

“A price would be set not only upon our friendship, but upon our neutrality”: Alexander Hamilton’s political economy and early American state-building

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America and the League of Armed Neutrality

Catherine II of Russia created the first League of Armed Neutrality (1780–83) during the War of American Independence (1775–83). Speculation about her intentions continues unabated. Those who think that Catherine had the civilising effects of commerce foremost on her mind point to her seemingly altruistic role in the War of Bavarian Succession, where she effectively embodied the ideal of an enlightened mediator and third-party arbitrator. Sceptics point out the moral, legal and political cover afforded by the League of Armed Neutrality to Catherine’s expansion of the Russian fleet, to further her commercial ambitions and her “Greek project”.¹ The War of American Independence is mentioned rarely and at best as a tangential event that allowed Catherine to weaken further the British position while retaining the appearance of a benevolent neutral state, intent on liberating commerce from the shackles of war. The profound connection between the United States and the League of Armed Neutrality remains unexplored.²

In spite of its short lifespan the League left an indelible mark through a series of diplomatic, military and commercial manoeuvres. It formalised and institutionalised a new principle of international relations among commercial states. It demonstrated

1 For informed speculation see Isabel De Madariaga *Britain, Russia, and the Armed Neutrality of 1780* (Yale University Press, 1962), pp. 71, 84, 95, 142, 152, 170, 374.

2 Although many sources came to light since its publication, W.P. Cresson’s *Francis Dana: A Puritan Diplomat at the Court of Catherine the Great* (New York, Lincoln Mac Veagh The Dial Press, 1930) remains a useful diplomatic history. See especially chapters 19 and 24. De Madariaga makes useful short references to the role of the US in the strategic calculations of Russia, France and Britain, including pp. 10, 14–5, 99, 106–10, 153, 223–4, 229, 245, 324, 331, 338. Similar brief references are made to Russia in American diplomacy by Samuel Flagg Bemis, *Jay’s Treaty: A Study in Commerce and Diplomacy* (2nd ed., Yale University Press, 1962), pp. 314, 344.

that unlike in previous times, when every act of trade could be plausibly construed by the trading partners' enemies as an act of war, by the end of the eighteenth century the discourse of commercial interests has become sophisticated enough in international relations to provide a just cause – or an effective pretext of one – for armed neutrality and a formal separation between commerce and war. For Machiavelli and Hobbes, commerce was not yet a defining theoretical construct. Starting with the seventeenth century it gradually became one, with increasing urgency as Spanish, Portuguese, British and Dutch colonial and commercial expansion showed just how much power and wealth was at stake in the right understanding of political economy in the new age.³

As Hume pointed out in the *Essay on the Balance of Power*, the concept of neutrality is as old as the history of international relations. During the seventeenth and eighteenth centuries European colonialism and the ideologies of Machiavellian jealousy of trade brought commerce into the military dimension of balance of power ideology.⁴ As commerce became an instrument of foreign policy, the freedom to trade was increasingly recognised as an integral part of modern sovereignty. Countries interested in unrestricted trade could rally around Catherine's declaration of the right to neutrality. Although the League failed to create an enduring check on Britain, it benefited Russia substantially. It enabled Catherine to enlarge the merchant fleet, expand trade in the Atlantic and the Mediterranean, and build up economic and military strength against Turkey and Sweden without having to take sides on the Western front.⁵ The terms of the Peace of Paris, which ended both the League and the American War of Independence, proved two hypotheses: first, that military and commercial calculations can be decoupled – trade can continue without having to join the ongoing wars – and that the prospect of long-term commercial benefits are insufficient motivation to refrain from military aggression in pursuit of immediate gains.⁶ Neutrality was shown to be a good thing, but viable only if armed.

It is as part of this story that the League of Armed Neutrality emerges as a rich but seldom appreciated context for the founding of the United States. The existence and accomplishments of the League underscored the *ex post facto* inference, and the political acts based thereon, that the link between modern commerce and international relations was a two-way one. One corollary of this was that if a balance of power were to hold, it had to be maintained both strategically and commercially.

3 For the best account of this process see István Hont, *Jealousy of Trade: International Competition and the Nation-State in Historical Perspective* (Cambridge MA: Harvard University Press, 2005).

4 One could argue that Hume was the first to formulate the commercial-military notion of the balance of power in a way that could inspire Catherine and Hamilton. Davenant's famous *Balance of Power* and *Balance of Trade* writings gave prominence to the idiom, but remained restricted to a Machiavellian warning against military over-reach, supplemented with a praise of commercial expansion and free trade efficiency. The 1713 Treaties of Utrecht, often regarded as a milestone in the intellectual and diplomatic history of the balance of power, also failed to clearly establish that there was a necessary and unbreakable connection between commercial and military arrangements.

5 De Madariaga, *Armed Neutrality*, chapter 7.

6 De Madariaga, *Armed Neutrality*, chapters 17 and 18.

To remain neutral in war a state had to be prudent in her commercial arrangements; conversely, the development and deployment of commercial policies could make or break a sovereign nation. Another corollary was that commercial decisions were not derivative but an integral part of modern sovereignty. It also showed that it would be naïve to rely on the civilising effect of commerce in the short run, i.e. unarmed neutrality is suicidal.

I make three claims in this article. The first is that Alexander Hamilton was one of the most original statesmen to understand that public debt is an integral part of modern sovereignty. The second is that Hamilton formulated his notion of sovereignty under the combined influence of Hume, Smith, and the League of Armed Neutrality. The third claim, which follows from the other two, is that Hamilton has long been misunderstood as a protectionist, and that the so-called American School of Economics and the related “National System” are not Hamiltonian. Ultimately, I suggest that closer attention to the details of connections within Hamilton’s design of national institutions, and to their international dimension, reveals that he intended America not to be protectionist but to partake of the diplomatic and economic benefits of armed neutrality.

The League alerted the perceptive Hamilton to the conditions in which the emerging United States could attain sovereignty, comprising both military and commercial independence. Neutrality played a key role in Hamilton’s writings, including polemical pamphlets like the *Full Vindication* (1774), the *Continentalist* (1781–2), the *Federalist Papers* of 1787–8, the Pacificus writings against Madison occasioned by Washington’s *Proclamation of Neutrality* in 1793, and in his seminal reports to Congress as Secretary of the Treasury from 1789 to 1795. To show the direct and fundamental connection between the League of Armed Neutrality and Hamilton’s institutional designs these texts will be examined briefly and in chronological order, in the context of his career.

School, battle and court: 1774–86

Hamilton’s interest in neutrality was already evident before the League. In his first pamphlet, *A Full Vindication of the Measures of Congress* (1774), in which he defended the First Continental Congress’ convocation and its imposition of trade embargo on British goods, the nineteen-year-old Hamilton gave a remarkably far-sighted treatment of the dilemma posed to the Colonies by the European wars. A student at King’s College (later Columbia University) at the time, the *Vindication* shows that in addition to thoroughly absorbing his reading of Machiavelli, Grotius, Hobbes, Pufendorf, Vattel, Locke, Hume, Steuart and Postlethwayt, Hamilton ably and originally combined political, legal and economic arguments. Already in 1774 neutrality was the issue that Hamilton identified as the most incisive to the Gordian knot of commerce, geopolitics and international law. Yet his notion of neutrality was still very broad. He saw neutrality as a force that operated on multiple levels, from pre-political civil society – where natural rights and duties exist, and neutrality

by the observer of an injury constitutes an injury itself – through sovereign states' internal affairs, to the inner workings of the British Empire.⁷

Much of Hamilton's early political capital came from his post as Washington's aide-de-camp, speechwriter, and closest advisor in 1777–81. He was also Washington's French interpreter and amanuensis, and supported the French both personally and officially. He formed close friendships with French sympathisers, most famously with Lafayette. After the American-French victory at Yorktown in 1781 Hamilton resigned his commission and set up a legal practice in New York, specialising in maritime cases. He also defended Loyalists from state transgressions against the 1783 Treaty of Paris, which officially ended the American Revolutionary War. Resentment against Loyalists' person and property escalated as American soldiers began to return home.⁸ Chernow explains,

The treatment of the Tories sensitized Hamilton to the extraordinary danger of allowing state laws to supersede national treaties, making manifest the need for a Constitution that would be supreme law of the land. For him, the vendetta against New York's Tories threatened the whole political, economic, and constitutional edifice that he visualized for America.⁹

Indeed, the concern that keeps recurring in Hamilton's papers from this period is establishing the supremacy of federal powers, including the power to make international treaties, over overzealous state legislatures. He feared that a popular act of violence against a Loyalist would be inappropriately handled by a state, and this could plunge the whole country back into war. Goebel, the editor of Hamilton's legal papers, writes,

The war cases were among the first lawsuits that Alexander Hamilton argued after starting the practice of law. In these approximately sixty-five cases he was confronted, for the first time as a lawyer, with the question of the relationships of power within the federal system.

⁷ *The Works of Alexander Hamilton*, ed. H.C. Lodge (New York: G.P. Putnam's Sons, 1904). Vol. I., pp. 12–13, 20. That the neutrality of the observer of an injury constitutes an injury and cowardice was an argument widely used to justify the American Revolution in the 1770s. Michael Kammen, 'The American Revolution as a *Crise de Conscience*: the Case of New York' *Society, Freedom and Conscience: The American Revolution in Virginia, Massachusetts, and New York*, ed. R. M. Jellison (New York: W.W. Norton, 1976), pp. 139–44.

⁸ He was almost lynched in 1784, the height of anti-Tory sentiment, for defending the British merchant Waddington, who occupied the New York brewery of Mrs. Rutgers, a patriot widow, after she fled British occupation. For an arresting description see Ron Chernow, *Alexander Hamilton* (Penguin, 2004), pp. 194–9. See also *Federalist* 78 and *Camillus* III and IV in Lodge V. Also Malcolm A. Misuraca, review of Goebel's edition of *The Law Practice of Alexander Hamilton*, in *California Law Review*, 53 (March 1965), pp. 407–17, especially p. 414. This interpretation of the momentous, prefigurative importance of these early Hamilton speeches is confirmed if one recalls that in 1785 John Jay, later first Chief Justice of the US Supreme Court, agreed with Hamilton's defense, and that in 1786 John Marshall similarly defended a British aristocrat's right to a sizeable part of Virginia in *Hite v. Fairfax*. Later as Chief Justice he wrote the *Marbury v. Madison* opinion that firmly established judicial review. Jefferson's and Madison's stringent opposition to both principles also illustrate how interconnected these issues were. Louis M. Hacker, *Alexander Hamilton in the American Tradition* (McGraw-Hill, 1957, 1964) draws out the connection between Hamilton's foundation of a national bank and his doctrine of implied powers: pp. 156–8.

⁹ Chernow, *Hamilton*, p. 195.

This theme remains prominent in his later writings, and illustrates how elements of his political agenda, from a strong executive through judicial review to neutrality in international relations, were inextricably united. Hamilton's legal work from 1783 is the context that unites his domestic and foreign concerns, and explains how the concept of neutrality we saw in the *Vindication* was transformed by the implications of Catherine's achievements. While dealing with maritime cases and disputes like *Rutgers v. Waddington*, he experienced both international and domestic difficulties of neutrality. The Treaty of Paris, the execution of which he defended, was part and parcel of a complex package of military and commercial treaties known as the Peace of Paris. Therein Catherine's achievements were finally cashed in: the right to free trade returned to the Atlantic, the Russian Navy was recognised as a major power, and Russia's neutrality toward Western powers was acknowledged. Catherine was free to concentrate on Poland, Sweden and Turkey without compromising the financial and naval benefits from Western trade and diplomacy. British accusations of having entered the war by virtue of trading with belligerents were dropped; armed neutrality proved itself a viable principle.¹⁰ The ability to trade, renegotiate if necessary the definition of naval stock and contraband, stay out of dangerous alliances and benefit from the economic situation created by wars, blockades and embargoes, are among the prizes of armed neutrality that Catherine acquired.

Hamilton wanted the same advantages for the United States. His letter of 24 March, 1783 to Washington shows that right after North's resignation, during the Peace of Paris negotiations, he already regarded neutrality as the next logical step. Where Catherine's ended, Hamilton's began.

I congratulate your Excellency on this happy conclusion of your labors. It now only remains to make solid establishments within, to perpetuate our Union, to prevent our being a ball in the hands of European powers, bandied against each other at their pleasure; in fine to make our independence truly a blessing.¹¹

How could this blessing be won? One place to look for his constructive reply is the *Federalists* of 1787–8, where Hamilton's philosophical and legal understanding of the domestic and foreign benefits of armed neutrality reappears in a powerfully coherent system.

Neutrality in the *Federalist Papers*

Busy as his law practice kept him, Hamilton did not abandon politics. He played a major role in the 1786 Annapolis Convention and the Philadelphia Convention of

¹⁰ Charles F. Carusi and Constantine D. Kojouharoff. "The First Armed Neutrality", *National University Law Review* 9 (n.a.). De Madariaga, *Armed Neutrality*.

¹¹ Lodge, IX.327. On the same day Hamilton and William Floyd wrote a letter to George Clinton, in which Hamilton outlines many of the ideas that reappear in the *Federalist*. *The Papers of Alexander Hamilton*, ed. H. C. Syrett (Columbia University Press, 1962), vol. 3.

1787, and we find him orchestrating and writing most of the *Federalist Papers* in an effort to convince New York to ratify the Constitution. The wider importance of these articles was recognised by contemporaries, and they are still regarded as one of the most important documents in the history of the United States. As shown below, Hamilton's legal experience with neutrality and maritime cases serves to inform the various parts of his complex but coherent argument, from the establishment of an American navy to the desirability of a national currency. Much but not all of *Federalist's* rich economic discussion relates directly to neutrality, and only a small sample of its neutrality-related passages are discussed here.

There are several ways of re-presenting the *Federalists* that show the significance of neutrality in Hamilton's thought. One is to cite some of the passages that connect neutrality to four basic desiderata: 1) strong union, 2) a powerful executive, 3) a federal economy, and 4) a navy. Sovereignty, economic and strategic security, and the pre-eminence of federal over state law are related features of the proposed Union that Hamilton ties to neutrality. Reasons for a strong executive include unitary control over foreign affairs, economic guidance, and putting a personal face to sovereign credit. Elements of an integrated federal economy that Hamilton connects to neutrality include the power to tax, debt assumption, public debt, and a common currency. However obvious these US institutions appear now, they were enormously controversial at the time. Below is a partial overview of texts that show how Hamilton connected neutrality to these four big objectives.

Strong union

In *Federalist 7*, Hamilton argues that the survival of the US demands neutrality, which in turn requires a stronger union.

The probability of incompatible alliances between the different States or confederacies and different foreign nations, and the effects of this situation upon the peace of the whole, have been sufficiently unfolded in some preceding papers. From the view they have exhibited of this part of the subject, this conclusion is to be drawn, that America, if not connected at all, or only by the feeble tie of a simple league, offensive and defensive, would, by the operation of such jarring alliances, be gradually entangled in all the pernicious labyrinths of European politics and wars; and by the destructive contentions of the parts into which she was divided, would be likely to become a prey to the artifices and machinations of powers equally the enemies of them all. Divide et impera must be the motto of every nation that either hates or fears us.¹²

In *Federalist 22* Hamilton explains that the intention and ability to maintain neutrality is a *sine qua non* of American sovereignty.¹³ *Federalist 72* is another

12 *Federalist*, ed. Clinton Rossiter (Penguin, 1961), pp. 65–6.

13 *Federalist*, pp. 148–9, "Suppose, for instance [...] regarded as imaginary."

very rich text for our argument.¹⁴ On Hume's writings on public debt and sovereign creditworthiness Hamilton builds a self-contained treatise on how a new country can acquire and preserve a healthy sovereign debt rating, which is essentially determined by international recognition and the new country's perceived stability and probability of survival. Sovereignty has market value. Territorially defined nation-states can disappear through conquest, but they cannot go so bankrupt that they remain without the prospect of recovery. As long as sovereignty is credible, credit never completely dries up; and its credit rises as it becomes more creditable.

Globalisation of commerce, information and war leads inevitably to the conclusion that territory is a limited resource, and sovereign states are unique economic players. Hamilton realised better than any of his peers that the US founding moment was a unique opportunity to acquire and use credit, the credit of a potentially long-lasting state. It brought an accordingly unique set of tasks, including the construction of creditworthiness for the new country, and persuading Americans that the fate of their political project was intrinsically linked to their financial credit abroad. Franklin, Jefferson, Adams and others saw at first hand that France and the United Provinces would not lend money to the American Revolution at anything approaching normal interest rates, before the 1777 Saratoga victories made the Revolution creditable. Hamilton thought several steps ahead and built on the connection between strength of arms and financial creditworthiness to propose that the latter can now be used to enhance American military might, and build up from loans a navy and a standing army. Two essential conditions for being able to do this in the founding period were establishing a reputation for creditworthiness, and attaining neutrality. That meant not squandering nascent military capabilities on a European entanglement that would ruin the US, whether through military defeat or through burdensome alliances and commitments, even for occasional victories in alliance with a European power – with any European power.

In *Federalist* 81 Hamilton sets out to show that to safeguard neutrality, federal law must become pre-eminent. He uses prize cases as the most convincing and comprehensible illustration of the thesis that only strong federal institutions, including the Supreme Court, can guarantee through neutrality the safety of the nation and of individual states.¹⁵ The cases he references arose in the wake of the 1783 settlements and belonged to the League of Armed Neutrality debate. The potentially devastating effect of inter-state disputes concerning the cognisance and legitimacy of admiralty courts is also the best illustration in *Federalist* 83 for the limits of trial by jury, and the need for a united US judiciary.

The weight put on armed neutrality in these passages is remarkable. Hamilton assumed that readers will find the potential benefits of American neutrality so clear and convincing that the institutional means of achieving it – such as centralised maritime dispute settlement – needed no further justification. His rhetorical strategy

¹⁴ *Federalist*, pp. 435–40.

¹⁵ *Federalist*, p. 490, "The following train [...] justice and security."

for discussing trial by jury, admiralty courts, common law courts, special jury, the Supreme Court, equally hinge on this assumption.¹⁶

Strong executive

In *Federalist* 15, entitled *The Insufficiency of the Present Confederation to Preserve the Union*, Hamilton uses the same well-developed, interconnected arguments to move from his advocacy of a stronger union to promoting a strong executive. He argues that European powers have followed a learning curve in their foreign affairs. As things stood at the end of the eighteenth century, with large-scale naval wars, colonies, globalised commercial interests and war debts in place, a present or future permutation of alliances was bound to entangle the young republic in a conflict that would adversely affect its chances of survival.¹⁷ Whether the US joined forces with Britain, France, Spain or the Netherlands, the outcome would be disastrous for America. To prevent this, the states must form a closer union. The threat of entanglement was imminent and serious enough to activate a Hobbesian rationale for the creation of a powerful executive; neutrality cannot be achieved otherwise.¹⁸

Hamilton's argument for a strong and small executive in charge of foreign treaties and war mirrors the instrumentalisation of neutrality that he used to support a centralised judiciary. In *Federalist* 70 and 77 Hamilton, and in 64 Jay, lay out the unparalleled benefits of a strong executive running foreign affairs. Control over international treaties and foreign relations is essential to the safety of the people. Speed, decisiveness, the necessary secrecy, technical expertise (unavailable under public deliberation) and individual accountability are the five qualities that make a small, strong executive the best guardian of the nation's foreign affairs. Larger assemblies – including Congress, but also state legislatures like New York's – and a weak federation (with substantial state rights in foreign policy) offer none of these, and are therefore unable to dispatch foreign affairs in a way as to harvest the strategic and commercial benefits of armed neutrality. Using yet another configuration of these elements, in *Federalist* 80 Hamilton powerfully restates the case for a strong executive dictating federal foreign policy.

Federal economy

The desirability of armed neutrality dictated the establishment of a federal economic policy and specific characteristics for domestic institutions as well. The direct connections Hamilton drew between the existential threat to the young republic and its institutions include a common currency, control of the mint, taxes, tariffs, protective duties, import quotas, and so on. The assumption of state debts and the

16 *Federalist*, pp. 501–2 and 504–5, “I feel a deep and deliberate [...] not indisputable.”

17 Hont, *Jealousy*, chapter 2 and pp. 365–8.

18 *Federalist*, pp. 108–111, “There is nothing absurd [...] the constitution of man.”

creation of a national bank and a common currency followed from the same logic that underpinned the general need for a comprehensive federal economic policy.¹⁹

A major rhetorical challenge in the *Federalist Papers* was to show side-by-side commerce's benefits and the disadvantages of selfishness. Much of Hamilton's strategy for convincing New York to ratify rested on expounding the numerous advantages of a more unified American economy. Economies of scale, division of labour and value added by a common market, bank and currency are ubiquitous in the *Federalist*. However, the tighter unification of state economies required central control, ranging from internal regulation through stimulating key industries to setting skilled labour immigration quotas and foreign trade policy.

Federal taxation, required for defense, was one of the most divisive and passionately debated issues. In *Federalist* 7, 34 and others Hamilton argued that the federal government must have open-ended powers of taxation, commensurate with its responsibility for the nation's survival. A central control over the whole country's financial affairs was required to keep the United States out of Europe's commercial wars, which was the only way to achieve and maintain sovereignty. Note that his historical insights into the unholy matrimony of commercial and military jealousies, induced by the protracted erosion of European feudalism and sanctioned by a reckless neo-Machiavellian abuse of commercial instruments like public debt, owe a lot to Hume and Smith.²⁰

Navy

Like Catherine, Hamilton did not subscribe to the view that commerce automatically civilised nations, and would create grounds for unarmed neutrality under the influence of enlightened self-interest. Neutrality, if it were to serve real-life interests, had to be of the armed variety.²¹ Another sign of Catherine's influence is Hamilton's insistence on building a navy. While neutrality and its commercial and diplomatic benefits were theoretically available to all, the great European powers had less reason to implement them. Britain, and France under Napoleon's Continental System, continued trying to combine commercial and military logic in a neo-Machiavellian fashion. Russia and the US did not have much of a navy when they implemented

19 The links between these institutions are most clearly drawn in *Federalist* 7 and 80. Hamilton's *Second Report on Public Credit* led to the founding of the first US national bank, in spite of ferocious opposition from Jefferson. For a brief overview of early US financial troubles including hyperinflation, loss of credit and competing currencies see Hacker, *Hamilton*, pp. 50, 65–7, 80–1, 94–6, and chapter 8.

20 *Federalist*, pp. 208–10, "Admitting that [...] two hundred thousand pounds.": Hamilton used Smith's and Hume's account of European history, esp. feudalism being broken down by commerce, and added his own international relations insights. The concluding *Federalist* 85 ends with Hamilton's long citation from Hume's "The rise of arts and sciences". Hont, *Jealousy of Trade*. Hacker, *Hamilton*, pp. 125–6. J.G.A. Pocock, "Hume and the American Revolution: The Dying Thoughts of a North Briton", *Virtue, Commerce, and History: Essays on Political Thought and History, Chiefly in the Eighteenth Century* (Cambridge: University Press, 1985), pp. 125–41.

21 *Federalist* 6, pp. 56–7 "But notwithstanding [...] to these inquiries."

armed neutrality.²² From their strategic position the catch-up opportunity afforded by neutrality was more significant and enticing than the benefits available to established, long-competing powers. The new powers had the additional incentive of using neutrality as a shield to build up their merchant and armed fleets.

The US adoption of armed neutrality was by no means a foregone conclusion, and Hamilton's unwavering advocacy is unusual and best explained by Catherine's example. The idea of a federal navy provoked vehement resistance from anti-federalists and considerable scepticism among federalists as well.²³ The tax burden and a shifting of military command away from the states were the two main objections. In *Federalist* 34 and 83 Hamilton argues compellingly that a navy is essential for US *salus populi*, encompassing both security and prosperity. It is impossible to foresee exactly what the creation and maintenance of the navy will require, since it will shrink and expand in accordance with circumstances.²⁴ The formula in *Federalist* 34 is, "if we mean to be a commercial people, it must form a part of our policy to be able one day to defend that commerce. The support of a navy and of naval wars would involve contingencies that must baffle all the efforts of political arithmetic".²⁵ The only institutional guarantee that the navy will always be able to fulfil its functions is to place decisions affecting its size and resources in the hands of a strong executive.

In a different configuration of the same components Hamilton argues in *Federalist* 11 that a strong union entails powers of federal taxation and the creation of a navy. Through protection of trade and government intervention when necessary, the union equipped with taxation powers and a navy will create an economy that is strengthened by diversification of production and free and efficient internal trade, and will make US commerce globally competitive.²⁶ The efficiency of free trade

22 A Continental navy was established in 1775, but it was too small to make a difference in the War of Independence. Congress auctioned off the *Alliance*, the last remaining vessel, in 1785.

23 The debate in the 1780s was fierce, but even as late as 1794 Madison could in all seriousness suggest that instead of building a navy to protect American shipping from pirates and privateers, the US should hire the Portuguese or another European navy for defense. For his and Jefferson's opposition to an American navy see Frederick C. Leiner, *The End of Barbary Terror* (Oxford: University Press, 2007), pp. 20–1. For Madison's change of heart, 46–51. Ralph Ketcham, *James Madison: a Biography* (University of Virginia Press, 1990), pp. 351–2.

24 Hamilton's doctrine of implied powers rested on the distinction between necessity and non-necessity in political affairs. One of the arguments for a national bank that he used successfully against Jefferson and others was that the right to define what is and what is not an emergency, and the ability to collect resources sufficient to counter existential threats, belong to every government by definition. Accordingly, the mandate of a national bank and of the government's ability to raise money must be loosely defined and open-ended. The difficulty of maintaining this distinction resembles other historical cases in which emergency powers became routine institutions: see Ioannis Evrigenis, *Fear of Enemies and Collective Action* (Cambridge: University Press, 2008). 'Implied powers' in Hamilton's usage referred to economical and judicial arrangements as well. Hacker, pp. 156–9. Note that Hamilton routinely used Hobbesian phraseology. See *Federalist* nos. 8, 34, 59 and 65 and Hobbes, *Leviathan*, ed. Richard Tuck (Cambridge University Press, 1996), p. 173. Hamilton cited Hobbes as early as the 1774 *Vindication*. When he left university for the battlefield in 1776, Hobbes was one of the authors he took with him to battle. Hacker, *Hamilton*, p. 39.

25 *Federalist* 34, p. 208.

26 *Federalist*, pp. 89–90, "To this great national [...] unity of government."

is harnessed through diversification and, after the founding moment, through full exposure to international competition. As long as the federal navy can guarantee the security of American merchant fleets, and the US stays out of European wars – i.e. remains armed and neutral – the economy will thrive.²⁷

In addition to sharing Catherine's means and ends to armed neutrality, Hamilton peppered the *Federalist* (e.g. 11, 22, 72) with specific references to the neutrality debates surrounding the 1783 settlement. It is clear from how he used the overwhelmingly powerful desirability of this particular kind of neutrality as a motive for setting up certain institutions that unlike Madison, for instance, in both the *Federalist* and the Helvidius letters discussed below, Hamilton connected neutrality to commerce and the European wars. The details of the system drawn from his insight into the League's significance require elucidation. Adapting armed neutrality's benefits to the founding moment, Hamilton saw that the first small burst of credit that came with a declaration of sovereignty and independence could be used to build up military might, but only for defensive purposes. The rise of America's naval power, he argued, will in turn further strengthen American credit abroad, provided that the country remained neutral, and used military power only for self-defence. This virtuous circle of military self-sufficiency and independence – leading to financial credit, leading to military might, and better credit – is the bonanza of armed neutrality. Hence Hamilton's unpopular view that the Union should assume state debts, instead of massive defaults or patchwork state resolutions.²⁸ International recognition, military resources sufficient for self-defence, a prosperous economy, an energetic government, and a good credit history were all required for setting the circle in motion. Catherine showed that it was possible to legally and rhetorically decouple commerce and war, and that one could sustain and develop one's economy through trade without being inevitably caught up in a web of strategic and commercial jealousies. The League allowed Hamilton to develop and push through his particular combination of neutrality with the simultaneous kick-starting of an economy using sovereign bonds and a new, history-less currency and government.²⁹ Thanks to Catherine, Hamilton formed a plan that put the US ahead of Europe on the learning curve described in *Federalist* 15. This is what he took with him to political office.

Secretary of the Treasury and the Proclamation of Neutrality: 1789–95

In 1789 Hamilton became the first Secretary of the Treasury, a post he held until his resignation in 1795. He became the chief architect of the financial institutions

²⁷ *Federalist*, p. 89, "The necessity of naval protection [...] in the productions of different States." See also *Federalist* 83.

²⁸ Hacker, *Hamilton*, pp. 93–139.

²⁹ Hamilton propounds the same logic with pristine clarity in the *First Report on the Public Credit*, delivered to Congress on 14 January, 1790. See esp. Lodge, II, pp. 236–48. Hacker, *Hamilton*, pp. 134–7.

that enabled the spectacular US ascendancy. Nobody disputes that the Reports he gave to Congress had an enormously formative impact. While his polemical *Vindication*, *Continentalist*, *Federalist*, Pacificus letters and the other texts examined here often give more direct evidence of the influence of Catherine's League on the evolution of Hamilton's thought, these famous Reports also show his continued interest in armed neutrality. In the 1791 *Report on Manufactures*, Hamilton's policy recommendations recreate the logic laid out in the *Federalists*, and in his detailed treatment of appropriate government intervention we see a constant awareness of the strategic importance of naval stores and of the necessity of treating them differently than other goods to which purely economic principles apply.

Hamilton begins the *Report* by stating that its aim is "to render the United States independent on foreign nations for military and other essential supplies". The second paragraph explains the interdependence between domestic and foreign trade, and the "expediency of encouraging manufactures in the United States". Next, Hamilton disputes Jefferson's and others' Physiocratic position that agriculture is the only productive activity.³⁰ Several sophisticated economic arguments follow, about added value, innovation, per unit productivity, division of labour and the like. Hamilton believed that technological innovation³¹ and the immigration of skilled workers from Europe were two key preconditions of US economic growth that required active encouragement from the government.³² Neither is the philosophical foundation absent from these technical discussions:

II.5 When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigor of his nature. And the community is benefited by the services of its respective members, in the manner in which each can serve it with most effect.

II.6 To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients by which the wealth of a nation may be promoted.

Throughout the *Report* Hamilton emphasises that regulation of the domestic market is a great way to kick-start agriculture and industry, but domestic market forces must be closely aligned with the country's international trade. In section II.7, for instance, he allows that the stimulation of domestic markets for the redistribution of agricultural surplus is an excellent idea, but adds that demand for agricultural products comes from the working class, the creation and survival of which depends

30 See also II.7, "It is a primary object [...] buying nothing." Lodge IV, pp. 95–6.

31 Section III contains a sophisticated explanation of why industries and innovation need the government's initial protection, but also why they should be left to market forces once they are up and running. E.g. "The apprehension of failing [...] governments are indispensable." Lodge IV, pp. 105–6.

32 Hamilton's argument for a federal policy on skilled labour immigration follows Hume, "Of Commerce", *Selected Essays*, pp. 160–5.

on manufactures. Therefore US manufactures must become internationally competitive to assure a steady domestic demand for agricultural goods. Hamilton tried to appease Southern states and landed interest by pointing out the range of benefits from a diversified, yet well-integrated economy under a centralised regulation. Nor did he forget to draw his political opponents' attention to the direct link between landed interest and neutrality maintained by a strong executive.³³ He showed how industrial and agricultural interests were entwined, and Jefferson's Physiocratic-ancient constitutionalist vision of a rural and virtuous republic was untenably naïve in an age when international trade and military considerations were so interdependent.³⁴

In a crucial passage Hamilton gives another complete formulation of how the institutions discussed in the *Federalist* are interconnected. His ardour for free trade, US economic diversification and rapid development is obvious, as is the connection he saw between the path dependences set by European history, on the one hand, and the most prudent trajectory for US foreign policy and trade, on the other.

If the system of perfect liberty to industry and commerce were the prevailing system of nations, the arguments which dissuade a country, in the predicament of the United States, from the zealous pursuit of manufactures, would doubtless have great force. [...] In such a state of things, each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages. If one nation were in a condition to supply manufactured articles on better terms than another, that other might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange, mutually beneficial, of the commodities which each was able to supply, on the best terms, might be carried on between them, supporting, in full vigor, the industry of each. [...] But the system which has been mentioned is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit. The consequence of it is, that the United States are, to a certain extent, in the situation of a country precluded from foreign commerce. [...] Remarks of this kind are not made in the spirit of complaint. It is for the nations whose regulations are alluded to, to judge for themselves, whether, by aiming at too much, they do not lose more than they gain. It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong, of foreign policy.³⁵

The establishment of a central bank, regulatory environment for private banks and government oversight of money circulation are all duly touched upon, with shifting emphases but the same substance as in the *Federalist*, and organised around the focal points of neutrality and a strong executive. Hamilton addresses the popular fear of the public debt, a suspected instrument of surrendering sovereignty, and draws a picture of national benefits derived from creating domestic and international

33 Lodge IV, pp. 95–9, 137–8.

34 “It may be observed [...] in the event, must be greater.” Lodge IV, pp. 99–100.

35 Lodge IV, pp. 100–2.

interdependencies.³⁶ Yet he also acknowledges the limits of its usefulness. Echoing Hume, he argues that public debt can have good and bad consequences, or rather these are seldom unmixed.³⁷ The circulation of money stimulates economic activity, and so creates some wealth by itself; but an overlarge debt can ruin the country's credit and fuel dependence on debt as a substitute for industry and development.³⁸ The right balance is a delicate one:

Where this critical point is, cannot be pronounced; but it is impossible to believe that there is not such a point. And as the vicissitudes of nations beget a perpetual tendency to the accumulation of debt, there ought to be, in every government, a perpetual, anxious, and unceasing effort to reduce that which at any time exists, as fast as shall be practicable, consistently with integrity and good faith.³⁹

The relentless contemporary attacks on Hamilton's alleged fondness for debt were motivated by politics, not facts.⁴⁰ Hamilton tried to define as precisely as possible the limits and conditions under which public debt was useful. He also repeatedly pointed out that economic protectionism in any form, whether as tariffs or bonuses or government-sponsored projects, encouragement of immigration and suchlike, has a strictly bounded utility beyond which it becomes harmful. Free markets are efficient. The US government must assist fledgling companies and industries to overcome barriers to entry, and refrain from institutionalising protected and inefficient modes of production.⁴¹ His distinction between the necessities of the founding moment and the normal running of a state is clear-cut.

Hamilton then systematically goes through the correct use of duties, tariffs, bounties, premiums and other instruments. Throughout the *Report* he consistently distinguishes what is appropriate in the critical "present state of things", for "an infant manufacture", from what will become appropriate once the US economy is up and running, and looking for stimulus, economies of scale, efficiency and innovation from the free market. On reaching this stage the government must eliminate bounties and protective tariffs, because open trade optimises the production and availability of all goods, including the naval stores required for defence. Yet the specific nature and timing of both protective and anti-protective measures must remain responsive to other nations' policies:

36 "It is not impossible [...] This is the funded debt." Lodge IV, pp. 116–8.

37 Hamilton wrote to Robert Morris about public debt and a national bank as early as April 1781: "The truth is, in human affairs there is no good, pure and unmixed; every advantage has two sides; and wisdom consists in availing themselves of the good, and guarding as much as possible against the bad." Lodge, III, pp. 361. Also *Report on Manufactures*, Lodge IV, pp. 125–6. Hume, "Of Public Credit", *Selected Essays*, especially p. 205. Hont, *Jealousy*, chapter 4.

38 Also *Federalist* 34, p. 205. Hume, "Of Commerce", *Selected Essays*, p. 160.

39 Lodge IV, p. 126.

40 Jefferson's and Madison's attacks are the best known, but Chernow's biography shows that there was virtually no opponent who did not make this accusation.

41 Lodge IV, pp. 130–1 "But, though it were true [...] reduction of it."

An argument for exemptions of this kind, in the United States, is to be derived from the practice, as far as their necessities have permitted, of those nations whom we are to meet as competitors in our own and in foreign markets.

Seldom acknowledged by historians and explicators of “the American System of Economics”, Hamilton’s profound reliance on Smith in this famous *Report* has been established beyond doubt since 1893. Rabbeno, Bourne, Hacker, Chernow and others have supplied detailed lists of textual correspondences between the *Report* and the *Wealth of Nations*, ranging from long paraphrases to verbatim quotations.⁴² To show that the *Report* supports my broader argument that Hamilton’s American institution-building came from an original synthesis inspired by Hume, Smith and Catherine, it is enough to call attention to the contrast between the two rationales in his recommendations, for naval stores and other goods. Paper, glass, sugar and similar goods are treated from a purely economic perspective, with attention to present and foreseeable American consumption and the advisability of promoting domestic manufactures, as opposed to relying on imports. By contrast, Hamilton advises on naval stores like wood, flax and hemp based first and foremost on the military implications of the proposed regulatory policy, and with consistent attention to the issues he encountered as a lawyer. For instance, the whole section on “Wood” is a strategic calculation about US absolute advantage in ship-building over Europe. Under “Flax and hemp” we find an attempt to replicate Britain’s trade policy that stimulated the creation and maintenance of a powerful navy. Gunpowder, cotton and wool production and associated manufacturing must also be carefully protected in the initial phase of the country’s development, using skilled immigrants and machinery as much as possible to gain strategic independence quickly. As soon as that is secured, bounties and protective tariffs must be eliminated to maximise market efficiency. Hamilton suggests repeatedly that the government encourage the establishment of private societies for the improvement of manufactures. He

42 Edward G. Bourne, “Alexander Hamilton and Adam Smith”, *The Quarterly Journal of Economics*, 8:3 (April 1894), pp. 328–44, identifies and prints 20 parallel passages. Bourne credits Ugo Rabbeno’s 1893 *Protezionismo Americano: Saggi Storici di Politica Commerciale* (Milan: Fratelli Dumolard) with first realising the extent of Smith’s influence. Yet Hacker in 1957 described an unbroken tradition of misinterpretation: “It is extraordinary how Hamilton has been misread throughout history, by both his fellow countrymen and his admirers abroad. Because he saw the need for industrialization as the road to welfare, or progress, and because he made the case for the support of infant industries so eloquently, his advocacy of protection has been pondered over and repeated again and again. But we have lost sight of the fact that he regarded governmental assistance (of which protective tariffs constituted but one and the least desirable of the devices to be employed) as an expedient necessary only because new, young, and underdeveloped nations were unequal in a race where the more powerful nations had every advantage for the very reason that their governments used intervention on their behalf. His own preferences are clear. He follows Adam Smith so plainly and completely that one can only express wonder that the Hamilton text has been misunderstood for so long.” *Hamilton*, p. 12. Like Rabbeno, Bourne and Chernow, Hacker provides side-by-side comparisons between the *Wealth of Nations* and the *Report on Manufactures*; e.g. pp. 150–2, 168–170, 182–3. For opposing views see e.g. M. D. Chan, *Aristotle and Hamilton on Commerce and Statesmanship* (Missouri UP, 2006), pp. 154–8, and Peter McNamara, *Political Economy and Statesmanship: Smith, Hamilton and the Foundation of the Commercial Republic* (DeKalb: North Illinois University Press, 1998).

himself was famously involved in a few.⁴³ This further corroborates the view that he saw government intervention as a temporary measure, required in the founding moment but jettisoned for the benefits of free markets and enterprise as soon as the military and strategic emergency was over. Hamilton's recommendations were adopted, and the US began growing at a spectacular rate by every indicator, from production and exports to ever-improving foreign credit.⁴⁴ Thanks to Hamilton's good offices, the gap between potential American sovereignty and actual sovereign credit was reduced to a minimum.

It is often said that the First Party System solidified around reactions to the French Revolution.⁴⁵ Yet as we saw in the *Federalist Papers* Hamilton, founder of the Federalist Party, was equally wary of being drawn into a European war on the side of the *ancien régime*. Washington's *Proclamation of Neutrality* in April 1793 was a compromise between the factions: against Hamilton's advice Genêt (previously at the St. Petersburg embassy, until pronounced *persona non grata* by Catherine in 1792) was officially received by Washington as France's ambassador. At the same time, and against fervent protests by Jefferson and Madison,⁴⁶ Washington declared neutrality. Genêt soon began to abuse his status to recruit and arm American privateers against Britain, organise and dispatch volunteers against Spain in Florida, and try to force the US into the European wars by any means necessary. The frigate *Embuscade*, which carried Genêt to South Carolina, captured the British *Grange* in American waters and hauled her to Philadelphia, to be received by an enthusiastic crowd. Pro-French passions ran so high that, according to a disapproving letter from Adams to Jefferson, the crowd "threatened to drag Washington out of his house and effect a revolution in the government or compel it to declare war in favour of the French Revolution and against England."⁴⁷

Although not Hamilton's puppet, as his adversaries portrayed him, Washington consulted Hamilton more closely than anyone else about the *Proclamation of Neutrality*. The *Proclamation* also triggered a veritable pamphlet war between

43 As Hacker writes about the Society for establishing Useful Manufactures and Hamilton: "His correspondence indicates that the preparation of his *Report on Manufactures* and the inception of the S.U.M. went hand in hand; the company in fact, was to be a gigantic demonstration of his belief that Americans had the desire and the capacities to begin manufacturing enterprises at once." *Hamilton*, p. 188. Chernow, *Hamilton*, pp. 372–88.

44 Hacker, *Hamilton*, pp. 179–86.

45 Ed. W.N. Chambers, *The First Party System* (New York: John Wiley & Sons, 1972). Stanley Elkins and Eric McKittrick, *The Age of Federalism: the Early American Republic, 1788–1800* (Oxford University Press, 1995). Matthew Q. Dawson *Partisanship and the Birth of America's Second Party, 1796–1800: Stop the Wheels of Government*. (Greenwood Press, 2000). Hamilton argues the same, e.g. "It was not to be mistaken [...] its organ." *Camillus I*, Lodge V, p. 192–3. Also 195, *Camillus II*, Lodge V, p. 202.

46 Chernow, *Hamilton*, pp. 435–6.

47 30 June, 1813. in ed. Lance Banning, *Liberty and Order: The First American Party Struggle* (Liberty, 2004). For a superb description of these colourful events see Chernow, *Hamilton*, chapter 23.

Hamilton and Madison, writing as Jefferson's reluctant proxy.⁴⁸ Hamilton's *nom de plume* was Pacificus, and later Americanus. Madison's was Helvidius. Contemporaries knew exactly whose pamphlets they were reading; public interest was extraordinary even by revolutionary standards.⁴⁹

Hamilton argued that the *Proclamation* was just and appropriate, because enlightened self-interest dictated that the United States refrain from entering the war on France's side. Commerce would suffer, and the US cannot help France anyway. Previous treaties are invalid, because France has a new government. The US owes no ideological allegiance to France out of republican solidarity, either. Some regard Hamilton's draft of the *Proclamation* and his pamphlets as the beginning of American realism, the fountainhead of a tradition one must return to.⁵⁰ Madison's principal counterargument throughout the exchange was that Washington's *Proclamation* cannot be more than a suggestion or guideline, since it is an "extraordinary doctrine" that the power to make war and treaties is executive. Only Congress can decide the response to France's request for military aid.

Hamilton's rejoinder powerfully re-states many of the points we saw in the *Federalist*. A new argument was that the French Edict of Fraternity, which offered military assistance "to every *people* who wish to recover their liberty", amounted to a French declaration of war against the world. This was, moreover, an unjust war, relying wholly on pre-emption. It may be just to assist a nation that already gave clear evidence of its determination to throw off the monarchical yoke, but it is unjust to offer a blanket excuse and "an open patronage of a revolution".⁵¹ The US-French treaty of defensive alliance does not cover this offensive declaration. In discussing self-interest and the reasonable conditions under which international treaties remain binding, Vattel was Hamilton's primary authority. In his "realist" account of events Hamilton pointed out that France did not come to America's aid until the Saratoga victory for the same reason: enlightened self-interest dictated caution. Repeatedly, Hamilton gave short shrift to the argument, advanced by Jefferson and Paine among others, that ideology united all republics in alliance. This was mere self-seeking French propaganda that has unfortunately fooled many Americans.

48 Jefferson implored Madison, "Nobody answers him and his doctrines will therefore be taken for confessed. For God's sake, my dear Sir, take up your pen, select the most striking heresies and cut him to pieces in the face of the public. There is nobody else who can and will enter the lists against him." Loss, Introduction to *The Letters of Pacificus and Helvidius* (Washington, 1845), ix. Ketcham, *Madison*, pp. 345–8, 359.

49 Loss, Introduction.

50 Loss, Introduction, pp. viii, xii–xiii. Morgenthau, 'The Mainsprings of American Foreign Policy: the National Interest vs. Moral Abstractions' in *American Political Science Review* 44 (1950), pp. 833–54. Joseph Cropsey, "The Moral Basis of International Action," *America Armed*, ed. Robert Godwin (Chicago: Rand McNally, 1963), pp. 71–91. David C. Hendrickson, "The Renovation of American Foreign Policy", *Foreign Affairs* 71 (1992), pp. 48–63. More recently Henry Kissinger, *Does America Need a Foreign Policy?* (New York: Simon & Schuster, 2001), pp. 283–88. Also see Hamilton, *Camillus VIII*, Lodge V, pp. 266–7 and 270.

51 *Pacificus* II, p. 22.

Madison's reply revolves around a level-headed questioning of the power Hamilton assigns to the executive. It also shows, however, that Madison did not fully grasp the new US opportunities afforded by Catherine's transformation of neutrality. In the second Helvidius letter he claims that as far as international law is concerned neutrality simply means peace, and Washington and Hamilton had nothing to gain from using "neutrality" instead.

Neutrality means peace, with an allusion to the circumstance of other nations being at war. The term has no reference to the existence or nonexistence of treaties or alliances between the nation at peace and the nations at war. The laws incident to a state of neutrality, are the laws incident to a state of peace [...].⁵²

In Letter III Madison contends that the right to receive ambassadors does not imply any right over foreign policy, merely "to provide for a particular mode of communication, *almost* grown into a right among modern nations".⁵³ He attacks Hamilton ferociously for trying to derive substantive foreign policy powers from the constitutional provision that authorised Washington to decide Genêt's accreditation.⁵⁴ In his final, fifth Helvidius letter Madison analyses the European conflict very conventionally, in terms of purely military alliances, having little to do with commercial interests. It is obvious throughout this polemic that Hamilton had a much clearer understanding of both the recent developments and larger significance of armed neutrality than Madison. Hamilton's direct treatment of neutrality from the perspective of the naval balance of power comes in *Pacificus VIII*. He sketches the history of recent alliances and points out that Austria and Prussia, not maritime powers, are basically unaffected by considerations of neutrality (47). Spain, Holland and Britain are the major players against whom France hopes to enlist the United States, and Madison irresponsibly transforms this dangerous manoeuvre into a theoretical problem.

In February 1794 Hamilton rejoins the fray, this time as *Americanus*. First, he summarises superbly the complex arguments in the *Federalist*. Then he argues that the US cannot help France on land or sea, and the most efficient aid it could give would be licensing privateers to harass "the commerce of the maritime enemies of France" (113) – but the disruption of trade would back-fire. Britain has better domestic and international credit than France or the US. This would counteract any damage to Britain from the interruption of trade, and leave both France and the US worse off for their trouble. What brought Britain under pressure by 1783, Hamilton argues, was not naval warfare *per se* but the combination of military alliances between belligerents with the commercial alliances between belligerents and non-combatants. *Americanus* is further evidence that the League showed Hamilton

52 *Letters*, pp. 69–74. Citation from 72.

53 *Letters*, 76.

54 See also *Letters*, pp. 94–7: "Proclamation" is a mere statement, with no binding power. Madison's target here is Washington, not only Hamilton.

the potential in armed neutrality and a way out of destructive, neo-Machiavellian jealousy of trade. Hamilton realised that it would be a colossal mistake to ignore its potential. With unique insight he generalised from the pattern, and even suggested that the arrangements that forced Britain to the table in 1783 may now have been put in place against revolutionary France.⁵⁵

In *Americanus II* Hamilton revisits familiar ground and applies the same logic to the question of the French alliance that he did to the Union in the *Federalist*. The US navy is not strong enough yet. Engagement on France's side would ruin American commerce, and thereby ruin agriculture, industry, and government. A reckless war would destroy credit, a cornerstone of national security.⁵⁶ The French Revolution handed the US a golden opportunity to remain neutral without fear of retribution even if an exhausted France overcame the allied opponents. If France lost, the victors may partition her, but will become quickly divided over the prize, and the US again has nothing to fear. Neutrality, with armed insistence on the right to trade, is the most advisable course of action.⁵⁷ It either sets a virtuous set of long-term trading relations in motion, or ensures a brief period of peace and trade and allows the US to prepare for war.

The contrast between Hamilton's and Washington's position, and that of Jefferson and Madison, is best explained in terms of the change in international relations brought about by Catherine's 1780 *Declaration of Neutrality*, and the proof of its effectiveness in the 1783 settlements. Establishing sovereign credit and enlarging the navy were two objectives that both Catherine and Hamilton hoped to achieve by announcing their commitment to armed neutrality.⁵⁸ Hamilton understood the new international relations environment better than his peers, and the League of Armed Neutrality gave him a template, a map to the main features and available resources.

This proved useful very quickly in navigating the risks of British or French entanglement. In November 1793 William Pitt's ministry instructed British ships to intercept neutral vessels sailing to or from the French West Indies. They soon captured more than 250 American merchant ships, and dragged off the sailors. The American public was enraged, and the pro-French faction called for blood. Yet it was not the latter but Hamilton who drew up contingency plans for Washington to raise a 20-thousand strong coastal defense and impose embargo on Britain. A mere proclamation of neutrality was evidently insufficient without an armed force to support it. Hamilton's Cabinet Paper to Washington on 14 April, 1794 about the prospect of war with Britain shows that he understood well that only a strategy of armed neutrality preserves the credible *threat* of an intervention on one side or

55 *Americanus I*, p. 114.

56 "All who are not wilfully blind [...] disgrace of a national bankruptcy." *Americanus II*, pp. 115–6.

57 *Americanus II*, pp. 118–25.

58 De Madariaga, *Armed Neutrality*, chapter 3.

another, and that this threat can be sufficient to ward off demands to join a war. Reweaving the same set of connections between domestic and foreign political and economic institutions and transactions that he drew in the *Federalist* and the *Pacificus-Americanus* pamphlets, Hamilton explained to Washington that pro-French American zealotry must be resisted out of cold-headed calculation, not (as his political opponents insisted) out of sentimental attachment to Britain:

The cutting off of intercourse with Great Britain, to distress her seriously, must extend to the prohibition of all her commodities, indirectly as well as directly; else it will have no other operation than to transfer the trade between the two countries to the hands of foreigners, to our disadvantage more than to that of Great Britain. If it extends to the total prohibition of her commodities, however brought, it deprives us of a supply, for which no substitute can be found elsewhere – a supply necessary to us in peace, and more necessary to us if we are to go to war.⁵⁹

After this letter Washington decided to send Hamilton to London to negotiate a settlement. Due to government infighting eventually Jay was dispatched, with detailed instructions. In the meantime Hamilton continued to meet with George Hammond, the British minister to the US. After a passionate remonstrance about the injuries Britain caused the US, Hamilton assured Hammond that America will not support France.⁶⁰

Hamilton advised Jay to bargain with Britain for a mutual exchange of most favoured nation status. The Jay Treaty, signed in November 1794, averted war and boosted trade between the two countries. Reparations were paid for the captured American ships, and six British forts were evacuated. In Joseph Ellis's words, the Jay Treaty was "a precocious preview of the Monroe Doctrine (1823), for it linked American security and economic development to the British fleet, which provided a protective shield of incalculable value throughout the nineteenth century. Mostly, it postponed war with England until America was economically and politically more capable of fighting one."⁶¹ Moreover, the Treaty was negotiated and signed as Britain tried to block French attempts in 1793–4 to facilitate the resurrection of the First League of Armed Neutrality. Denmark and Sweden announced their Armed Neutrality Convention on 27 March, 1794, but France failed to orchestrate a wider initiative against Britain.⁶² Yet the Americans made full use of the pressure put on Britain by this prospect. Jay was instructed to bargain for contraband and blockade clauses explicitly lifted from Catherine's 1780 *Declaration*, and to approach the

59 Lodge V, p. 109.

60 Bemis, *Jay's Treaty*. Elkins and McKittrick, *Age of Federalism* (1993 ed.), p. 411. For the argument that the Jay Treaty brought the decisive hardening of the First Party System see Dawson, *Partisanship* and Todd Estes, *The Jay Treaty Debate, Public Opinion, and the Evolution of Early American Political Culture* (Amherst: University of Massachusetts Press, 2006).

61 *Founding Brothers*, p. 137. In 1794–6 Monroe was Minister to France and, like Jefferson, well-known for his Revolutionary sympathies and opposition to Jay's Treaty.

62 Bemis, *Jay's Treaty*, pp. 303–15.

ministers of Russia, Denmark and Sweden in London in 1794 to discuss an alliance of armed neutrality, should Britain fail to meet American demands.⁶³ Instead, Britain chose to make the aforementioned concessions. These were the prizes from armed neutrality. Hamilton, the Treaty's chief architect, used the First League and the proposed one to navigate successfully between war and alliance with Britain by decoupling war from commerce; Catherine's formula proved to be reproducible.

In spite of his political misgivings about France, Hamilton suggested the exact same clause for the Convention of 1800 that ended the Quasi-War.⁶⁴ His recommendations for these two treaties illustrate the shift caused by 1783 in his concept of armed neutrality. In contrast with most of his peers, who favoured either Britain or France, in both treaties Hamilton wanted previous military alliances declared null and void, replaced by a reciprocal granting of most favoured nation status.

On 16 and 21 January, 1795 Hamilton delivered his last report as Secretary of the Treasury, and resigned on the 31st. The *Second Report on Public Credit* is a long vindication of his policies and a vision for America's future. It includes a detailed plan for the total elimination of public debt within 30 years, showing once again Hamilton's distinction between emergency and non-emergency periods.⁶⁵ As in all his writings after 1774, neutrality played a central role in this final Report. In spite of fierce opposition from every corner, including former allies like Madison and Jefferson, all proposals that Hamilton put forward as Secretary of the Treasury were adopted. His opponents eventually bowed to his Hobbesian-Smithian logic that called for a Union under a strong executive, capable of setting up a navy and kick-starting the processes – including credit through debt assumption, a central bank and currency, and federal projects for industry and infrastructure – that enabled the US to benefit from the economies of scale, utilities and redistributive efficiencies of a newly created market economy, and become a sovereign state in a globalised economy.

63 Bemis, *Jay's Treaty*, pp. 289–98. W. Allison Phillips, *Neutrality: its History, Economics and Law in Four Volumes* (New York: Octagon Books, 1976), Vol. II *The Napoleonic Period*, chapters III–IV. Bemis argues that when Hamilton told Hammond that the US would not join this abortive league, he weakened Jay's negotiating power. Pp. 337–44. Thomas thinks that Hamilton's gambit was intended to gain further benefits for the US, and succeeded: the consequent British concessions were better than a potential Danish-Swedish alliance, weak to begin with and rendered ineffective by Russia's refusal to join. C. M. Thomas, *American Neutrality in 1793: a Study in Cabinet Government* (Columbia University Press, 1931). Phillips shows how the uncompromising tone of Randolph's instructions and Hamilton's result-oriented approach together gave Jay the creative ambiguity required for his task. Phillips, *Neutrality*, p. 61. This is an interesting and important debate, but does not fundamentally affect my argument that the League was a major and rarely appreciated influence on Hamilton's institutional design, and on his practical politics.

64 Richard C. Rohrs, "The Federalist Party and the Convention of 1800", *Diplomatic History* 12 (1988), pp. 237–60.

65 Hamilton argued for a degree of open-ended formulation in the founding texts, given the unforeseeable dividing line between emergency and non-emergency. *Federalist* 34, p. 207: "Constitutions of civil government [...] to limit that capacity." Also see *Federalist* 85.

Farewell to Arms: 1795–

On returning to private law practice Hamilton's greatest asset was his reputation for an unparalleled understanding of admiralty law, and was frequently employed by the growing insurance business in New York. His pamphlet defense of the *Proclamation* was followed by another large-scale polemical enterprise, known as the *Camillus Essays* or "The Defence" (of the Jay Treaty). It consisted of 38 articles, 10 written by Rufus King, the rest by Hamilton, and published 22 July, 1795 – 9 January, 1796. Hamilton's contribution runs to nearly one hundred thousand words, and revisits the arguments discussed above. Two new elements salient to our present inquiry are the argument that the Jay Treaty prevented war with Britain and so public debt need not be raised to evil proportions;⁶⁶ and a string of enlightening statements about the circumstances and timeframe in which the founding moment's emergency will give way to the ordinary course of American commercial and foreign policy.⁶⁷

When Washington asked for help with his 1796 *Farewell Address*, Hamilton drafted an eloquent document that reiterated the logic of Armed Neutrality.⁶⁸ Commerce is an integral part of modern sovereignty but is, paradoxically, stifled by regulation and other interventionist exercises of sovereignty. Jealousy of trade and the anachronistic spiral of dangerous feudal alliances must be countered with armed neutrality, in accordance with the new realism that befits the commercial age.

The great rule of conduct for us in regard to foreign nations is in extending our commercial relations, to have with them as little political connection as possible. So far as we have already formed engagements, let them be fulfilled with perfect good faith. Here let us stop. Europe has a set of primary interests which to us have none; or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. [...] If we remain one people under an efficient government. the period is not far off when we may defy material injury from external annoyance; when we may take such an attitude as will cause the neutrality we may at any time resolve upon to be scrupulously respected; when belligerent nations, under the impossibility of making acquisitions upon us, will not lightly hazard the giving us provocation; when we may choose peace or war, as our interest, guided by justice, shall counsel.

Why forego the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground? Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalry, interest, humor or caprice? [...]

66 *Camillus II*, Lodge V, pp. 201–2.

67 "A very powerful state [...] our strength." *Camillus II*, Lodge V, pp. 206–7.

68 John L. Harper, *American Machiavelli: Alexander Hamilton and the Origins of U.S. Foreign Policy* (Cambridge University Press, 2004), p. 177.

Harmony, liberal intercourse with all nations, are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing; [...] constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character; that, by such acceptance, it may place itself in the condition of having given equivalents for nominal favors, and yet of being reproached with ingratitude for not giving more. [...]

After deliberate examination, with the aid of the best lights I could obtain, I was well satisfied that our country, under all the circumstances of the case, had a right to take, and was bound in duty and interest to take, a neutral position. Having taken it, I determined, as far as should depend upon me, to maintain it, with moderation, perseverance, and firmness. The considerations which respect the right to hold this conduct, it is not necessary on this occasion to detail. I will only observe that, according to my understanding of the matter, that right, so far from being denied by any of the belligerent powers, has been virtually admitted by all.⁶⁹

Contemporaries and historians alike acknowledged the enormous influence of Washington's *Farewell Address* in convincing politicians and the public about the desirability of this particular brand of armed neutrality. Hamilton also wrote a draft for Washington's *Address to Congress* on 7 December, 1796.

A systematic plan for the creation of a moderate navy appears to me recommended by very weighty considerations. An active commerce demands a naval power to protect it, besides the dangers from wars, in which a maritime state is a party. It is a truth, which our own experience has confirmed, that the most equitable and sincere neutrality is not sufficient to exempt a state from the depredations of other nations at war with each other. It is essential to induce them to respect that neutrality, that there shall be an organized force ready to vindicate the national flag. This may even prevent the necessity of going into war by discouraging from those insults and infractions of right, which sometimes proceed to an extreme that leaves no alternative.⁷⁰

France viewed the Jay Treaty as a violation of the 1778 French-US Treaty of Alliance. Relations deteriorated, and in June 1795 Secretary of State Timothy Pickering reported to Congress that the French had captured 316 American merchant vessels in the previous 11 months. The damage was comparable to the British assault between Pitt's orders in November 1793 and the Jay Treaty of November 1794. Yet peace was unattainable, partly due to French domestic events. Following another year of ineffective defense and negotiations Congress rescinded all treaties with France. The Quasi-War began. It is estimated that more than 2,000 vessels were captured by the French before hostilities ceased with the Convention of 1800 with

69 Lodge VIII, pp. 210–2.

70 Lodge VIII, pp. 218–9.

Napoleon. It marked the end of American alliances for the next century, and was in many ways the crowning achievement of Hamilton's neutrality policy – as well as a verification of his doubts about a US-French republican ideological alliance.

While scholars and contemporaries were right to draw attention to a break between Hamilton's pro-French stance in the early days of the War of Independence and his later distaste for the French Revolution's excesses, Hamilton did not change his basic position. Even during the *Proclamation of Neutrality*, the Jay Treaty, the Quasi-War and other anti-French measures, his continued support and express admiration for the French nation and his many friendships, including Lafayette's and Talleyrand's, show that Jefferson and Madison accused him wrongly of taking an anti-French position due to pro-British personal bias.⁷¹ Hamilton's reluctance to form too close a union with Revolutionary France was presaged by the reluctance to allow the *ancien régime* to use American ports to attack British ships. He did not advocate a classic ploy designed to maintain European balance of power, first siding with France when Britain was strong, and switching sides as the pendulum swung. Instead, his fear of US entanglement and his grasp of the importance of neutrality remained consistent. The same map that Hamilton drew from the League's achievements by 1783 explain his successful navigation between the Scylla of reactionary pro-British position and the Charybdis of unconditional support for France.⁷²

The example set by the League, I suggest, was one reason why Hamilton opposed a close alliance with France. He saw, more clearly than most, the dangers of replacing one colonial master with another. Moreover, he realised that a French alliance would upset the imbalance among European powers. The preservation of this imbalance was in the US interest, but it could not be safely achieved through military engagement on any side. It had to be done through commerce and neutrality. In turn, the double strategic imperative of maintaining this international imbalance and reaching economic maturity at home – from central bank to federal taxes and powers to shape trade policies – could now be coupled in a way as to defeat or at least silence those who opposed the creation of a strong federal state. The usually distinct literatures on two-level games and on the incurable theoretical ambiguity of emergency in political thought are equally relevant to uncovering Hamilton's life-long strategy.⁷³

71 Nor was he ever without French admirers. Chernow, *Hamilton*, pp. 174, 188, 463–7. Hacker, *Hamilton*, 55–7. Rohrs looks behind party rhetoric and shows that Hamilton's position on France was consistently moderate and conciliatory.

72 *Camillus V*, Lodge V, p. 243. Harper, *American Machiavelli*, pp. 104–5.

73 Hammond wrote in a dispatch to London that Hamilton will defend American neutrality because "any event which might endanger the *external* tranquillity of the United States would be as fatal to the systems he has formed for the benefit of his country as to his [...] personal reputation and [...] his [...] ambition." Hammond to Grenville, 2 April, 1793. Bemis, *Jay's Treaty*, p. 141. Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games' in *International Organization*. 42 (Summer 1988), pp. 427–460. On emergency see Evrigenis, *Fear of Enemies*.

The “Hamiltonian School”

Hume, Smith and the achievements of the League of Armed Neutrality before its demise in 1783 inspired a fundamental reappraisal of neutrality in Hamilton’s thought. The League showed him how the United States could benefit from rivalry among European naval powers, not only temporarily, but in the long run. For this the new state required a specific character, including a stronger union, a central bank, army, navy, and a strong executive. To a spiral of corrupting, self-destructive luxury or vicious, mutually destructive commercial neo-Machiavellianism, armed neutrality added a third scenario, consisting of vigorous development and eternal watchfulness, coupled with essentially peaceful, mutually beneficial commercial interaction. It was an original, innovative alternative, offering at worst a “safe zone” or resting point of meta-stability between conflicts, and a peaceful yet commercially dynamic new world order at best.

The prominence of military concerns does not mean that Hamilton rejected Smith’s vision. Once the military and political emergency associated with the founding moment was over, Hamilton wanted American protectionism eliminated. However, the emergency powers he built into America’s economic system, ranging from national debt to government powers over trade policy and economic stimuli, proved too useful to later politicians to resist. This is why Hamilton is said to have established the “American System of Economics”, which played a prominent role until the 1970s. Henry Clay, Friedrich List and H.C. Carey were among those who followed in Hamilton’s footsteps, and Jefferson, John Q. Adams and Lincoln were largely responsible for turning Hamilton’s emergency measures into permanent institutions. Clay was the first to name and codify “the American System” in the early nineteenth century – as against the “British System” of Smith – insisting that this was the true Hamiltonian legacy. The “American System” in turn was the most formative influence on Friedrich List and his “National System”.⁷⁴

The Hamiltonian or American System is habitually described as a kind of mercantilism that endogenises the notion of comparative advantage. Nothing could be further from Hamilton’s position. He was an admirer of Smith and Hume but, being both pragmatist and visionary, he was prepared to temporarily subjugate long-term economic utility to short-term military imperatives, when absolutely necessary. In non-emergencies though, the implementation of his envisioned institutions was worth sacrificing short-term military gains for; in order not to foreclose the option of peaceable trade relations with Britain, the French alliance had to be resisted, and *vice versa*. For Hamilton an emergency had to be clear and present to override

⁷⁴ Although the story of these Systems is too long to discuss here, one could argue that Hamilton is misunderstood in America like List is misunderstood in Japan. Neither protectionist nor utopian, they both wanted a corrective historical moment when the playing field is levelled before free trade and its concomitant domestic and international consequences are set loose. Controlling British commercial power was one challenge that Hamilton and List were equally concerned about, but this did not set them at loggerheads with Smith. Perhaps Hamilton’s most illuminating statement here is the long citation above from the *Report on Manufactures*, Lodge IV, pp. 100–2.

political considerations; the emergency behind his interventionist policies was made elastic by others. Although it is impossible in a founding moment to set in stone the criteria for distinguishing emergency and non-emergency in the distant, unknowable future, Hamilton got very close to doing the impossible. His instructions for extinguishing the national debt, withdrawing at some definite future time public funds from all enterprise (including large-scale infrastructural projects) and his trust in the efficiency of free markets have already been discussed.⁷⁵

His vision was of a market economy, initially bounded by military planning, yet designed to expand and swiftly transcend the restrictive strategic imperative. To describe it as mere “developmental capitalism” is to miss Hamilton’s unambivalent contrast between emergency and normal politics and to superimpose his appreciation of a founding moment’s armed necessity on all aspects his long-term vision for a peaceful US in a stable, free-trading global economy. One could argue that under certain conditions, such as the existence of free-trading modern states with armed neutrality as an accepted component of their sovereignty, Hamilton’s system allows for the theoretical possibility that conventional, military emergencies cease to exist, and civilising and pacifying effects of commerce begin to accrue from free trade’s utility-maximising effects.⁷⁶ Such utopian statements absent, it is enough to remember his series of clear and persistent distinctions between founding moments and business as usual to realise that “developmental capitalist” is as ill-fitting a label as “protectionist”, “mercantilist”, or “Smith’s American opponent”.

As we saw, too few take full account of Smith’s and Hume’s influence on Hamilton’s supposedly mercantilist political economy. One possible source of this confusion is later readers’ failure to grasp Hamilton’s distinction between the founding moment, when the essential framework must be set up by a strong central authority, and the normal mode of operation, in which the efficiency of the market must be captured by the maximum possible reliance on individual self-interest, initiative and ingenuity. Another reason is that the emergency powers Hamilton had designed proved extremely useful to the powers that be. Jefferson was an most inveterate political opponent, yet as president he used the financing mechanisms that Hamilton put in place to raise funds for the Louisiana Purchase in 1803. The “American System” is the ideology for the regular use of the same mechanisms beyond their intended date of expiry, designed by Hamilton for the founding moment, with precise provisions for their phase-out.

⁷⁵ Other examples include *Federalist* 35, where Hamilton names not landholders, artisans, manufacturers, professional politicians or philosophers as the people’s best representatives, but merchants, because they aggregate the whole nation’s interest. Foreshadowing the *Report on Manufactures* and the *First Report on Credit*, *Federalist* 35 sets clear limits to the utility of federal taxes, duties, tariffs and other interventionist measures. He fears that excessive and improper use of these instruments will hamper the economy’s natural development. Pp. 211–2 “Suppose, as has been contended [...] from the consumer.” In *Federalist* 60, Hamilton explains that the federal government must be careful not to create any monopolies because – emergency notwithstanding – monopolies are inefficient.

⁷⁶ *Camillus X*, Lodge V, pp. 290–3.

Conclusion

Hamilton made an unmatched contribution to the institutional design of the United States. A strong President, a standing army, a national navy, central bank, common currency, implied powers – it is only in Hamilton's vision that we find all these elements combined durably and effectively. Each is connected to the other. The assumption of state debts gave rise to a centralised debt which, instead of crippling the young country as many had feared, saved its international credit and underpinned the creation of a national currency and economic policy. The navy enabled the expansion of overseas trade, and the executive provided the necessary energy and decisiveness. Elements of other Founders' thought, like Jefferson's agrarian republic, Madison's outsourced national defence or Patrick Henry's tax-supported Christian churches, seem improbable now. Hume, Smith and Catherine helped Hamilton create a clairvoyant institutional model at a time when few could predict, let alone implement, the institutions of a modern state system. Given the uncertainties of the time, the physical and intellectual difficulties and the political opposition to overcome, the framework that Hamilton envisaged turned out to be amazingly long-lasting.

Of course, ideas other than Hume's, Smith's and Catherine's exerted a formative influence on Hamilton. He was an avid reader of Machiavelli, for instance, and there are parallels between Machiavelli's exhortation to independence in arms and other resources, and Hamilton's own views on neutrality. Machiavelli may have also inspired Hamilton's views on the US standing army, navy, system of foreign alliances, and strong executive.⁷⁷ Yet Hume, Catherine and Smith are more salient influences, given the prominence of economics in Hamilton's thought. Hamilton maintained that commerce is a new element, a defining feature of modern complexity that limited the utility of history as a guiding set of examples. The originality of his economic vision dovetailed with the Founders' conviction that the country was an unprecedented experiment in liberty and enlightened reason. He shrewdly saw that if the US joined any side in the European wars, it would only obtain another master. In spite of its brief duration he saw the League as fundamentally different from the short-lived and shifting European alliances castigated in the *Federalists*. One difference was that Catherine constructed a plausible ideology that allowed anyone to decouple commerce and war when it became convenient. Another was that the Peace of Paris gave effective recognition to Catherine's principle of armed neutrality. The League alerted Hamilton to the possibility of gaining substantial and much-needed military and financial advantages, provided that the new republic was set up with a strong executive, a common currency, a centralised banking system,

⁷⁷ *The Prince*, tr. and ed. William J. Connell (Bedford/ St. Martin's, 2005), chapter 6, p. 56; chapter 11, p. 73; chapter 12, p. 77; chapter 13, p. 81. Harper looks at Hamilton's neutrality in Machiavellian terms in *American Machiavelli*, p. 104. J.G. A. Pocock, *The Machiavellian Moment: Florentine Political Thought and the Atlantic Republican Tradition* (revised ed., Princeton University Press, 2003), pp. 462 and 529.

and a detailed programme that began with the new government providing a well-designed, selectively protectionist hothouse for national industry and enterprise, and ended with a free market integrated in the global economy and protected by carefully balanced neutrality agreements from the commercial and naval jealousy and warfare rampant amongst the European states. Adding the League of Armed Neutrality to the context of Hamilton's work helps elucidate his economic and political principles better than the strictly domestic, US context that historians today often focus on.

Domestically and abroad, Hamilton used the leverage provided by the League to brilliant advantage. Essentially, he proposed that the young commercial republic free-rides on the logic of armed neutrality, which dictates more urgently to long-existing states than to a former colony. The relative losers in the great game advocated free trade, at least partly to weaken the winners' chokehold on international trade. The relative winners shaped their colonies' economies through taxes and treaties, and retained control over their trade and navy. Hamilton understood that independence was a risky proposition but sovereignty, public credit and the ability to make commercial treaties had real and substantial economic value that in turn fostered political power. The League transcended the predictable eighteenth-century logic of both ever-shifting alliances and impracticable schemes for universal government.⁷⁸ It offered Hamilton the most pristine formulation of the new character of deep-seated European interests in the age of commerce, and thereby showed him a way to quickly establish an American economy that could pool resources, kick-start growth, unite the country and provide for adequate defence. The separation of war and commerce allowed him to play along and off of Armed Neutrality; yet he could always bridge the gap and convince his domestic audience that his commercial ideas were matters of state security. Placing Hamilton's work in this context explains his economic and political principles better than it has been done before, and puts him among the major economic and strategic thinkers of the eighteenth century.⁷⁹

78 Recognised and described as such in *Federalist* 8, 11, 15 and elsewhere.

79 *Federalist*, pp. 476–7 “A distinction [...] national tribunals”, and 478 “The most bigoted [...] federal jurisdiction.”