

The Roots of the Hamiltonian Credit System

Part 1 of 2

by Joanne McAndrews

Now the only way to avoid this shipwreck, and to provide for our posterity, is to follow the counsel of Micah, to do justly, to love mercy, to walk humbly with our God. For this end, we must be knit together, in this work, as one man. We must entertain each other in brotherly affection. We must be willing to abridge ourselves of our superfluities, for the supply of others' necessities. We must uphold a familiar commerce together in all meekness, gentleness, patience and liberality. We must delight in each other; make others' conditions our own; rejoice together, mourn together, labor and suffer together, always having before our eyes our commission and community in the work, as members of the same body. So shall we keep the unity of the spirit in the bond of peace...



We shall find that the God of Israel is among us, when ten of us shall be able to resist a thousand of our enemies; when He shall make us a praise and glory that men shall say of succeeding plantations, "may the Lord make it like that of New England." For we must consider that we shall be as a city upon a hill. The eyes of all people are upon us.

These were the words of Governor John Winthrop, spoken on the Flagship *Arabella* in 1630, en-route from England to the Americas where he and his fellow travelers would build the Massachusetts Bay Colony. Already several colonies existed in the America's but the Massachusetts Bay Colony was to be different, for traveling with them on the Flagship were the very documents that gave the colony it's own self-charter. Instead of

being ruled by a board of Directors based in London, the leaders of Massachusetts would be free to write their own policies and determine their own future. And these travelers came with a mission, they were intent on creating a new world.

Although Europe had experienced a great period of intellectual and humanistic development throughout the Renaissance, by the early 1600s the renaissance institutions committed to the ideas developed by Nicholas of Cusa - of man in the image of God, education for all and a government that rules with the consent of the govern - by the early 1600s these institutions had been all but crushed.

Take the case of England. Modeled on Louis XI's France, Henry VII turned England into a nation-state committed to the idea of the general welfare and as such the population of England began to flourish. Through government-directed improvements in infrastructure and technology Henry VII strove to increase the productivity of the population. Industries such as the wool and the cloth industry were greatly encouraged and when Henry VII introduced the first blast furnaces into England the iron industry was revolutionized. Waterways were developed and with the help of great intellectuals like Erasmus of Rotterdam, John Colet and Thomas More, a Platonist style education system was developed to educate all people, boys and girls, rich and poor.

But with the death of Henry VII and the crowning of his son Henry VIII came the end of England's nation-state outlook. With the help of the Venetians, especially the influence of marriage counselor Francesco Zorzi, Henry VIII dropped all responsibilities to his people and instead became obsessed with divorcing his first wife Catherine, breaking with the Roman Catholic church and creating his own church where he was to be deemed the



The founder of the English nation-state, Henry VII and his Queen Elizabeth of York.

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head and spiritual adviser to his subjects. When Thomas More, who at the time was one of the greatest English thinkers alive and held the highest judicial office in the country, when Thomas More objected to Henry VIII's implementation of the Oath of Supremacy, Henry VIII had More executed.

With England and the rest of Europe devolving deeper into religious war, death and destruction, the time had come to escape Europe and find a New World where the highest concepts concerning man and nature could be transplanted, nourished and brought to life.

It was with this mission firmly in mind that a group of brave Puritans set out on the Flagship *Arabella* in 1630. The Old World that they were leaving behind was one of oligarchy and despotism where man was viewed as a slave to be used and thrown away as needed. When they arrived in Massachusetts they set out to knit together as one man in brotherly affection knowing that the eyes of the world were upon them.

Over 150 years later, the very notions of brotherly love and the common good expressed by John Winthrop in 1630 were expressed in the preamble to the Constitution of the United States of America.

We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

THE GREAT EXPERIMENT

The idea that America was a great experiment, that it's forefathers fled Europe to create a new world in the Americas where humanism could thrive, is a concept that has been embodied by the best leaders throughout American history. From the President of the Second Bank of the United States Nicholas Biddle, Abraham Lincoln's government "of the people, by the people and for the people", to first lady Eleanor Roosevelt and President John F. Kennedy, great leaders throughout U.S. history have held a deep understanding of and have been committed to upholding this great tradition and experiment that was the Massachusetts Bay colony and which led, over a period of 150 years, to the creation of the United States of America.



The European colonial claims over North America in the 18th century.



Eleanor Roosevelt with President Kennedy, March 1961.

Nicholas Biddle, who became the President of the Second Bank of the United States (1822-1836), wrote a thesis in his youth titled "On the Discovery of America". In it he discusses how Columbus sought a new continent to provide a refuge for men seeking to escape the despotism of selfish princes, the religious inquisition, and the general depravity of Europe. Biddle states that the free and independent minded men came to the New World while those who desired to be slaves remained behind.

John F. Kennedy, President of the United States of America from January 1961 until his assassination in 1963, giving his last formal address in his home town of Boston, Massachusetts before assuming the presidency, states that:

...no man about to enter high office in this country can ever be unmindful of the contribution this state has made to our national greatness. Its leaders have shaped our destiny long before the great republic was born. Its principles have guided our footsteps in times of crisis as well as in times of calm. Its democratic institutions—including this historic body—have served as beacon lights for other nations as well as our sister states. For what Pericles said to the Athenians has long been true of this commonwealth: "We do not imitate—for we are a model to others."

*I have been guided by the standard John Winthrop set before his shipmates on the flagship *Arbella* three hundred and thirty-one years ago, as they, too, faced the task of building a new government on a perilous frontier. "We must always consider," he said, "that we shall be as a city upon a hill—the eyes of all people are upon us."*

Eleanor Roosevelt, First Lady of the United States from 1933 - 1945, in her book *Tomorrow is Now* asks her readers to:

Look back at the American continent of the seventeenth century: primeval forest, gigantic mountain ranges, turbulent rivers, vast plains, savage animals and even more savage men. A land that had remained basically unchanged from the beginning of time.

That was what our ancestors faced after the terrors of a long and dangerous sea voyage, sailing away from the only world they knew, the only way of life of which they had any experience, sailing into the unknown, the unforeseeable. But they brought with them courage and hope; they brought determination and a vision of a better life; they were fired by a desire to create a new kind of civilization, without fear or oppression, where men could develop freely and fully their best abilities and capacities. They brought with them, too, faith in Christian justice and in a system of equitable law.

And, because they believed in these things with all their hearts, they planted them in the new soil, where they flourished, and built a new world. They made their own history.

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The Massachusetts Bay Colony's Pine Tree shilling.

There were mistakes, of course. The creation of something new under the sun must always suffer to some degree from the process of trial and error. But, almost from the beginning, the nature of this new structure began to fire the imagination of the world. It became apparent that, with sufficient courage, with undimmed faith in their values, men could create a world of freedom and justice in which to live.

But, the newcomers did not stop with creating a new kind of government and a new way of life. They were not willing to confine the great adventure to the eastern seaboard. They set out to explore and tame a continent, to tunnel its mountains and bridge its rivers, to make its land yield food and its forests provide shelter.

The Massachusetts Bay was founded with a commitment to the common good of all members of the colony, committed to creating an environment where all men could develop freely and fully their best abilities and capacities, and as Eleanor states "to make the land yield food and its forests provide shelter".

With a charter for self-government the colony was able to set about establishing a system of government that would bring those intentions to fruition. And so they sought to do everything possible to promote economic development and provide for the general welfare. Subsidies were established for local manufacture of textiles, especially for outfitting of a fleet, measures were passed to stimulate the production of hemp and 21 year tax exemptions were created for all discoverers of mines.

SELF-SUBSTANTIAL

By 1646 the colony had established the first fully integrated iron works in North America, the Saugus Iron Works. John Winthrop, Jr had been sent back to London to recruit the skilled labor and obtain the materials needed to start the iron works. The general court of Massachusetts gave the ironworks a 21 year monopoly, the necessary lands and a 10 yr tax exemption on condition that complete facilities be developed, from blast furnaces and forges to rolling and slitting mills and that no iron would be exported until after the needs of the colony had been met. The iron works was such a success that after only one year of operation they were producing 8 tonnes of wrought iron per week, outproducing the best works in England.

In the Old World, wealth was usually increased through plunder; one country invaded another to increase their lands, generals were deployed to rob other kingdoms' ships of their treasures and what you did not have, you stole. But in the New World of the Massachusetts Bay Colony, wealth was to be increased through labor and what you did not have, you worked out a way to produce it.

Another major difference between the old world and the new was education. In the 1640s, within 10 years of landing in Massachusetts the colony had established a compulsory elementary education system and a system of publicly supported academies for further instruction and college preparation.

In 1643 the Massachusetts Bay, Plymouth and Connecticut

River settlements joined together to create a New England Confederation and the more the colonies developed a sovereign ability to support themselves the harder England tried to repeal the charter and control the colonies.

A point of further sovereignty came in 1652 when the Massachusetts Bay Colony made the bold move of minting its own currency. The English Civil War had disrupted the trade and currency flows of the colony and coin was scarce forcing trade within the colony to be done via the inefficient system of barter. To overcome this obstacle a mint was built and the Pine Tree Shilling was created - a shilling redeemable only within the colony and thus secure against foreign drainage of its hard currency.

While the creation of the Pine Tree Shilling was an extremely revolutionary step within the colony and went a long way in terms of establishing a sense of sovereignty within the colony, the system of exchange and therefore the economic development of the colony would still be limited to the amount of silver that existed to mint. They would still be operating under the limiting system of specie.

LAND BANK

While specie was scarce the one thing that the colony had an abundance of was land. Proposals for a bank of land had been circulating in London through members of the Royal Society and it was writings such as William Potter's *Key to Wealth* and Samuel Hartlib's *Essay upon Master W. Potters design concerning a bank of lands* that caught John Winthrop's attention. Through a land bank, land could be collateralized in return for specie or bills of exchange. Winthrop saw a Land Bank as a way to "greatly advance commerce and other public concerns for the benefit of the poor and rich" and in 1663 himself submitted a plan for such a bank to the Royal Society.

In 1667 the Reverend John Woodbridge of Newbury Massachusetts submitted a proposal for erecting a "Fund of Land" to the Massachusetts General Court and in 1671 conducted a private banking experiment whereby "credit passed in Fund by book and bills will supply the defect of money". In the Fall of 1681 a group of merchants came together to run a credit experiment where all business conducted between fund members would occur without the use of any form of specie. The institution formed was simply named "The Fund" and members adjusted between themselves their mutual accounts by making use of what they called 'Fund Credit' instead of money.

An 8 page pamphlet appeared in 1682 under the title of *Severals relating to the Fund* and is a description of the work accomplished by the Fund experiment. The pamphlet was written by Reverend John Woodbridge and in 1686 an official proposal was made for a "Bank of Credit" where the experiment undertaken in the Fund was to be enlarged and accessible to society at large. The Bank of Credit would issue bank bills of credit.

An application was made to and approved by the council in the summer of 1686 (two years after the British succeeded in annulling the charter of the Massachusetts Bay colony). The council noted that the proposed bank would be "very useful and conduceable to the encouraging of trade, navigation, manufactures, planting and improving of lands and estates, increasing of his Majesty's revenues, facilitating the payment thereof, and of other debts, and removing the greatest obstruction thereto".

The proposal itself notes that:

Money, whether Gold or Silver, is but a measure of the value of other things; yet hath, for a long Succession of Ages (especially in the Civilized and Trading part of the World) obtained to be the usual, and best known means of Interchange. This measure and

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way of Interchange, was originally occasioned by the experimented inconveniences of common Barter;

It also notes that:

...a sufficiency of Money or Bullion, where with to manage their increasing trades... 'tis now so hard to come by, in some places, for carrying on of trade, to answer the vastness of Mens attempts, and aims of increase in Merchandize...

But it's not just the problem of scarcity of money and it's hindrance of trade that the proposal seeks to address. It also lays aim at the fact that the coin in circulation is controlled by an unaccountable few:

That the Exchange of Moneys, hath been for the most part managed by the respective Merchants of all places; who in their particular dealings and Correspondences (fore-laying advantages to themselves thereby) have unaccountably controll'd it, and vary it often, in each Annual Revolution.

EMISSION OF BILLS OF PUBLIC CREDIT

While the proposal for a private bank which should emit bills that would pass current as money did not eventuate, an actual emission of bills of public credit did occur in December 1690 after the arrest and overthrow of the Royal Governor Andros. Faced with the immediate need to pay expenses relating to a failed military operation against the French in Canada the General Court issued 7,000 pound in public paper currency.

This was the first public paper money issued in the history of Western civilization. Previously all currency had an intrinsic value of gold, silver or copper, but now, for the first time, the money itself had no intrinsic value other than the value of the paper on which it was printed. It was a currency backed by the colony itself and it would be accepted as the equivalent of hard currency within the colony.

CREDIT IS PREFERABLE TO MONEY

The man who enjoys the one, has nearly an equal facility with him who commands the other, in the purchase of materials for trade, or manufacture. But the stimulus to industry, or exertion, is very different in the two cases. The mechanic who has a hundred dollars, can live without work so long as it lasts. He may spend the whole, or part,

in his pleasures, or for his sustenance, and may work proportionally less. But the mechanic who can command credit to the amount of a hundred dollars, has nearly the same capacity to earn money, as the other; but his privilege will not sustain him in idleness, or dissipation. It can only be of use to him, through the medium of industry.

Instead of using the Old World system of specie, whereby whoever controlled the specie could control the development of nations, the New World looked to establish a system of public credit as a means to free themselves from the monetarist systems of Europe and stimulate the industriousness of it's people. And it is this concept of industry, or more specifically labor, that Benjamin Franklin later identifies as the measurement of wealth.

It would be very tedious, if there were no other way of general dealing, but by an immediate exchange of commodities; because a man that had corn to dispose of, and wanted cloth for it, might perhaps in search for a chapman to deal with, meet with twenty people that had cloth to dispose of but wanted no corn; and with twenty others that wanted his corn, but had no cloth to suit him with. To remedy such inconveniences, and facilitate exchange, men have invented money, properly called a medium of exchange, because through or by its means labour is exchanged for labour, or one commodity for another.

For many ages, those parts of the world which are engaged in commerce, have fixed upon gold and silver as the chief and proper materials for this medium; they being in themselves valuable metals for their finesse, beauty and scarcity. By these, particularly silver, it has been usual to value all things else. But as silver itself is no certain permanent value, being worth more or less according to its scarcity or plenty, therefore it seems requisite to fix upon something else, more proper to be made a measure of values, and this I take to be labour.

By labour may the value of silver be measured as well as other things. As, suppose one man employed to raise corn, while another is digging and refining silver; at the Year's end, or any other period of time, the compleat produce of corn and that of silver, are the natural price of each other; and if one be twenty bushels, and the other twenty ounces, then an ounce of that silver is worth the labour of raising a bushel of that corn.

Thus the riches of a country are to be valued by the quantity of labour as its inhabitants are able to purchase, and not by the quantity of silver and gold they possess.



An early settlement in New England. The settlers devised an early credit system to help them establish themselves in the New World.