

**Moral Reasoning 74**  
The Theory and Practice of  
Republican Government

**Lecture 23**  
Hamiltonian and Jeffersonian Visions II

Eric Lomazoff  
Harvard University  
April 23, 2009

---

---

---

---

---

---

---

---

**Announcements**

1. Third paper topics posted on course website; essays due Monday, May 4 by 8 PM
2. See Prof. Carpenter's response to "The Boredomization of Politics" in today's *Crimson*: "The Other Side of Academic Politics" (MR-74 mentioned)

---

---

---

---


---

---

---

---

**The "Respected Republic"**



**"To promote the respectability of the American name"**  
Report on Public Credit, p. 534

- (1) Looking to opinion of America abroad
- (2) Looking *also* to the reputation of the national government at home

---

---

---

---

---

---

---

---

**Why does respectability matter?**

Answer: We have poor “public credit”



---

---

---

---

---

---

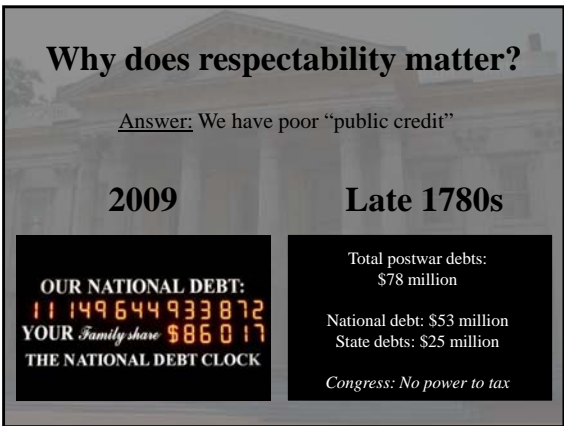
---

---

**Why does respectability matter?**

Answer: We have poor “public credit”

2009	Late 1780s
<b>OUR NATIONAL DEBT:</b> 11 149 644 933 872 <b>YOUR Family share \$86 017</b> <b>THE NATIONAL DEBT CLOCK</b>	Total postwar debts: \$78 million  National debt: \$53 million State debts: \$25 million  <i>Congress: No power to tax</i>



---

---

---

---

---


---

---

---

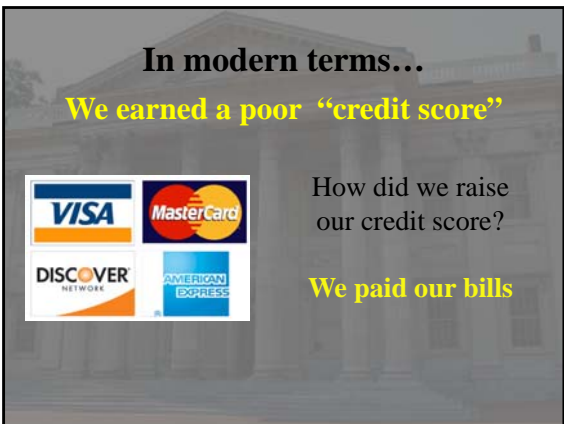
**In modern terms...**

**We earned a poor “credit score”**



How did we raise our credit score?

**We paid our bills**



---

---

---

---

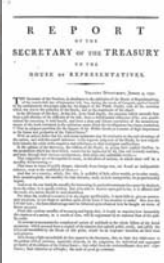
---

---

---

---

### Hamilton: Let's raise our credit score



1. Congress now has power to tax (i.e., revenue for debt payments)
2. We should combine national and state debts into one mass
3. We must pay the **interest** on that debt
4. We should also establish a schedule to pay down the **principal** (amortization)

---

---

---

---

---

---

---

---

### What about people who sold their bonds at a deep discount, thinking government would never pay?



Congress gives soldier **John Doe** a \$100 IOU for 1776-1783 war service

1780s: Congress has no taxing power, cannot pay \$100 principal or 6% interest

1786: Doe sells \$100 bond to speculator for \$30 in cash

1790: Hamilton's plan expected to raise \$100 bond to face value

---

---

---

---

---

---

---

---

### The Question of "Discrimination"

"Whether a discrimination ought not to be made between original holders of the public securities, and present possessors by purchase"

*Report on Public Credit, p. 537*



Madison

1. Government *must* pay these debts, all agree
2. We *cannot* pay face value to both parties (public costs > public benefits)
3. Current holders should get *market value* at time bill passes (e.g., \$90 on \$100 IOU, for \$60 profit)
4. Original holders will get residue between market value and face value (e.g., \$10, or \$40 total)
5. Will not be "perfect justice" for either side

---

---

---

---

---


---

---

---

### The Question of “Discrimination”

“Whether a discrimination ought not to be made between original holders of the public securities, and present possessors by purchase”  
*Report on Public Credit, p. 537*



Hamilton

1. It would be “unjust and impolitic” to pay *both* parties
2. Breach of contract to pay current holders anything less than face value
3. Securities are and must be transferable
4. Adjusting terms like this will adversely affect our ability to borrow in the future

---

---

---

---

---

---

---

---

### What does justice demand here?



---

---

---

---

---


---

---

---

### Hamilton: Let’s raise our credit score **more**

*Report on the National Bank (1790)*



1. Hamilton’s advice on “such *further* provision as may...be necessary for establishing the public Credit”
2. Proposal: \$10 million capital, 20% government and 80% private ownership
3. Private shares in Bank (\$8 million):
  - a. \$2 million in gold and silver
  - b. \$6 million in securities/bonds

---

---

---

---


---

---

---

---

### How does creating a *bank* help promote public credit?



If bonds are used to buy dividend-earning stock, the value of those bonds will rise

+

If government borrows from a bank and then repays, it demonstrates public creditworthiness

=

**DEBT** becomes a tool of national prosperity

---

---

---

---


---

---

---

---

### Three Jeffersonian Critiques of Hamilton's Program



1. "Grandparents' Wisdom": Virtuous people simply do not go into debt

2. Distracting allure of wealth:

"A spirit of gambling in the [bonds] has lately seized too many of our citizens" (July 1791)

"[R]age for getting rich quick in a day" (August 1791)

3. Concerns about a monied aristocracy forming:

Program reveals "by whom the people of the U.S. are to be governed" (Madison, July 1791)

---

---

---

---

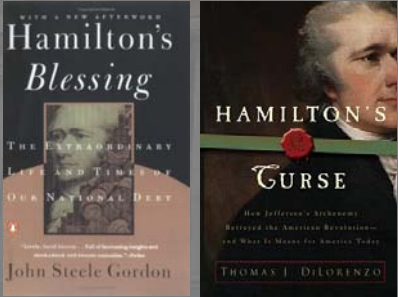
---

---

---

---

### Public Debt: A Blessing or a Curse?



**HAMILTON'S BLESSING**  
THE EXTRAORDINARY LIFE AND TIME OF OUR NATIONAL DEBT  
John Steele Gordon

**HAMILTON'S CURSE**  
How Jefferson's Arch-enemy Betrayed the Nation's Revolution—and What to Mean for America Today  
THOMAS I. DILORENZO

---

---

---

---

---

---

---

---