

Excerpts from a Report Relative to a Provision for the Support of Public Credit, January 9, 1790

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

In the discharge of this duty, he has felt, in no small degree, the anxieties which naturally flow from a just estimate of the difficulty of the task, from a well-founded diffidence of his own qualifications for executing it with success, and from a deep and solemn conviction of the momentous nature of the truth contained in the resolution under which his investigations have been conducted, “That an *adequate* provision for the support of the Public Credit, is a matter of high importance to the honor and prosperity of the United States.”

With an ardent desire that his well-meant endeavors may be conducive to the real advantage of the nation, and with the utmost deference to the superior judgment of the House, he now respectfully submits the result of his enquiries and reflections to their indulgent construction.

In the opinion of the secretary, the wisdom of the House, in giving their explicit sanction to the proposition which has been stated, cannot but be applauded by all who will seriously consider, and trace through their obvious consequences, these plain and undeniable truths.

That exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing.

That loans in times of public danger, especially from foreign war, are found an indispensable resource, even to the wealthiest of them.

And that in a country, which, like this, is possessed of little active wealth, or in other words, little monied capital, the necessity for that resource, must, in such emergencies, be proportionably urgent.

And as on the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so on the other, it is equally evident, that to be able to borrow upon *good terms*, it is essential that the credit of a nation should be well established.

For when the credit of a country is in any degree questionable, it never fails to give an extravagant premium, in one shape or another, upon all the loans it has

occasion to make. Nor does the evil end here; the same disadvantage must be sustained upon whatever is to be bought on terms of future payment.

From this constant necessity of *borrowing* and *buying dear*, it is easy to conceive how immensely the expenses of a nation, in a course of time, will be augmented by an unsound state of the public credit.

To attempt to enumerate the complicated variety of mischiefs in the whole system of the social economy, which proceed from a neglect of the maxims that uphold public credit, and justify the solicitude manifested by the House on this point, would be an improper intrusion on their time and patience.

In so strong a light nevertheless do they appear to the secretary, that on their due observance at the present critical juncture, materially depends, in his judgment, the individual and aggregate prosperity of the citizens of the United States; their relief from the embarrassments they now experience; their character as a People; the cause of good government.

If the maintenance of public credit, then, be truly so important, the next enquiry which suggests itself is, by what means it is to be effected? The ready answer to which question is, by good faith, by a punctual performance of contracts. States, like individuals, who observe their engagements are respected and trusted: while the reverse is the fate of those who pursue an opposite conduct.

Every breach of the public engagements, whether from choice or necessity, is in different degrees hurtful to public credit. When such a necessity does truly exist, the evils of it are only to be palliated by a scrupulous attention, on the part of the government, to carry the violation no farther than the necessity absolutely requires, and to manifest, if the nature of the case admits of it, a sincere disposition to make reparation, whenever circumstances shall permit. But with every possible mitigation, credit must suffer, and numerous mischiefs ensue. It is therefore highly important, when an appearance of necessity seems to press upon the public councils, that they should examine well its reality, and be perfectly assured that there is no method of escaping from it, before they yield to its suggestions. For though it cannot safely be affirmed that occasions have never existed, or may not exist, in which violations of the public faith, in this respect, are inevitable; yet there is great reason to believe that they exist far less frequently than precedents indicate; and are oftenest either pretended through levity or want of firmness, or supposed through want of knowledge. Expedients might often have been devised to effect, consistently with good faith, what has been done in contravention of it. Those who are most commonly creditors of a nation, are, generally speaking, enlightened men; and there are signal examples to warrant a conclusion that when a candid and fair appeal is made to them, they will understand their true interest too well to refuse their concurrence in such modifications of their claims as any real necessity may demand.

While the observance of that good faith which is the basis of public credit is recommended by the strongest inducements of political expediency, it is enforced by considerations of still greater authority. There are arguments for it which rest on the immutable principles of moral obligation. And in proportion

as the mind is disposed to contemplate, in the order of Providence, an intimate connection between public virtue and public happiness, will be its repugnancy to a violation of those principles.

This reflection derives additional strength from the nature of the debt of the United States. It was the price of liberty. The faith of America has been repeatedly pledged for it, and with solemnities that give peculiar force to the obligation. There is indeed reason to regret that it has not hitherto been kept; that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation, or noncompliance. But a diminution of this regret arises from the reflection that the last seven years have exhibited an earnest and uniform effort, on the part of the government of the union, to retrieve the national credit by doing justice to the creditors of the nation, and that the embarrassments of a defective constitution, which defeated this laudable effort, have ceased.

From this evidence of a favorable disposition, given by the former government, the institution of a new one, clothed with powers competent to calling forth the resources of the community, has excited correspondent expectations. A general belief, accordingly, prevails that the credit of the United States will quickly be established on the firm foundation of an effectual provision for the existing debt. The influence which this has had at home is witnessed by the rapid increase that has taken place in the market value of the public securities. From January to November, they rose thirty-three and a third percent, and from that period to this time they have risen fifty percent more. And the intelligence from abroad announces effects proportionably favorable to our national credit and consequence.

It cannot but merit particular attention that among ourselves the most enlightened friends of good government are those whose expectations are the highest.

To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and commerce; to cement more closely the union of the states; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy. These are the great and invaluable ends to be secured by a proper and adequate provision, at the present period, for the support of public credit.

To this provision we are invited not only by the general considerations which have been noticed, but by others of a more particular nature. It will procure to every class of the community some important advantages, and remove some no less important disadvantages.

The advantage to the public creditors from the increased value of that part of their property which constitutes the public debt needs no explanation.

But there is a consequence of this, less obvious, though not less true, in which every other citizen is interested. It is a well-known fact that in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are

there equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes current as specie. The same thing would in all probability happen here under the like circumstances.

The benefits of this are various and obvious.

First. Trade is extended by it, because there is a larger capital to carry it on, and the merchant can at the same time afford to trade for smaller profits, as his stock, which, when unemployed, brings him in an interest from the government, serves him also as money when he has a call for it in his commercial operations.

Secondly. Agriculture and manufactures are also promoted by it: For the like reason, that more capital can be commanded to be employed in both, and because the merchant, whose enterprise in foreign trade gives to them activity and extension, has greater means for enterprise.

Thirdly. The interest of money will be lowered by it, for this is always in a ratio to the quantity of money and to the quickness of circulation. This circumstance will enable both the public and individuals to borrow on easier and cheaper terms.

And from the combination of these effects, additional aids will be furnished to labor, to industry, and to arts of every kind.

But these good effects of a public debt are only to be looked for when, by being well funded, it has acquired an *adequate* and *stable* value. Till then, it has rather a contrary tendency. The fluctuation and insecurity incident to it in an unfunded state render it a mere commodity, and a precarious one. As such, being only an object of occasional and particular speculation, all the money applied to it is so much diverted from the more useful channels of circulation, for which the thing itself affords no substitute: So that, in fact, one serious inconvenience of an unfunded debt is that it contributes to the scarcity of money.

This distinction, which has been little if at all attended to, is of the greatest moment. It involves a question immediately interesting to every part of the community, which is no other than this—Whether the public debt, by a provision for it on true principles, shall be rendered a *substitute* for money; or whether, by being left as it is, or by being provided for in such a manner as will wound those principles and destroy confidence, it shall be suffered to continue as it is, a pernicious drain of our cash from the channels of productive industry.

The effect which the funding of the public debt, on right principles, would have upon landed property is one of the circumstances attending such an arrangement which has been least adverted to, though it deserves the most particular attention. The present depreciated state of that species of property is a serious calamity. The value of cultivated lands, in most of the states, has fallen since the revolution from 25 to 50 percent. In those farthest south the decrease is still more considerable. Indeed, if the representations continually received from that quarter may be credited, lands there will command no price which may not be deemed an almost total sacrifice.

This decrease in the value of lands ought, in a great measure, to be attributed to the scarcity of money. Consequently, whatever produces an augmentation

of the monied capital of the country must have a proportional effect in raising that value. The beneficial tendency of a funded debt, in this respect, has been manifested by the most decisive experience in Great Britain.

The proprietors of lands would not only feel the benefit of this increase in the value of their property, and of a more prompt and better sale, when they had occasion to sell, but the necessity of selling would be, itself, greatly diminished. As the same cause would contribute to the facility of loans, there is reason to believe that such of them as are indebted would be able through that resource to satisfy their more urgent creditors.

It ought not, however, to be expected that the advantages, described as likely to result from funding the public debt, would be instantaneous. It might require some time to bring the value of stock to its natural level and to attach to it that fixed confidence which is necessary to its quality as money. Yet the late rapid rise of the public securities encourages an expectation that the progress of stock to the desirable point will be much more expeditious than could have been foreseen. And as in the meantime it will be increasing in value, there is room to conclude that it will, from the outset, answer many of the purposes in contemplation. Particularly it seems to be probable that from creditors, who are not themselves necessitous, it will early meet with a ready reception in payment of debts at its current price.

Having now taken a concise view of the inducements to a proper provision for the public debt, the next enquiry which presents itself is, what ought to be the nature of such a provision? This requires some preliminary discussions.

It is agreed on all hands that that part of the debt which has been contracted abroad, and is denominated the foreign debt, ought to be provided for according to the precise terms of the contracts relating to it. The discussions which can arise, therefore, will have reference essentially to the domestic part of it, or to that which has been contracted at home. It is to be regretted that there is not the same unanimity of sentiment on this part as on the other.

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

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

The secretary, after the most mature reflection on the force of this argument, is induced to reject the doctrine it contains as equally unjust and impolitic, as highly injurious, even to the original holders of public securities, as ruinous to public credit.

It is inconsistent with justice, because in the first place, it is a breach of contract, in violation of the rights of a fair purchaser.

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

Every buyer therefore stands exactly in the place of the seller, has the same right with him to the identical sum expressed in the security, and having acquired that right by fair purchase, and in conformity to the original *agreement* and *intention* of the government, his claim cannot be disputed without manifest injustice.

That he is to be considered as a fair purchaser results from this: Whatever necessity the seller may have been under was occasioned by the government in not making a proper provision for its debts. The buyer had no agency in it and therefore ought not to suffer. He is not even chargeable with having taken an undue advantage. He paid what the commodity was worth in the market, and took the risks of reimbursement upon himself. He of course gave a fair equivalent and ought to reap the benefit of his hazard, a hazard which was far from inconsiderable, and which, perhaps, turned on little less than a revolution in government.

That the case of those who parted with their securities from necessity is a hard one cannot be denied. But whatever complaint of injury or claim of redress they may have respects the government solely. They have not only nothing to object to the persons who relieved their necessities, by giving them the current price of their property, but they are even under an implied condition to contribute to the reimbursement of those persons. They knew that by the terms of the contract with themselves the public were bound to pay to those to whom they should convey their title the sums stipulated to be paid to them and that as citizens of the United States they were to bear their proportion of the contribution for that purpose. This, by the act of assignment, they tacitly engage to do; and if they had an option, they could not, with integrity or good faith, refuse to do it without the consent of those to whom they sold.

But though many of the original holders sold from necessity, it does not follow that this was the case with all of them. It may well be supposed that some of them did it either through want of confidence in an eventual provision, or from the allurements of some profitable speculation. How shall these different classes be discriminated from each other? How shall it be ascertained in any case that the money which the original holder obtained for his security was not more beneficial to him than if he had held it to the present time, to avail himself of the provision which shall be made? How shall it be known whether if the purchaser

had employed his money in some other way he would not be in a better situation than by having applied it in the purchase of securities, though he should now receive their full amount? And if neither of these things can be known, how shall it be determined whether a discrimination, independent of the breach of contract, would not do a real injury to purchasers, and if it included a compensation to the primitive proprietors would not give them an advantage to which they had no equitable pretension?

It may well be imagined, also, that there are not wanting instances in which individuals, urged by a present necessity, parted with the securities received by them from the public, and shortly after replaced them with others, as an indemnity for their first loss. Shall they be deprived of the indemnity which they have endeavored to secure by so provident an arrangement?

Questions of this sort, on a close inspection, multiply themselves without end, and demonstrate the injustice of a discrimination, even on the most subtle calculations of equity, abstracted from the obligation of contract.

The difficulties too of regulating the details of a plan for that purpose, which would have even the semblance of equity, would be found immense. It may well be doubted whether they would not be insurmountable, and replete with such absurd, as well as inequitable consequences, as to disgust even the proposers of the measure.

As a specimen of its capricious operation, it will be sufficient to notice the effect it would have upon two persons who may be supposed two years ago to have purchased, each, securities at three shillings in the pound, and one of them to retain those bought by him till the discrimination should take place, the other to have parted with those bought by him within a month past, at nine shillings. The former, who had had most confidence in the government, would in this case only receive at the rate of three shillings and the interest; while the latter, who had had less confidence, would receive *for what cost him the same money* at the rate of nine shillings, and his representative, *standing in his place*, would be entitled to a like rate.

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

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

The precedent of an invasion of this fundamental principle would of course tend to deprive the community of an advantage with which no temporary saving could bear the least comparison.

And it will as readily be perceived that the same cause would operate a diminution of the value of stock in the hands of the first as well as of every other holder. The price which any man who should incline to purchase would be willing to give for it would be in a compound ratio to the immediate profit it afforded, and to the chance of the continuance of his profit. If there was supposed to be any hazard of the latter, the risk would be taken into the calculation, and either there would be no purchase at all, or it would be at a proportionably less price.

For this diminution of the value of stock every person who should be about to lend to the government would demand a compensation, and would add to the actual difference, between the nominal and the market value, and equivalent for the chance of greater decrease, which, in a precarious state of public credit, is always to be taken into the account.

Every compensation of this sort, it is evident, would be an absolute loss to the government.

In the preceding discussion of the impolicy of a discrimination, the injurious tendency of it to those who continue to be the holders of the securities they received from the government has been explained. Nothing need be added on this head except that this is an additional and interesting light in which the injustice of the measure may be seen. It would not only divest present proprietors by purchase of the rights they had acquired under the sanction of public faith, but it would depreciate the property of the remaining original holders.

It is equally unnecessary to add anything to what has been already said to demonstrate the fatal influence which the principle of discrimination would have on the public credit.

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

In exploding thus fully the principle of discrimination, the secretary is happy in reflecting that he is the only advocate of what has been already sanctioned by the formal and express authority of the government of the Union, in these emphatic terms—“The remaining class of creditors (say Congress in their circular address to the states, of the 26th of April 1783) is composed partly of such of our fellow citizens as originally lent to the public the use of their funds, or have since manifested *most confidence* in their country, by receiving transfers from the lenders, and partly of those whose property has been either advanced or assumed for the public service. To *discriminate* the merits of these several descriptions of creditors would be a task equally unnecessary and invidious. If

the voice of humanity plead more loudly in favor of some than of others, the voice of policy, no less than of justice, pleads in favor of all. A wise nation will never permit those who relieve the wants of their country, or who *rely most* on its *faith*, its *firmness*, and its *resources*, when either of them is distrusted, to suffer by the event.”

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

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

It would, in the opinion of the secretary, contribute, in an eminent degree, to an orderly, stable, and satisfactory arrangement of the national finances.

Admitting, as ought to be the case, that a provision must be made in some way or other, for the entire debt, it will follow that no greater revenues will be required, whether that provision be made wholly by the United States, or partly by them, and partly by the states separately.

The principal question then must be, whether such a provision cannot be more conveniently and effectually made by one general plan issuing from one authority than by different plans originating in different authorities.

In the first case there can be no competition for resources; in the last, there must be such a competition. The consequences of this, without the greatest caution on both sides, might be interfering regulations, and thence collision and confusion. Particular branches of industry might also be oppressed by it. The most productive objects of revenue are not numerous. Either these must be wholly engrossed by one side, which might lessen the efficacy of the provisions by the other, or both must have recourse to the same objects in different modes, which might occasion an accumulation upon them beyond what they could properly bear. If this should not happen, the caution requisite to avoiding it would prevent the revenue’s deriving the full benefit of each object. The danger of interference and of excess would be apt to impose restraints very unfriendly to the complete command of those resources which are the most convenient, and to compel the having recourse to others, less eligible in themselves, and less agreeable to the community.

The difficulty of an effectual command of the public resources, in case of separate provisions for the debt, may be seen in another and perhaps more striking light. It would naturally happen that different states, from local considerations, would in some instances have recourse to different objects, in others to the same objects, in different degrees, for procuring the funds of which they stood in need. It is easy to conceive how this diversity would affect the aggregate revenue of the country. By the supposition, articles which yielded a full supply in some states would yield nothing, or an insufficient product, in others. And hence the public revenue would not derive the full benefit of those

articles from state regulations. Neither could the deficiencies be made good by those of the union. It is a provision of the national Constitution that “all duties, imposts and excises, shall be uniform throughout the United States.” And as the general government would be under a necessity from motives of policy of paying regard to the duty which may have been previously imposed upon any article, though but in a single state, it would be constrained either to refrain wholly from any further imposition upon such article where it had been already rated as high as was proper, or to confine itself to the difference between the existing rate and what the article would reasonably bear. Thus the preoccupancy of an article by a single state would tend to arrest or abridge the impositions of the union on that article. And as it is supposable that a great variety of articles might be placed in this situation by dissimilar arrangements of the particular states, it is evident that the aggregate revenue of the country would be likely to be very materially contracted by the plan of separate provisions.

If all the public creditors receive their dues from one source, distributed with an equal hand, their interest will be the same. And having the same interests, they will unite in the support of the fiscal arrangements of the government: As these, too, can be made with more convenience where there is no competition: These circumstances combined will insure to the revenue laws a more ready and more satisfactory execution.

If on the contrary there are distinct provisions, there will be distinct interests, drawing different ways. That union and concert of views among the creditors, which in every government is of great importance to their security and to that of public credit, will not only not exist, but will be likely to give place to mutual jealousy and opposition. And from this cause the operation of the systems which may be adopted, both by the particular states and by the union, with relation to their respective debts, will be in danger of being counteracted.

There are several reasons which render it probable that the situation of the state creditors would be worse than that of the creditors of the union, if there be not a national assumption of the state debts. Of these it will be sufficient to mention two; one, that a principal branch of revenue is exclusively vested in the union; the other, that a state must always be checked in the imposition of taxes on articles of consumption from the want of power to extend the same regulation to the other states, and from the tendency of partial duties to injure its industry and commerce. Should the state creditors stand upon a less eligible footing than the others it is unnatural to expect they would see with pleasure a provision for them. The influence which their dissatisfaction might have could not but operate injuriously, both for the creditors and the credit of the United States.

Hence it is even the interest of the creditors of the union that those of the individual states should be comprehended in a general provision. Any attempt to secure to the former either exclusive or peculiar advantages would materially hazard their interests.

Neither would it be just that one class of the public creditors should be more favored than the other. The objects for which both descriptions of the debt were