

ALEXANDER HAMILTON

WRITINGS



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POLITICAL AND PERSONAL DEFENSE

To George Washington

Sir

Philadelphia Aug 18. 1792

I am happy to be able, at length, to send you, answers to the objections, which were communicated in your letter of the 29th of July.

They have unavoidably been drawn in haste, too much so, to do perfect justice to the subject, and have been copied just as they flowed from my heart and pen, without revision or correction. You will observe, that here and there some severity appears. I have not fortitude enough always to hear with calmness, calumnies, which necessarily include me, as a principal Agent in the measures censured, of the falsehood of which, I have the most unqualified consciousness. I trust that I shall always be able to bear, as I ought, imputations of error of Judgment; but I acknowledge that I cannot be intirely patient under charges, which impeach the integrity of my public motives or conduct. I feel, that I merit them *in no degree*; and expressions of indignation sometimes escape me, in spite of every effort to suppress them. I rely on your goodness for the proper allowances.

With high respect and the most affectionate attachment, I have the honor to be, Sir Your most Obedient & humble servant

Alexander Hamilton

Objections and Answers respecting the Administration
of the Government

1 Object. The public Debt is greater than we can possibly pay before other causes of adding to it will occur; and this has been artificially created by adding together the *whole amount* of the Debtor and Creditor sides of the Account.

Answer. The public Debt was produced by the late war. It is not the fault of the present government that it exists; unless it can be proved, that public morality and policy do not require of a Government an honest provision for its debts.

Whether it is greater than can be paid before new causes of adding to it will occur is a problem incapable of being solved, but by experience; and this would be the case if it were not one fourth as much as it is. If the policy of the Country be prudent, cautious and *neutral* towards foreign nations, there is a rational probability, that war may be avoided long enough to wipe off the debt. The Dutch in a situation, not near so favourable for it as that of the UStates have enjoyed intervals of peace, longer than with proper exertions would suffice for the purpose. The Debt of the UStates compared with its present and growing abilities is really a very light one. It is little more than 15,000,000 of pounds Sterling, about the annual expenditure of Great Britain.

But whether the public Debt shall be extinguished or not within a moderate period depends on the temper of the people. If they are rendered dissatisfied by misrepresentations of the measures of the government, the Government will be deprived of an efficient command of the resources of the community towards extinguishing the Debt. And thus, those who clamour are likely to be the principal causes of protracting the existence of the debt.

As to having been artificially increased, this is denied; perhaps indeed the true reproach of the system, which has been adopted, is that it has artificially diminished the debt as will be explained by and by.

The assertion, that the Debt has been increased, by adding together the whole amount of the Debtor and Creditor sides of the account, not being very easy to be understood is not easy to be answered.

But an answer shall be attempted.

The thirteen States in their *joint* capacity owed a *certain* sum. The same states, in their separate capacities, owed *another sum*. These two sums constituted the *aggregate* of the *public Debt*. The PUBLIC, in a political sense, compounded of the Governments of the Union and of the several states, was the DEBTOR. The individuals who held the various evidences of debt were the CREDITORS. It would be non-sense to say, that the combining of *the two parts* of the public Debt is adding together the Debtor and Creditor sides of the account. So great an absurdity cannot be supposed to be intended

by the objection. Another meaning must therefore be sought for.

It may possibly exist in the following misconception. The states individually, when they liquidated the accounts of Individuals for services and supplies towards the common defence during the late war, and gave certificates for the sums due would naturally charge them to the UStates as contributions to the common cause. The UStates in assuming to pay those certificates charge themselves with them. And it may be supposed that here is a double charge for the same thing.

But as the amount of the sum assumed for each state is by the system adopted to be charged to such state, it of course goes in extinguishment of so much of the first charge as is equal to the sum assumed, and leaves the UStates chargeable only once, as ought to be the case.

Or perhaps the meaning of the objection may be found in the following mode of reasoning. Some states, from having disproportionately contributed during the war, would probably on a settlement of accounts be found debtors, independently of the Assumption. The assuming of the debts of such states increases the ballances against them, and as these ballances will ultimately be remitted from the impracticability of enforcing their payment, the sums assumed will be an extra charge upon the U States increasing the mass of the debt.

This objection takes it for granted that the ballances of the Debtor States will not be exacted; which by the way is no part of the system and if it should eventually not prove true, the foundation of the reasoning would fail. For it is evident if the ballances are to be collected (unless there be some undiscovered error in the principle by which the accounts are to be adjusted) that one side of the account will counterpoise the other. And every thing as to the quantum of debt will remain *in statu quo*.

But it shall be taken for granted that the ballances will be remitted; and still the consequence alleged does not result. The reverse of it may even take place. In reasoning upon this point, it must be remembered that impracticability would be alike an obstacle to the collection of ballances without as with the Assumption.

This being the case, whether the ballances to be remitted will be increased or diminished must depend on the relative

proportions of outstanding debts. If a former *debtor* State owes to individuals a smaller sum in proportion to its contributive faculty, than a former *Creditor* state, the assumption of the debts of both to be provided for out of a *common fund* raised upon them proportionally must necessarily, on the idea of a remission of ballances, tend to restore equality between them, and lessen the ballance of the debtor state to be remitted.

How the thing may work upon the whole, cannot be pronounced without a knowledge of the situation of the account of each State, but all circumstances that are known render it probable that the ultimate effect will be favourable to justice between the states and that there will be inconsiderable ballances either on one side or on the other.

It was observed that perhaps the true reproach of the system which has been adopted is that it has artificially decreased the Debt. This is explained thus—

In the case of the debt of the UStates interest upon two thirds of the principal only at 6 $\frac{2}{3}$ Cent is immediately paid—interest upon the remaining third was deferred for ten years—and only three $\frac{2}{3}$ Cent has been allowed upon the arrears of interest, making one third of the whole debt.

In the case of the separate debts of the States interest upon $\frac{1}{4}$ only of the intire sum is immediately paid; interest upon $\frac{3}{4}$ was deferred for 10 years and only three per Cent allowed on $\frac{3}{4}$.

The Market rate of interest at the time of adopting the funding system was 6 $\frac{2}{3}$ Cent. Computing according to this rate of interest—the then present value of 100 Dollars of debt upon an average, principal and interest, was about 73 Dollars.

And The present *actual* value, in the Market, of 100 Dollars, as the several kinds of Stock are sold, is no more than 83 Dollars & 61 Cents. This computation is not made on equal sums of the several kinds of Stock according to which the average value of 100 Dollars would be only 78.75 but it is made on the proportions which constitute the Mass of the debt.

At 73 to 100 The diminution on 60 000 000 is 16.200 000 Dollars; at 83.61 to 100 it is 9.834 000 Dollars.

But as the UStates having a right to redeem in certain proportions need never give more than par for the 6 $\frac{2}{3}$ Cent, the diminution to them as purchasers at the present market prices is 12.168 000 Dollars.

If it be said that the UStates are engaged to pay the whole sum at the Nominal value, the answer is that they are always at liberty if they have the means to purchase at the market prices and in all those purchases they gain the difference between the nominal sums and the lesser market rates.

If the whole debt had been provided for at 6 ~~7~~ Cent the market rate of Interest when the funding system passed the market value throughout would undoubtedly have been 100 for 100. The Debt may then rather be said to have been artificially decreased by the Nature of the provision.

The conclusion from the whole, is that assuming it as a principle that the public debts of the different descriptions were honestly to be provided for and paid—it is the reverse of true that there has been an artificial increase of them. To argue on a different principle is to presuppose dishonesty, and make it an objection to doing right.

Objection II This accumulation of debt has taken for ever out of our power those easy sources of revenue which applied &c.

Answer. There having been no accumulation of debt, if what is here pretended to have been the consequence were true, it would only be to be regretted as the unavoidable consequence of an unfortunate state of things. But the supposed consequence does by *no means* exist. The only sources of taxation which have been touched are imported articles and the single internal object of distilled spirits. Lands, houses, the great mass of personal as well as the whole of real property remain essentially free. In short, the chief sources of taxation are free for extraordinary conjunctures; and it is one of the distinguishing merits of the system which has been adopted, that it has rendered this far more the case than it was before. It is only to look into the different states to be convinced of it. In most of them real estate is wholly exempted. In some very small burthens rest upon it for the purpose of the internal Governments. In all the burthens of the people have been lightened. It is a mockery of truth to represent the U States as a community burthened and exhausted by taxes.

Objection 3

Answer. This is a mere painting and exaggeration. With the Exception of a very few articles, the duties on imports are still

moderate, lower than in any Country of whose regulations we have knowlege, except perhaps Holland, where having few productions or commodities of their own, their export trade depends on the reexportation of foreign articles.

It is true the Merchants have complained, but so they did of the first impost law for a time and so men always will do at an augmentation of taxes which touch the business they carry on, especially in a country where no or scarcely any *such* taxes before existed. The Collection, it is not doubted will be essentially secure. Evasions have existed in a degree and will continue to exist. Perhaps they may be somewhat increased; to what extent can only be determined by experience, but there are no symptoms to induce an opinion that they will materially increase. As to the idea of a war upon the citizens to collect the impost duties, it can only be regarded as a figure of rhetoric.

The Excise law no doubt is a good topic of declamation. But can it be doubted that it is an excellent and a very fit mean of revenue?

As to the partiality of its operation, it is no more so than any other tax on a consumeable commodity; adjusting itself upon exactly the same principles. The consumer in the main pays the tax—and if some parts of the U States consume more domestic spirits, others consume more foreign—and both are taxed. There is perhaps, upon the whole, no article of more *general and equal consumption* than distilled spirits.

As to its *unproductiveness*, unless inforced by *arbitrary* and *vexatious* means, facts testify the contrary. Already, under all the obstacles arising from its novelty and the prejudices against it in some states, it has been considerably productive. And it is not inforced by any arbitrary or vexatious means; at least the precautions in the existing laws for the collection of the tax will not appear in that light but to men who regard all taxes and all the means of enforcing them as arbitrary and vexatious. Here however there is abundant room for fancy to operate. The standard is in the mind, and different minds will have different standards.

The observation relating to the commitment of the authority of the Government, in parts where resistance is most probable and coercion least practicable has more weight than any

other part of this objection. It must be confessed that a hazard of this nature has been run but if there were motives sufficiently cogent for it, it was wisely run. It does not follow that a measure is bad because it is attended with a degree of danger.

The general inducements to a provision for the public Debt are—I To preserve the public faith and integrity by fulfilling as far as was practicable the public engagements. II To manifest a due respect for property by satisfying the public obligations in the hands of the public Creditors and which were as much their property as their houses or their lands their hats or their coats. III To revive and establish public Credit; the palladium of public safety. IV To preserve the Government itself by shewing it worthy of the confidence which was placed in it, to procure to the community the blessings which in innumerable ways attend confidence in the Government and to avoid the evils which in as many ways attend the want of confidence in it.

The particular inducements to an assumption of the state Debts were I To consolidate the finances of the country and give an assurance of permanent order in them; avoiding the collisions of thirteen different and independent systems of finance under concurrent and coequal authorities and the scramblings for revenue which would have been incident to so many different systems. II To secure to the Government of the Union, by avoiding those entanglements, an effectual command of the resources of the Union for present and future exigencies. III To *equalize the condition* of the *citizens* of the several states in the important article of taxation; rescuing a part of them from being oppressed with burthens, beyond their strength, on account of extraordinary exertions in the war and through the want of certain adventitious resources, which it was the good fortune of others to possess.

A mind naturally attached to order and system and capable of appreciating their immense value, unless misled by particular feelings, is struck at once with the prodigious advantages which in the course of time must attend such a simplification of the financial affairs of the Country as results from placing all the parts of the public debt upon one footing—under one direction—regulated by one provision. The want of this

sound policy has been a continual source of disorder and embarrassment in the affairs of the United Netherlands.

The true justice of the case of the public Debt consists in that equalization of the condition of the Citizens of all the states which must arise from a consolidation of the debt and common contributions towards its extinguishment. Little inequalities, as to the past, can bear no comparison with the more lasting inequalities, which, without the assumption, would have characterised the future condition of the people of the UStates; leaving upon those who had done most or suffered most a great additional weight of burthen.

If the foregoing inducements to a provision for the public Debt (including an assumption of the state debts) were sufficiently cogent—then the justification of the Excise law lies within a narrow compass. Some further source of revenue, besides the duties on imports, was indispensable, and none equally productive, would have been so little exceptionable to the Mass of the People.

Other reasons cooperated in the minds of some able men to render an excise at an early period desirable. They thought it well to lay hold of so valuable a resource of revenue before it was generally preoccupied by the State Governments. They supposed it not amiss that the authority of the National Government should be visible in some branch of internal Revenue; lest a total non-exercise of it should beget an impression that it was never to be exercised & next that it ought not to be exercised. It was supposed too that a thing of the kind could not be introduced with a greater prospect of easy success than at a period when the Government enjoyed the advantage of first impressions—when state-factions to resist its authority were not yet matured—when so much aid was to be derived from the popularity and firmness of the actual chief Magistrate.

Facts hitherto do not indicate the measure to have been rash or ill advised. The law is in operation with perfect acquiescence in all the states North of New York, though they contribute most largely. In New York and New Jersey it is in full operation with some very partial complainings fast wearing away. In the greatest part of Pensylvania it is in operation and with increasing good humour towards it. The four Western

Counties continue exceptions. In Delaware it has had some struggle, which by the last accounts was surmounted. In Maryland and Virginia, it is in operation and without material conflict. In South Carolina it is now in pretty full operation, though in the interior parts it has had some serious opposition to overcome. In Georgia no material difficulty has been experienced. North Carolina Kentucke & the four Western Counties of Pennsylvania present the only remaining impediments of any consequence to the full execution of the law. The latest advices from NC & Kentuke were more favourable than the former.

It may be added as a well established fact that the effect of the law has been to encourage new enterprises in most of the states in the business of domestic distillation. A proof that it is perceived to operate favourably to the manufacture, and that the measure cannot long remain unpopular any where.

Objection IV Propositions have been made in Congress & projects are on foot still to increase the Mass of the Debt.

Ans. Propositions have been made, and no doubt will be renewed by the States interested to complete the assumption of the State Debts. This would add in the first instance to the mass of the *Debt of the UStates* between three and four Millions of Dollars but it would not increase the mass of the *public Debt* at all. It would only transfer from particular States to the Union debts which already exist and which if the states indebted are honest must be provided for. It happens that Massachusetts and South Carolina would be chiefly benefited. And there is a moral certainty that Massachusetts will have a ballance in her favour more than equal to her remaining debt and a probability that South Carolina will have a ballance sufficient to cover hers—so that there is not likely to be an eventual increase even of the *debt of the United States* by the further assumption. The immense exertions of Massachusetts during the late war and particularly in the latter periods of it when too many of the States failed in their foederal Duty are known to every well informed man. It would not be too strong to say, that they were in a great degree the pivot of the revolution. The exertions sufferings sacrifices and losses of South Carolina need not be insisted upon. The other States have comparatively none or inconsiderable Debts. Can that

policy be condemned which aims at putting the burthened states upon an equal footing with the rest? Can that policy be very liberal which resists so equitable an arrangement? It has been said that if they had exerted themselves since the peace their situation would have been different. But Massachusettes threw her Citizens into Rebellion by heavier taxes than were paid in any other State and South Carolina has done as much since the peace as could have been expected considering the exhausted state in which the War left her.

The only proposition during the last session or at any antecedent one which would truly have swelled the debt artificially was one which Mr Maddison made in the first session & which was renewed in the last and generally voted for by those who oppose the system that has prevailed. The object of this proposition was *that all the parts* of the State debts which have been *paid* or *otherwise absorbed by them* should be assumed for the benefit of the States, and funded by the UStates. This measure if it had succeeded would truly have produced an immense artificial increase of the debt; but it has twice failed & there is no probability that it will ever succeed.

Objection 5. By borrowing at $\frac{2}{3}$ &c.

Answer. First—All the foreign loans which were made by the UStates prior to the present Government taking into the calculation charges & premiums cost them more than 6 $\frac{1}{2}$ Cent. Since the establishment of the present Government they borrowed first at about $5\frac{1}{4}$ including charges & since at about $4\frac{1}{4}$ including charges. And it is questionable in the present state of Europe whether they can obtain any further loans at so low a rate.

The System which is reprobated is the very cause that we have been able to borrow monies on so good terms. If one, that would have inspired less confidence, certainly if the substitutes which have been proposed, from a certain quarter, had obtained, we could not have procured loans even at six per Cent. The Dutch were largely adventurers in our domestic debt before the present Government. They did not embark far till they had made inquiries of influential public characters, as to the light in which the Debt was & would be considered in the hands of alienees—and had received assurances that Assignees would be regarded in the same light as

original holders. What would have been the state of our Credit with them, if they had been disappointed, or indeed if our conduct had been in any respect inconsistent with the notions entertained in Europe concerning the maxims of public Credit?

The inference is that our being able to borrow on low terms is a consequence of the system which is the object of censure and that the thing itself, which is made the basis of another system, would not have existed under it.

Secondly. It will not be pretended that we could have borrowed at the proposed low rate of interest in the UStates; and all our exertions to borrow in Europe which have been unremitted, as occasions presented, have not hitherto produced above of Dollars in space of ; not even a sufficient sum to change the form of our foreign debt.

Thirdly If it were possible to borrow the whole sum abroad within a short period, to pay off our debt, it is not easy to imagine a more pernicious operation than this would have been. It would first have transferred to foreigners by a violent expedient the whole amount of our debt; and creating a money plethora in the Country a momentary scene of extravagance would have followed & the excess would quickly have flowed back: The evils of which situation need not be enlarged upon. If it be said that the operation might have been gradual, then the end proposed would not have been attained.

Lastly The plan which has been adopted secures in the first instance the *identical advantage*, which in the other plan would have been *eventual* and *contingent*. It puts one third of the whole Debt at an interest of 3 $\frac{1}{2}$ Cent. only—and by deferring the payment of interest on a third of the remainder effectually reduces the interest on that part. It is evident that a *suspension* of interest is in fact a *reduction* of interest. The money which would go towards paying interest in the interval of suspension is an accumulating fund to be applied towards payment of it when it becomes due, proportionably reducing the provision then to be made.

In reality, on the principles of the funding system, the United States reduced the interest on their whole Debt upon *an average* to about $4\frac{1}{2}$ Cent, nearly the lowest rate they

have any chance to borrow at, and lower than they could possibly have borrowed at, in an attempt to reduce the interest on the whole Capital by borrowing and paying; probably by one $\frac{1}{2}$ Cent. A demand for large loans by forcing the market would unavoidably have raised their price upon the borrower. The above average of $4\frac{1}{2}$ Cent. is found by calculation, computing the then present value of the deferred Stock at the time of passing the funding Act and of course 3 $\frac{1}{2}$ Cent on the three per Cent Stock.

The funding system, then, secured in the very outset the *precise advantage* which it is alleged would have accrued from leaving the whole debt redeemable at pleasure. But this is not all. It did more. It left the Government still in a condition to enjoy upon $\frac{1}{3}$ of the intire debt the advantage of extinguishing it, by loans at a low rate of interest, if they are obtainable. The 3 $\frac{1}{2}$ Cents which are one third of the whole may always be purchased in the market below par, till the market rate of interest falls to 3 $\frac{1}{2}$ Cent. The deferred will be purchaseable below par till near the period of the actual payment of interest. And this further advantage will result; in all these purchases the public will enjoy not only the advantage of a reduction of interest on the sums borrowed but the additional advantage of purchasing the debt under par, that is for less than 20/ in the pound.

If it be said that the like advantage might have been enjoyed under another system, the assertion would be without foundation. Unless some equivalent had been given for the reduction of interest in the irredeemable quality annexed to the Debt, nothing was left consistently with the principles of public Credit but to provide for the whole debt at 6 $\frac{1}{2}$ Cent. This evidently would have kept the whole at par, and no advantage could have been derived by purchases under the nominal value. The reduction of interest by borrowing at a lower rate is all that would have been practicable and this advantage has been secured by the funding system in the very outset and without any second process.

If no provision for the interest had been made, not only public Credit would have been sacrificed; but by means of it the borrowing at a low rate of interest or at any rate would have been impracticable.

There is no reproach which has been thrown upon the funding system so unmerited as that which charges it with being a bad bargain for the public or with a tendency to prolong the extinguishment of the Debt. The bargain has if any thing been too good on the side of the public; and it is impossible for the debt to be in a more convenient form than it is for a rapid extinguishment.

Some Gentlemen seem to forget that the faculties of every Country are limited. They talk as if the Government could extend its revenue *ad libitum* to pay off the debt. Whereas every rational calculation of the abilities of the Country will prove that the power of redemption which has been reserved over the debt is quite equal to those abilities, and that a greater power would be useless. If happily the abilities of the Country should exceed this estimate, there is nothing to hinder the surplus being employed in purchases. As long as the three $\frac{2}{3}$ Cents & deferred exist those purchases will be under par. If for the Stock bearing an immediate interest of six $\frac{2}{3}$ Cent more than par is given—the Government can afford it from the saving made in the first instance.

Upon the whole then it is the merit of the funding System to have conciliated these three important points—the restoration of public Credit—a reduction of the rate of interest—and an organisation of the Debt convenient for speedy extinguishment.

Object 6 The irredeemable quality was given to the debt for the *avowed* purpose of inviting its transfer to foreign countries.

This assertion is a palpable misrepresentation. The *avowed purpose* of that quality of the Debt, as explained in the report of the Secretary of the Treasury, and in the arguments in Congress was to give an *equivalent* for the reduction of Interest, that is for deferring the payment of interest on $\frac{1}{3}$ of the principal for three years and for allowing only 3 $\frac{2}{3}$ Cent on the arrears of Interest.

It was indeed argued, in confirmation of the reality of the equivalent, that foreigners would be willing to give more, where a high rate of Interest was *fixed*, than where it was liable to fluctuate with the market. And this has been verified by the fact—for the 6 $\frac{2}{3}$ Cents could not have risen for a mo-

ment above par, if the rate could have been lowered by redeeming the Debt at pleasure. But the inviting of the transfer to foreigners was never assigned as a motive to the arrangement.

And what is more, that transfer will be probably slower with the portion of irredeemability which is attached to the Debt than without it because a larger capital would be requisite to purchase 100 Dollars in the former than in the latter case. And the Capital of foreigners is limited as well as our own.

It appears to be taken for granted that if the Debt had not been funded in its present shape foreigners would not have purchased it as they now do; than which nothing can be more ill founded or more contrary to experience. Under the old Confederation when there was no provision at all foreigners had purchased five or six millions of the Debt. If any provision had been made, capable of producing confidence, their purchases would have gone on just as they now do; and the only material difference would have been that what they got from us then would have cost them less than what they now get from us does cost them. Whether it is to the disadvantage of the Country that they pay more is submitted.

Even a provision which should not have inspired full confidence would not have prevented foreign purchases. The commodity would have been cheap in proportion to the risks to be run. And full-handed Dutchmen would not have scrupled to amass large sums, for trifling considerations, in the hope, that time & experience would introduce juster notions into the public councils.

Our Debt would still have gone from us & with it our reputation & Credit.

Objection 7

Answer. The same glooming forebodings were heard in England in the early periods of its funding system. But they have never been realized. The money invested by foreigners in the purchase of its Debt being employed in its commerce agriculture and manufactures increased the wealth and Capital of the Nation; more than in proportion to the annual drain for the payment of interest and created the ability to bear it.

The objection seems to forget that the Debt is not transferred for Nothing—that the Capital paid for the Debt is always an equivalent for the interest to be paid to the purchasers. If that Capital is well employed in a young country, like this, it must be considerably increased so as to yield a greater revenue than the interest of the money. The Country therefore will be a gainer by it and will be able to pay the interest without inconvenience.

But the objectors suppose that all the money which come in goes out again in an increased consumption of foreign luxuries. This however is taking for granted what never happened in any industrious country & what appearances among us do not warrant. The expense of living generally speaking is not sensibly increased. Large investments are every day making in ship building, house building, manufactures & other improvements public & private.

The transfer too of the whole debt is a very improbable supposition. A large part of it will continue to be holden by our own citizens. And the interest of that part which is owned by foreigners will not be annually exported as is supposed. A considerable part will be invested in new speculations, in lands canals roads manufactures commerce. Facts warrant this supposition. The Agents of the Dutch have actually made large investments in a variety of such speculations. A young Country like this is peculiarly attractive. New objects will be continually opening and the money of foreigners will be made instrumental to their advancement.

8.th Object

Ans This is a mere hypothesis in which theorists differ. There are no decisive facts on which to rest the question.

The supposed tendency of bank paper to banish specie is from its capacity of serving as a substitute for it in circulation. But as the quantity circulated is proportioned to the demand for it, in circulation, the presumption is that a greater quantity of industry is put in motion by it, so as to call for a proportionably greater quantity of *circulating medium* and prevent the banishment of the specie.

But however this may be it is agreed among sound theorists that Banks more than compensate for the loss of the specie in other ways. SMITH who was witness to their effects in Scot-

land; where too a very adverse fortune attended some of them bears his testimony to their beneficial effects in these strong Terms (Wealth of Nations Vol. I Book II. Ch. II. Page 441. to 444).

9 Objection

The 10 or 12 £ Ct &c.

Answer 1 The profits of the Bank have not hitherto exceeded the rate of 8 £ Ct. per annum & perhaps never may. It is questionable whether they can legally make more than 10 £ Ct.

2 These profits can in no just sense be said to be taken out of the pockets of the people. They are compounded of two things—1 the interest paid by the Government on that part of the public Debt which is incorporated in the stock of the Bank—2 the interest paid by those *Individuals who borrow* money of the Bank on the *sums they borrow*.

As to the first, it is no *new grant* to the bank. It is the old interest on a part of the old Debt of the Country, subscribed by the proprietors of that Debt towards constituting the Stock of the Bank. It would have been equally payable if the Bank had never existed. It is therefore nothing new taken out of the pockets of the people.

As to the second, it may with equal propriety be said, when one individual borrows money of another, that the interest, which the borrower pays to the lender, is taken out of the *pockets of the people*. The case here is not only parallel but the same. It is a case of one or more individuals borrowing money of a company of individuals associated to lend. None but the actual borrowers pay in either case. The rest of the community have nothing to do with it.

If a man receives a bank bill for the ox or the bushel of wheat which he sells he pays no more interest upon it than upon the same sum in gold or silver; that is he pays none at all.

So that whether the paper banishes specie or not it is the same thing to every individual through whose hands it circulates, as to the point of Interest. Specie no more than Bank paper can be borrowed without paying interest for it, and when either is not borrowed no interest is paid. As far as the Government is a sharer in the profits of the Bank which is in

the proportion of $\frac{1}{2}$; the contrary of what is supposed happens. *Money is put into the pockets of the People.*

All this is so plain and so palpable that the assertion which is made betrays extreme ignorance or extreme disingenuousness. It is destitute even of colour.

10 Objection

This is a copious subject which has been fully discussed in the report of the Secretary of the Treasury on the subject of Manufactures from Page . . . to It is true that the Capital, that is the *specie*, which is employed in paper speculation, while so employed, is barren and useless, but the paper itself constitutes a *new Capital*, which being saleable and transferrable at any moment, enables the proprietor to undertake any piece of business as well as an equal sum in Coin. And as the amount of the Debt circulated is much greater than the amount of the *specie* which circulates it, the new Capital put in motion by it considerably exceeds the old one which is *suspended*. And there is more capital to carry on the productive labour of the Society. Every thing that has value is Capital—an acre of ground a horse or a cow or a public or a private obligation; which may with different degrees of convenience be applied to industrious enterprise. That which, like public Stock, can at any instant be turned into money is of equal utility with money as Capital.

Let it be examined whether at those places where there is most debt afloat and most money employed in its circulation, there is not at the same time a greater plenty of money for every other purpose. It will be found that there is.

But it is in fact quite immaterial to the Government, as far as regards the propriety of its measures.

The Debt existed. It was to be provided for. In whatever shape the provision was made the object of speculation and the speculation would have existed. Nothing but abolishing the Debt could have obviated it. It is therefore the fault of the Revolution not of the Government that paper speculation exists.

An unsound or precarious provision would have increased this species of speculation in its most odious forms. The defects & casualties of the system would have been as much subjects of speculation as the Debt itself.

The difference is that under a bad system the public Stock would have been too uncertain an article to be a substitute for money & all the money employed in it would have been diverted from useful employment without any thing to compensate for it. Under a good system the Stock becomes more than a substitute for the money employed in negotiating it.

Objection 11 Paper Speculation nourishes in our Citizens &c.

Answer This proposition within certain limits is true. Jobbing in the funds has some bad effects among those engaged in it. It fosters a spirit of gambling, and diverts a certain number of individuals from other pursuits. But if the proposition be true, that Stock operates as Capital, the effect upon the Citizens at large is different. It promotes among them industry by furnishing a larger field of employment. Though this effect of a funded debt has been called in question in England by some theorists yet most theorists & all practical men allow its existence. And there is no doubt, as already intimated, that if we look into those scenes among ourselves where the largest portions of the Debt are accumulated we shall perceive that a new spring has been given to Industry in various branches.

But be all this as it may, the observation made under the last head applies here. The Debt was the creature of the Revolution. It was to be provided for. Being so, in whatever form, it must have become an object of speculation and jobbing.

Objection 12

The funding of the Debt has furnished effectual means of corrupting &c.

Answer This is one of those assertions which can only be denied and pronounced to be malignant and false. No facts exist to support it, and being a mere matter of fact, no *argument* can be brought to repel it.

The Assertors beg the question. They assume to themselves and to those who think with them infallibility. Take their words for it, they are the only honest men in the community. But compare the tenor of mens lives and *at least* as large a proportion of virtuous and independent characters will be found among those whom they malign as among themselves.

A member of a majority of the Legislature would say to these Defamers—

“In your vocabulary, Gentlemen, *creditor* and *enemy* appear to be synonymous terms—the *support of public credit* and *corruption* of similar import—an *enlarged* and *liberal* construction of the constitution for the public good and for the maintenance of the due energy of the national authority of the same meaning with usurpation and a conspiracy to overturn the republican government of the Country—every man of a different opinion from your own an ambitious despot or a corrupt knave. You bring every thing to the standard of your narrow and depraved ideas, and you condemn without mercy or even decency whatever does not accord with it. Every man who is either too long or too short for your political couch must be stretched or lopped to suit it. But your pretensions must be rejected. Your insinuations despised. Your Politics originate in immorality, in a disregard of the maxims of good faith and the rights of property, and if they could prevail must end in national disgrace and confusion. Your rules of construction for the authorities vested in the Government of the Union would arrest all its essential movements and bring it back in practice to the same state of imbecility which rendered the old confederation contemptible. Your principles of liberty are principles of licentiousness incompatible with all government. You sacrifice every thing that is venerable and substantial in society to the vain reveries of a false and new fangled philosophy. As to the motives by which I have been influenced, I leave my general conduct in private and public life to speak for them. Go and learn among my *fellow citizens* whether I have not uniformly maintained the character of an honest man. As to the love of liberty and Country you have given no stronger proofs of being actuated by it than I have done. Cease then to arrogate to yourself and to your party all the patriotism and virtue of the Country. Renounce if you can the intolerant spirit by which you are governed—and begin to reform yourself instead of reprobating others, by beginning to doubt of your own infallibility.”

Such is the answer which would naturally be given by a member of the Majority in the Legislature to such an Objec-

tor. And it is the only one that could be given; until some evidence of the supposed corruption should be produced.

As far as I know, there is not a member of the Legislature who can properly be called a Stock-jobber or a paper Dealer. There are several of them who were proprietors of public debt in various ways. Some for money lent & property furnished for the use of the public during the War others for sums received in payment of Debts—and it is supposeable enough that some of them had been purchasers of the public Debt, with intention to hold it, as a valuable & convenient property; considering an honorable provision for it as matter of course.

It is a strange perversion of ideas, and as novel as it is extraordinary, that men should be deemed corrupt & criminal for becoming proprietors in the funds of their Country. Yet I believe the number of members of Congress is very small who have ever been considerably proprietors in the funds.

And as to improper speculations on measures depending before Congress, I believe never was any *body* of men freer from them.

There are indeed several members of Congress, who have become proprietors in the Bank of the United States, and a *few* of them to a pretty large amount say 50 or 60 shares; but all operations of this kind were necessarily subsequent to the determination upon the measure. The subscriptions were of course subsequent & purchases still more so. Can there be any thing really blameable in this? Can it be culpable to invest property in an institution which has been established for the most important national purposes? Can that property be supposed to corrupt the holder? It would indeed tend to render him friendly to the preservation of the Bank; but in this there would be no collision between duty & interest and it could give him no improper byass in other questions.

To uphold public credit and to be friendly to the Bank must be presupposed to be *corrupt things* before the being a proprietor in the funds or of bank Stock can be supposed to have a *corrupting influence*. The being a proprietor in either case is a very different thing from being, in a proper sense of the term, a Stock jobber. On this point of the corruption of the Legislature one more observation of great weight remains. Those who oppose a *funded* debt and mean any provision for

it contemplate an *annual* one. Now, it is impossible to conceive a more fruitful source of legislative corruption than this. All the members of it who should incline to speculate would have an annual opportunity of speculating upon their influence in the legislature to promote or retard or put off a provision. Every session the question whether the annual provision should be continued would be an occasion of pernicious caballing and corrupt bargaining. In this very view when the subject was in deliberation, it was impossible not to wish it declared upon once for all & out of the way.

Objection the 13 The Corrupt Squadron &c

Here again the objectors beg the question. They take it for granted that their constructions of the constitution are right and that the opposite ones are wrong, and with great good nature and candor ascribe the effect of a difference of opinion to a disposition to get rid of the limitations on the Government.

Those who have advocated the constructions which have obtained have met their opponents on the ground of fair argument and they think have refuted them. How shall it be determined which side is right?

There are some things which the General Government has clearly a right to do—there are others which it has clearly no right to meddle with, and there is a good deal of middle ground, about which honest & well disposed men may differ. The most that can be said is that some of this middle ground may have been occupied by the National Legislature; and this surely is no evidence of a disposition to get rid of the limitations in the constitution; nor can it be viewed in that light by men of candor.

The truth is one description of men is disposed to do the essential business of the Nation by a liberal construction of the powers of the Government; another from disaffection would fritter away those powers—a third from an overweening jealousy would do the same thing—a fourth from party & personal opposition are torturing the constitution into objections to every thing they do not like.

The Bank is one of the measures which is deemed by some the greatest stretch of power; and yet its constitutionality has been established in the most satisfactory manner.

And the most incorrigible theorist among its opponents would in one months experience as head of the Department of the Treasury be compelled to acknowledge that it is an absolutely indispensable engine in the management of the Finances and would quickly become a convert to its perfect constitutionality.

Objection XIV The ultimate object of all

To this there is no other answer than a flat denial—except this that the project from its absurdity refutes itself.

The idea of introducing a monarchy or aristocracy into this Country, by employing the influence and force of a Government continually changing hands, towards it, is one of those visionary things, that none but madmen could meditate and that no wise men will believe.

If it could be done at all, which is utterly incredible, it would require a long series of time, certainly beyond the life of any individual to effect it. Who then would enter into such plot? For what purpose of interest or ambition?

To hope that the people may be cajoled into giving their sanctions to such institutions is still more chimerical. A people so enlightened and so diversified as the people of this Country can surely never be brought to it, but from convulsions and disorders, in consequence of the acts of popular demagogues.

The truth unquestionably is, that the only path to a subversion of the republican system of the Country is, by flattering the prejudices of the people, and exciting their jealousies and apprehensions, to throw affairs into confusion, and bring on civil commotion. Tired at length of anarchy, or want of government, they may take shelter in the arms of monarchy for repose and security.

Those then, who resist a confirmation of public order, are the true Artificers of monarchy—not that this is the intention of the generality of them. Yet it would not be difficult to lay the finger upon some of their party who may justly be suspected. When a man unprincipled in private life desperate in his fortune, bold in his temper, possessed of considerable talents, having the advantage of military habits—despotic in his ordinary demeanour—known to have scoffed in private at the principles of liberty—when such a man is seen to mount the

hobby horse of popularity—to join in the cry of danger to liberty—to take every opportunity of embarrassing the General Government & bringing it under suspicion—to flatter and fall in with all the non sense of the zealots of the day—It may justly be suspected that his object is to throw things into confusion that he may “ride the storm and direct the whirlwind.”

It has aptly been observed that *Cato* was the Tory—*Cæsar* the whig of his day. The former frequently resisted—the latter always flattered the follies of the people. Yet the former perished with the Republic the latter destroyed it.

No popular Government was ever without its Catalines & its Cæsars. These are its true enemies.

As far as I am informed the anxiety of those who are calumniated is to keep the Government in the state in which it is, which they fear will be no easy task, from a natural tendency in the state of things to exalt the local on the ruins of the National Government. Some of them appear to wish, in a constitutional way, a change in the judiciary department of the Government, from an apprehension that an orderly and effectual administration of Justice cannot be obtained without a more intimate connection between the state and national Tribunals. But even this is not an object of any set of men as a party. There is a difference of opinion about it on various grounds among those who have generally acted together. As to any other change of consequence, I believe nobody dreams of it.

Tis curious to observe the anticipations of the different parties. One side appears to believe that there is a serious plot to overturn the state Governments and substitute monarchy to the present republican system. The other side firmly believes that there is a serious plot to overturn the General Government & elevate the separate power of the states upon its ruins. Both sides may be equally wrong & their mutual jealousies may be materially causes of the appearances which mutually disturb them, and sharpen them against each other.

Objection the 15 This change was contemplated &c

This is a palpable misrepresentation. No man, that I know of, contemplated the introducing into this country of a monarchy. A very small number (not more than three or four) manifested theoretical opinions favourable in the abstract to a

constitution like that of Great Britain, but every one agreed that such a constitution except as to the general distribution of departments and powers was out of the Question in reference to this Country. The Member who was most explicit on this point (a Member from New York) declared in strong terms that the republican theory ought to be adhered to in this Country as long as there was any chance of its success—that the idea of a perfect equality of political rights among the citizens, exclusive of all permanent or hereditary distinctions, was of a nature to engage the good wishes of every good man, whatever might be his theoretic doubts—that it merited his best efforts to give success to it in practice—that hitherto from an incompetent structure of the Government it had not had a fair trial, and that the endeavour ought then to be to secure to it a better chance of success by a government more capable of energy and order.

There is not a man at present in either branch of the Legislature who, that I recollect, had held language in the Convention favourable to Monarchy.

The basis therefore of this suggestion fails.

16 So many of them &c.

This has been answered above. Neither description of character is to be found in the Legislature. In the Senate there are 9 or ten who were members of the Convention; in the house of Representatives not more than six or seven. Of those who are in the lastmentioned house—none can be considered as influential but Mr. Madison and Mr. Gerry. Are they monarchy men?

As to the 17. 18th and 19th heads—They are rather inferences from and comments upon what is before suggested than specific objections. The answer to them must therefore be derived from what is said under other heads.

It is certainly much to be regretted that party discriminations are so far Geographical as they have been; and that ideas of a severance of the Union are creeping in both North and South. In the South it is supposed that more government than is expedient is desired by the North. In the North, it is believed, that the prejudices of the South are incompatible with the necessary degree of Government and with the attainment of the essential ends of National Union. In both

quarters there are respectable men who talk of separation, as a thing dictated by the different geniusses and different prejudices of the parts. But happily their number is not considerable—& the prevailing sentiment of the people is in favour of their true interest, UNION. And it is to be hoped that the Efforts of wise men will be able to prevent a scism, which would be injurious in different degrees to different portions of the Union; but would seriously wound the prosperity of all.

As to the sacrifice of Southern to Northern prejudices—if the conflict has been between *prejudices* and *prejudices*, it is certainly to be wished for mutual gratification that there had been mutual concession; but if the conflict has been between *great* and *substantial* national objects on the one hand, and theoretical prejudices on the other, it is difficult to desire that the former should in any instance have yielded.

Objection 20 The Owers of the Debt are in the Southern and the holders of it in the Northern Division.

Answer. If this were literally true, it would be no argument for or against any thing. It would be still politically and morally right for the Debtors to pay their Creditors.

But it is in *no sense* true. The OWERS of the Debt are the people of *every* State, South Middle North. The holders are the Individual Creditors—citizens of the United Netherlands, Great Britain, France & of these States, North, Middle, South. Though some men, who constantly substitute hypothesis to fact, imagination to evidence, assert and reassert that the inhabitants of the South contribute *more* than those of the North; yet there is no pretence that they contribute *all*; and even the assertion of greater contribution is unsupported by documents facts, or, it may be added, probabilities. Though the inhabitants of the South manufacture less than those of the North, which is the great argument, yet it does not follow that they consume more of taxable articles. It is a solid answer to this, that *whites* live better, wear more and better cloaths, and consume more luxuries, than blacks who constitute so considerable a part of the population of the South—that the Inhabitants of Cities and Towns, which abound so much more in the North than in the South, consume more of foreign articles, than the inhabitants of the Country—that it is a general rule that communities consume & contribute in pro-

portion to their active or circulating wealth and that the Northern Regions have more active or circulating wealth than the Southern.

If official documents are consulted, though for obvious reasons they are not decisive, they contradict rather than confirm the hypothesis of greater proportional contribution in the Southern Division.

But to make the allegation in the objection true, it is necessary not merely that the Inhabitants of the South should contribute more, but that they should contribute *all*.

It must be confessed that a much larger proportion of the Debt is *owned* by inhabitants of the States from Pennsylvania to New Hampshire inclusively than in the States South of Pennsylvania.

But as to the primitive Debt of the United States, that was the case in its original concoction. This arose from two causes. I, from the war having more constantly been carried on in the Northern Quarter, which led to obtaining more men and greater supplies in that quarter, and credit having been, for a considerable time, the main instrument of the Government, a consequent accumulation of debt in that quarter took place. II from the greater ability of the Northern and middle States to furnish men money and other supplies; and from the greater quantity of men money and other supplies which they did furnish. The loan office Debt; the army debt, the debt of the five great departments was *contracted* in a much larger proportion in the Northern and middle, than in the Southern States.

It must be confessed too that by the attractions of a superior monied Capital the disparity has increased, but it was great in the beginning.

As to the assumed debt the proportion in the South was at the first somewhat larger than in the North; and it must be acknowledged that this has since, from the same superiority of monied Capital in the North, ceased to be the case.

But if the Northern people who were originally greater Creditors than the Southern have become still more so, as purchasers, is it any reason that an honorable provision should not be made for their Debt? Or is the Government to blame for having made it? Did the Northern people take their

hobby horse of popularity—to join in the cry of danger to liberty—to take every opportunity of embarrassing the General Government & bringing it under suspicion—to flatter and fall in with all the non sense of the zealots of the day—It may justly be suspected that his object is to throw things into confusion that he may “ride the storm and direct the whirlwind.”

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property by violence from the Southern, or did they purchase and pay for it?

It may be answered that they obtained a considerable part of it by speculation, taking advantage of superior opportunities of information.

But admitting this to be true in all the latitude in which it is commonly stated—Is a government to bend the general maxims of policy and to mould its measures according to the accidental course of private speculations? Is it to do this or omit that in cases of great national importance, because one set of Individuals may gain, another lose, from unequal opportunities of information, from unequal degrees of resource, craft confidence or enterprise?

More over—There is much exaggeration in stating the manner of the alienation of the Debt. The principal speculations in state debt, whatever may be pretended certainly began, after the promulgation of the plan for assuming by the Report of the Secy of the Treasury to the House of Representatives. The resources of Individuals in this Country are too limited to have admitted of much progress in purchases before the knowledge of that plan was diffused throughout the Country. After that, purchasers and sellers were upon equal ground. If the purchasers speculated upon the sellers, in many instances, the sellers speculated upon the purchasers. Each made his calculation of chances, and founded upon it an exchange of money for certificates. It has turned out generally that the buyer had the best of the bargain; but the seller got the value of his commodity according to his estimate of it, and probably in a great number of instances more. This shall be explained:

It happened that Mr. Maddison and some other distinguished characters of the South started in opposition to the Assumption. The high opinion entertained of them made it be taken for granted in that quarter, that the opposition would be successful. The securities quickly rose by means of purchases beyond their former prices. It was imagined that they would soon return to their old station by a rejection of the proposition for assuming. And the certificate holders were eager to part with them at their current prices; calculating on

a loss to the Purchasers from their future fall. The representation is not conjectural; it is founded in information from respectable and intelligent Southern characters—And may be ascertained by Inquiry.

Hence it happened, that the inhabitants of the Southern states sustained a considerable loss, by the opposition to the assumption, from Southern Gentlemen, and their too great confidence in the efficacy of that opposition.

Further—A great part of the Debt which has been purchased by Northern or Southern Citizens has been at high prices; in numerous instances beyond the true value. In the late delirium of speculation large sums were purchased at 25 $\frac{3}{4}$ Cent above par and upwards.

The Southern people upon the whole have not parted with their property for nothing. They parted with it voluntarily—in most cases, upon fair terms, without surprize or deception, in many cases for more than its value. 'Tis their own fault, if the purchase money has not been beneficial to them—and the presumption is that it has been so in a material degree.

Let then any candid and upright mind, weighing all the circumstances, pronounce whether there be any real hardship in the inhabitants of the South being required to contribute their proportion to a provision for the Debt as it now exists—whether, if at liberty, they could honestly dispute the doing of it, or whether they can even in candor and good faith complain of being obliged to do it.

If they can, it is time to unlearn all the ancient notions of justice and morality, and to adopt a new system of Ethics.

Observation 21 The Antifederal Champions &c

Answer All that can be said in answer to this has been already said.

It is much to be wished, that the true state of the case may not have been, that the Antifederal Champions have been encouraged in their activity, by the countenance which has been given to their principles, by certain foederalists; who in an envious and ambitious struggle for power influence and preeminence have imbraced as auxiliaries the numerous party originally disaffected to the Government in the hope that these united with the factious and feeble minded foederalists

whom they can detach will give them the predominancy. This would be nothing more than the old story of personal and party emulation.

The Antifederal Champions alluded to may be taught to abate their exultation by being told that the great body of the federalists, or rather the great body of the people are of opinion that none of their predictions have been fulfilled—That the beneficial effects of the Government have exceeded expectation and are witnessed by the general prosperity of the Nation.

REPRIMANDING ADAMS

To John Adams

My Dear Sir

Philadelphia Sept. 9. 1792

I trust you are sufficiently convinced of my respect for and attachment to you to render an apology for the liberty, I am going to take unnecessary. I learnt with pain that you may not probably be here 'till late in the session. I fear that this will give some handle to your enemies to misrepresent—and though I am persuaded you are very indifferent personally to the event of a certain election, yet I hope you are not so as it regards the cause of good Government. The difference in that view is in my conception immense between the success of Mr. Clinton or yourself; and some sacrifices of feeling are to be made. But this is not the only relation, in which I deem your early presence here desirable. Permit me to say it best suits the firmness and elevation of your character to meet all events, whether auspicious or otherwise, on the ground where station & duty, call you. One would not give the ill disposed the triumph of supposing that an anticipation of want of success had kept you from your post.

You observe My Dr Sir, I speak without much *menagement*. You will ascribe it to my confidence and esteem. It is not necessary in any view to multiply words. I forbear it. But allow me to add that it is the universal wish of your friends you should be as soon as possible at Philadelphia.

I have the honor to remain very respectfully and truly Dr
Sir Yr friend & Obed servant

A Hamilton

RESPONDING TO A PLEA FOR PEACE

To George Washington

Philadelphia September 9

1792

Sir

I have the pleasure of your private letter of the 26th of August.

The feelings and views which are manifested in that letter are such as I expected would exist. And I most sincerely regret the causes of the uneasy sensations you experience. It is my most anxious wish, as far as may depend upon me, to smooth the path of your administration, and to render it prosperous and happy. And if any prospect shall open of healing or terminating the differences which exist, I shall most cheerfully embrace it; though I consider myself as the deeply injured party. The recommendation of such a spirit is worthy of the moderation and wisdom which dictated it; and if your endeavours should prove unsuccessful, I do not hesitate to say that in my opinion the period is not remote when the public good will require *substitutes* for the *differing members* of your administration. The continuance of a division there must destroy the energy of Government, which will be little enough with the strictest Union. On my part there will be a most cheerful acquiescence in such a result.

I trust, Sir, that the greatest frankness has always marked and will always mark every step of my conduct towards you. In this disposition, I cannot conceal from you that I have had some instrumentality of late in the retaliations which have fallen upon certain public characters and that I find myself placed in a situation not to be able to recede *for the present*.

I considered myself as compelled to this conduct by reasons public as well as personal of the most cogent nature. I know