

“BLESSING OR CURSE ?”

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I

Ancient myth tells us that one day the great Olympian - Zeus – started 2 eagles in flight from opposite ends of the world. And the legend is that the place where the eagles met became the spiritual center of the universe.

II

The early morning sky was red. It was early July. The year 1790. The place New York City. A tall handsome southerner –in the prime of life – his red hair *flying* in the warm morning breeze, was ascending the steps of the home of the President – Geo Washington. As Thomas Jefferson mounted the steps, he heard his name called. He turned and saw a determined, red haired gentleman *swooping* in a hurry towards him. As Alexander Hamilton reached up, he grabbed Jefferson’s wrist and he told him that the Union was in danger and that it was up to Jefferson to use his influence to save the Republic.

III

An enduring Union was not yet in place. Sectional interests and state jealousies were deadlocking the new Congress. The New England states spoke openly of secession. The new government was without revenue, the lifeblood of governmental power. It was defaulting on its obligations. It had no credit. The experience under the Articles of Confederation and the Continental Congresses had taught that generation that no government could endure without the ability to borrow. Without credit their government would atrophy and live a demeaning hand to mouth existence. The fate of the new government was precarious.

Hamilton understood that without the active and constant support of the people the new design of government embodied in the Constitution could not survive. But would the people prefer their state governments? Hamilton foresaw that the states would constantly be promoting their internal interests adverse to those of the whole. Man's nature being such that "men love power", the states would constantly try to regain the powers they had delegated to the new national government. They would be unlikely to ever part with more power, and they would try to undermine giving effect to what they had parted with in this new Constitution. Hamilton was inclined to believe that the states would be an overmatch for the general government.

This had been his concern when he authored The Federalist Papers with Madison and Jay. The concept of a “federal” form of government was propaganda. In our current jargon, the word “federal” was “wordsmithing.” It was a sales tool designed to camouflage the real intent of the new Constitution which was to wrest great amount of powers away from the states and render them subordinate to the new “ national” government

The Constitutional Convention in Philadelphia in 1787 had been called by the states because their experience dictated that without a new central form of government, one with vigorous powers, the Republic would and could not survive. Though they had great loyalties to their states, a national form of government seemed a practical necessity. As Virginian Edmund Randolph declared at the Constitutional Convention,

“when the salvation of the Republic was at stake, it would be treason to our trust not to propose what we found necessary.”

Hamilton believed that if the new national government were to survive, bold action was needed at once to consolidate the power of the national government. He saw his opportunity to achieve this end in the financial crisis which was besetting the country. Debt was the key to success ! He saw the nation’s debt as the mechanism which could tie the allegiance and vest the interests of the more influential elements of American society – the businessman, professionals, wealthy merchants and

landed gentry – to the new national government and away from the states. Debt was to be the nation's blessing.

His financial goal was simple. It was set forth in his "Report on Public Credit". A plan was needed to service the heavy debt which the central and state governments had incurred to finance the War for Independence. Without confidence in its credit, the new government would be ineffective and fail. The new nation's economy could not grow and it would not become economically self sufficient without dependable credit lines. In order to induce lenders – both foreign and domestic – to buy the securities of the United States government, it was necessary to convince them that their money would be secure and that interest would be timely paid. But before new credit could be restored it first had to make provision for the repayment of the debts of the old government. This was classical finance.

We can today little appreciate the enormity of the financial crisis. The United States had no funds to keep its diplomats abroad. It could not pay ransoms being demanded by the Barbary coast pirates. It was unable to make interest payments as they came due on its foreign debt. And so on and on.

Hamilton used the British financial system as his model. Since the creation of the Bank of England it had never defaulted on an obligation and

it had never reduced the rate of interest on its securities. In an Englishman's mind the credit of their government was an article of faith – honesty to creditors was the best policy. By putting its house in order Hamilton believed the new nation would have the credit needed to develop its manufacturing base. Without such a base, the United States would be relegated to a backwoods status, totally dependent on European manufactures. The nation's resources would be drained by the European colonial powers. The "independence" which had been won at so precious a price, would be of but nominal value. Based on these principles, Hamilton proposed that the federal government assume all of the states' debts related to the war and that it pay all war debt- both federal and state – in full – as those debts stood in 1790. By paying the states' and national government's debts in full, Hamilton intended to lay the foundation for obtaining future loans at favorable rates.

But Hamilton's plan was as much political as it was financial. This is where the plot thickens. He felt that the masses were so devoted to their states that they had little or affection or loyalty to spare for the national government. By assuming the debts of the states he saw that he could undermine state sovereignty. By tying the financial interests of the men of wealth throughout the nation, the most influential men, to the national

government he would reduce their ties to states. The self interest of this group would cause them to prefer the interests of the national government to that of the states. They would use their influence to temper any movement of the masses' for a return of power to the states . Secondly, if the national government took upon itself the responsibility to pay all of the debts, it by necessity must have all of the revenues. By possessing all of the revenues it would possess the essential power of government. Deprived of these supports he felt the influence of the states would wane. His political vision was true, unparalleled genius.

His plan, however, became deadlocked in the new Congress. As it turned out, over 4/5ths of the national debt and most of the states' debt was owed to persons living in the North. Speculators, mostly New Englanders, had been buying up government securities from the original holders –mostly soldiers who had received notes in lieu of wages and who had sold their notes because of financial necessity -at huge discounts. Southerners saw the Plan as weakening the position of the South and strengthening that of the North. They felt that the domestic debt was owned by the few but that it would be repaid by the masses . They saw it as favoring the interests of the few, the monied classes, at the expense of and on the backs of the common men. Many members of Congress therefore thought the objective should be

to pay the domestic debt at a discount, as cheaply as possible, and not at face value, Hamilton responded that if such a repudiation of the debt occurred, the nation's credit would be undermined. Future creditors would not trust the government. with their money.

Also, as might be expected, the states with the smallest debts – Md, Ga, and N Car – opposed the plan. Those with the largest debt, supported it – N Y; N J; Mass; S Car. and every New Eng. state. Pa was divided on the subject. Virginia, though it had a large debt, vehemently opposed the plan because it believed that in reality if the amount owed to it by the central government were netted against its war debt, it would be a net creditor and not a debtor. If that were so, then it would gain nothing by Hamilton's plan.

These divisions stalemated Hamilton's plan. In exasperation, fearful that the sectional divisions would rip apart the fragile Union, fearful that the war debt would be repudiated, destroying confidence in the new nation's credit and crippling the national government's effectiveness and power, he reached out to Jefferson that morning in July.

IV

The day after Hamilton had grabbed Jefferson's wrist on the steps of President Washington's home, he met with Jefferson, and James Madison (then Leader of the House of Representatives). A deal was reached. In

exchange for locating the capital in Philadelphia for 10 years to be followed by its permanent removal to the Potomac, Jefferson and Madison pledged to change the votes of several southern congressmen so as to support Hamilton's plan. Hamilton pledged to gain the support of the hold out Pennsylvania delegation – i.e., that was the purpose of including Philadelphia in the mix. Hamilton, Jefferson, and Madison would all be proud to be remembered as practical realists. They realized that politics was largely a matter of give and take.

In a matter of days, with a few fine tuning compromises, Hamilton's plan was enacted by a narrow margin. It is of note that Madison arranged to have a fellow Virginia congressman vote for the plan so that it could pass without his having to vote for the plan ! Political expediency was alive and well from day one of our Nation. I challenge you with this thought – would it have been better for Madison to publicly support and vote for Hamilton's plan and lose both his seat in Congress as well as his position as Leader of the House of Representatives ?

During the Constitutional Convention of 1787 and especially in their joint effort to promote passage of the new Constitution – i.e., The Federalist Papers - Madison and Hamilton were firm allies. They both believed that it was essential that a strong, vigorous, national government be put in place

and that the power of the states be subordinate. Their firsthand experience under the Continental Congresses and the Articles of Confederation had proven the necessity of a national government.

Almost immediately, Jefferson regretted being part of this deal. He felt that he had given more than he had received. He felt used and taken advantage of. It was at this moment that an irrevocable wedge developed between he and Hamilton. The wedge was of Jefferson's making. His psyche was the dialectical opposite of Hamilton's.

V

Jefferson had a romantic view of man. He believed that man was ,
“...a rational animal, endowed by nature with rights, and with an innate sense of justice.” He had a boundless faith in education. Man had only to be apprised of the truth to act wisely, moderately, and justly. Jefferson was inclined to trust the good sense of an educated people. The rectitude of one's ideas and principles would carry the day with such a people.

This was nonsense to Hamilton. He was no romantic when it came to human nature. Man's nature was eternally flawed. Avarice, ambition, self interest, vice were the inescapable realities of man's nature. Hamilton knew how to motivate by appealing to self interest and greed. Hamilton believed that human nature being what it was, the road to political office would be by,

“flattering the prejudices of the people and exciting their jealousies and apprehensions, to throw affairs into confusion.” Because of the emotional, unthinking mob outbursts of the people, government needed sufficient power to maintain order, stability and Union. In contrast Jefferson felt that occasional “mob outbursts” were normal and “natural effervesences” which did not threaten either order or the Union..

Debt was an anathema to Jefferson. It was a curse. Debt was used by the monied classes, the wolves, to fleece the many. Debt represented the fact that wealth and capital were nested in the hands of the few. Instead Jefferson felt that the means of capital should be distributed widely so that each man could work for himself with his own hand and not be beholden to anyone. He favored “home manufactures” not factory made products. In America Jefferson saw John Locke’s primal state of nature, in which every man, living by his own labor and secure in his ownership of his own land, owing nothing to others, would achieve a state of natural equality.

But Hamilton knew how to motivate based on debt. He believed that personal debt caused men to work harder to try to get out of debt. This made them more productive. He intended to build a great nation based on these truisms. The absence of debt led to lethargy and laziness, to a backwards, listless nation. Jefferson rightly saw Hamilton’s plan as promoting a

concentration of wealth rather than its diffusion. This was an assault on his concept of the independent, small farmer. He felt Hamilton's plan would impose an unending sea of debt, that it was an immoral mortgage on future generations.

To Jefferson the thought of the virtuous American farmer exchanging his farm for a factory or his wide open vistas for the vices and slums of large cities was the equivalent of being banished, East of Eden, to the land of Nod. Agriculture not industrialization produced the kind of citizens best qualified to meet the exacting demands of Republican government. He believed that organized business – the few - always attempted to use government as an instrument for extracting the honestly earned monies of the masses –the farmers. (Notice that I said “monies” and not dollars. It would not be until Hamilton proposed a National Bank and system of specie – which proposals Jefferson opposed - that dollars became generally available to the common man.)

Jefferson distrusted centralized governmental power. He believed that individual liberty was under constant threat of being eroded by increases in governmental power. He became the champion of minimal government. Government should be close to the people, simple, uncoercive, and entirely responsible to the constituency it served. He wanted more checks and

balances. The states themselves would act as checks, they would guard against the central government going beyond its limits. The central government was to be one of narrowly limited powers. The national government's Constitutional powers were to be interpreted narrowly, not broadly as Hamilton contended. He also didn't trust Hamilton's followers in Congress. Checks and balances were needed, thus, to protect the people from their own elected representatives.

I believe that during this era Jefferson was so intent on circumscribing the powers of the national government that he ignored its potentialities as a constructive force for the public welfare. This had been Hamilton's concept and goal at all times. Indeed the new Constitution, at its core, was an attempt to render the new republican form of government competent to its purposes. One of the most significant of its purposes was to strengthen commerce. Hamilton was prescient in his insight that Republicans like Jefferson seemed to have a peculiar weakness for killing the thing they loved. He wanted to protect the new government from its "well wishers." During his own Presidency and thereafter, Jefferson's position shifted more towards Hamilton's. After all, in his essence, he was a practical man. His Louisiana Purchase which stretched the use of the national government's powers to its farthest horizons was a case in point.

Jefferson believed that Hamilton's appeal to the monied classes and his attempts to strengthen the Executive were an attempt to subvert Republicanism and to establish a monarchy. If Washington were crowned King, Hamilton could write all the scripts. On this front Jefferson was dead wrong in assuming that Washington was the dupe of Hamilton or that Washington would ever allow this to happen. What Jefferson mistook as a developing monarchy was in fact the beginnings of the development of an energetic chief Executive and of a flourishing capitalism. But with the memory of the British King and War for Independence so recent, Jefferson's use of the "scare" word "monarchy" had great political appeal and he knew it.

During this period Hamilton, I believe, was able to detach and be keenly objective about the differences between himself and Jefferson. However after the deal to move the capital to the Potomac, Jefferson, while recognizing Hamilton's extraordinary abilities, was never able to view Hamilton or his ideas impartially. If an idea had traces of Hamilton's footprints, Jefferson reflexively opposed it. Hamilton was his Lex Luther. It is ironic that in the Presidential election of 1800, when the electoral votes became tied for Jefferson and his Vice Presidential candidate, Aaron Burr, that it was Hamilton who used his influence to persuade members of his

Federalist party to break the tie and elect Jefferson President. (on the 36th Congressional ballot) Hamilton's decision to throw his influence behind Jefferson ultimately culminated in his death at the hand of Burr in "an affair of honor" – a duel - in 1804, while Burr was in office as Jefferson's Vice President.

VI

I submit that in the hurly burly of today's politics, as Yogi Berra said, "It's deja vu all over again." If you examine most of today's political issues, you will see that the debates in their essence are but permutations and combinations of the debate that began between Hamilton and Jefferson. If we understand this reality, we can better sort out and give context to the political debates of our own time. Yogi also said "If you don't know where you're going, you'll be lost when you get there."

While I could go on and on with examples –let's take one case study. You be the judge. Is debt a Blessing or a Curse ? Let's look at Ronald Reagan's 1981 tax cut. I well remember sitting at Reagan's inaugural when he proclaimed that the reason the American people were on their knees was because the federal government. was on their backs. If you but took government. 's hand out of the common man's- that intrinsically virtuous

fellow's- pocket, then there would be no limit to how far he and the nation would go economically.

Reagan~~s~~ proposed three consecutive years of tax cuts and publicly sold the tax cuts on the basis that they would stimulate the economy to such a great degree that real tax collections would go up enough to balance the budget in short order. Behind the scenes Reagan's budget director and others were advising that the result of the proposed tax cuts would be huge increases in the size of the deficits. In fact the size of the annual deficit tripled in just over 1 years time. Indeed the size of the entire national debt that had been accumulating since the 1790's was doubled in just 4 years time. An astonishing feat. Sounds like the never ending debt and mortgaging of future generations that that Jefferson had feared and abhorred.

Let's go even deeper. Why would intelligent men want to throw our nation's debt to such new heights ? Hamilton viewed debt when properly managed as strengthening the powers and energy of the national government. But what if you did not want to strengthen the national government, but instead your political agenda was to weaken and limit it ? Would you increase debt and at the same time take away the revenue stream needed not only to service the debt, but more importantly perhaps, needed to fund the government's existing programs and operations ? Managing debt in

this way would immediately kill all ability of the national government to expand its influence by undertaking any new programs. It would cause existing programs of necessity to be cut back. It would focus the political debate solely on the issue of cutting government's size and programs. This would enable the "conservatives" to dominate the nation's political agenda and extend the Reagan agenda well past Reagan's Presidency. Their dominance of the nation's political agenda would likely only end when the wild Reagan deficits were tamed and the budget balanced. When that occurred the national government would have a revenue stream such that it could again begin to expand its ambit to meet the likely pent up demand for government assistance. Only then would it be possible for the "liberals" to retake control of the political agenda.

Also, if the national government no longer had a revenue stream that enabled it to fund its programs, wouldn't that build political pressure to begin returning programs to the states and cities? Politically couldn't you use huge deficits to begin a rebalancing of power between the states and the national government? Any of this sound familiar?

But what if the states did not have the ability to raise the revenue necessary to continue these programs? Could your real political agenda be perhaps to kill all government involvement in such programs?

VI

I hope this discussion of Hamilton's political agenda to use the nation's debt as a means to consolidate the national government's power and of Jefferson's counterpoint will enable you to better see and appreciate that today's political melodies are but antiphonal variations of an older tune.

As Prime Minister in the midst of WW II, Winston Churchill was asked to give a eulogy at the funeral of Neville Chamberlain. He said:

“At the lynchgate we may all pass our conduct and our judgments under a searching review. It is not given to human beings, happily for them, for otherwise life would be intolerable, to foresee or predict to any large extent the unfolding course of events. In one phase men seem to be right, in another they seem to have been wrong. Then again, a few years later, when the perspective of time has lengthened, all stands in a different setting. There is a new proportion. There is another set of values.”

When today we speak of the past and try to interpret the actions and motives of another generation, our lamp casts only a flickering light. Perhaps it is when we read the poetry of an age, we come closest to rekindling its passions. Hamilton and Jefferson are our nation's poetry—they are our two eagles.