taxes that a government in the practice of paper emissions would rarely fail in any such emergency to indulge itself too far.” As an alternative, Hamilton touted a central bank that could issue paper currency in the form of banknotes redeemable for coins. This would set in motion a self-correcting system. If the bank issued too much paper, holders would question its value and exchange it for gold and silver; this would then force the bank to curtail its supply of paper, restoring its value.

Hamilton wanted his central bank to be profitable enough to attract private investors while serving the public interest. He knew the composition of its board would be an inflammatory issue. Directors would consist of a “small and select class of men.” To prevent an abuse of trust, Hamilton suggested mandatory rotation. “The necessary secrecy” of directors’ transactions will give “unlimited scope to imagination to infer that something is or may be wrong. And this inevitable mystery is a solid reason for inserting in the constitution of a Bank the necessity of a
change of men." But who would direct this mysterious bastion of money? Its ten million dollars in capital would be several times larger than the combined capital of all existing banks, eclipsing anything ever seen in America. Hamilton, wanting the bank to remain predominantly in private hands, advanced a theory that became a truism of central banking—that monetary policy was so liable to abuse that it needed some insulation from interfering politicians: "To attach full confidence to an institution of this nature, it appears to be an essential ingredient in its structure that it shall be under a private not a public direction, under the guidance of individual interest, not of public policy."

At the same time, Hamilton worried that the bank would be so well buffered from public control that abuses might occur. To safeguard the public interest, the government would become a minority stockholder in the bank and able to vote for directors. Of the ten million dollars in capital, the president would be authorized to buy up to two million in bank stock—a stake presumably large enough to give the government substantial leverage, while not so large that it could dictate self-serving policies. The treasury secretary could also receive weekly reports on bank activities and retained the option of inspecting its books.

It was in the nature of Hamilton's achievement as treasury secretary that each of his programs was designed to mesh with the others to form a single interlocking whole. His central bank was no exception. Of the eight million of its capital that would be subscribed by private investors, three quarters would be paid in government securities. Thus Hamilton finely interwove his bank and public-debt plans, making it difficult to undo one and not the other. The byzantine, interrelated nature of his programs made him all the more the bane and terror of opponents.

On January 20, 1791, a bill to charter the Bank of the United States for twenty years virtually breezed through the Senate. At that point, nothing presaged the chasm about to yawn in American politics, one that was to create the first political parties. Only as the House mulled over the bank bill in early February did it become palpable that the amity between Hamilton and Madison, briefly restored by the excise tax, was about to shatter, this time irrevocably. Once again, Madison's dissent was partly local in origin. Some central-bank critics thought the institution would aggrandize northern merchants at the expense of southern agrarians, and Madison came from the largest rural state. Hamilton denied any urban bias, telling Washington that where banks had been established "they have given a new spring to agriculture, manufactures, and commerce." Even if this were true, Hamilton had to reckon with the fact that farmers were debtors by nature and hence contemptuous of bankers and other creditors. Southern planters especially hated bankers. "Holding banking to be no more than the prostitution of money for illicit gain," historian
John C. Miller has written, “one Virginia planter swore that he would no more be caught going into a bank than into a house of ill fame.”

Hamilton wanted the new bank in Philadelphia. “It is manifest that a large commercial city with a great deal of capital and business must be the fittest seat of the Bank,” he told Washington. Madison fretted that placing the bank in Philadelphia might plant the national capital there permanently, reneging on the promised move to the Potomac. Congressman Benjamin Bourne of Rhode Island surmised that Madison might not have spoken against the bank had not “the gentlemen of the southward” viewed it as “adverse to the removal of Congress” to the Potomac. For this and other reasons, Patrick Henry denounced Hamilton’s economic program as a “constituent part of a system which I have ever dreaded—subserviency of southern to n[other]n interests.”

Overshadowing this geographic split was the fundamental question of whether the Constitution allowed a central bank. While writing *The Federalist*, Madison had subscribed to an elastic interpretation of the charter. Now, speaking on the House floor, he made a dramatic turnabout, denying that the Constitution granted the federal government powers not specifically enumerated there: “Reviewing the Constitution . . . it was not possible to discover in it the power to incorporate a bank.” Hamilton turned to article 1, section 8, the catchall clause giving Congress the right to pass any legislation deemed “necessary and proper” to exercise its listed powers. Madison accused him of exploiting that power and “levelling all the barriers which limit the powers of the general government and protect those of the state governments.” Afraid that the agile Hamilton would dream up limitless activities and then rationalize them as “necessary and proper,” Madison re-created himself as a strict constructionist of the Constitution.

For Madison, Hamilton was becoming the official voice of monied aristocrats who were grabbing the reins of federal power. He felt betrayed by his old friend. But it was Madison who had deviated from their former reading of the Constitution. To embarrass Madison, Elias Boudinot read aloud in Congress some passages about the “necessary and proper” clause from *Federalist* number 44, notably the following: “No axiom is more clearly established in law or in reason than wherever the end is required, the means are authorized; wherever a general power to do a thing is given, every particular power for doing it is included.” Hamilton probably tipped off his old friend that Madison had written these incriminating words.

On February 8, the House passed the bank bill by a one-sided thirty-nine to twenty, giving Hamilton a particularly sweet triumph. For a fleeting moment, his mastery of the government seemed complete, but the victory raised troublesome questions. Almost all congressmen from north of the Potomac had stood four-
square behind him, while their southern counterparts had almost all opposed him. As philosophical views increasingly dovetailed with geographic interests, one could begin to glimpse the contours of two parties taking shape. Individual issues were coalescing into clusters, with the same people lining up each time on opposite sides. In his *Life of Washington*, Chief Justice John Marshall traced the genesis of American political parties to the rancorous dispute over the Bank of the United States. That debate, he said, led “to the complete organization of those distinct and visible parties which in their long and dubious conflict for power have... shaken the United States to their center.”

Hamilton’s seeming omnipotence unnerved Madison because it further skewed what the latter deemed the proper balance between executive and legislative power. For many delegates at Philadelphia in 1787, Congress was supposed to be the leading branch of government, the guardian of popular liberty that would prevent the restoration of British tyranny. That was why legislative duties were spelled out in article 1 of the Constitution. Consistent with this view, Madison thought the treasury secretary should serve as an adjunct to Congress, providing legislators with reports from which they would shape bills. Jefferson likewise balked at the way Hamilton both submitted reports and drafted bills based on them. Hamilton, in contrast, envisioned the executive branch as the main engine of government, the sole branch that could give force and direction to its policies, and time has abundantly vindicated his view.

Hamilton had not foreseen the looming constitutional crisis that his bank bill was to instigate. Jefferson and Madison grew fearful that Hamilton was not simply building a structure that dashed their principles but sculpting his creations in stone. His expansive vision of federal power filled them with foreboding. Precedents were being set that would be very hard to revoke later on. Hamilton admitted in retrospect that the new central bank represented his greatest stretch of federal power. The new government had reached a defining moment.

Madison wanted Washington to spike Hamilton’s bank bill and cast the first veto in American history. To figure out whether the bill squared with the Constitution, Washington canvassed the members of his compact cabinet. First, he solicited the opinion of Attorney General Edmund Randolph, who wrote a weakly reasoned piece contending that the bank was unconstitutional. Washington then turned to Jefferson, who had long detested monopolies and chartered companies as privileges conferred by British kings; he could not reconcile a central bank with true republicanism. Jefferson was also increasingly irked by his relative impotence in Washington’s cabinet and worried that the mercantile north, under Hamilton’s auspices, was gaining the upper hand over the rural south. He told George Mason: “The only
corrective of what is corrupt in our present form of government will be the augmentation of the numbers in the lower house so as to get a more agricultural representation, which may put that interest above that of the stock-jobbers.\textsuperscript{28}

In a concise opinion, Jefferson blasted the Bank of the United States as unconstitutional on the grounds that Hamilton was perverting the necessary-and-proper clause. To pass the constitutional test, Jefferson said, a measure had to be more than just convenient in executing powers granted to the federal government: it had to be truly necessary—that is, indispensable. Taking literally the Constitution’s recitation of congressional powers, he prophesied that “to take a single step beyond the boundaries thus specifically drawn . . . is to take possession of a boundless field of power, no longer susceptible of any definition.”\textsuperscript{29}

Just how vehemently Jefferson opposed the new bank can be inferred from a fire-breathing letter he sent to Madison the following year. Governor Henry Lee wished to open a local bank in Virginia that would act as a counterweight to a branch of Hamilton’s national bank. Jefferson worried about any measure that might confer legitimacy upon the central bank. From his letter, it is clear that he did not recognize the supremacy of federal over state law, a cardinal tenet of the Constitution:

The power of erecting banks and corporations was not given to the general government; it remains then with the state itself. For any person to recognize a foreign legislature [Jefferson was talking about the U.S. Congress] in a case belonging to the state itself is an act of treason against the state. And whosoever shall do any act under color of the authority of a foreign legislature—whether by signing notes, issuing or passing them, acting as director, cashier or in any other office relating to it, shall be adjudged guilty of high treason and suffer death accordingly by the judgment of the state courts. This is the only opposition worthy of our state and the only kind which can be effectual . . . I really wish that this or nothing should be done.\textsuperscript{30} [Italics added.]

In other words, the principal author of the Declaration of Independence was recommending to the chief architect of the U.S. Constitution that any Virginia bank functionary who cooperated with Hamilton’s bank should be found guilty of treason and executed.
Hamilton wasn’t content just to demonstrate the practicality of American manufacturing on a New Jersey riverbank. He felt compelled to make the theoretical case, which he did in his classic Report on Manufactures, submitted to Congress on December 5, 1791. The capstone of his ambitious state papers, it had fermented in his brain for some time. Nearly two years earlier, the House had asked him to prepare a report on how America might promote manufacturing. Hamilton now generated a full-blown vision of the many ways that the federal government could invigorate such economic activity. The report was the first government-sponsored plan for selective industrial planning in America, the tract in which, in the words of one Hamilton chronicler, he “prophesied much of post–Civil War America.”

The impetus for the report had been largely military and strategic in nature. Washington had admonished Congress that a “free people” ought to “promote such manufactories as tend to render them independent [of] others for essential, particularly for military supplies.” Remembering the scarcity of everything from gunpowder to uniforms in the Continental Army—a by-product of Britain’s colonial monopoly on most manufacturing—Hamilton knew that reliance on foreign manufacturers could cripple America in wartime. “The extreme embarrassments of the
United States during the late war, from an incapacity of supplying themselves, are still matter of keen recollection," he noted in the report. To prepare for this study, the indefatigable Hamilton canvassed manufacturers and revenue collectors, quizzing them in detail about the state of production in their districts. As usual, he aspired to know everything: the number of factories in each district, the volume of goods produced, their prices and quality, the spurs and checks to production provided by state governments. To obtain a firsthand feel for American wares, he even wanted to touch them, to feel them. "It would also be acceptable to me," he told revenue supervisors, "to have samples in cases in which it could be done with convenience and without expense." As he accumulated swatches—wool from Connecticut, carpets from Massachusetts—Hamilton, with a flair for showmanship, laid them out in the committee room of the House of Representatives, as if operating a small trade fair, an altogether new form of lobbying.

Hamilton's previous state papers had been purely the coinage of his own mind—he never employed ghostwriters—whereas he received critical assistance on the Report on Manufactures from Tench Coxe, who had drafted an early sketch urging American self-sufficiency in gunpowder, brass, iron, and other items. Eventually, Hamilton came to regard Coxe as a conceited, devious fellow who overrated his own talents. He later said, "That man is too cunning to be wise. I have been so much in the habit of seeing him mistaken that I hold his opinion cheap." But at this juncture, Coxe's expertise was vital. Hamilton revised and elaborated Coxe's preliminary paper. He embroidered Coxe's proposals with esoteric economic theory and an assertive vision of American political might through manufacturing. Far more than just a technical document, the Report on Manufactures was a prescient statement of American nationalism.

In his advocacy of manufacturing, Hamilton knew that he would encounter stout resistance from those who feared that factories might hurt agriculture and menace republican government. His opponents cited abundant land and deficient capital and labor as reasons that America should remain a rural democracy. Jefferson, in particular, foresaw an enduring equation between American democracy and agriculture. Shortly before returning from France, he wrote that circumstances rendered it "impossible that America should become a manufacturing country during the time of any man now living."

From the outset, Hamilton emphasized that he was not scheming to replace farms with factories and that agriculture had "intrinsically a strong claim to pre-eminence over every other kind of industry." Far from wishing to harm agriculture, manufacturing would create domestic markets for surplus crops. All that he recommended was that farming not have "an exclusive predilection." Since manu-
facturing and agriculture obeyed different economic cycles, a downturn in one could be offset by an upturn in another. Throughout the report, he contested the influence of the Physiocrats, the school of French economists that extolled agriculture as the most productive form of human labor and condemned government attempts to steer the economy. Hamilton refuted their belief that agriculture was inherently productive while manufacturing was "barren and unproductive."47 Displaying an intimate familiarity with Adam Smith's *The Wealth of Nations*, Hamilton demonstrated that manufacturing, no less than agriculture, could increase productivity because it subdivided work into ever simpler operations and lent itself to mechanization. He also insisted that America's focus on agriculture was not just a natural by-product of geography but had been foisted on the country by European trading practices.

Hamilton evoked a thriving future economy that bore scant resemblance to the static, stratified society his enemies claimed he wanted to impose. His America would be a meritocracy of infinite variety, with a diversified marketplace absorbing people from all nations and backgrounds. Though slavery is nowhere mentioned in the report, Hamilton's ideal economy is devoid of the feudal barbarities of the southern plantations. Hamilton's list of the advantages of manufacturin has a quintessentially American ring: "Additional employment to classes of the community not ordinarily engaged in the business. The promoting of emigration from foreign countries. The furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other. The affording a more ample and various field for enterprise."48 Manufacturers and laborers would flock to a country rich in raw materials and favored with low taxes, running streams, thick forests, and a democratic government. And that influx of workers would eliminate one of the most pressing obstacles to American manufacturing: high wages.

While Hamilton's emphasis on "diversity" may please modern ears, his stress on child labor is more jarring. Of the productive British cotton mills, he commented: "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." In Britain's cotton mills, it was "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."49 Hamilton's approval of this may sound callous, and it is certainly fair to fault him for not foreseeing the brutality of nineteenth-century mills. On the other hand, child labor in farms and workshops was then commonplace—Hamilton himself had started clerking in his early teens, and his mother had worked. Hamilton didn't see himself as inflicting grim retribution upon the indigent so much as giving them a chance to earn decent wages. For Hamilton, a job could be an ennobling experience: "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. Hamilton did not equate child or female labor with exploitation.

In the best of all possible worlds, Hamilton preferred free trade, open markets, and Adam Smith’s “invisible hand.” He wrote late in life, “In matters of industry, human enterprise ought doubtless to be left free in the main, not fettered by too much regulation, but practical politicians know that it may be beneficially stimulated by prudent aids and encouragements on the part of the government.” At this early stage of American history, Hamilton thought aggressive European trade policies obligated the United States to respond in kind. He therefore supported temporary mercantilist policies that would improve American self-sufficiency, leading to a favorable trade balance and more hard currency. For a young nation struggling to find its way in a world of advanced European powers, Realpolitik trumped the laissez-faire purism of Adam Smith.

Reluctant to tinker with markets, Hamilton knew that he had to present a cogent brief for any government direction of investment. There was an obvious objection: wouldn’t smart entrepreneurs spot profitable opportunities and invest capital without bureaucratic prompting? Yes, Hamilton agreed, entrepreneurs react to market shifts, but for psychological reasons they sometimes respond at a sluggish pace. “These,” he wrote, “have relation to the strong influence of habit and the spirit of imitation; the fear of want of success in untried enterprises; the intrinsic difficulties incident to first essays toward a competition with those who have already attained to perfection in the business to be attempted.” Young nations had to contend with the handicap that other countries had already staked out entrenched positions. Infant industries needed “the extraordinary aid and protection of government.” Since foreign governments plied their companies with subsidies, America had no choice but to meet the competition.

After doing the intellectual spadework for government promotion of manufactures, Hamilton listed all the products he wanted to promote, ranging from copper to coal, wood to grain, silk to glass. He also enumerated policies, including premiums, bounties, and import duties, to protect these infant industries. Wherever possible, Hamilton preferred financial incentives to government directives. For instance, knowing that tariffs taxed consumers and handed monopoly profits to producers, Hamilton wanted them to be moderate in scale, temporary in nature, and repealed as soon as possible. He preferred bounties because they didn’t raise prices. In some cases, he even wanted lower tariffs—on raw materials, for instance—to encourage manufacturing. And to speed innovation, he wanted to extend patent protection to inventors and adopt the sort of self-protective laws that Britain had used to try to hinder the export of innovative machinery.
For Hamilton, the federal government had a right to stimulate business and also, when necessary, to restrain it. As Arthur Schlesinger, Jr., has observed, “Hamilton's enthusiasm over the dynamics of individual acquisition was always tempered by a belief in government regulation and control.” In arguing, for instance, that government inspection of manufactured articles could reassure consumers and galvanize sales, he anticipated regulatory policies that were not enacted until the Progressive Era under Theodore Roosevelt: “Contribute to prevent fraud 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.” He also recommended that the government inspect flour exports at all ports, “to improve the quality of our flour everywhere and to raise its reputation in foreign markets.” Endorsing still another form of government activism, Hamilton claimed that nothing had assisted Britain's industry more than its network of public roads and canals. He therefore touted internal improvements—what we would today call public infrastructure—to meld America's scattered regional markets into a single unified economy.

Even though he devoted only two skimpy paragraphs to the manufacture of gunpowder, Hamilton never lost sight that his Report on Manufactures was initially driven by the need for self-sufficiency in arms. Determined not to be caught short-handed in case of war, Hamilton supported “an annual purchase of military weapons” to aid “the formation of arsenals.” So vital were supplies to national security that Hamilton did not rule out government-owned arms factories.

In closing, Hamilton made clear that the energetic programs he described were not suited to all countries at all times but were devised for an early stage of national development: “In countries where there is great private wealth much may be effected by the voluntary contributions of patriotic individuals. But in a community situated like that of the United States, the public purse must supply the deficiency of private resources.”

Hamilton's Report on Manufactures ultimately came to naught. Unlike his magnificent state papers on public credit, the mint, and the central bank, this report charted a general direction for the government, not solutions to specific, urgent problems. The House of Representatives shelved the report, and Hamilton made no apparent effort to resurrect it from legislative oblivion. For a document never translated into legislation, the report aroused exceptional apprehension because of its broad conception of federal power. As always, Hamilton cited constitutional grounds for his program, invoking the clause that gave Congress authority to “provide for the common defence and general welfare.” Owing in part to Hamilton's
generous construction of this clause, it was to acquire enormous significance, allowing the government to enact programs to advance social welfare.

Madison was deeply alarmed by these arguments. Thus far, he said, those expounding a liberal interpretation of the Constitution had argued only for leeway in the means to attain ends spelled out in the Constitution. But no mention was made of manufacturing as an end of government. “If not only the means, but the objects are unlimited,” Madison groaned, “the parchment had better be thrown into the fire at once.” Nor could Jefferson conceal his horror at the report, which called for an even more sweeping arrogation of power than had Hamilton’s bank. In one postbreakfast talk with Washington, Jefferson mentioned Hamilton’s latest position paper and wondered somberly whether Americans still lived under a limited government. He dreaded the powers that would accrue to government under his colleague’s loose reading of the Constitution. He grumbled that “under color of giving bounties for the encouragement of particular manufactures,” Hamilton was trying to insinuate that the “general welfare” clause “permitted Congress to take everything under their management which they should deem for the public welfare.” For Jefferson, this opened wide the floodgates to government activism.