

# *Report on the Public Credit*

Alexander Hamilton



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## **OVERVIEW**

In January 1790, the secretary of the treasury, Alexander Hamilton, provided Congress with an argument for the assumption of debt by the federal government with no discrimination "between different classes of creditors."

**GUIDED READING** As you read, consider the following questions:

- What does the author claim would happen if the original debt the government owed was not paid?
  - What argument does Hamilton use to support the idea that there should be no discrimination between classes of creditors?
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**I**t 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. . . .

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—a 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. . . .

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. . . .

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. . . .

The result of the foregoing discussion is this: That there ought to be no discrimination between the original holders of the debt, and present possessors by purchase; that it is expedient there should be an assumption of the State debts by the Union; and that the arrears of interest should be provided for on an equal footing with the principal. . . .

The interesting problem now occurs: Is it in the power of the United States, consistently with those prudential considerations which ought not to be overlooked, to make a provision equal to the purpose of funding the whole debt, at the rates of interest which it now bears, in addition to the sum which will be necessary for the current service of the Government?

The Secretary will not say that such a provision would exceed the abilities of the country, but he is clearly of opinion that to make it would require the extension of taxation to a degree and to objects which the true interest of the public creditors forbids. It is, therefore, to be hoped, and even to be expected, that they will cheerfully concur in such modifications of their claims, on fair and equitable principles, as will facilitate to the Government an arrangement substantial, durable, and satisfactory to the community. The importance of the

last characteristic will strike every discerning mind. No plan, however flattering in appearance, to which it did not belong, could be truly entitled to confidence. . . .

Persuaded, as the Secretary is, that the proper funding of the present debt will render it a national blessing, yet he is so far from acceding to the position, in the latitude in which it is sometimes laid down, that "public debts are public benefits"—a position inviting to prodigality and liable to dangerous abuse—that he ardently wishes to see it incorporated as a fundamental maxim in the system of public credit of the United States, that the creation of debt should always be accompanied with the means of extinguishment.