

# *Alexander Hamilton's Report on the Public Credit (1790) in a European Perspective*

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Two hundred years have passed since Alexander Hamilton, America's first Secretary of the Treasury, submitted to the United States Congress his Report on the Public Credit. This complex document, dated 9 January 1790, is at the heart of Hamilton's financial plan for a new nation.<sup>1</sup> It outlines the limits of the Secretary's programme; as far as fiscal policy goes, almost everything that mattered to him is mentioned therein.

What is curious, even ironic, is that the central feature of Hamilton's most important public document has been subject to so many conflicting interpretations. That feature is his proposal to fund the national debt — one of several components of Hamilton's report imported from across the Atlantic but altered considerably in transit. As we shall see, *funding* is an English concept transplanted to America but employed in a most un-English way. While much that Hamilton thought and did had European and, particularly English, antecedents, only on occasion did he sound like the "servile copyist of Mr. Pitt" that Thomas Jefferson portrayed him to be.<sup>2</sup> It was one thing for Hamilton selectively to imitate English financial practices: it was quite another to adopt them wholesale and this Hamilton rarely did.

Much of Hamilton's 1790 report is predicated on Congress' acceptance of funding. Although a good number of Hamilton's contemporaries understood that term, it may seem strange that the secretary did not define it then simply to clear the air — as he did in fact in a "valedictory" report on public credit

<sup>1</sup> Report Relative to a Provision for the Support of Public Credit, 9 January 1790, in HAROLD C. SYRETT and others, eds., *The Papers of Alexander Hamilton* (27 vols., New York, 1961-1987), VI, pp. 65-137, hereafter cited as *Hamilton Papers*.

<sup>2</sup> Thomas Jefferson to James Monroe, 26 May 1795, in PAUL LEICESTER FORD, ed., *The Writings of Thomas Jefferson* (New York, 1896), VII, p. 16.

five years later.<sup>3</sup> But it was not inconsistent with Hamilton's style to pass over essentials while inundating the reader with detail that seems less important. But Hamilton's momentary silence on this point hardly seems adequate cause for the confusion that has persisted. For no term that Hamilton employed routinely is used more imprecisely in the United States than funding. Consultation of various histories, general or economic, recent and not so recent, will confirm this. Sometimes, for example, the word is used to mean that government creditors might trade old depreciated securities for new ones at face value — a conversion, in other words. Another approach is to suggest that funding a debt meant to commit the treasury to paying both interest and principal in full. A different view is to equate it with Hamilton's refusal to favour original over secondary holders of national securities. Still another is to use the term without defining it.<sup>4</sup> To clarify what it meant to Hamilton, one needs to review the essentials of his Report on the Public Credit not from an exclusively American standpoint but in the light of English political experience. It is instructive, too, to look at various subsidiary features of Hamilton's report as a reflection of developments in England or France. Aside from that, the document will throw light on the thought patterns of a brilliant but idiosyncratic finance minister.

What Hamilton and many of his contemporaries had in mind becomes much clearer when we recall that in 1694 the English Parliament had established a funded debt. The intent of the Parliament — and, later, Hamilton — was twofold: (1) to earmark annual revenues by legislative statute, eliminating the need for appropriations each year, (2) for the specific purpose of paying only the interest, not the principal, on a national debt. In America congressional earmarking would reassure creditors who had lost confidence in badly depreciated government securities issued during the revolutionary era. The second basic premise, payment of interest only, implies indefinite postponement of repayment of principal.<sup>5</sup> When principal was to be paid and how much — these questions were to be decided by the national legislature. Most important, the funding system meant that a government could sustain a fairly high long-term debt with a relatively small annual revenue. In other words, an administration in financial trouble would find it much easier to pay

<sup>3</sup> Report on a Plan for the Further Support of Public Credit, 16 January 1795, *Hamilton Papers*, XVIII, p. 78.

<sup>4</sup> Funding in England and America is traced in DONALD F. SWANSON, *The Origins of Hamilton's Fiscal Policies* (Gainesville, Fla., 1963), pp. 11-17, 42-46, 50-51, 56-59, 85-86n. Also, see E. JAMES FERGUSON, "Political Economy, Public Liberty, and the Formation of the Constitution," *William and Mary Quarterly* 40 (1983), pp. 390-391.

<sup>5</sup> "To fund the Debt," Hamilton once stated, means "to pledge specified and adequate funds for the regular payment of interest till the principal was reimbursed." See *Hamilton Papers*, XIX, 50. Hamilton's closest approximation to this statement in his 1790 Report on the Public Credit was marred by his failure to mention the term funding. See *ibid.*, VI, pp. 105-106.

an annual bill for interest only — rather than to come up with interest installments plus payments to redeem a portion of principal.

Hamilton was well aware that his fiscal programme would go nowhere without funding. A government faced with principal payments it could not meet would find itself unable to establish, much less maintain, credit; its securities would remain low in value and the public would be afraid to lend to it in the future. Once the debt was funded, though, public creditors could more confidently expect to receive interest payments promptly. If Hamilton's programme worked, public credit would be maintained; securities might rise to par value or even beyond.

Hamilton proposed to fund the debt impartially: there was to be no discrimination between holders who had supposedly purchased their securities from the government at face value and those who had acquired them from original holders at depreciated rates. This proposal unleashed a controversy because it seemed an affront to original purchasers of government securities who in distress had sold them at a discount to speculators. However, the distinction seems a bit unreal: there are instances of original, as well as secondary, holders buying government securities at discounts.<sup>6</sup>

Not only did the Secretary intend to fund the national government's debts plus arrears of interest;<sup>7</sup> he proposed that Congress also assume the debts of the thirteen states. Assumption, as it is commonly called, was as much a political programme as a financial one, coming from a statesman who sought a greater role for the central government and feared the inordinate power of state legislatures. As a reflection of a new experiment in federalism, assumption is one of the few features of the 1790 report that seems uniquely American.

Although Hamilton's policies may suggest a conspiracy to enrich moneyed men, that would be an oversimplification. While the Hamiltonian solution surely pleased some speculators, the secretary was spoiling the plans of that considerable group that was betting on a decline of the market value of government debt; these "short sellers" were hoping to make a profit on government land purchased with debt instruments acquired at a discount but accepted at land offices at face value.<sup>8</sup>

The Report on the Public Credit devotes more space to *conversion*, however, than to funding or non-discrimination or assumption. Perhaps the reason

<sup>6</sup> In 1778 investors were buying government loan certificates with depreciated currency. WILLIAM G. ANDERSON, *The Price of Liberty: The Public Debt of the American Revolution* (Charlottesville, Va., 1983).

<sup>7</sup> If, for example, a \$100 security bearing 6 percent interest had not paid any interest for 5 years, the \$100 principal plus \$30 arrears of interest would become \$130 funded principal.

<sup>8</sup> FORREST McDONALD, *Alexander Hamilton: A Biography* (New York, 1979), pp. 154, 172.

is that this subject allowed the Secretary freer rein to indulge his imagination and that Hamiltonian bent for intricate mathematical schemes. It is no surprise that Hamilton's conversion proposals have not filtered down into general histories.

Simple in its basic intention, conversion is convoluted in detail. Having totalled the tax revenues, the secretary concluded that they were inadequate to pay interest for national and state debts, even with no timetable for paying principal.<sup>9</sup> So he decided to convert these debts to a lower interest rate. If Hamilton's funding programme was much like a plan adopted a century earlier in England, in outline his proposed conversion bore a marked resemblance to certain schemes adopted or proposed abroad during the previous 110 years. A conversion, it should be stressed, rested on a government's legal right to redeem at will the perpetual annuities it had sold — to return the principal, that is, and cancel the annuity.<sup>10</sup> Then it might renegotiate the terms of a loan, specifying a lower rate of interest. One precedent goes back to around 1680, when Louis XIV's finance minister Jean-Baptiste Colbert converted some perpetual annuities that had been issued at 6 1/2 to 8 percent in wartime to 5 percent. Similarly, in the mid-XVIIIth century the English government reduced the rate of interest on its perpetual annuities from 4 to 3 percent. Moreover, Hamilton's brilliant contemporary Jacques Necker, former finance minister in France, discussed conversion as a means of reducing the burden of debt in his *De l'Administration des finances de la France* (1784). Necker's work, which Hamilton acquired in translation, might well have affected the Secretary's thinking on conversion.<sup>11</sup>

Like many of their European counterparts, American owners of long-term government debt held what were in essence perpetual annuities. These Hamilton proposed to convert to a lower interest rate. Although his programme implied voluntary conversion, the secretary held a stick as well as a carrot. If an investor refused to accept a conversion, Hamilton could return the principal and cancel the annuity. What he specifically proposed to do, however, was to regard the debts owed to uncooperative investors as payable from year to year (rather than funded) at 4 percent, which was below the

<sup>9</sup> *Hamilton Papers*, VI, p. 87.

<sup>10</sup> In other words, Hamilton's perpetual annuities were "perpetual in the sense in which the larger part of the English funded debt was perpetual, having no fixed time for maturity, but being redeemable whenever the government might find redemption convenient — temporary or perpetual — therefore, according to the financial strength of the debtor." CHARLES FRANKLIN DUNBAR, *Economic Essays*, ed. O. M. W. Sprague (New York, 1904), p. 77. In France these were called *rentes perpétuelles*; in England they were often known as consols.

<sup>11</sup> NECKER, *A Treatise on the Administration of the Finances of France*, translated by Thomas Mortimer (3 vols., 2nd. ed., London, 1786), II, pp. 359-361; E.L. HARGREAVES, *The National Debt* (London, 1930), pp. 53-54; PIERRE CLÉMENT, ed., *Lettres, instructions et mémoires de Colbert* (Paris, 1861-1882), II, p. lxi.

contractual interest rate. In other words, he threatened partial repudiation.<sup>12</sup> What he really hoped, however, was that security holders would voluntarily trade old issues for new.

The object of conversion is clear enough: to reduce long-term debt averaging almost 6 percent to around 4 percent. But the route chosen to reach that goal was rather bumpy. Hamilton began by suggesting to Congress that holders of old securities be allowed to trade them for any one of five optional benefits. Then he added a sixth option, a loan requiring payment of half the principal in old securities, half in specie. Seventh and last, he suggested floating a tontine. By this point the Report on the Public Credit sounds like a prospectus, with a scheme to suit every pocketbook and investment proclivity.

The one conversion option that Congress accepted had a feature that is unusual if not unique. That is limited redeemability: if the creditor would accept a new contract, the government would agree to redeem no more than a small fraction of principal each year. There is in English financial history some precedent, although hardly exact, for in certain cases the government had issued perpetual annuities with a clause forbidding itself to redeem principal within ten years or more; after that the annuity was fully redeemable.<sup>13</sup> Hamilton's version of limited redeemability differed in that a small portion of the principal would be redeemable from the start; but the government creditor could be confident that he would hold a diminishing annuity for years to come. This was his reward for accepting a lower interest rate. Specifically, Hamilton proposed that out of every \$100 principal, two-thirds (\$66.67) be funded and pay 6 percent but that the United States government could pay the purchaser no more than \$4.67 in any given year. In the first year this meant 6 percent interest (\$4) plus one percent (67 cents) for redemption of principal. However, as the principal is reduced, less interest is required and an ever increasing percentage of that \$4.67 goes for principal. In short, that portion of the debt would liquidate itself in around 34 years.<sup>14</sup> Congress in turn altered Hamilton's proposal to provide for repayment in 24 years. Thus neither the legislators nor the Treasury Secretary envisioned perpetual indebtedness. So much for two-thirds of that \$100 principal. The remaining one-third Hamilton proposed to convert into a \$26.88 (principal) annuity at 6 percent but deferred — annual payments would commence only after 10 years had elapsed. Thus, with Congress' approval, Hamilton managed to re-

<sup>12</sup> He recommended a "temporary appropriation... limited to four per cent." for non-subscribers. *Hamilton Papers*, VI, pp. 97, 106.

<sup>13</sup> DUNBAR, *Essays*, pp. 76-77.

<sup>14</sup> The period for repayment would be slightly shorter if payments were made quarterly, as Hamilton recommended, instead of yearly. He would not oblige government to redeem that amount but, rather, reserve the right to do so and thus "avoid the inconvenience of a perpetuity." See *Hamilton Papers*, VI, p. 94.

duce the effective rate of interest on government long-term debt from 6 percent to around 4 percent.<sup>15</sup>

Various members of Congress found Hamilton's conversion proposals too complicated. Perhaps some of them had in mind two life annuity options the Secretary outlined. It is here that one is reminded of the critic who wrote of "Hamilton's chief foible as a financier — his fondness for ingenious and nicely calculated expedients, sometimes admirable as mathematical *tours de force*, but elaborated beyond the real needs of the occasion".<sup>16</sup> At times his projects border on "rococo finance," a metaphor derived from the curvilinear designs and arabesques of mid-XVIIIth century continental European architecture and implying a blend of mathematics, gambling, and "ingenious abstractions".<sup>17</sup>

If Hamilton's life annuity projects were more complex than necessary, at least they recognized that rates offered should be graduated according to age.<sup>18</sup> Since the life annuity paid a fixed interest as long as the person, the nominee, lived, naturally a nominee purchasing the annuity at age 20 should receive a lower sum annually because of his greater life expectancy than, say, a nominee of age 40. During the quarter century before Hamilton's report, the French had lost sight of this principle and continually issued life annuities at flat rates of 9 or 10 percent to all nominees. For his part, Hamilton proposed paying persons purchasing at age 21 less interest annually than those purchasing at age 31, for example. From the prospective investor's standpoint the real problem in the Hamilton plan is deferred payment of interest.

While life annuities in France began paying interest within a few months after purchase, Hamilton stipulated in each of his annuity plans that payments be deferred. His first plan would begin payments in not less than ten years; he mentions twenty, thirty, even forty years deferred-payment plans, too. His second life annuity option calls for an annuity to go to the younger of two persons at the death of the elder.<sup>19</sup> He does not mention the other

<sup>15</sup> In a letter to George Washington on 18 August 1792, Hamilton estimated that the conversion lowered the interest rate to 4 1/2 percent. *Hamilton Papers*, XII, 240. James C. Riley's estimate is 4.1 percent for the total debt. See his *International Government Finance and the Amsterdam Capital Market 1740-1815* (Cambridge, England, 1980), p. 191. Congress changed Hamilton's \$26.88 to \$33.33 deferred. We know of no precedent for deferred annuities legally constituted. Legal niceties aside, XVIIIth century monarchs understood this idea; e.g., French kings often delayed annuity payments.

<sup>16</sup> DUNBAR, *Essays*, p. 76.

<sup>17</sup> HERBERT LÜTHY, *La Banque protestante en France de la révocation de l'édit de Nantes à la Révolution* (2 vols., Paris, 1959-1961), II, p. 469. For examples of rococo finance, see ROBERT M. JENNINGS and ANDREW P. TROUT, *The Tontine: From the Reign of Louis XIV to the French Revolutionary Era* (Philadelphia, 1982), pp. 57-61, 65.

<sup>18</sup> Report on the Public Credit, *Hamilton Papers*, VI, p. 126.

<sup>19</sup> *Ibid.*, pp. 91, 94, 127.

contingency — that the younger of the two would die first — so we must presume that in this case no one would collect. It is significant that when the French crown issued annuities on more than one life, payments extended until the death of the last survivor, regardless of age. Had the Congress selected either of Hamilton's life annuity options, it would have chosen a scheme more difficult to administer than the normal life annuity based on one life and scheduling everyone's payments to begin within the year.

Hamilton's life annuity projects had other shortcomings. Neither states flatly that principal remains with the government from the start, as did French annuity offerings, but it is to be presumed. More important, though, the tables provided by the Secretary to explain anticipated benefits presupposed the mortality assumptions of Edmund Halley, stemming from experience in Breslau, Silesia, around 1690. In a century when mortality was declining, Hamilton's reliance on tables 100 years old is questionable.<sup>20</sup> Apart from that, certain assumptions in Hamilton's tables are quite interesting, to say the least. They imply that a person at age 40 might buy a deferred life annuity and remain content to collect not a cent for ten years. If he died at age 48, say, his heirs would collect nothing. If that person survived, it was a different matter: he could collect \$16.78 annually on his \$100 principal. What is especially striking in both Hamilton plans is the element of risk — unacceptable risk for many, one might think. For ten years the deferred annuity owner would expect nothing; if that annuity were placed on two lives and the younger died first, apparently the elder received nothing. If certain anomalies are difficult to explain, Hamilton's fondness for the deferred annuity is not: in his search for revenue, he saw advantage in delaying interest payments for a decade or more.<sup>21</sup>

Hamilton's last conversion option was a tontine. What he proposed was that a person join the appropriate class, or age group, pay \$200 a share, and receive annual interest at graduated rates ranging from 4.2 for the youngest to 6.4 percent for the eldest. Within each class, members would inherit each other's annual income until the last survivor died and the annuity for that class was liquidated. When all classes had expired, the tontine would end. Hamilton did not say so, but again one must infer that principal reverts to the state. Whether Hamilton derived the idea from Necker or from Prime Minister William Pitt's 1789 tontine or neither, the Treasury Secretary's classes and interest rates are obviously imitative of the younger Pitt's.<sup>22</sup> However, Hamil-

<sup>20</sup> Europe saw a decline in the death rate from roughly 1670 to 1820. JAMES C. RILEY, "Insects and the European Mortality Decline," *American Historical Review* 91 (1986), p. 833.

<sup>21</sup> *Hamilton Papers*, VI, pp. 90, 94, 126.

<sup>22</sup> See ROBERT M. JENNINGS, DONALD F. SWANSON, and ANDREW P. TROUT, "Alexander Hamilton's Tontine Proposal," *William and Mary Quarterly*, 45 (1988), pp. 110-112.

ton may have been aware that the eldest class in the Pitt tontine (above age 60) had been poorly subscribed, for he offered that group almost one percent more (6.4) than his English counterpart had.

Hamilton expressly states that one of his life annuity plans is based on Halley's mortality data; one has a right to presume that his projections of tontine mortality, too, come from Halley. But he would have done better to acquire the book published by Antoine Deparcieux a half-century after Halley's investigation; for the French author included among his diverse tables experience with French tontines established in 1689 and 1696.<sup>23</sup> Hamilton presumed a shorter human life span than did Deparcieux's tontine tables. However, in underestimating that life span the secretary was only repeating an error common in the XVIIIth century.

If some of Hamilton's conversion options seem problematical, what matters more is that through the 1790 report there runs a clear line of reasoning: as arrears of interest remain unpaid, public confidence in the government's credit will lag. "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." In other words, government must appear to be doing something, and quickly. Above all, Hamilton seems to say, it must fund the debt. A conversion must proceed, too. "By offering an option to the creditors, between a number of plans, the change meditated will be more likely to be accomplished".<sup>24</sup>

Hamilton is often portrayed as the advocate of perpetual debt. But the Report on the Public Credit specifically rejected the generalization that public debt is a public blessing. It is only with "proper funding" that one can speak of debt as a blessing, the secretary insisted.<sup>25</sup> As for principal reduction, it was not urgent but it was not to be ignored either. To that end he devised a sinking fund to come from the profits of the post office. Setting aside money there would facilitate eventual repayment of principal on the debt and, equally important, inspire confidence that it would be repaid. The fund would also serve to maintain the price of government securities, Hamilton thought. Eventually Congress approved a modified version of the sinking fund.

Far better known and more controversial is the first Bank of the United States, which Hamilton briefly mentioned in the Report on the Public Credit, delaying the details until a later date.<sup>26</sup> There is no suggestion in the January

<sup>23</sup> *Essai sur les probabilités de la durée de la vie humaine* (Paris, 1746).

<sup>24</sup> *Hamilton Papers*, VI, p. 97.

<sup>25</sup> *Ibid.*, pp. 71, 106.

<sup>26</sup> *Ibid.*, p. 108; Second Report on the Further Provision Necessary for Establishing Public Credit (Report on a National Bank), 13 December 1790, in *Hamilton Papers*, VII, pp. 305-342.

report that the bank is essential to establishing public credit. Indeed Hamilton's funding system could have operated without it. But that system could not have worked effectively without an increase in taxes. Additional revenues — along with a reduced interest burden stemming from conversion — would allow the treasury to cover annual interest on the funded debt. The Report on the Public Credit devoted much space to new revenues, proposing tariffs largely on luxuries and manufactured goods imported from England. In order not to impede the flow of money into the Treasury, Hamilton sought tariffs for revenue rather than for protection.<sup>27</sup> (He requested no internal taxes until later that year).

In charting this course, Hamilton was going in the same general direction as those English and French policymakers who had in 1786 concluded a low tariff treaty. Perhaps this was coincidental. However, more immediate connections between Europe and Hamiltonian financial policy are to be found. Maintaining a supply of cash to operate his funding system was not simply a domestic matter. If it depended heavily on trade with England, it also was contingent on short-term loans from the Dutch Republic. Moreover, Hamilton's very notion of funding, as we have seen, is derived from a century of English experience. But Hamilton adapted the British precedent to American needs. For him the establishment of a funded debt was a one-time operation; once established, that debt was not to be increased. In England, on the contrary, that debt had increased considerably since its inception. There was hardly any comparison between the almost \$80 million owed by Hamilton's government and the (approximately) \$1,275 million owed by the Pitt government.<sup>28</sup> When Hamilton suggested the limited redeemability clause and a sinking fund, it was in order to produce a result in America quite counter to English experience: a gradually declining funded debt. What really divided Hamilton from his political foe Thomas Jefferson was not the question of whether principal should be repaid but the rate of repayment; Hamilton

<sup>27</sup> Two years later he requested selective but modest increases on import duties. See Report on the Subject of Manufactures, 5 December 1791; in *ibid.*, X, 230-340. Here Hamilton recommended ad valorem increases on certain items from 7 1/2 to 10 percent, except for a few increases to 15 percent. Even if Congress had accepted his recommendations, the average rate would have remained low. Most estimates place the average tariff in force during the Hamilton era at 8 percent or less. This is not usually regarded as protective.

For the dependency of Hamilton's funding system on import revenues, see JOSEPH CHARLES, *The Origins of the American Party System: Three Essays* (Williamsburg, Va., 1956), pp. 13, 19; for Hamilton's tariff for revenue, see JOHN R. NELSON, Jr., *Liberty and Property: Political Economy and Policymaking in the New Nation, 1789-1812* (Baltimore, 1987), pp. 37-51, 54, 60.

<sup>28</sup> DAVID R. WEIR, "Tontines, Public Finance, and Revolution in France and England, 1688-1789," *The Journal of Economic History* 44 (1989), p. 98.

favoured repayment at a rather slow pace, while Jefferson wanted complete redemption in twenty years.<sup>29</sup>

Hamilton's sinking fund is one more example of his adapting English concepts to American necessities, but clearly it is a much smaller operation. Hamilton's idea was simply to channel surplus revenues into repayment of principal; the English equivalent was seen (erroneously) as a means of retiring debt independently of a surplus. Nor did Hamilton's sinking fund assume the central position in his thinking that it occupied in that of contemporary English financial circles. Being English, the idea sounded fiscally respectable; where public credit, and therefore confidence, was concerned, appearances counted for much, Hamilton insisted. In the end, though, the fund was only ancillary to his programme — a convenient means but not the only means to retire debt.

Conversion was another matter, much more central to Hamilton's financial plan. Historically this had been a vehicle in England and France for converting debt to a lower interest rate. But the Pitt ministry was actually considering converting debt to a *higher* rate.<sup>30</sup> If Hamilton had been a slavish copyist of English institutions, he might have suggested as a conversion option that sturdy perennial of English public finance, the lottery or lottery-annuity — an annual or semiannual event in the XVIIIth century. Instead he suggested options much more indigenous to France or, in times past, to Holland but also based to some extent on chance: life annuities and tontines. But into this mixture he threw deferred payments for life annuities, the Halley mortality data, and — one of the rare instances when Hamilton copied Pitt — the English formula for tontine classes and interest rates. If nothing else, the result testifies to Hamilton's eclecticism.

Congress passed Hamilton's funding plan by a large majority and with little debate.<sup>31</sup> Much more controversial were non-discrimination and assumption, but both eventually were adopted. If the Congress subjected the assumption proposal to compromise, it drastically altered Hamilton's conversion scheme, discarding all but one of the seven options, including the tontine and the two life annuity proposals, while retaining deferred perpetual annuities. Although Jefferson understood the basic premise of Hamilton's funding system, he inferred that the secretary really intended perpetual

<sup>29</sup> Jefferson to John W. Eppes, 24 June 1813, in ANDREW A. LIPSCOMB, ed., *The Writings of Thomas Jefferson* (20 vols, Washington, 1905), XIII, p. 273. Also Jefferson to Eppes, 11 September 1813, *ibid.*, p. 358.

<sup>30</sup> SWANSON, *Hamilton's Fiscal Policies*, p. 29. For the English sinking fund, see *ibid.*, pp. 18-33.

<sup>31</sup> So stated Fisher Ames, a leading member of that Congress. See United States, *Annals of Congress of the United States: The Debates and Proceedings in the Congress of the United States* (Washington, 1834), IV, p. 1106.

indebtedness;<sup>32</sup> for Jefferson and his partisans funding became a catchword for English-style corruption and financial speculation. Even political invective current in America of the 1790s was often clothed in European garb, whether directed at Hamilton's Anglomania or the Jacobin principles of his opponents. Later, as President (1801-1809) Jefferson quietly accepted the funding concept.

In 1790 few persons could have realized that Europe and America were about to embark in quite different directions — politically, diplomatically, financially. On both continents debts had been piling up during the previous three decades. As the French Revolution broke out, it would soon lead to war (1792) in Europe; there the debts would grow much larger. For America this was to be a period of relative peace. Peace and trade with England made it possible to pay interest on the debt. Hamilton added no more to the funded debt but did rely on short-term loans. In contracting new debts he heeded his own "maxim" (Hamilton's term): "The creation of debt should always be accompanied with the means of extinguishment".<sup>33</sup>

No one would suggest that Hamilton was aware of all significant precedents for his actions or assumptions; for example, a century ago a prominent American financial historian found a fascinating precedent for the secretary's maxim in the practice of the papal government 600 years prior to Hamilton.<sup>34</sup> It would be equally interesting to know what Hamilton thought (if he knew) of the "great" Colbert's view of runaway indebtedness; the XVIIth century minister went well beyond Hamilton's maxim in suggesting that taxes, special levies, even fines were safer than borrowing — in this sense, at least: that if Louis XIV ever discovered how much money he could borrow, there would be no stopping him!<sup>35</sup> As for Hamilton's American contemporaries, they largely shared his aversion to deficit spending. Fiscal conservatism was less pervasive in England, though. At the time of the Report on Public Credit, not much that is Hamiltonian is observable within the Pitt administration — apart from the 1789 tontine, a prototype for the American proposal. Far more important in the long run, Hamilton's fiscal policy as it unfolded in the 1790s reflected American determination to stay neutral in the European war and avoid "entangling alliances" — as President George Washington announced in his farewell address (1796). Much of that address was the work of Alexander Hamilton.

<sup>32</sup> Jefferson to George Washington, 9 September 1792, in LIPSCOMB, ed., *Writings of Jefferson*, VIII, p. 401.

<sup>33</sup> *Hamilton Papers*, VI, p. 106.

<sup>34</sup> ALBERT S. BOLLES, *The Financial History of the United States, from 1789 to 1860* (3 vols., 4th ed., New York, 1894), II, p. 57.

<sup>35</sup> PIERRE CLÉMENT, *Histoire de la vie et de l'administration de Colbert* (Paris, 1846), 344-345. Hamilton's praise of the "great" Colbert is in *Hamilton Papers*, III, p. 77.

