

The Financial Programs of Alexander Hamilton

by a Farmer's Daughter

Dianne L. Durante

2021

Copyright, Credits, Acknowledgments

Copyright © 2021 Dianne L. Durante. All rights reserved. For permission to publish lengthy excerpts, contact DuranteDianne@gmail.com.

COVER

Adapted from a series cover design by Allegra Durante (www.allegradurante.com). The cover photo shows a plaster model of Carl Conrads's *Alexander Hamilton*, 1880, at the Museum of American Finance, New York. Supporters' copies of the book have on the spine an image of Augustus Saint Gaudens's "double eagle" coin (photo: Jaclyn Nash for the National Numismatic Collection, National Museum of American History / Wikipedia).

ACKNOWLEDGMENTS

Dr. Raymond Niles, Senior Fellow of the American Institute for Economic Research, read a late draft with an economist's sharp eye. Michael Newton (<http://michaelnewton.com>), one of the foremost contemporary scholars on Hamilton, gave valuable comments on a late draft. John Herzog, Founder and Chairman Emeritus of the Museum of American Finance, graciously allowed me to use images of early American currency and bonds from his collection (pp. 26, 94, and 132). Thanks as always to my sister Jan Robinson for her meticulous proofreading. Any errors that remain are my own responsibility.

DEDICATION

Dedicated with fond memories to Rand Scholet, Founder of the Alexander Hamilton Awareness Society, for his interest and encouragement over the two years it took to write this book. I wish he could have read the final version as well as a late draft. Rand will be missed by all Hamiltonians for his encyclopedic knowledge of Hamilton's life, for his enthusiasm, and for the way he kept the lines of communication open among all the scholars writing on Hamilton today. Am I the only one who will also miss his outrageously bad puns?

First published 9/11/2021 via Amazon

Table of Contents

Copyright, Credits, Acknowledgment.....	2
Chapter 1: Introduction.....	4
Chapter 2: The Gordian Knot, Economic Problems in the United States in the Late 1780s	12
Chapter 3: Hamilton's Life As It Relates to the Gordian Knot.....	37
Chapter 4: Policy Paper #1, <i>First Report on Public Credit</i>	81
Chapter 5: Policy Paper #2, <i>Report on a National Bank</i>	118
Chapter 6: Policy Paper #3, <i>Report on Manufactures</i>	131
Chapter 7: Crises of 1790-1795 and Hamilton's Resignation	145
Chapter 8: The Gordian Knot by 1801.....	169
Chapter 9: Evaluating Hamilton's Programs	181
Appendix 1: First Report on Public Credit, outlined	193
Appendix 2: Report on a National Bank, outlined.....	235
Appendix 3: Report on Manufactures, outlined.....	273
Appendix 4: A Selection of Primary Sources Related to the Panic of 1792	355
Appendix 5: A List of Important Writings by Hamilton Related to His Financial Programs and to the Threads of the Gordian Knot	375
Appendix 6: Select Bibliography.....	389
About the Author, Dianne L. Durante.....	392



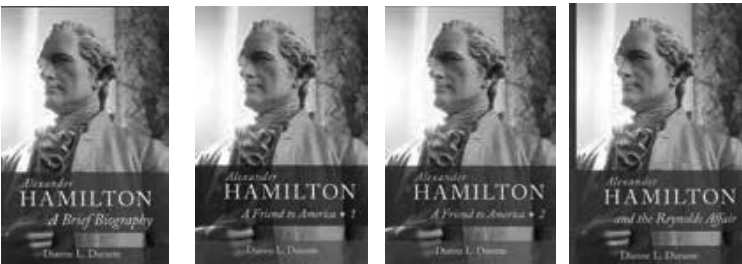
***Sculptures of Hamilton outdoors
in New York City***

Above left: Conrads, 1880. Central Park, just west of the Metropolitan Museum of Art.

Above center: Partridge, 1892. 287 Convent Ave., near Hamilton Grange National Memorial.

Above right: Partridge, 1908. Columbia University.

Left: Weinman, ca. 1940. Museum of the City of New York.



For *Alexander Hamilton: A Brief Biography*: <https://diannedurantewriter.com/archives/4870>. For *Alexander Hamilton: A Friend to America*, in 2 volumes: <https://diannedurantewriter.com/archives/4870>. For *Alexander Hamilton and the Reynolds Affair*: <https://diannedurantewriter.com/archives/9819>. The Reynolds book is an expanded version of a talk presented at Frances Tavern Museum on 1/10/2019, under the auspices of the Alexander Hamilton Awareness Society.

CHAPTER 1

Introduction

What makes this book on Alexander Hamilton’s financial programs unique? Mainly this: we’ll be looking at the programs from the perspective of Hamilton’s contemporaries, using primary sources. In late 1789, what would the man who cornered Secretary Hamilton in a tavern, or the woman who sat across from him at a dinner party, tell Hamilton he urgently needed to fix? How did Hamilton’s programs address those crises? And what made those programs so useful that the programs remained in place long after the crises of the 1780s and 1790s were resolved?

1.1 MY HISTORY WITH HAMILTON

Let me explain why I’m tackling this particular problem in this particular way. Around 2001, when I started writing on sculpture in New York City, I discovered that the city’s outdoor spaces included four life-size sculptures of Alexander Hamilton. (See facing page.) Ummm, Alexander who? At the time, Hamilton was little known and less discussed. Apparently he got his face on the \$10 bill because he was first secretary of the Treasury: yawn.

But the more I learned about the man, the more I admired him. In 2004, after reading Chernow’s *Alexander Hamilton*, I put together a short biography of Hamilton wrapped around a walking tour of sculptures of him in New York. The highlight of the tour was having participants read aloud substantial quotes from Hamilton’s works. In 2012 I turned the walking tour into an ebook, *Alexander Hamilton: A Brief Biography*.

When *Hamilton: An American Musical* burst on the scene in 2015, I couldn't afford tickets. I distracted myself by writing some seventy blog posts on Hamilton during 2016 and 2017. At first, I was "illustrating" the lyrics to the musical with letters and essays by Hamilton and his contemporaries. As tends to happen with me, however, the project ballooned. It ended up being a deep dive into primary sources for Hamilton's life and times. Founders Online (<https://founders.archives.gov/>) made this infinitely easier than it had been in 2004. In 2017, I published the blog posts in two volumes (*Alexander Hamilton: A Friend to America*), along with a revamped version of the brief biography from 2012 that included cross-references to the two-volume set.

Even after all those blog posts, there were a few issues about Hamilton's life that I wanted to study further. One was the Reynolds affair. Given that he loved his wife and family, why did Hamilton choose to have an affair with Maria Reynolds? Why did he publish a pamphlet five years later telling the whole world about it? And (speaking of sexcapades) did he really have a fling with Angelica? After extensive research of primary sources and context, I settled those questions to my satisfaction: see *Alexander Hamilton and the Reynolds Affair*.

1.2 HOW THIS BOOK CAME ABOUT

Another unresolved issue: despite having read all Hamilton's policy papers and a great deal of scholarly commentary on them, I didn't actually understand why Hamilton proposed those particular financial programs, what they accomplished, or how they accomplished it. The people who wrote about them naturally tended to be economists. Being an economic ignoramus, I was constantly struggling to "translate" what they said into terms I could grasp.

It occurred to me that if I went back to the primary sources, I could perhaps get a better grip on Hamilton's programs. Although Hamilton was financially savvy, he was not an economist. Nor were any of his American contemporaries. But 80% or more of Americans in Hamilton's time were farmers, and I am, in fact (as the title says), a farmer's daughter. Learning the farmers' context and then reading Hamilton's explanations of his programs might finally allow me to understand the programs.

This book is written for people like me, who admire Hamilton but don't understand what he accomplished as secretary of the Treasury, or why or how.

Fair warning: I'm fanatical about reading primary sources. Repeating what other scholars say third- and fourth-hand eventually results in errors and misinterpretations. Also, history is like

a novel, in the sense that it's much more vivid if it has dialogue instead of third-person exposition. Hamilton loves to explain himself. Whenever possible, I let him do the talking, whether about his financial programs, extinguishing the debt, or the achievements of Federalist presidents. I've also included statements by Hamilton's contemporaries, ranging from Jefferson's description of the residence-assumption compromise to a 1796 treaty with Tripoli. Americans in the 1790s were real people with serious problems, many of which are still relevant. The more vividly I can present these people and these issues, the more likely that you'll continue reading about them.

Most of the primary sources appear in double-column footnotes. They comprise about a third of the main text. If you're not already familiar with Hamilton's financial programs, I strongly suggest reading the main text first, for context, and dipping into the footnotes only when the topic particularly interests you.

1.3 STRUCTURE OF THE BOOK

This book falls into four sections. In the first (Chapters 1-2), we look at context: the situation of the United States in 1789, when Hamilton took office as secretary of the Treasury. To discover what the man in the tavern and the woman at the dinner party worried about, I read hundreds of primary sources, including (but not limited to) letters to and from Hamilton. Then I read scholarly works on Hamilton's life and programs, looking especially for primary sources I might have missed, and for facets of his programs that I might not have considered. After that, I went back and reviewed the primary sources, to make sure I could substantiate any generalization I made (or that other scholars made) with contemporary documents. From this reading and rereading, I came up with a list of five interconnected crises that Hamilton and the United States faced in 1789. In Chapter 2, we look at the threads of this "Gordian Knot".

In the next section of the book (Chapter 3), we look at Hamilton's life as it relates to the threads of the Gordian Knot. His knowledge, experience, and premises determine the skills he brought to his position as secretary of the Treasury, the results he wanted to achieve, and the programs he was able to conceive and have implemented.

Hamilton wrote three major policy papers: the *First Report on Public Credit*, January 1790; the *Report on a National Bank*, December 1790; and the *Report on Manufactures*, December 1791. In the third section of the book (Chapters 4-6), we look at how these policy papers addressed the Gordian Knot. The full text of the three papers is

printed in Appendixes 1, 2, and 3. If you're interested enough to read a book on Hamilton's programs, you should certainly read his policy papers. But since reading eighteenth-century prose can be difficult, in the appendixes, I've added outline headings to make it easier to follow Hamilton's line of thought.

The final section of the book covers the aftermath of Hamilton's term as secretary of the Treasury. In Chapter 7, we look at the crises of the 1790s. In Chapter 8, we look at the state of the Gordian Knot in 1801, when Thomas Jefferson (the first non-Federalist president) took office. In Chapter 9, we step back for an overview of how Hamilton's programs alleviated the crises of the 1780s and 1790s, and why the programs lasted after the crises were gone.

I'll be arguing that Hamilton created his financial programs based on his understanding of the Constitution plus his own observations, principles, experience, and knowledge. That included facts and perspectives gained from extensive reading in politics and economics, and from correspondence with some of the foremost figures in the United States. I'll show how his programs were integrated with each

1773	Tea Act; Boston Tea Party
1774	First Continental Congress resolves to boycott British goods
1775	Battles of Lexington and Concord; Washington appointed commander-in-chief
1776	Declaration of Independence
1777	Articles of Confederation drafted; Burgoyne surrenders to Gates at Saratoga, NY
1778	Valley Forge (winter 1777-78); French alliance; Battle of Monmouth
1779	
1780	British capture Charleston, SC; Benedict Arnold defects
1781	Articles of Confederation approved; British surrender at Yorktown
1782	
1783	Treaty signed with Great Britain; British evacuate New York City
1784	
1785	
1786	Annapolis Convention; Shays' Rebellion
1787	Constitutional Convention
1788	Constitution ratified
1789	First Congress convenes; Washington inaugurated

other—a major factor in their success. And I'll argue that Hamilton's aim in proposing these programs was first, to promote a federal government that was limited, but energetic enough to protect rights; and second, to promote a diverse economy run by individuals pursuing their own interests and happiness.

Aside from Appendixes 1-3, which contain Hamilton's major reports, I've included a selection of primary sources related to the Panic of 1792 (Appendix 4) and a list of Hamilton's most important writings regarding his financial programs and the threads of the Gordian Knot (Appendix 5). Appendix 6 is a bibliography of the scholarly works I found most useful in my research.

1.4 CAVEATS: WHAT WE WON'T COVER IN THIS BOOK

This book is not about how Hamilton moved the United States from the stagnation of the 1780s to the nation that's home to Silicon Valley and Disney World. Looking back with the experience and knowledge gleaned over two hundred years is obviously a valuable exercise. But if we're judging Hamilton as a person, we need to understand his context and the goals he was trying to achieve in his own time. This book is an attempt to get a nitty-gritty understanding of that.

A second caveat: I'm not an economist, so I will not be discussing Hamilton's programs in modern economic terms. If you're looking for a discussion of macroeconomic effects, liquidity problems, information asymmetry, the capital asset pricing model, or whether Hamilton was a *dirigiste* ... this is the wrong book for you.

And finally: I'm not discussing Hamilton's economic programs from the point of view of constitutional law. If you're looking for a discussion of the long-term effects of Hamilton's interpretations of implied powers, the general welfare clause, and so on, then again, this is not the book for you. (For that, you might want to read, for starters, Carson Holloway, *Hamilton versus Jefferson in the Washington Administration*.)

1.5 POLITICAL SITUATION OF THE UNITED STATES IN THE 1780S

For the sake of context, we'll begin with a brief overview of the political situation in the United States in 1789, when Hamilton took office as secretary of the Treasury. As you read this and Chapters 2-6, try to imagine yourself in the position of a forty-something American in Hamilton's time. That will help you keep the right perspective: that you're in the

middle of a crisis and you have not idea what to do, or what's going to happen.

This is what we, as American citizens in late 1789, remember.

The Revolutionary War began in 1775. In 1781, the British under General Cornwallis surrendered at Yorktown. By that point some of us had been in the army for years. Even if we weren't, we all vividly remember six years of death and destruction all around us. About one percent of the American population died, among them some of our family and friends. We won't quickly forget the war, or the tyrannical acts of the British crown that forced us to fight.

In late 1783, the United States signed a peace treaty with Great Britain. We broke free from the nation with the strongest army and navy in the world, and the most productive economy! So far, so good. But within a few years, our new country began to fall apart. General Washington, our commander-in-chief for eight years, lamented in 1786 that the United States was falling into "anarchy and confusion." Many of us agree.

Many of us agree

Hamilton to Washington, 3/24/1783: "The centrifugal is much stronger than the centripetal force in these states; the seeds of disunion much more numerous than those of union." <https://founders.archives.gov/documents/Hamilton/01-03-02-0191>

Tench Tilghman of Maryland (former aide-de-camp of Washington) to Matthew Tilghman, 2/5/1786: "We are at this point in time the most contemptible and abject nation on the face of the earth. We have neither reputation abroad nor union at home. We hang together merely because it is not in the interest of any other power to shake us to pieces ..."

Quoted in Charles Rappleye, *Robert Morris: Financier of the American Revolution*, p. 426; see also "Memoir of Lieut. Col. Tench Tilghman," published in Albany, 1876. <https://tile.loc.gov/storage-services/service/gdc/lhcb/22944/22944.pdf>

Arthur Lee (physician, lawyer, diplomat and Congressman) to Richard Henry Lee, 4/19/1786: "We have independence without the means of attaining it; and are a nation without one source of national defense The Confederation is crumbling to pieces."

Quoted in Rappleye, *Morris*, p. 426.

Washington to Madison, 1/5/1786: "No morn ever dawned more favourable than ours did—and no day was ever more clouded than the present! Without some alteration in our political creed, the superstructure we have been seven years raising at the expence of much blood and treasure, must fall. We are fast verging to anarchy & confusion!"

<https://founders.archives.gov/documents/Madison/01-09-02-0070>

In September 1786, delegates from five states met in Maryland to discuss commercial disputes among the states. The delegates at Annapolis called for a meeting of all thirteen states to discuss revising the Articles of Confederation.

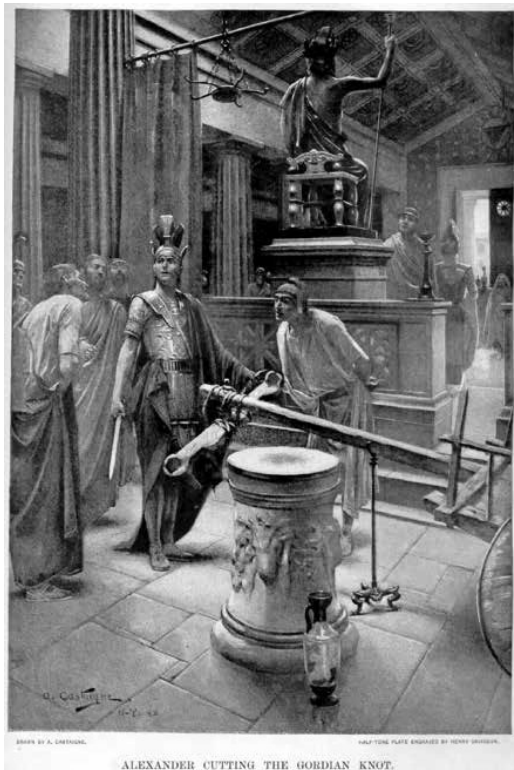
Despite some resistance from individual states, the Constitutional Convention was held from May to September, 1787. By June 1788, the Constitution had been ratified by nine states. Elections followed for president of the United States and representatives to the federal legislature. The first Congress under the new Constitution convened in March 1789. Washington was inaugurated as president on April 30, 1789. Hamilton was nominated and confirmed as secretary of the Treasury on September 11, 1789.

So here we are, still in a state of crisis. We all agree that we don't want to fall back under the rule of King George III and the British Parliament. But otherwise, we don't have an agenda. Perhaps the best we can do is work toward the opposite of the grievances set out in the Declaration of Independence. To wit:

- We want to elect our own representatives, and we want them to make laws that fit our situation.
- When we have a dispute, we want a functioning system of courts and judges.
- We want a military that protects us against attacks, but doesn't elevate itself above the civilian authorities.
- We want to keep what we produce, not have it taxed away without our consent.
- We want to trade with whom we please.

In short, we want to make our own living as best we can, without interference from the government or the military. Life, liberty, and the pursuit of happiness: that's what the Declaration of Independence said. That's what we fought for. We are holding our collective breath that the brand-new, untried system of government set out in the Constitution can deliver that.

If we run into Secretary of the Treasury Alexander Hamilton in late 1789 and have a chance to bend his ear, what will we tell him are the problems he urgently needs to deal with?



*Andre Castaigne
(d. 1930),
Alexander the Great
cutting the
Gordian Knot.
Image: Wikipedia*

Gordian Knot: After I'd written most of this book, I discovered that Hamilton himself had used "Gordian Knot", but in a different sense, referring to the division of power between state and federal governments. "But though it is admitted that the course pursued by the Convention was the most expedient—yet it is not the less true that the plan involved inherent and great difficulties. It may not unaptly be styled the Gordian Knot of our political situation. To me there appeared but one

way of untying or severing it, which was in practice to leave the states under as little necessity as possible of exercising the power of taxation. The narrowness of the limits of its exercise on one side left the field more free and unembarrassed to the other and avoided essentially the interference, and collisions to be apprehended inherent in the plan of concurrent jurisdiction." Hamilton, "Defense of the Funding System," July 1795
<https://founders.archives.gov/documents/Hamilton/01-19-02-0001>

CHAPTER 2

The Gordian Knot: Economic Problems in the United States in the Late 1780s

Once upon a time, in the kingdom of Phrygia (modern Turkey), an ox-cart was roped to a pole with an intricately complex knot. The rope's ends were worked into the knot so that neither could be seen. An oracle proclaimed that the man who could unravel this perplexing knot would rule all of Asia.

In the late fourth century BC, Alexander the Great heard the prophecy, saw the knot ... and sliced through it with his sword. Ever since, "Gordian Knot" has been used to refer to a problem so complex that it's insoluble, if approached conventionally.

By 1789, America's economic problems are a Gordian Knot. Five major issues are so closely intertwined that none can be solved in isolation. We'll look at these starting with the most personal and immediate—the one we can't ignore, even if we don't give a fig for economics in the abstract or for politics on a national scale.

2.1 FIRST THREAD IN THE GORDIAN KNOT: MAKING A LIVING

Making a living is a matter of simple and immediate self-interest. How do we earn enough to survive and prosper?

Making a living has been difficult for most of us for the past fifteen years or so. Some of us spent years in the army. Even if we didn't,

Gordian Knot: see facing page.

Self-interest: On the understanding of self-interest among Americans of the Revolutionary War generation, see C. Bradley Thompson, *Ameri-*

ca's Revolutionary Mind, A Moral History of the American Revolution and the Declaration That Defined It (2019), Chapter 6.

beginning in 1775, armies from both sides commandeered our goods, crops, and livestock. The British burned our towns and disrupted our trade. That means we lack not only foreign-made luxury items such as silks and wine, but basics such as plows, gunpowder, woolen cloth, and glass.

Why don't we Americans produce such items for ourselves?

2.1.1 Economic situation of the British colonies in North America

Under British rule, the thirteen American colonies on the Atlantic coast had a symbiotic relationship with the mother country—an arrangement that made sense because of their relative population densities. In Great Britain, all the decent farmland had been claimed for centuries. Many British had immigrated to the American colonies for the sake of owning parcels of the vast, fertile tracts available there. By the time the Revolutionary War broke out, farmers comprised more than 80% of the colonial population. Two and a half million Americans were scattered over 430,000 square miles, resulting in an average population density of barely six people per square mile.

Britain, on the other hand, had a population of about six million in 50,000 square miles, for an average density of about 120 people per square mile. That's far too crowded for farming, but very convenient if you want to hire workers for a factory. By the late eighteenth century, the factories of the Industrial Revolution were springing up across England. Only 40% of British were farmers. Most of the others were involved in trade or manufacturing.

An economy that depends on manufacturers needs a constant supply of raw materials, as well as reliable markets for finished goods. Before the Revolution, the American colonies provided the materials and the market. By inclination and in accordance with British law,

Farmers comprised more than 80%: These numbers are estimates because the first United States census, in 1790, did not ask for occupations. In *Financial Founding Fathers* (p. 4), Wright estimated that at the end of the Revolutionary War, at least 9 of 10 Americans worked in agriculture. McDonald stated that around 1789, most American families—

possibly 80% of non-slaves—owned their own farms (*Hamilton*, p. 119). According to the tables at Digital History (ID 3837), by 1800, 83% of Americans worked on farms; the number held at that level through 1810, but by 1820 began dropping steadily, to 53% by 1860.

https://www.digitalhistory.uh.edu/disp_textbook.cfm?smtID=11&psid=3837

American colonists sent the mother country raw materials such as cotton, leather, furs, iron, wood, indigo, and tobacco. In Britain, the raw materials were transformed into manufactured goods. Goods that the colonists needed or wanted were then shipped back to America.

Much of the trade was carried on in American ships—a boon for American merchants. On the other hand, owners of large plantations—land rich but cash poor—often fell deeply into debt for luxury imported goods. By 1776, George Washington and Thomas Jefferson both owed substantial sums to British merchants.

2.1.2 Economic situation of the United States during and immediately after the Revolutionary War

The Revolutionary War crippled the symbiotic relationship between America and Great Britain. For the duration, Britain stopped buying American raw materials and stopped sending finished goods. The British navy, the best in the world, blockaded American ports, causing trade with other countries to slow to a trickle.

After the war, Britain did not forgive and forget. She had lost 25,000 to 40,000 men in the fighting and gone deeply into debt for military expenses. The British government imposed severe restrictions on American trade with Britain and British colonies, including the West Indies—a major market for American goods. Shipments of American fish, beef, and whale oil were prohibited in British ports. Shipments of grain were permitted, but heavily taxed. Before the war,

Owed substantial sums to British merchants: Wright (*Hamilton Unbound*, p. 40) notes that in 1776, colonists in Maryland and points south owed almost 2.5 million pounds sterling to British merchants.

Jefferson to Thomas Adams, 6/1/1771: "I must alter one article in the invoice. I wrote therein for a Clavichord. I have since seen a Forte-piano and am charmed with it. Send me this instrument then instead of the Clavichord. Let the case be of fine mahogany, solid, not veneered. The compass from Double G. to F. in alt. a plenty of spare strings; and

the workmanship of the whole very handsome, and worthy the acceptance of a lady for whom I intend it. I must add also ½ doz. pr. India cotton stockings for myself @10/ sterl. per pair. ½doz. pr. best white silk do.; and a large Umbrella with brass ribs covered with green silk, and neatly finished. By this change of the Clavichord into a Forte-piano and addition of the other things I shall be brought in debt to you, to discharge which I will ship you of the first tobaccos I get to the warehouse in the fall. <https://founders.archives.gov/documents/Jefferson/01-01-02-0050>