

HUME, HAMILTON AND CREATIVE DESTRUCTION

“...there are few men to be found, of his age, who has a more general knowledge than he possesses, and none whose soul is more engaged to the cause, or who exceeds him in probity and Sterling virtue.” (George Washington on Hamilton, in a letter to John Sullivan, Feb. 4, 1781, In George Washington, A Collection, edited by W.B. Allen, Published by Liberty Classics, Indianapolis, 1988, pg.188)

How is it that Alexander Hamilton – immigrant American, bon vivant, artillery man, duelist, cabinet minister, opinion maker and speechwriter – found such inspiration in Hume, who was none of those things? Because both saw risk taking at the center of economic progress – or if not progress, at least the necessary engine of evolution and dynamic social action. Hamilton lived a life full of risks, a headlong dash that could have ended on any number of battlefields, but instead led to American’s Pantheon. Gambling for life and fortune again and again, he found it easy to believe that the gods of chance smiled on daring. Hume, whose personal prudence “saved him” from Madame B (Comtesse Marie de Boufflers), whose financial caution provided a cellar full of good wine, house and housemaid, whose political caution saved him from the fate of Fletcher of Salton, believed nonetheless that a society without the luck or courage to leap into the unknown would stagnate. Hamilton, reading the lesson, understood that America had either to be pushed into an unknowable future or it would fail, overwhelmed by external enemies or submerged in an internal swamp of indolence and unrealized promise.

As we wrote in an earlier paper: “It is significant that John Locke’s name appears only once in the voluminous writings of Hamilton, but the New Yorker’s admiration for the “profound and ingenious Hume” seemed boundless. In 1775 he quoted the “celebrated author,” in April 1781 he requested the philosopher’s works from his friend Timothy Pickering, in 1782 he called him “a very ingenious and sensible writer,” and at the Constitutional Convention of 1787 he praised him as “one of the ablest politicians.” (Gerald Stourzh, Alexander Hamilton and the Idea of Republican Government (Stanford, Calif.; Stanford University Press, 1970), p. 216, fn.43 and Harold C. Syrett and Jacob E. Cooke, eds., The Papers of Alexander Hamilton, (in 27 Volumes) (New York: Columbia University Press, 1961 – 79), I, 95; II, 595 – 96; Henry Cabot Lodge, ed. Hamilton’s Works (New York; G.P Putnam, 1904) I, 409.)

POLICY FOR MEN AS THEY ARE

Both Hume and Hamilton were comfortable with the idea that good results may be expected to come out of social proceedings in which all actors are pursuing self interest, and are not necessarily moved only by generous feelings toward their fellows. Saints are in short supply, and so it is fortunate that the main players on the stage of economic and political action need not be sanctified. Their pursuit of self interest will not spoil the outcome.

OFTEN, SOCIAL DESTRUCTION IS NOT CREATIVE

David Hume’s History teaches the lesson that the revolutionist’s pursuit of “sanctity” ends in despotism. First the authority of legitimate government is usurped on the ground that it is insufficiently moral and then its infrastructure is destroyed. In the middle of the process there is a violent struggle for the power, the contenders all claiming to be sanctified. The despot emerges to restore order. (We paraphrase Laurence L. Bongie in David Hume, Prophet of the Counter-Revolution) Second edition, Liberty Fund, Indianapolis, 2000, pg. xxii) Hamilton’s plan for a new nation was not built on an assumption about the sanctity of the yeoman farmer, but upon the carefully guided and directed self interest of “monied men”, who would fund his bank, and build a rich industrial tax base, earn profits for themselves, all with the help of a cooperative government, operating according to Hamilton’s grand plan.

HOW TO MANAGE WHAT COMES AFTER REVOLUTION?

Hamilton's problem was the fact of the revolution: it was in progress. The conjunction of historical forces in America made overthrow of the previous Constitution is nearly inevitable, since the Old Magistrate was anything but astute or lucky... Moreover, "sanctified" ideas were in the air. The "wild gas of liberty" as Burke was later to call it, was loose.

Hamilton must have worried that the American Revolution could go badly. Like Hume, Hamilton believed that order took priority over liberty. It is reasonable to believe that Hamilton thought of George III when he read Hume's account of Charles, a Stuart King who understood his legal "precedents" to savor "strongly of arbitrary power...". Unfortunately for both George and Charles, their time was one when "the genius of the people ran violently towards liberty" (VIII, 141, pg xxii in Bongie) As Hamilton read on in the History, we think he was persuaded, or at least he discovered support for his own view, that this "combustible gas" of agitated liberty needed to be contained in a system of laws, lest the enthusiasm for "pernicious acts of folly" give rise to Cromwellian despotism. Hamilton must have read Hume's warning; "By recent, as well as ancient, example, it was become evident that illegal violence, with whatever pretences it might be covered, and whatever object it may pursue, must inevitably end at last in the arbitrary and despotic government of a single person." (H, H. VIII, 240, Bongie xxii). Here we find a source for Hamilton's belief that the new nation's constitution ought not to stray too far from the old design.

Moreover, Hume's dependable scientific predictions might arise out of a long line of observed constant conjunctions, but the "causes and effects" in that data set must be small in relation to their surrounding reality. Billiard balls will not react in expected ways if the table is moved to a space ship floating in zero gravity. Likewise the consequence of civic reforms are only predictable when the changes are small in comparison with the surrounding political reality – if the entire supporting infrastructure of society is changed totally, there is no telling the manner in which political events will be related or connected. And so holistic revolutions are undesirable because there is no sufficiently similar past set of constant conjunctions available to form predictions about the likely linkages in the new society.

Hamilton hopes to protect the new nation against the destructive potential found in the end stage of revolution. His idea is to create a central Federal government having sufficient revenue and authority to maintain order. In order to establish order Hamilton is prepared to diminish liberty, or at least the freedom of action of subordinate state governments. It is not merely, as Bongie has it, that fevered competition among revolutionary factions eliminates all but the most ferociously "sanctified" of them. An even greater danger is that zealous revolutionaries will destroy one room after another in the vast Cathedral which is the ancient Constitution, until nothing remains but a civil ruin, incapable of being rebuilt by these political apprentices, only forming an Ozymandian monument to their folly and overreach. Like Hume, Hamilton believed that Liberty is a valued ornament, but maintained order is an essential, to civic life. (There are many citations to show Hume's moderated enthusiasm for Liberty: On October 15, 1754, he writes to Abbe Le Blanc apropos of a French translation of the History: "That I am a lover of liberty will be expected from my country, but I hope that I carry not that passion to any ridiculous extreme." Likewise Hume writes often of the importance of order and the dangers of rebellion. "...a regard to liberty, though a laudable passion, ought commonly be subordinate to a reverence for established government, the prevailing faction has celebrated only the partisans of the former, who pursued as their object the perfection of civil society, and has extolled them at the expense of their antagonists, who extolled those maxims that are essential to its very existence" (IX 524). Hume thought it better "to be deprived of liberty than to be destitute of government." (VII 125) In the History of the Stuarts, he writes "Government is instituted in order to restrain the fury and injustice of the people; and being always founded on opinion, not on force, it is dangerous to weaken, by these speculations (on the right to rebel) the reverence which the multitude owes to authority")

Hamilton used another of Hume's ideas, the use of action, striving, and excitement to bring about a balance between order and liberty. Hamilton's designs are consistent with a belief that if liberty and order are to be simultaneously maintained into the long run, the citizenry must be fully occupied in building a dynamic, evolving, risk-taking social order, not merely to generate wealth, supply a militarily competent tax base, people an empty continent, counteract a jealous Europe, but, as Hume would have it, the Grand Civic Plan must fully engage the "quick march of the spirits" and occupy all the "causes of labor", lest the people sink into political lassitude and economic indolence on the one hand, or indulge themselves in gratuitous rebellion on the other. Even more subtle, the Grand Plan is no plan at all; at least no thing teleological, but only potentially useful in setting alight the effervescent gasses of a dynamic, evolving civil order, whose non-plan is constant creative destruction of itself.

UTOPIAN THINK IT POSSIBLE TO "REMAKE MANKIND"

The Utopians, antagonists to both Hume and Hamilton, believed mankind to be a blank tablet upon which they might write a better blueprint. These dangerous dreamers thought they had the righteous power, growing out of politics and revolution not to reform man, but to recreate him altogether, as if from raw mud, so committing the primary sin of Pride, undertaking to improve upon "God's original". As revolutionaries, they resent the reforming institutions and thinkers, because these opponents accept as permanent the "flaws" (or better, the realities) in Man's nature, hoping only to work around them in small ways. For them, Justice is written in the stars, or at least in some kind of original contract. In contrast, philosophers like Hume and statesmen like Hamilton understood justice to be a state of affairs when certain, well-defined behavior may properly be exacted from some individual, despite that person's current preferences, which may be for other action, or no action. For such exactions to be proper there must have been at time when the required behavior was volunteered in exchange for a balancing promise from another party to some specific individual contract. That such a time really existed is best shown by property rights in the underlying contract. Justice exists with respect to these rights and contracts if mutually agreed upon third parties find clear language, voluntary agreement, evidence of reliance and initial good faith behavior prior to any finding of consequent inadequate fulfillment of downstream obligations. For example, this is the core of the argument Hamilton will give in defense of his proposal to pay full value to the holders of record of early America's "war bonds", contrary to the counter arguments of the Chief Farmer, Mr. Jefferson. Hume's counter-parties in the great debate over justice may say, such an interpretation of just property rights is artificial in contrast to the dreamer's picture of just contracts growing out of some imagined original contract, but Hume's reply, that the outcome of the artificial system is appropriate to mankind as nature actually formed him, carries the day with Hamilton.

The Eighteenth Century French were captivated by Reason as exemplified in the main idea of their Philosophes. Those harbingers of the Terror believed that a society could wipe away its history, change the very soul of mankind, and build a new, utopian world in place of the imperfect one currently in place. North Briton Hume and American Hamilton thought differently. The philosopher believed that reason is, actually, properly and constructively, the slave of the passions. It seems to follow that the wisdom encapsulated in the ancient constitution is a compound of reason and passion, not easily, perhaps not at all, capable of being analyzed by the present generation of rebels, and so not likely to be improved upon by their violence. The constitution maker so respected the wisdom of his political fathers that his own plan for the new nation was as little different from the old one as requisite independence would allow. Both realized that profound changes were nonetheless inevitable, if the unstoppable ideas of the market, liberty, and popular sovereignty were to be safely incorporated into civil society.

TAKE MAN AS YOU FIND HIM, BUT KEEP HIM BUSY

Hume – and Hamilton as a result of a lifetime's reading of Hume – believed it is not only just, but wise as well that we take Mankind as we find him, and especially so must the magistrate. (See Of Commerce, Rotwein, Pg, 10) The magistrate, informed by careful reading of either Hume, or the lessons of empirical history, will understand that the inner Man is a constant, and almost completely unpredictable at the individual level because of the complex mix of passions which motivate each

person. Nonetheless, when viewed in the aggregate and over time, a philosopher or statesman wise in the ways of the Science of Man may gain the insights required to prudently and constructively change or modify Man's outer civic garments. The civic wisdom discovered by such a science informed America's chief economic architect that a citizenry without dynamic growth and change will be indolent to the point of being unable, if not unworthy, to practice self-government, or even to survive in a challenging, sometimes hostile economic and political environment. The American Reader of Hume believed that a farmer satisfied if neither scholar nor warrior, not fully alive as a citizen nor possessed of the exploratory passion needed to people a continental wilderness. Moreover, Hamilton believed that a simple farming nation would lack the pecuniary resources needed to finance their inevitable contest with nature and contending nations. Hume's writings gave Hamilton the inspiration for a system of civic reforms that could awaken and permanently channel the "quick march" of American spirits, create a taste for risk taking, support exploration and finance urban and industrial infrastructure, open a door of opportunity for immigrants searching for a better world, and give rise to a full spectrum of modern citizens: scholars (who need towns to live in) warriors (who need an economic surplus to live on) manufacturers, traders and bankers (for whom poor self-sufficient farmers provide no nourishment to live upon), the whole scheme influenced, if not directed, by an active magistrate. Finally, and important to this paper, the final result of Hamilton's Humean reforms is to end the former civic order, peacefully but finally and creatively destroying farmer America, replacing it with New America, an infant Hercules, who would outgrow his cradle in a mere three generations, to become the world's foremost economic and political success. All this would be done without the help of the French Guillotine.

CREATIVE DESTRUCTION

David Hume's theory of economic, social, political and moral growth, development and evolution, as presented in his essays and other writing, could easily wear the label "creative destruction," a phrase made popular by Schumpeter and Hayek in more recent times. Hume says that the process by which a static society begins to change involves an alteration in the willingness of important economic and social actors, who are already leaders in their world, already comfortable and even well-off in their simple world, to take significant risks. (See Eugene F. Miller, ed. *David Hume Essays Liberty Fund, Inc.* (Indianapolis, 1987), pp. 260 – 63) They imperil their wealth, even their livelihood, gambling for the sake of it, undertaking new investments, explorations, novel political designs, as much or more for the sake of finding out what lies behind an impenetrable screen of true uncertainty, as for the sake of making any foreseeable profit or ordinary statistically expectable gain. This view of the incentive for economic growth is in contrast with at least one important competing idea, held during Hume's time and still a factor in the ideas of, for example, the International Monetary Fund. This alternative view contends that development takes place only if the needed investment is saved out of the meager subsistence allowance of the general population of the place undergoing growth. Malthusians, ancient and modern, go even further, imagining a negative dynamic, where negative savings, occasioned by the indulgent and short sighted habits of the common folk, the stinginess of nature, and static technology combine to doom mankind to deprivation.

THE HH CONNECTION BETWEEN ECONOMIC AND POLITICAL SUCCESS

It is clear that Hamilton wished to promote manufacturing. An important motive for his policy was to produce a tax base for the national government, consisting partly in protective tariffs for this new class of economic actors and partly in moderate direct taxes laid upon them. Another factor in Hamilton's mind was Hume's belief that economic development is consistent with, and indeed supports, self-government: "Can we expect, that government will be will modeled by a people, who know not how to make a spinning wheel, or employ a loom to advantage?" ("Of Refinement in the Arts" in Eugene Rotwein, ed., *David Hume: Writings in Economics* (Madison: the University of Wisconsin Press, 1970), P. 24)

THE RICH TAKE THE RISKS

Hume's scenario, therefore, is one in which the "elite" community undergoes the costs of development. His story, told as much in his History as in his essays, is one in which the primitive elites undertake the initial risks and costs of economic and social evolution. Moreover, during the intermediate term, and as a consequence of their own actions, they disappear from the scene. The new world created by innovative investments shifts power away from the class of landowning aristocrats of the late feudal type. The evolutionary process will replace that group with a brand new population of leaders, consisting of merchants, traders, investors, bankers and entrepreneurs, who form the beginnings of something like today's influential citizenry.

CREATED EVOLUTION GOES DEEPER THAN MERE GROWTH

Such economic evolution could allow Hamilton's vision of industrial America to bloodlessly replace the agricultural export based former colony which was his America. We write evolution rather than "growth", since the key element in our argument is that Hume seeks to explain a world that is changing fundamentally. Simple growth means merely getting bigger, but, alas, not marginally more productive. Growing societies that fail to innovate suffer a Malthusian fate, since diminishing returns will eventually reduce per capita real income as the economy grows very large. In contrast, new inventions, new political economic organizations, new ideas are not limited by diminishing returns – per capita income may rise without a Malthusian limit, even as a community's size and concentration becomes much greater than it was at the initiation of reform. We say Hume analyzed a process, and Hamilton advocated a kind of change that resulted in deep alterations in the core infrastructure of society without bloody violence..

HAMILTON = AMERICA'S ARCHITECT

By now the story of Alexander Hamilton as America's financial wizard ought to be familiar. Taking over the United States Treasury Department in 1789, introducing startling new laws and state papers, he quickly fashioned the system through which his country, then barely surviving on agriculture, in fewer than 75 years, became the pre-eminent industrial power of the world.

Hamilton never received much credit for the accomplishment. Biographers have been few and scholars of a liberal persuasion, dominating the academy, have pegged him, as opposed to Thomas Jefferson, the "Farmer", as "elitist". But in national politics successive administrations (after Washington 1789 – 97) followed his blueprint, sometimes reluctantly, like Jefferson (1801 – 09) and in other areas enthusiastically, like John Quincy Adams (1825 – 9). After the War of 1812, Henry Clay's so-called American System was essentially Hamilton's program, and the fundamentals of his controversial blueprint for America may also be found in the demands of the newly formed Republican Party of the 1850's. Hamilton's latest biographer, Ron Chernow, quotes with approval Theodore Roosevelt, who got much of his progressive political philosophy from "the most brilliant American Statesman who ever lived, possessing the loftiest and keenest intellect of the time." (Quoted in Ron Chernow, Alexander Hamilton, the Penguin Press, New York, 2004, p. 4) Few scholars today, whether they like Hamilton or not, would dismiss that judgment.

HAMILTON'S CONSISTENCY & HIS LIFE-LONG READING OF HUME

Where did Hamilton learn his economics? It can be no blot on the intellectual reputation of the Treasury Secretary to admit that from college years onward, he was guided by an "invisible hand." From reading Hume as early as February 1775t, (aged 20,) he understood that the task of the future government of the United States was to stimulate the elite community in order to further investment and economic evolution. Chernow reminds us that Vernon Parrington wrote that Hamilton was "Singularly precocious, he matured early; before his twenty-fifth year he seems to have developed every main principle of his political and economic philosophy, and thereafter he never hesitated or swerved from his path" (Chernow p. 158). It is reasonable to hypothesize that one reason for Hamilton's consistency is his early reading of, and more or less permanent acceptance of, Hume's core arguments. Hamilton's debt to Hume in his state papers as Secretary of the Treasury and right hand

man to President George Washington is fairly well known, but the longevity of his vision has only recently been understood. It is another one of the subjects of this paper.

HUME IN PRACTICE

Hamilton foresaw the need for, and so then he sponsored, especially in his "Continentalist" essays of 1781, as well as in his later state papers, critical changes in early American banking, manufacturing, credit, international trade, immigration and urban growth. We will show that Hamilton took Hume's story of how the world DID change, and used it to explain and defend his case for saying it is a way by which the world OUGHT to be MADE TO change. Why? Because he was guided by what Hume said as well as by what he implied. A society cannot stand still in the way Jefferson (for one) would have liked it to. He claimed that American society must evolve in the supercharged way he proposed if it was to avoid being reconquered by Europe. We show that the new society that Hamilton hoped for, while it might well do away with the one that fought the Revolution, would be more competitive than the old, and that, finally, there did not exist an option that would allow America to remain in place. The Great Depression of the 1780's proved his point. Diminishing returns to the old colonial agricultural order had already begun to bite. It really was a case of change or die.

STRIVING, ACTION EXCITEMENT ENERGIZE ECONOMIC EVOLUTION

Hume's Essays and History are especially relevant to this last point, as he noted that the relative significance of each of the ingredients of action or "causes of labor" -- striving versus realization, the state of new passion versus that state of emotional excitement, perfect tranquility and repose versus pure contemplation, satiety and disgust versus a life of action, the gambler's joy at risk taking versus the prudent man's search for shelter and safety.-- shift their relative balance during evolutionary change. (See Rotwein, p. xcv and also Miller, ed., Hume Essays, p. 260 - 65) The new balance of the mixture of motives he says moves the active players in society, motivating them to take the necessary risks of tradition-breaking investment, can only remain in place if dynamic change is the permanent state of things. Hume thinks the mix of motives, the "causes of Labour," will relapse into their previous, indolent, wasteful and destructive combination, if the future, instead of being temptingly hidden behind a veil of intriguing ignorance, is believed instead to be nothing but a long run of constant repetitions of the Past.

EVERYTHING CHANGES, NOBODY DIES

Hume's writings tell a story about economic growth that explains how it is that the world changes utterly when economic evolution takes place, including a change in the leading class of persons, but without violent rebellion, indeed by the very actions of the initial risk takers. (See Rotwein, p. xciv) This development will benefit both the new leaders and the lesser folk who make up the following classes, without unduly burdening the latter. The world is remade, but no blood is shed, and no guilt -- although there might be some regret -- haunts the conscience of those who brought it about. "It is a violent method, and in most cases impracticable, to oblige the laborer to toil, in order to raise from the land more than what subsists himself and family. Furnish him with manufactures and commodities and he will do it of himself." (Rotwein, "Of Commerce" p. 12) The outer world changes thoroughly, but the components of human nature do not. It is their mix that is altered, sometimes as a cause, other times as an effect, of the alterations in the surrounding civic, economic and social milieu. But Hume does not have a story about how such a type of evolution might be set into motion by an act of policy. He merely says it was the way things happened. Hamilton, guided by many of the details of Hume's argument, used it to devise a policy whereby change of an evolutionary, profound and non-rebellious kind might be induced in America, saving the new nation from the certain decay which would result if it mistakenly tried to build a future which was simply a repetition of the past.

Despite their many differences of temperament, neither Hume nor Hamilton was a Utopian, yet both understood that their time was one ripe for fundamental political change. Each had an idea of how the magistrate might better manage the forces of change in a manner humanitarian, respectful of mankind's limits, yet conducive of significant progress and eventual profound change. Looking

backward at History, Hume saw that the slow progress of liberty was impeded when change was imposed by the violence of bigotry, while moderate reforms eventually proved successful. Looking ahead into an unknowable political future, Hamilton's actions implied a systematic belief that policies to encourage risk taking within a familiar constitutional perimeter would set the stage for survival by change.

THEY WERE NOT KILLED, BUT THE OLD LEADERS ARE GONE

Hume's novel idea for economic growth does not squeeze the necessary saving and investment out of the poor, does not anticipate a total alteration in the leadership of the community, does not require violent conflict between opposing classes, yet the story ends with the former ruling aristocracy replaced by merchants, traders, and bankers, while at the same time, and as a consequence of the same forces, the aristocrats are supplanted by Parliament and constitution. Hume's emergent description of "progress", scattered throughout his history and economic essays, has the aristocrats, surfeited with wealth and power, bored with their card games, looking for real thrills in the form of serious gambles, financing explorations of the new world, supporting dangerous thinkers and promoting trade by their taste for exotic goods. They incubate independent political power in their far distant colonial outposts precisely because of the imprudent pride that motivated their imperial overreach in the first place. These economic and political adventures were paid for by the established classes, more to satisfy demands of their quick marching spirits than to satisfy utilitarian gain.

These gamblers had no need to enrich themselves or their progeny. They were already the most powerful persons in their world, and, had things not changed as a result of their risk taking, their children would have inherited wealth and position. But a kind of "creative destruction" was the consequence of the venturesome spirit of their fathers, whose chance taking began an evolution that begat a liberal, republican merchant society, quite unlike the world that preceded it. Caution, prudence, foresight, moderation and a realization that, as the leaders of their civilization, mere conservation of present assets was all that was needed to guarantee the welfare of their descendants – none of that seemed present in the minds of the midwives of the modern world, at least as the story of the consequences of their actions was told by Hume.

Hume also tells the contrasting tale of persons motivated by an overt revolutionary impulse. It is the story of those who murdered Charles, and thereafter wrought a civic world more arbitrary and illiberal than the one they supplanted. He contrasts their world with that of the Restoration. He makes it clear his preference is for moderate reform over pious political zealotry. Those reforms are designed to moderate, in small, predictable ways, the impact of the larger changes brought about by the less predictable evolutionary process instigated by the gamblers and risk takers..

NON UTOPIAN PUBLIC POLICY IS OK, BUT BEWARE OF BLOWBACK

Hume in making clear a distaste for utopian planning did not dismiss all hope for successful policy decisions. His many suggestions to the magistrate for ways to avoid error in governance make it clear that he thinks nature sometimes needs a helping hand when it comes to the day to day operations of the State. (See Miller, ed., p. 312). On the other hand, accident, combined with the complex mixture of the springs of action, is sometimes equally important, and perhaps more powerful than intention in shaping long run national destiny. For example, in telling the story of Spain's gold, Hume's final outcome is a Spanish population disinterested in work and dissipated by the intoxicant of power. He tells of the consequent decline of a great power, overtaken by States on its perimeter, who are suppliers to Iberia, ironically motivated to work and innovate in order to sell gold-rich Spain the merchandise she no longer took the trouble to produce for herself. (Miller, ed., p. 312) Finally, overextended by the demands of empire, politically top heavy because the new money did not create a middle class, mistakenly committed to a "development" strategy of exploiting the obvious wealth easily available, rather than building a truly new world across the sea, Spain has abundant reason to regret eating the poisoned apple of New World riches. The mere "economics" of the situation – a fabulous stock of gold, easily acquired and immediately accessible to the State – was insufficient to predict the unexpected outcome, Spain's permanent fall from greatness.

AMERICA NEEDED MORE THAN SIMPLE PROFIT MAXIMIZERS/RISK MININIZERS

Hamilton's new nation, if it was to thrive, needed not to rely on extractive, gold-hunting, or merely economic development strategies. Remaining an agricultural nation depending on export sales to the former colonial capital was a strategy that would keep America in permanent dependence upon its old master. The mix of human motivation must be adjusted so healthy ventursomeness would carry forward a policy of risk taking and investment, well beyond the point where mere profit taking would take the new nation. An entire continent had to be subdued, a prospect so unpredictable and fraught with obvious dangers that economically rational men would not attempt it. Jefferson's simple yeomen farmers, content with their crops, cows, children and town meetings, would be unlikely to tame a wilderness full of wild beasts and savage men. Even if, in some more perfect world, the yeomen would survive, the instruction that Hamilton could find in Hume's History told him no juvenile State could withstand the predations of a greedy, envious Europe, nor could it raise itself to national manhood while relying on the parochial indolence of a nation of farmers.

So Hamilton devised a set of policies that rewarded the gamblers and speculators who bought up "worthless" continentals, and other revolutionary debts. He created a banking system that had the backing of the state, and the support of the money owning class, to advance loans needed if risk taking adventurers were to fund their conquest of the frontier, build new cities in the wilderness, finance infant industries to compete with the economic super power of the day, and build a tax base adequate to support a military power sufficient to defend newly acquired independence. No matter if explorations of the frontier by the likes of Lewis and Clark were to discover easy riches appropriate to a Yeoman's life. Mere fertile land or unexploited resources were not enough. The need for fundamental change demanded more – cities, industry, immigrants along with the entire apparatus of a trading civilization. These truer sources of wealth would not be found by men in canoes, but discovered with the help of bank loans used to float speculators upriver. The risks that Hamilton knew his country had to take were everywhere and of every kind, political, economic, military and social. The future state of things could not be foreseen, except that he knew that the status quo was insupportable. His system was designed to take the initiative away from those persons and political practices that presently commanded the field, so as to build the new world modeled on the successful dimensions of the England he so admired. He did not dream of a New Jerusalem in the Wilderness. Like his enthusiasm for the English Constitution, he admired the compassionately enlightened (as Gertrude Himmelfarb would have it), Hume/Smith version of an urban, industrialized trading and banking society that experience, history, and pragmatic analysis, not dreaming, had taught him was a strategy for survival through risk, change and progress.

A STATIC YEOMAN UTOPIA WILL FAIL TO PROVIDE LIBERTY OR PROSPERITY

Hamilton read Hume, and used Hume's arguments in his own work, right from the beginning. Chernow says the young émigré from the Caribbean was reading "Hume and other worthies of the Scottish Enlightenment" during his charity student days at King's College, perhaps as early as 1774, under the tutelage of Glasgow trained teacher of mathematics Professor Robert Harpur. (Chernow, pg. 51) It is certain that by the time Hamilton wrote "the Farmer Refuted", 1775, in which the idea that "every man ought to be supposed a Knave" was a critically important axiom, he was thoroughly familiar with Hume. In that influential essay, which made its twenty year old student author renowned among the revolutionaries, he early encapsulated the federalist side of the debate which was to come with the "Farmer" Jeffersonians. In the "Farmer" Hume's argument was no mere ornament, but a critical element in explaining why the British Parliament could not be expected to wisely or justly govern the colonies. Hamilton says, along with his intellectual mentor, that the limited generosity of men in power can only be expected to extend itself if self interest can be combined with public duty. The economic, social and political distance between the colonies and the Parliament was too great, Hamilton says, for the far-off Englishmen to feel a common personal interest with their American cousins. Moreover, in the "Farmer" Hamilton predicts great economic success for America, based on trade and exports. This new economic order, if it is to be realized, is incompatible with an

undeveloped rural nation of simple yeomen. Hume's arguments to the effect that agricultural communities cannot easily defend themselves militarily, later cribbed quite directly by Hamilton, must have been in his mind even at this early date, since even as he makes his rosy prediction, it is in the context of a serious contest with England. And so we see the prescient future statesman, drawing upon Hume as he speaks of the need for self government, repeating Hume's belief that farmers are unlikely to generate a tax base sufficient for warfare, and paralleling Hume in describing a trade based, non-farm strategy for economic growth.

THE FIRST WRITTEN VERSION OF HAMILTON'S PLAN

Syrett (Vol. II, pg. 234 – 251) dates a Hamilton letter denoted as "To _____" as one written in December 1779. Syrett says "Generations of H. scholars have not been able either to date this letter or to determine its addressee with any certainty. The date has been variously given as 1779 and 1780 without naming a particular month." Syrett gives the evidence he uses for his date and a Morristown locale. He cites data pro and con for three possible recipients, Robert Morris "...the new nation's leading financier"; John Sullivan who had written to Washington, asking "...yr opinion with respect to Col. Hamilton as a Financier" (part of Washington's reply is given as the initial quotation at the top of this essay); and Philip Schuyler, Hamilton's "future father-in-law" (all from Syrett pg 235). Whoever was the intended receiver of the letter need not concern us, rather is the inspiration for the letter we seek, and find, in Hume, "The present plan is the produce of some reading on the subjects of commerce and finance and of occasional reflexions on our particular situation, but a want of leisure has prevented its being examined in so many lights, and digested so maturely as its importance requires." (Syrett, H.'s letter as above, pg. 250) Hamilton shows Hume's influence as he recognizes the degree to which ideal sounding plans sometimes perform at a lower level "I have said in one place that abstract calculations in questions of finance are not to be relied on, and as the complex operations of trade are involved in the present plan, I am myself diffident of those flattering results which it presents at every step. I am aware how apt the imagination is to be heated in projects of this nature and to overlook the fallacies which often lurk in first principles" (Syrett, pg. 248) Earlier in the letter, Hamilton wrote: "A great source of error in disquisitions of this nature is the judging of events by abstract The import of the letter's content we say is the evidence it gives of the early date at which Hamilton had matured his plans for the financial reform of the fledgling nation, including even the name of the chief institution of the reform, the Bank of the United States. The letter reveals that, even at this early date, well before the Constitution was drafted, Hamilton was concerned with the propriety of a Government run-for-profit bank. This issue was to influence American political debate until President Jackson finally ended the experiment. "It may be objected that this plan will be prejudicial to trade by making the Government a party with a trading company, which may be a temptation to arrogate exclusive privileges, and thereby fetter that spirit of enterprise and competition on which the prosperity of commerce depends." (Syrett, H.'s letter as above, pg. 250).

HAMILTON WILL USE ILLUSION

Hamilton's letter to the unknown recipient is a private one, since "The channel of the public papers commonly made use of for the purpose appears to me exceptionable on several accounts. It not only restrains a freedom of discussion from the extreme delicacy of the subject, but the discussion itself increases the evil by exposing our weak sides to the popular eye and adding false terrors to those well founded apprehensions which our situation authorizes" (Syrett, pg. 236) After thus assuring himself of the private nature of his communication, Hamilton "confesses" to an element of necessary and useful illusion in his plan – an illusion he will use again, in the scheme to nationalize and pay off the revolutionary debt. In fact, the debt could only be paid by the revenues generated by a thriving, fully recovered and rapidly growing economy. Such was the state of things Hamilton would, in his much later plan for the debt, hope to establish. Yet in discussing the plan, Hamilton pretends that the paper shuffling and credit creation that was stage front in his plan was the true source of national credit worthiness. In this letter, he discusses the value of paying interest on money. Although the relevant portion of the letter is missing, we surmise that Hamilton is here likely using Hume, who wrote about the use of government issued interest bearing instruments as circulating media. (Also see Hume on

Confidence, Miller, p. 353) Hamilton not only suggests paying interest on this form of circulating media, but he also speculates on the payoff, in the form of a public illusion, from changing the currency's denomination; "The denomination of the money is altered because it will produce a useful illusion. Mankind are much led by sounds and appearances; and the currency having changed its name will seem to have changed its nature." (Syrett, Vol. II, pg. 247) The importance of illusion is mentioned in an earlier passage in the letter as well: "A degree of illusion mixes itself in all the affairs of society. The opinion of objects has more influence than their real nature. The quantity of money in circulation is certainly a chief cause of its decline; but we find it is depreciated more than five times as much as it ought to be by this rule. The excess is derived from opinion, a want of confidence. In like manner we deceive ourselves why we suppose the value will increase in proportion as the quantity is lessened. Opinion will operate here also; and a thousand circumstances may promote or counteract the principle." (Syrett, Vol. II, pg 242)

THE NEW NATION MUST HAVE MONEY

The logical structure of the letter of December 1779 was retained in his later analyses of America's economic problem. His strategy is to first to say that fighting the war requires money – lots of it. He then says that taxes and domestic loans will not produce the needed revenue. He says the rates are already high, and farmers can escape them because their self sufficient domestic economic organization allows them to remove themselves from the cash economy. Moreover, rates are already as high as in places (like today's Holland), where "monied men" are available to pay the rates, a situation not to be found to a sufficient degree in America. "Taxes are limited not only by the quantity of wealth in a state, but by the temper, habits and genius of the people, all which in this country conspired to render them moderate; and as to loans, men will not be prevailed upon to lend money to the public when there is a scarcity and they can find a more profitable way of employing it otherwise, as was our case." (Syrett, Vol. II, Pg. 238). "The hope of appreciating the money by taxes and domestic loans is at an end. As fast as it could be received it must be issued in the dayly (sic.) expenditures. The momentary interval between its being drawn out of circulation and returning into it would prevent its receiving the least advantage." (Syrett, Vol. II, Pg 240). Indeed, it is part of Hamilton's scheme to increase the number of such monied men in America, as well to engage their economic interest, link that interest with the political future of the Republic, and at the same time provide the needed finance for the emergence of the new nation. He goes on to say a foreign loan is needed, and would be the best solution to the nation's problems, but that a government sponsored bank would be almost as effective in creating a helpful "illusion" of creditworthiness – that is, it was a way to establish a national economic and financial reputation for probity, prudence, and rational monetary management, the entire effort having a likelihood of paying a good dividend to its investors, consisting of the public the monied men and holders of the old depreciated currency, foreign and domestic. .

HAMILTON REMINDS HIMSELF OF HUME'S ARGUMENTS

Not long after writing the letter "To ____" Hamilton prepares himself to write a long letter to Morris (April 30, 1781). To get ready, he writes to his friend Colonel Timothy Pickering (New York, April 20, 1781, Published in Syrett, The Papers of Alexander Hamilton, Pg 595. vol. II to request a copy of Hume's Essays along with other books. The letter to Morris that results is the precursor of the six "Continentalist" essays. This extraordinary document runs 31 pages in Syrett, (vol. II, pages 604 – 635). His discussion of the National development bank he proposes is presented in two columns, one in which he lays out a general description of each of a long list of specialized functions, and the other in which he elucidates the arcane details of his plan. The extraordinary detail in the letter shows how mature and refined is his early vision of the several instruments of economic development that were to finally take official form much later, when the Secretary of the Treasury issues his state papers on money, banking, public finance and economic development. The letter's debt to its author's just prior reading of Hume is evident in several passages.

Hamilton structures his argument here in the same fashion as in the letter of December 1779 quoted above. The problem being addressed is war finance. He argues that taxes are already high, and that foreign loans are not to be relied upon. In making the latter case, he says the new nation has "...no reason to flatter (itself) that we have much to expect either from the ability or inclination of Spain. Her

government is far from being so rich as is vulgarly imagined. The mines of South America of late years have been less liberal of their profits; and for fear of accidents, but a small part of their product since the war has been imported into Europe. The extreme indolence of the Spaniards and their neglect of agriculture, manufactures and trade make them tributary to their more industrious neighbors who drain them of their precious metals as fast as they arrive” (Syrett, Vol. II, pg 615 see also Hume on Spain Miller, p. 312)

A NATION OF FARMERS CAN'T RAISE ENOUGH MONEY TO DEFEND THEMSELVES

The outline of the Morris letter follows that of the December 1779 letter, now with added emphasis upon his belief that foreign loans of an adequate size were unlikely to be forthcoming: “With regard to credit abroad I think we have little chance of obtaining a sufficiency nearly to answer our purpose.,” (Syrett, Vol. II, Pg. 614) As in the other letter, Hamilton writes that taxes, already heavy, and laid upon an agricultural population, not deeply connected with the cash economy, are not likely to produce the needed revenues. Domestic loans might be obtained by the new government, if confidence can be established. “The men of property in America are enlightened about their own interest and would easily be brought to see the advantages of a good plan. They ought not to be discouraged at what has happened heretofore when they behold the administration of our finances put into a better channel. The violations of public engagements hitherto have proceeded more from a necessity produced by ignorance and mismanagement, than from levity or a disregard to the obligations of good faith.” (Syrett, Vol.; II, pg. 621 see also Hume on Debt in Miller, p. 317 & 351).

A NATIONAL BANK WILL JOIN THE INTERESTS OF THE REPUBLIC WITH THOSE OF MONIED MEN

Hamilton’s belief is clear that a national bank would be a proven instrument of national policy capable of supplying the financial support needed by the new nation. “The tendency of a national bank is to increase public and private credit. The former gives power to the state for the protection of its rights and interest, and the latter facilitates and extends the operations of commerce among individuals. Industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consists the true wealth and prosperity of a state. Most commercial nations have found it necessary to institute banks and they have proved to be the happiest engines that ever were invented for advancing trade. ... Great Britain is indebted for the immense efforts she has been able to make in so many illustrious and successful wars essentially to that vast fabric of credit raised on this foundation. ‘This by this alone she now menaces our independence....The long and expensive wars of King William had drained England of its specie, its commerce began to droop for want of a proper medium, its taxes were unproductive and its revenues declined. The administration wisely had recourse to the institution of a bank and it relieved the national difficulties.’” (Syrett, Vol. II, Pg. 618) Hamilton is telling us his plan is neither utopian and untested, nor dependent upon an exaggerated notion of the purely beneficent impulses of men of property.

AN UNUSUAL COLONEL: HAMILTON’S WAR IS ABOUT INTEREST, MONEY, DEBT AND CONFIDENCE AS MUCH OR MORE THAN ARMS OR VIRTUE

Hamilton has become so much a political economist that he sees the war itself to be almost as much a matter of money and confidence as arms. “By stopping the progress of their conquests and reducing them to an unmeaning and disgraceful defensive, we destroy the national expectation of success, from which the ministry draws their resources. It is not a vague conjecture but a fact founded on the best information that had it not been for the capture of Charles Town and the victory of Campden, the Ministry would have been in the utmost embarrassment for the supplies of this year. On the credit of those events they procured a loan of five and twenty millions. They are in a situation where a want of splendid successes is ruin. They have carried taxation nearly to its extreme boundary; they have mortgaged all their funds, they have a large unfunded debt, besides the enormous mass which is funded. This must necessarily create apprehensions in their most sanguine partisans, and if these are not counteracted by flattering events from time to time, they cannot much longer continue the delusion. Indeed in this case, I suppose they must themselves despair.” (Syrett, Vol. II, pg. 632.)

HAMILTON READS HUME

Hamilton's close reading of Hume is evident in the letter. He wrote: "The circulating cash of Great Britain in paper and specie may be stated at about forty millions of pound sterling. Mr. Hume supposes it to have been at the time he wrote his essay on the balance of trade, about thirty millions, other writers have carried it to fifty and it is probably in a medium that we shall find the truth" (Syrett, Vol. II, pg. 608) "...we may venture to deduce this general rule – that the proportion of revenue which a nation is capable of affording is about one fourth of its circulating cash so far as this is a just representation of its labour and commodities. This is only applicable to commercial countries, because in those which are not so, the circulating cash is not an adequate sign; a great part of domestic commerce is carried on by barter, and the state (must) receive a part of its dues in the labour and commodities themselves. The proportion however of the revenues of such a state to the aggregate of its labour and commodities ought to be the same, as in the Trading nations to their circulating cash, with this difference that the difficulties of collection and transportation, the waste and embezzlement inseparable from this mode of revenue would make the real advantage of ultimate gain of the state infinitely less, than when the public dues are paid in cash" (Syrett, Vol. II, pg. 609 see Hume on circulating cash in Miller, p. 317)

SELF INTEREST WILL SERVE THE NATIONAL INTEREST, AND ENERGIZE CREATIVE DESTRUCTION

We see in the collection of Continentalist essays a repeated theme of creative destruction: Hamilton is proposing a radical redesign of the American fabric: The farmer's barter economy to be replaced by a community fundamentally altered and then carried into an unknowable future state by monied men become bankers. The patriotism of an economic man is not like that supposedly found in the mystical yeoman's soul, but is connected with self interest. Nonetheless parts of the Ancient Constitution are preserved – the Cathedral is not razed. State governments are to be made junior to the federal congress, which will found its power upon revenues and taxes, some of them taken away from the state control, and others not previously thought of. The central government is to become a banking partner with monied men, foreign and domestic, the partnership to receive tax support, distribute bounties, in coordination with regulatory government edicts, all aimed at a nationally coordinated effort to build wealth, support an army, and win a war. The plan in its entirety is a scheme for creative destruction more sweeping than anything previous. Although the plan changes almost every dimension of American political economy, the process is bloodless, at least outside the military action of the war. The class of persons who will pay the costs of change and take the risks of growth and evolution is the class of monied men. The savings and investment needed to unmake and then build anew the American economy will not be squeezed from the poor. Hamilton's revolution goes well beyond military victory. His scheme anticipates a new political class, not of Cincinnati, but Bankers. The Grandee Planters, aristocratic Farmers in the Jefferson mold, will not have the interest or the financial skills needed to manage the Bank of the United States, but that instrumentality, at least in Hamilton's conception, will be the political and economic design shop for a truly new, innovative nation, unlike any known before.

The American state of affairs at the time the plan is promulgated could not be more dire: The enemy army is in possession of two states, the patriot army is without supplies or money, the currency is depreciated to one-sixtieth of its nominal value, "war bonds" sell at a drastic discount, Congress is dependent upon the good will of the squabbling states for its funds and the national economy, based on farming, is an uncertain revenue foundation in view of the financing needs presented by the war. Writing in the obscuring fog of war and revolution, Hamilton took a do or die risk when he advocated a remaking of the political and economic design of his highly stressed nation. Hume's part in the design is to give Hamilton an understanding of the complex mix of passions which govern men's social and political actions.

YOU CAN'T BUILD THE COUNTRY WITH SANCTITY

Furthermore, Hamilton adopts Hume's belief that empirical history gives the astute political philosopher a degree of predicting power. The technical economic "theory" of Hume – his recounting of the underlying dynamic forces at work during periods of economic change and development -- is the source of Hamilton's analysis of America's economic ills, and the strategies useful in addressing them. At the same time, Hume's advice to the effect that "illegal violence" must at all costs be avoided, lest the grand experiment end in an "arbitrary and despotic government of a single person" is taken. Hamilton's grand plan preserves the best rooms in the Old Cathedral that is the Constitution of England, including its most recent economic innovations, banking, finance, public credit. The whole design intended to build links that connect national interest with personal gain, in a manner consistent with the imperfect, unsanctified Men who populate the world we live in. Nothing in the design depends upon imagined sanctity possessed by Yeomen Farmers.

THE CONTINENTALIST ESSAYS & "INSTRUMENTAL POLICY" TO PRESERVE THE UNION

Continentalist Number One appears July 12, 1781. It adds a political element to the economic pattern of the letters to Morris (we think both letters were to him) so far discussed. Hamilton says the Revolution was begun by amateurs, and, in its initial policy designs, awkward and unavailing to the needs of the new nation. The practical necessities of discovering and adapting realistic strategies to build a robust independent country were his foremost concern. "The mere pursuit of intoxicating liberty was not enough: order, stability and resilience in the face of natural and political hostilities must be established if a prudent balance between freedom and authority could be struck. "History is full of examples, where in contests for liberty, a jealousy of power has either defeated the attempts to recover or preserve it in the first instance, or has afterwards subverted it by clogging government with too great precautions for its felicity, or by leaving too wide a door for sedition and popular licentiousness. In a government framed for durable liberty, not less regard must be paid to giving the magistrate a proper degree of authority, to make and execute the laws with vigor, than to guarding against encroachments upon the rights of the community. As too much power leads to despotism, too little leads to anarchy, and both eventually to the ruin of the people." (Syrett, Vol. II, pg. 651) Hume also argued that liberty is to be esteemed, but without order, it cannot survive or even arise.

In the Continentalist Number II, (July 19, 1781) Hamilton discusses the value of distributed power as an offset to the overreaching authority possessed by the Sovereign Power in a single state. While he recognizes the direct dangers of an unfettered Sovereign, and the apparent advantages of a federal system, his judgmental balance tips against the latter, based not so much upon the speculative arguments pro and con, but, as in Hume's methodology, upon his reading of Historical experience. "In a single state, where the sovereign power is exercised by delegation, whether it be a limited monarchy or a republic, the danger most commonly is, that the sovereign will become too powerful for his constituents; in federal governments, where different states are represented in a general council, the danger is on the other side; that the members will be an overmatch for the common head, or in other words, that it will not have sufficient influence and authority to secure the obedience of the several parts of the confederacy." (Syrett, Vol. II, pg. 654). Hamilton decides between these two contending theoretical possibilities by referring first to human nature, and then to History: a strategy that parallels Hume's method. "From the plainest principles of human nature, two inferences are to be drawn, one, that each member of a political confederacy, will be more disposed to advance its own authority upon the ruins of that of the confederacy, than to make any improper concessions in its favor, or support it in unreasonable pretensions; the other, that the subjects of each member, will be more devoted in their attachments and obedience to their own particular governments, than to that of the union." (Syrett, Vol. II, pg. 655) Hamilton next says "Experience confirms the truth of these principles" (Syrett, Vol. II, pg. 656) He goes on to present examples favoring his case from "the chief cities of Greece," the German Diet and the Helvetic League. Where History seems to contradict his thesis, Hamilton suggests a special circumstance, as in the case of the "United Provinces", where he says unity is maintained because of external pressures from common enemies. He says unity is further strengthened by the common link provided by the Stadtholder, whose authority "pervades the whole frame of the Republic" (Syrett, Vol. II pg. 657 see also Hume in Miller, p. 52 - 3)

The *Continentalist* Number III was published on August 9, 1781. Hamilton returns his theme; “Political societies, in close neighborhood, must either be strongly united under one government, or there will infallibly exist emulations and quarrels. This is in human nature; and we have no reason to think ourselves wiser, or better, than other men.” (Syrett, Vol. II, pg. 660). But here he adds concerns that occupied him since “The Farmer” and the letter to Morris: the economic problem. He connects the two issues by remarking that the colonies are not fully cooperative with one another in their loose federation, even though the inexpediency of such behavior, “in the midst of a war for our existence as a nation”, is evident. “Is it not to be feared, that the resolutions of Congress would soon become like the decisions of the Greek amphycions, or like the edicts of the German diet? But as these evils are at a little distance, we may perhaps be insensitive and short-sighted enough to disregard them. There are others that threaten our immediate safety. Our whole system is in disorder; the currency is depreciated, till in many places it will hardly obtain a circulation at all, public credit is at its lowest ebb, our army deficient in numbers, and unprovided with every thing, the government, in its present condition, unable to command the means to pay, clothe, or feed their troops, the enemy making an alarming progress in the southern states, lately in complete possession of two of them, though now in part reduced by the genius and exertions of a General without an army, a force under Cornwallis still formidable in Virginia.” (Syrett, Vol. II, pg. 661). But his main message remains the need for a strong central government; “We ought therefore, not only to strain every nerve for complying with the requisitions (to look after the army), to render the present campaign as decisive as possible; but we ought without delay, to ENLARGE THE POWERS OF CONGRESS. (Emphasis in the original). Every plan of which, this is not the foundation, will be illusory. The separate exertions of the states will never suffice.” (Syrett, Vol. II, pg. 665)

The *Continentalist* number IV appeared on August 30, 1781. It is consistent with Hamilton’s twin goals of minimizing the destruction to the ancient Constitution, and yet taking great risk so as to excite the quick march of the spirits and engage all the causes of labour. (Miller, p. 270) In it Hamilton says his previous essays were “...chiefly intended to confirm an opinion, already pretty generally received, that it is necessary to augment the powers of the confederation.” Therefore his purpose in this essay is to return to the topics of the Morris letters and more, anticipating several of the arguments of his much later *State Papers*: “The principal difficulty yet remains, to fix the public judgment, definitively, on the points, which ought to compose that augmentation.” (Syrett, Vol. II, pgs. 669 – 70) He says “Nothing short of the following Articles can suffice”. He goes on to a prodigious list, including “The power of regulating trade... a right of granting bounties and premiums by way of encouragement, of imposing duties of every kind, as well for revenue as regulation, ... a moderate land tax throughout the United States... granted to the Federal government... a moderate capitation tax on every male inhabitant (paid to the Federal government)... the disposal of all unallocated land, for the benefit of the United States, ... a certain portion of the product of all mines, discovered or to be discovered (paid to the Federal government)” (Syrett, Vol. II pg. 670) This acquisition of economic power is needed because “The great defect of the confederation is, that it gives the United States no property, or in other words, no revenue, nor the means of acquiring it, inherent in themselves, and independent of the temporary pleasure of the different members; and power without revenue in political society is a name. While Congress continue altogether dependent on the occasional grants of the several States, it can neither have dignity vigor nor credit. Credit supposes specific and permanent funds for the punctual payment of interest; with a moral certainty of a final redemption of the principal ... It will perhaps be necessary, in the first instance, to appropriate funds for the redemption of the principal in a determinate period, as well as for the payment of interest.” (Syrett, Vol. II, pg. 671)

In the *Continentalist* No. V (April 18, 1781) Hamilton writes “The vesting of Congress with the power of regulating trade ought to have been a principal object of the confederation for a variety of reasons” (Syrett, Vol. III, pg. 75 – 6). By this point in our narrative it is clear we do not think of either Hamilton or Hume as a Utopian visionary. Neither the philosopher nor the Colonel dream of an all-controlling Magistrate, having the wisdom and instruments needed to control the economic process. But neither is either loath to believe that astute policy making and subtle national regulation can be effective in setting up a framework, a stage design, well suited to guiding the national destiny in a promising direction. Indeed, Hamilton says it is the dreamers who insist on a rigors separation of politics from economics. Congressional regulation “... is as necessary for the purposes of commerce as of revenue.

There are some, who maintain, that trade will regulate itself, and is not to be benefited by the encouragements, or restraints, of government. Such persons will imagine, that there is no need of a common directing power. This is one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations. Contradicted by the numerous institutions and laws, that exist everywhere for the benefit of trade, by the pains taken to cultivate particular branches and discourage others, by the known advantages derived from these measures, and by the palpable evils that would attend their discontinuance, it must be rejected by every man acquainted with commercial history.” (Syrett, Vol. III, pg. 76)

So much for those who think of Hamilton as an advocate of (what some people imagine to be) Adam Smith’s unalloyed faith in the market. (In fact, Smith was not rigid in these matters, but that is the topic of a different paper.) But we do say that Hamilton reads Hume as allowing a substantial role for the policy maker, who, together with the Magistrate, is wise to “intervene” in market processes so as to avoid unnecessary costs, anticipate and countermand undesirable behavior, and so influence for the common good the actions of individuals as well as by operatives of the State. In the next sentence of *Continentalist V* we hear an echo, or at least the influence, of Hume: “Commerce, like other things, has its fixed principles, according to which it must be regulated; if these are understood and observed, it will be promoted by the attention of government, if unknown, or violated, it will be injured – but it is the same with every other part of administration.” (Syrett, vol. III, pg. 76 see also Hume in Miller, p. 255)

The next lines in *Continentalist V* are harder to square with Hume; “To preserve the balance of Trade in favor of a nation ought to be a leading aim of its policy.” (Syrett, Vol. III, pg. 76) Hume was absolutely clear in his opposition to those who wished to “heap up gold” by means of an export surplus. (Miller, p. 324) He was unequivocal in damning their arguments. So what is going on? It might be a case where Hamilton does not follow Hume. We think otherwise, because we find an alternative explanation in the next few sentences; “The avarice of individuals may frequently find its account in pursuing channels of traffic prejudicial to that balance, to which the government may be able to oppose effectual impediments. There may be, on the other hand, a possibility of opening new sources, which, though accompanied with great difficulties in the commencement, would in the event amply reward the trouble and expense of bringing them to perfection. The undertaking may exceed the influence and capitals of individuals, and may require no small assistance, as well as from the revenue, as from the authority, of the state.” (Syrett, Vol. III, pg. 76) Now we see where Hamilton is leading us. He is talking about the infant industry case, and he is setting us up to understand the logic of the National Bank which he has been promoting ever since the Morris letters. Hamilton is doing no more than what Rotwein says Hume does in his growth theory “Thus, owing to its effect on the spirit of industry, Hume regards the relatively early growth of both foreign and domestic commerce as essential to the general growth of both agriculture and industry.” (Rotwein Pg. cvii). To design ways to evoke the spirit of industry would seem to be no academical crime for Hume. After commenting on the “injudicious attempts” by those persons who would attempt a “regulation of prices” and noting that these errors were pointed out by persons who repeat the “cant phrase” that “trade would regulate itself”, Hamilton goes to the wellspring. He says this latter group is misapprehending “the reasonings of a very ingenious and sensible writer” who is Hume, says Syrett. We agree. (Hume on the market in Miller, p. 328)

HUME, HAMILTON AND THE FREE MARKET

Hamilton then interprets Hume for the reader thus: “The scope of his argument is not, as by some supposed, that trade will hold a certain invariable course independent of the aid, protection, care or concern of government; but that it will, in the main, depend upon the comparative industry moral and physical advantages of nations; and that though, for a while, from extraordinary causes, there may be a wrong balance against one of them, this will work its own cure, and things will ultimately return to their proper level. His object was to combat that excessive jealousy on this head, which has been the cause of so many unnecessary wars, and with which the British nation is particularly interested; but it was no part of his design to insinuate that the regulating hand of government was either useless, or hurtful. The nature of government, its spirit, maxims and laws, with respect to trade, are among those

constant moral causes, which influence its general results, and when it has by accident taken a wrong direction, assist in bringing it back to its natural course. This is every where admitted by all writers upon the subject, nor is there one who has asserted a contrary doctrine.” (Syrett, Vol. III, pg. 77) Whether we agree with Hamilton’s reading of Hume or not, it supports our case that he took direction from Hume’s writing, since his belief about what Hume wrote is thoroughly consistent with Hamilton’s own analysis and prescriptions.

THAT WHIFF OF MERCANTILISM SERVES A LARGER PURPOSE

After he finds historical evidence for his hypothesis about the effectiveness of “energetic government in the history of the French strategies of Colbert, and after he discovers that the “unremitted vigilance” of the Dutch government is responsible for extension of Dutch commercial traffic “so much beyond their natural and comparative advantages” Hamilton gets back to the first of his main Continentalist themes: the importance of a fully funded, potent central government, and the problems likely to arise if American State governments continue to have an excessive degree of relative power, economic independence and authority over the center. And so we may say that here Hamilton’s support for government direction and control is at least in part instrumental to his larger goal of correcting the imbalance of power that he believed threatened the very existence of his country. “Perhaps it may be thought, that the power of regulation will be left placed in the governments of the several states, and that a general superintendence is unnecessary. If the states had distinct interests, were unconnected with one another, their own governments would than be the proper and could be the only depositories of such a power; but as they are parts of a whole with a common interest in trade, as in other things, there ought to be a common direction in that, as in all other matters.” (Syrett, Vol. III, pg. 78)

IMPEDIMENTS TO TRADE SERVE A LARGER PURPOSE; FACING UP TO HUME’S “INCONSISTENCIES” (BIG COUNTRIES USE TRADE TO TAKE ADVANTAGE)

The essay goes on to discuss the practical benefits of using a tariff to raise revenue. The argument is instrumental, since Hamilton then shows to his satisfaction why a tariff can only rationally be laid and collected by a central government. It gives him a “natural” source of revenue for his Federal center, and it removes a source from the states. Aside from this instrumental dimension of his case, the argument shows the influence of Hamilton’s reading of Hume’s essays. “It is agreed that imposts on trade, when not immoderate, or improperly laid, is one of the most eligible species of taxation. The fall in a great measure upon articles not of absolute necessity, and being partly transferred to the price of the commodity, are so far imperceptibly paid by the consumer. It is therefore that mode which may be exercised by the federal government with least exception or disgust.” (Syrett, Vol. III, pg. 78) Here is Hume, in *Of Taxes*, Rotwein, pg. 85: “The best taxes are such as are levied upon consumptions, especially those of luxury; because such taxes are least felt by the people. They seem, in some measure, voluntary; since a man may choose how far he will use the commodity which is taxed. They are paid gradually, and insensibly: they naturally produce sobriety and frugality, if judiciously imposed: and being confounded with the natural price of the commodity, they are scarcely perceived by the consumers. Their only disadvantage is, that they are expensive in the levying.”

HAMILTON LEARNED WELL

In a bravura showing of what an complete master of economic theory he is, Hamilton goes on to discuss “supply side” tax policy, saying that raising a tax rate to an excessive height may reduce total tax revenue collected, rather than increasing government’s income. In another subtle analysis, Hamilton shows he has a good understanding of what economists call “elasticity” – the relation between unit price and total outlay. Hamilton writes that Congress will not abuse its power to tax (by the tariff) “...because the motive of revenue will check its own extremes. Experience has shown that moderate duties are more productive than high ones. When they are low, a nation can trade abroad on better terms – its imports and exports will be larger – the duties will be regularly paid, and arising on a greater quantity of commodities, will yield more in the aggregate, than when they are so high as to operate either as a prohibition, or as an inducement to evade them by illicit practices.” (Syrett Vol. III, pgs 78 - 9) “The maxim, that the consumer pays the duty has been admitted in theory with too little reserve, frequently contradicted in practice. It is true, the merchant will be unwilling to let the duty be

a deduction from his profits, if the state of the market will permit him to incorporate it with the price of his commodity. But this is often not practicable. It turns upon the quantity of good at market in proportion to the demand. When the latter exceeds the former, and the competition is among the buyers, the merchant can easily increase his price and make his customers pay the duty. When the reverse is the case, and the competition is among the sellers, he must then content himself with smaller profits, and lose the value of the duty or at least of a part of it.” (Syrett, Vol. III, pg. 80 and see Hume on shifting and incidence in Miller, p. 347). Hamilton closes the essay with a Humean caution about the need for caution when considering general theoretical principles, and then he turns that remark, as he has so many others, to his larger purpose of reminding his readers that disputations among the states over trivial matters endangers the stability of the Union. “General principles in subjects of this nature ought always to be advanced with caution; in an experimental analysis there are found such a number of exceptions as to tend to render them very doubtful; and in questions which affect the existence and general happiness of these states, all nice and abstract distinctions should give way to plainer interests and to more obvious and simple rules of conduct. ... (see Hume in Miller, p. 254 – 5) Unless we can overcome this narrow disposition (to dispute trivial details) and learn to estimate measures by their general tendency, we shall never be a great or happy people, if we remain a people at all” (Syrett, Vol. III, pg 81 - 82)

Hume too writes about “supply side effects” in taxation: “On the other hand, a duty upon commodities checks itself; and a prince will soon find, that an increase of the impost is no increase of his revenue”. Rotwein, *Of Taxes*, pg. 86

HAMILTON WRAPS IT UP

Continentalist VI, (July 4, 1782) closes Hamilton’s essay writing effort for the moment. His concluding argument repeats his opening one. The Central government must gain relative economic and political seniority over the states if the nation is to survive. It is an argument for creative destruction. The first contract among the States, the Articles of Confederation, had better be destroyed, and a new national constitution drawn up, if the future promise of America is to be realized. “Let us see what will be the consequences of not authorizing the Federal Government to regulate the trade of these States. Besides the want of revenue and of power, besides the immediate risk to our independence, the danger of all future evils of a precarious union, besides the deficiency of a wholesome concert and provident superintendence to advance the general prosperity of trade, the direct consequence will be, that the landed interest and the laboring poor will in the first place fall a sacrifice to the trading interest, and the whole eventually to a bad system of policy, made necessary by the want of such a regulating power. ... The influence of these evils will be, to render landed property fluctuating and less valuable, to oppress the poor by raising the prices of necessities, to injure commerce by encouraging the consumption of foreign luxuries, by increasing the value of labor, by lessening the quantity of home productions, enhancing their prices at foreign markets, of course, obstructing their sale and enabling other nations to supplant us.” (Syrett, Vol. III, pg.99 – 100), “Indeed many theorists in political economy have held, that all taxes, wherever they originate, fall ultimately upon land; and have therefore been of the opinion, that it would be best to draw the whole revenue of the state immediately from that source, to avoid the expense of a more diversified collection, and the accumulations which will be heaped in their several stages upon the primitive sums advanced in those taxes, which are imposed on our trade. But though it has been demonstrated that this theory has been carried to an extreme, impractical in fact, yet it is evident, in tracing the matter, that a large part of all taxes, however remotely laid, will by an insensible circulation, come at last to settle upon land; the source of most of the materials of our commerce.” (Syrett, Vol. III, pg. 101) Here is what Hume has to say on the question of shifting taxes unto land (Rotwein, *Of Taxes*, Pg. 86 – 87) “It is an opinion, zealously promoted by some political writers, that, since all taxes, as they pretend, fall ultimately upon land, it were better to lay them originally there, and abolish every duty upon consumptions. But it is denied, that all taxes fall ultimately upon land. If a duty be laid upon any commodity, consumed by an artisan, he has two obvious expedients for paying it; he may retrench somewhat of his expense, or he may increase his labor. Both of these resources are more easy and natural, than that of heightening his wages. ... By what contrivance can he raise the price of his labor? The manufacturer, who employs him, will not give him more; neither can he, because the merchant,

who exports the cloth, cannot raise the price, being limited by the price which it yields in foreign markets. Every man, to be sure, is desirous of pushing off from himself the burden of any tax, which is imposed, and laying it upon others; But as every man has the same inclination, and is upon the defensive, no set of men can be supposed to prevail altogether in this contest. And why landed gentleman should be the victim of the whole, and should not be able to defend himself, as well as the others are, I cannot readily imagine.” And so we see that Hamilton did not always accept every detail of Hume’s argument, even when the language of his presentation shows a debt to the older man.

HUME’S CORE ECONOMIC PROPOSITIONS

In another essay, we have summarized Hume’s economic essays: “Much of Hume’s economics appeared in eight essays published in London in 1752, and a ninth, “Of the Jealousy of Trade,” in 1758. In “Of Money,” he criticized those who thought that an injection of money into the economy would work long term wonders, and in “Of Interest,” he took issue with those who claimed that an abundance of money leads to low interest rates. “Of Taxes” pleaded for moderation and rejection of the French physiocratic single tax on land, and “Of Public Credit” (warning that the public debt is no blessing) deplored the practice of drawing bills on posterity and imprudently using public credit to create paper riches. “Of the Populousness of Ancient Nations” countered the doomsday notion that economic development is accompanied by a decline in population, and “Of Commerce” rejected the idea that a nation can achieve greatness as an agricultural entity alone. “Of the Balance of Trade” and “Of the Jealousy of Trade,” two of Hume’s most important treatises, were directed against the protectionist policies of the reigning mercantilists, and in “Of the Refinement of the Arts” he took issue with those who denoted luxury as evil” (Riggs and Velk, *Hume and Hamilton on Economics: Policy and Public Good*)

HH DIFFERENCES DON’T RUN DEEP AT ALL

This encapsulation of Hume’s political economy suggests a few points of difference with Hamilton. Even when Hamilton seems most distant from Hume, there remains a way to claim that the two policy designers are consistent with one another. Hamilton praises the great French economic nationalist, Colbert, expressing admiration for the way the advisor to Louis succeeded in establishing a flourishing wool industry. Hume’s good friend, Turgot, had the unenviable job of cleaning up the economic mess that Colbert’s policies left – a stagnant internal economy, albeit a successful external trading empire, and a treasury capable of supporting the spending habits of the Sun King. We doubt that Hume shared Hamilton’s admiration of the French Finance Minister. Modern Economists don’t like schemes of the Colbert kind, since we believe the better way for the French to get wool, if they do not have a natural advantage for which no government support is needed, is to export a commodity whose low relative costs of production reflect France’s comparative advantage, wine for example and then trade this efficiently produced vintage in exchange for foreign produced wool. Hume seems not to have a completely formed idea of comparative advantage – credit for the idea usually goes to Ricardo, who wrote two intellectual generations after Hume. But the Scot was suspicious of Mercantilist arguments, especially if they veered in the direction of using trade to accumulate gold. (Miller, p. 324) But whatever Colbert may have had in mind when he promoted subsidies for French wool, Hamilton’s guiding star was always economic evolution and growth. For him, in his time, that meant moving the American economy away from agriculture, to manufacturing, away from import dependence upon the Mother Country, away from a community of farms and villages toward a more complicated civilization of bankers, traders, manufacturers, immigrants, all together in large cities. To accomplish in the little time he believed the new nation to have before the fragile squabbling union fragmented from its lack of internal interdependence and its exposure to external de facto recolonization, required positive intervention by an energetic state. He was advocating creative destruction, not by the slow process of the market, but speeded up by the State, yet without the aid of the executioner or the mob. Indeed, the leading “destroyers” would be “monied men” lenders, bankers and (in small ways at least) “projectors.” To the extent Hamilton was advocating protection, it was future looking. He did not wish to protect the existing order, or put the state in the service of existing power centers. He wanted to protect the persons and interests that had the capacity to alter the existing order, supplanting it with

something completely different. The Jeffersonians were the true conservatives; that is, Planter landed gentleman super yeoman Jefferson was, at least in the South, the very picture of the established order. In contrast, immigrant to New York financier lawyer Hamilton's way was not an ideological quest for a new America valued for itself. All his proposals had a common theme. It was evident in every number of the *Continentalist*. Above all things, Hamilton wanted to cement the union into a single, albeit federated State. Every one of his reforms served that greater goal. We think Hume would not have objected to this instrumental departure from rigorous adherence to every dot and comma of his economic analysis.

HAMILTON IS NOT PROTECTING THE PAST, HE IS NURTURING THE FUTURE

Hamilton's passionate belief that the new nation would fall apart without a strong central government is the reason his policy designs sometimes appear to depart from Hume's implied ones. But it is possible to bring both the Colonel and the Philosopher into agreement. Hume says that trade between an established, rich country – perhaps a mother country – and a lesser nation may sometimes diminish the welfare of the latter nation, or at least funnel most of the benefits into the treasury of the dominant nation, and into the balance sheets of her merchants. For his part, Hamilton was fearful that the jealousy of the Old Country, and her competitive national interest. And so he would anticipate that economic relationships with England were fraught with political danger. He worried that any American dependence that might develop, or remain, would be used by the potential enemy to harm the new nation. And so we say that Hamilton is thinking about Hume when he advocates a policy of tariff-protected national development. If successful, such a plan would guard against the danger to junior nations that Hume anticipated when writing about their relations with senior nations. Moreover, Hamilton is engaging in another kind of creative destruction when he advocates the creation of the banking, manufacturing and trading class who will populate his new America. These folks will not only supplant the Farmer Yeomen, but they will be insulation against the power of the senior trader, England. If the Farmers remained dominant they would form a vector along which the adversarial power of the “enemy” could operate to do harm. Finally, the protections that Hamilton would give to the new dominant class were not the sort typical of traditional mercantilists, who wished to protect existing classes of persons, and existing patterns of economic activity against foreign competition. Hamilton was providing protections for a class of persons not yet on the scene, but who, once they could be “created” by policy, would creatively destroy or at least offer serious competition to internal established classes (the farmers), while aggressively challenging the established economic power of the Senior nation, which was currently supplying the manufactures needed by the not-so-self-sufficient farmers. (See Hume on exceptions to free trade in Miller, p. 324) And finally, Hamilton's entire plan was secondary to the dominant aim of his entire political life: to add to the power of the central government of the United States, so that the union could be sustained against faction and internal squabbling. The economic consequence of the new classes of persons and economic activities he advocated would be sources of revenue for the central government, giving it the power it needed to direct national affairs. Hume too advocated a federal system of government. Hamilton understood that such a structure needed an adequate tax base to feed every level of authority.

HAMILTON'S CORE ECONOMIC PROPOSITIONS

Hamilton's fundamental thinking is consistent with a summary outline of Hume's economics. Hamilton did not think that a great nation could be built on an agricultural economic base. Hamilton's bank was not an inflation machine in the manner of John Law's experiment – it was a machine to direct investment toward manufacturing, and it was an administrative center where monied men and political men could work together for a common end. While Hamilton did discuss the reorganization and funding of the national debt, his purpose was to correct the evils that had attended its original issue, evils that his reading of Hume had trained him to recognize and combat. Hume had warned him that the magistrate would tend to over-issue debt, inadequately fund it, and neglect to properly repay it. Hamilton's plan addressed each of those problems. Hamilton's call for immigration and city building certainly made it clear that he did not think that economic development would be accompanied by a shrinking population. The Colonel's reconstruction project for American War debt and his elaborate plan to make the Bank solvent and prudent shows he understood that interest rates and debt carrying

costs were a matter of confidence. Hamilton understood inflation quite well. He knew of the quantity theory, and he also understood the importance of confidence and what we would today call expectations in determining the acceptability of money, credit and interest rates. He certainly would not believe that the cure for high borrowing costs would be to add fuel to the fire by increasing the money supply. While Hamilton does tell us that he thinks many taxes eventually fall upon land, he does not limit proposed tax schedule to land rates. Tariffs are his preferred revenue source, and as we have seen, he thought about elasticity when he analyzed the incidence of such taxes, as he should do. Indeed the inelastic demand for certain luxuries consumed by the rich was a benefit to the state, and so Hamilton found a pragmatic reason to look upon luxuries with an approving civil eye. His plan for manufacturers would founder if the products of manufacture, including luxuries, failed to find a market. The ease with which the simple self-sufficient life of the Farmer allowed these countrymen to conceal themselves from the tax collector was a pragmatic reason for Hamilton to see such a manner of living as a problem for the state, not a moral ornament. Of course, if Planter Farmers like Jefferson were to make the claim, that their lives were ones of rustic renunciation, the facts of the case would quickly demonstrate the truth state of affairs.

CONCLUSION: THEIR SHARED POLITICAL PROPOSITIONS

What does Hamilton take from Hume? Or at least, what beliefs are shared by Hume and Hamilton? What core ideas are clearly contained and easily found in the writings of Hume, available to the voracious reader, Hamilton? We have already listed what we say are Hume's key economic ideas, and showed, as well as we could, how Hamilton's writings are consistent with them. Here is a summary of Hume's political keystones. In axiomatic form, they might be summarized thus: Unalloyed liberty is not an unalloyed good. Order has priority over liberty. The failings and inadequacies of existing government must be nearly total before rebellion is tolerable, since the violence and destruction that will follow will corrode the very wellsprings of legitimacy, throwing into doubt the claim to authority that any succeeding magistrate will claim. The difficulty of gaining assent to authority after an interlude of rebellion will lead more or less inevitably to the forceful imposition of despotism, as the only practical means of reestablishing order. This return to a "rule of law" after a time of lawless rebellion is a need absolute and overwhelming. The motivating "springs of action" of the people are not only reason, and are often superior in effect to reason. Men act as directed to by the passions, sometimes laudable ones as in the case of love and generosity, but often dangerous ones, as in the desire for power and the spirit of faction. Men are driven by habit, personal gain and public opinion as much or more than by the pursuit of the common good. The complex mix of human social passions that the Magistrate's advisor must take into account includes zealotry, partisanship, bigotry limited beneficence combined with familial generosity, utilitarianism, the thrill of risk, joy in pure action, indulgence in indolence, curiosity about the unknowable future and for some (these are passions not much shared by Hume, but perhaps explaining the self-destructive behavior of both Charles Stuart and Hamilton) devotion to the Classical Age's conception of Duty, Honor, Tradition and Nation. There is very little "natural" about society, justice or political practice. Men are not conjoined by an original antediluvian social contract, but by practical necessity. Nature itself has conspired to make men deficient in the endowments that exempt the beasts from a need for Justice. We have neither the lion's strength nor the ox's complacency. We must make "artificial rules" by which we constrain our social interactions. The rule designer must take mankind as he finds him, and design a political and social world, to the extent he can bring into existence such designs, and to the more limited degree to which he may anticipate their future workings and final effects, in a way that recognizes and accepts all the moral imperfections he knows limit human social capacities.

The claim of this paper is that enfolded in the forgoing fundamental propositions is the American Plan of Hamilton, concealed as the results of Euclid are concealed in Geometry's axiom set. Hamilton's lifetime record of political plan writing is consistent with Hume's axiom set, and it cannot be deduced from the competing fundamental beliefs of the "Farmer" opposition, who assumed sanctified Yeomen, social contracts, natural justice and perfectible men. We don't have smoking gun evidence that Hamilton cribbed, word for word, from Hume's Essays and History. But we do say, had he done so, he would have written to the same effect as he did, no more and no less.

From the beginning of his public life until the end, Hamilton was influenced by Hume. The State Papers confirm what we have discovered in Hamilton's earlier writings. As Secretary of the Treasury, he wrote four major reports to Congress, the first on public credit, followed by a second on that subject and a National Bank, a report concerning the Mint, and one on Manufactures. All can be compared, at times even paragraph for paragraph, with his mentor's exercises in economics.